



Ministry of Investment

Beyond the Crisis: Policies to Support Young Enterprises

MENA-OECD

**Working Group on SME Policy, Entrepreneurship &
Human Capital Development**

**Ministry of Investment
Egypt**

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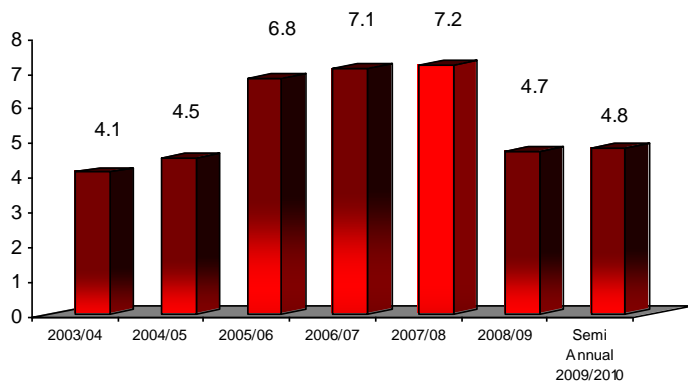
March 30th, 2010



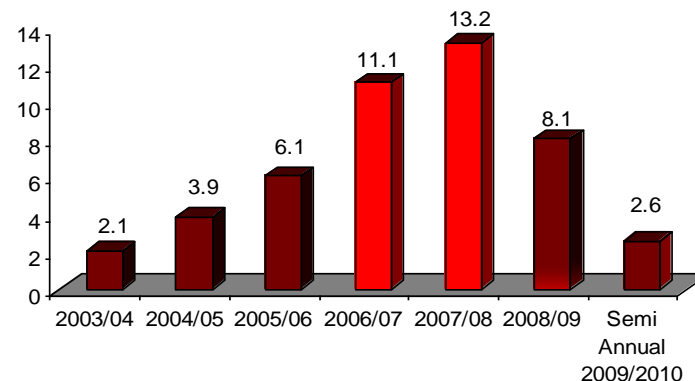
Improving Business Climate in Egypt

- Over the past few years, Government of Egypt has undertaken Major Policy Reforms to improve Overall Business Environment creating a Climate Conducive to attracting Investment as Main Growth Engine
- Deep & Comprehensive Reforms have Paid off (2003/04 - 2007/08)
- YES, Egyptian Economy is affected by Global Financial Crisis

Economic Growth Rate (2003/04 – 2009/2010)



FDI flows (2003/04 – 2009/2010)





Reform Efforts Gaining Recognition by International Community

- **Egypt ranked World Top Reformer for 2006/ 2007 in Ease of DB across 178 Developed & Developing Economies - World Bank 2008 DB Report.**
- **Egypt maintained its position among top 10 Reformers in 2008/2009- World Bank DB 2010 Report (4th time).**

	Rank	Doing Business 2010	Doing Business 2009	Doing Business 2008	Doing Business 2007
	Ease of Doing Business	106 out of 183	114 out of 181	126 out of 178	165 out of 175
1	Starting Business	24	41	55	126
2	Dealing with Licenses	156	165	163	165
3	Employing Workers	120	107	108	106
4	Registering Property	87	85	101	147
5	Getting Credit	71	84	115	156
6	Protecting Investors	73	70	83	105
7	Paying Taxes	140	144	150	152
8	Trading Across Borders	29	24	26	86
9	Enforcing Contracts	148	151	145	146
10	Closing Business	132	128	125	124



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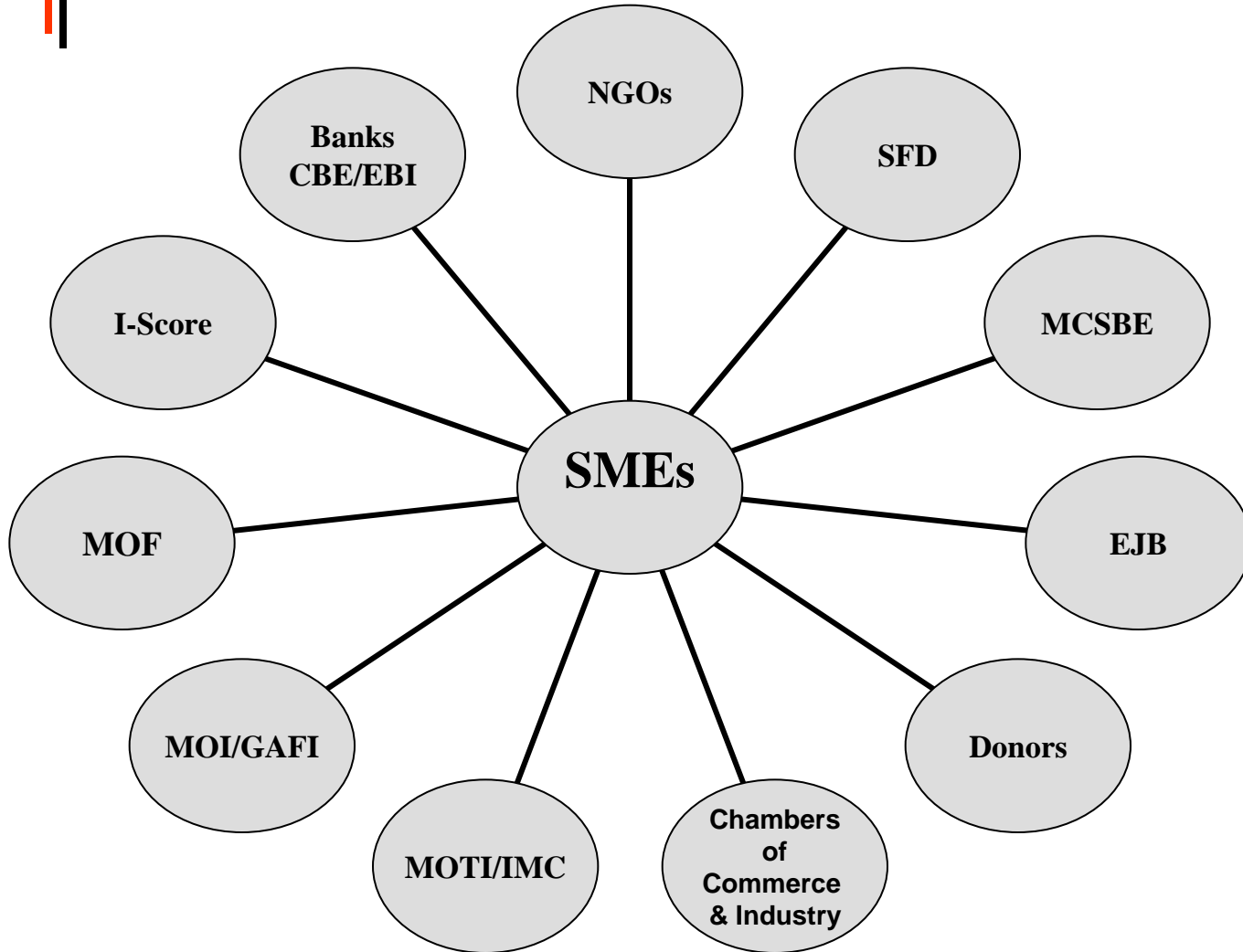
SME Development Topping Policy Reform Agenda in Egypt

WHY ?

- o **Small & Medium Enterprises (SMEs)** account for about 75% of Employment, 80 % of GDP, yet contribute to only 4 % of Exports and 10 % of Fixed Capital Formation
- o **According to GAFI:** 90% of Registered Companies have capital less than LE 10 million while 70% of Registered Companies have capital less than LE 1 million



Various Stakeholders/ Partners SME Development in Egypt





Promoting SMEs

Integral Part of Improving DB in Egypt

HOW ? Reforms Undertaken at 2 Main Fronts

- o **Ease Doing Business for SMEs** - Reducing Regulatory burden they face in Starting up, Operating and Expanding their Businesses, and
- o **Improve SMEs' Access** - Equalizing Entrepreneurial Opportunities hence reducing Income Inequality
 - o **Access to Financial Services** (Banking & Non - Banking),
 - o **Access to Non- Financial Services** (Business Development Services, Training, Registration & Post Registration Services through OSSs at the Central & Local levels at Governorates)



Deep Reforms Makes Starting & Doing Business Easier in Egypt

- **Establishing One Stop Shops (Cairo, Alexandria, Assiut & Ismailia)**
 - Cutting 63% and 76% of Start-up Time and Cost respectively.
 - Streamlining Start Up Procedures
 - Establishing Two more OSSs soon (6th of October & Mansoura)
- **Slashing Minimum Capital Requirement** to start a business from LE 50,000 to LE 1,000 LE 200 to Zero
- **Reducing Property Registration Fees** from about 3% of the property value to a fixed fee schedule not exceeding LE 2000.
- **Launching Trade One Stop Shops** and Introducing online custom services for Traders at Ports
 - Cutting Time to Import by 10 days and Time to Export by 6 days
 - Reducing Cost of Import & Export by 21.5% & 27.3% respectively



Broadening SMEs' Access to Finance

- **How ? Attention to Establishing Inclusive Financial System with Reforms at Various Fronts**
 - **Development of non - Banking Financial Services-** Reforms undertaken at Regulatory & Operational fronts to promote use of new financing alternatives best suited to SME needs (Leasing, Factoring & SME Stock Market)
 - **Establishment of Single Financial Regulatory Authority - EFSA** Egyptian Financial Supervisory Authority for all non- Banking Financial Services in July 2009 (Leasing, Factoring, Microfinance, Mortgage Finance, Insurance & Capital Market)
 - **Improvement of Credit Information Infrastructure** - Lack of reliable & comprehensive information, about credit quality of current & potential borrowers, reduces access to finance especially for SMEs that often lack collateral & may not have well established track of financial records



NILEX - SME Stock Market

- **NILEX launched in October 2007**
- **NILEX provides High Growth Potential SMEs with**
 - **Access to Long Term Finance** to Expand Businesses & Increase Competitiveness
 - **Fair Market Valuation** for their businesses
 - **Higher Bargaining Power** with stakeholders (Banks & Suppliers)
 - **Merger & Acquisition Opportunities** creating more competitive entities
 - **Exit Venue** for Private Equity & Venture Capital Investors
- **NILEX Regulatory Framework tailored to SME needs**
 - Lower Listing & Trading Fees
 - Less Stringent Listing Rules
 - Main Market Disclosure Rules mostly maintained for efficiency & investor protection
- **Nine Companies Listed at NILEX** (but not traded yet)
- **Current Market Capitalization** - USD 110 million (as of Feb. 2010)
- **Nominated Advisors** - 22 advisors already registered at EFSA (as of Feb. 2010)



NBFIs - Leasing

- **Leasing best suited to SME needs** - focusing on SME ability to generate Cash Flow to service lease payments not on its credit history, asset or capital base
- **Developments at Operational Front**
 - Leasing Guidelines issued in 2008
 - Leasing Contract Registration Procedures Simplified to be completed within 48 hours without limits on number of assets listed in same contract
 - Leasing Registry Automated - To serve as Movable Collateral Registry
- **Developments at Legal Front:**
 - **Amendments to Leasing Law 95/1995 have been prepared** and will be enacted soon. These will enable Leasing Companies to:
 - Offer Operational Leasing
 - Transfer Contracts to Entities not registered as Lessors
 - Seize Leased Assets in case of default



NBFIs - Factoring

- **Factoring provides SMEs with financing for their working capital and increase their liquidity**
- **Amendments to Executive Regulations of Investment Law 8/ 1997 made in 2007** to set rules & regulations governing activities & capital requirements for Factoring firms in Egypt
- **Factoring Guidelines issued in March 2007**
 - These cover licensing requirements & registration procedures, and
 - They include rules for capital adequacy, risk management & exposure, reporting and information disclosure



Credit Information Infrastructure

- **I-Score, First Private Credit Information Bureau in Egypt started operation in July 2007**
 - Owned by 25 Banks and Social Fund for Development
 - Uses data-sharing mechanism already established between CBE and Commercial Banks
 - Collects, saves & analyzes credit information about the customers/ clients of Banks, Leasing Cos., Mortgage Finance Companies,
- **I- Score provides the following Services**
 - Both Positive & Negative information about borrowers,
 - Provides Information about Borrowers' Bankruptcy & Legal suits
 - Provides Credit Scoring Services – Numeric Value assigned to Borrowers (Firms & Individuals) to determine their creditworthiness & readiness for Loan repayment
- **I–Score Upcoming Projects:** SME Rating & Movable Collateral Registry.



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MOI - Way Forward

GAFI SMI Strategy

- **GAFI SMI Strategy** – launched (mid November 2008)
- **Adopts Comprehensive Approach** to Address SME Challenges
- **Plays Catalyst Role** Building on Existing Efforts by Different Stakeholders
 - **Local Level**: Business & Investors Associations, Research Centers & Universities
 - **National Level**: IMC, ITC, Chambers, Relevant NGOs, and Relevant Ministries.
 - **International Level**: Donors and Development Agencies
- **Targets Four Main Pillars**
 - Promoting Entrepreneurship Culture
 - Establishing Competitiveness Poles
 - Improving Access to Finance
 - Increasing Outreach to Business Development Services (BDS)



MOI - GAFI SMI Strategy (Contd.)

- **Pillar I: Promoting Entrepreneurship Culture**
 - **Enterprise Egypt - Entrepreneurship Center**
 - Provide Intensive Training Programs creating a world class Entrepreneurs
 - Provide Counseling services during pre- start & establishment phases
 - GAFI - UNIDO Bahrain Project (Enterprise Development & Investment Promotion) will provide potential entrepreneurs with training, capacity building, counseling services, financial linkages & BDS for growth.
 - MOU to be signed soon between GAFI & UNIDO
 - **University Incubators in close cooperation with Ministry of Higher Education**
 - Pilot Project to set up a number of University Incubators to help Start Ups develop their ideas into sound business plans (drawing on existing capacities at universities)
 - Four Universities are currently establishing Incubators at IZs



MOI - GAFI SMI Strategy (Contd.)

- **Pillar II: Competitiveness Poles (Clustering)**
- This provides SMEs chance to achieve Backward & Forward linkages with large firms
- **Focus will be on Sectoral Competitiveness Poles**
 - GAFI, in collaboration with line Ministries, would select certain sectors
- **Work on Competitiveness Poles includes:**
 - Identifying available lands,
 - Targeting Potential Investors,
 - Providing R&D components,
 - Creating necessary infrastructure for Poles
 - Setting up governance structure of each pole in form of Investment Zones (bureaucracy free investment Model)
- **Training:** GAFI is developing Demand Driven Training Program to produce skills needed at Poles, in collaboration with ITC/ ILO



MOI -GAFI SMI Strategy (Contd.)

- **Pillar III: Access to Finance**
- **SMI Fund Management (LE 1 Billion)**
- This aims at improving SME's access to equity finance by establishing a Fund Management Company and defining its legal status.
 - Finance will be mobilized by major players in the field (SME Fund Management Companies with long proven track record), and multinational donor agencies.
 - The Fund will be privately managed.
 - Investors may include SFD, Institutional Investors (Pension funds & Insurance firms) in addition to International Investors (IFC & EIB)
 - The Fund will have Developmental Orientation with possible sectoral and/ or geographic focus
- **Inventory Book (Regular Update & Regional Outreach)** in cooperation with EBI & EJB - this will provide SMEs with information about available financial & non-financial services, SME eligibility criteria & documents needed



MOI -GAFI SMI Strategy (Contd.)

- **A number of PE Funds interested in SMEs (mostly focus on Med Cos.)**
- **Egyptian Market requirement for PE Investment - estimated to be in the range of USD 200 Mn - USD 500 Mn per year**
- **These Funds would inject capital into high growth potential SMEs in form of PE then may exit through NILEX in three to four years**
- **Present Challenges to PE Industry in Egypt:**
 - **Legal & Regulatory issues** with current Capital Market Law inhibiting the establishment of PE Funds in Egypt (most PE Funds established offshore limiting their access to institutional investors)
 - **Shortage of Skills & Experience** to manage PE Funds
 - **Difficulty to identify investee or portfolio companies**, presenting deal flow problems for PE Funds
 - **Absence of Key Players in PE Market:** Angel Investors, Sponsored Advisors - Market still underdeveloped



MOI - GAFI SMI Strategy (Contd.)

- **Pillar IV: Business Development Services**
 - **To Create Efficient Delivery System catering to SME needs**
 - **Start Ups**: Business Plan preparation, Market Research, Information, Advice on legal & financial aspects
 - **Existing Firms**: Marketing, Finance, HR, Quality Standards, Access to technology, access to Markets, Links to Business Networks
- **Regional Business Units:**
 - GAFI will use its existing widespread network of regional offices (9 offices) and would establish new ones (proposed 6 offices) to create platform for BDS delivery
 - GAFI signed an agreement with CIDA to provide training & information & networking services to existing SMEs in Cairo, Alex, Assuit & Ismailia
- **Compendium of Available BDS:** To develop an inventory of all available services, their providers & SME eligibility criteria



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SME Development - Way Forward

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Progress Underway - Regulatory Front to enhance Competition, Contestability & Transparency

- **Egyptian Institute of Directors EIOD, in cooperation with GAFI & NILEX, is currently developing Corporate Governance Guidelines for SMEs**
- **Improving Financial Literacy** to increase Awareness about new financial services by educating Current & Potential Entrepreneurs about benefits of using new viable alternatives for traditional banking services
- **Issuing Unified Companies Law** - Draft Law has been prepared to be reviewed during next Parliamentary Session
- **Issuing Bankruptcy Law and Regulations for Closing a Business**