MENA-OECD INVESTMENT PROGRAMME
OECD-MENA WOMEN'S BUSINESS FORUM

Working Draft – For Discussion

Entrepreneur's Guide to Bank and Non-Bank Financing for Women in the MENA Region

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This document presents an overview of the bank and non-bank financing options available to women entrepreneurs across the MENA region. This Guide was reviewed at an expert meeting co-organised by the OECD-MENA Women's Business Forum and the Union of Arab Banks in Beirut, Lebanon, on 13 November 2013.

This Guide is submitted to the OECD-MENA Women's Business Forum for discussion at the meeting on 2 December 2013 in Rabat, Morocco. Following the meeting the document will be revised in light of the discussion and subsequently prepared for publication.

About the document

The OECD-MENA Women's Business Forum (WBF), which is coordinated by Mrs Nicola Ehlermann-Cache, Deputy Head, MENA-OECD Investment Programme in the OECD Global Relations Secretariat, seeks to identify mechanisms to reinforce access to finance for women enterpreneurs in the MENA region.

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I. INTRODUCTION

1. This work aims to help women entrepreneurs in the MENA region in their search for external funding. A minority of women entrepreneurs in the region rely on external financing. And in more than three quarters of cases, this external capital comes from friends and relatives. Banks generally treat men better, offering them lower interest rates and lesser collateral requirements.

2. Our approach is inscribed within a broader framework of financial education for women. It thus complements the work of the OECD International Network on Financial Education[1], which is responsible, along with the Global Partnership for Financial Education (GPFI) and the World Bank, for implementing the commitments the G20 made in this area in May 2012.

3. In addition, studies[2] show that businesses run by women are more capital efficient and generate higher revenues. The positive economic effects of increased contributions by women have been repeatedly demonstrated.

4. Access to sources of business financing has improved in recent years, thanks to intensified efforts both at the institutional level and in the private sector in the MENA region. Some countries have set up public initiatives to promote women and SMEs, which have had positive outcomes. In particular, funds or guarantees support financial institutions (banks and microfinance institutions) so as to encourage them to lend. The banks themselves have developed products and services specifically for women in general, and for women entrepreneurs in particular. The latter have been identified as a niche clientele with high potential, strong savings, and a significant capacity to generate profits. The MENA region is developing and integrating more and more into the global economy with each passing day, and, as a consequence, competition between banks has been increasing, causing them to find ways to distinguish themselves. Some banks therefore see women entrepreneurs as a niche that will allow them to differentiate themselves in an increasingly competitive market.

5. From the entrepreneur's perspective, it nevertheless remains difficult to obtain the necessary funds from a bank or financial institution. Banks do not wish to fund companies that cannot produce financial and accounting records over a relatively long period (5-10 years), and the guarantees requested exceed the amount borrowed by 20 to 50%. Even in the cases of entrepreneurs who meet these criteria, banks only finance part of their business expenses, finding other investment opportunities that are considered more profitable and less risky, and these entrepreneurs encounter difficulties refinancing.

6. A number of initiatives have been implemented to specifically promote the financing of women entrepreneurs. This guide, while hardly exhaustive, briefly presents the current international best practices. In addition to Small and Medium Enterprises (SMEs), bankers have identified women entrepreneurs as constituting another sector of profitable growth in the MENA region and elsewhere, and are launching many new initiatives oriented around their activities.

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[1] The OECD International Network on Financial Education brings together over 100 countries in order to develop analyses and recommendations on key issues related to financial education.

http://www.oecd.org/daf/fin/financial-education/financialeducationandwomen.htm

[2] A study from the Library House – Dow Jones shows that on a panel of 600 European enterprises with professional investors in their equity portfolio, businesses run by women required on average 35% less capital to generate 12% more revenue.

7. This guide is intended to provide the woman entrepreneur with an overview of the available, accessible, and timely funding sources according to the company size, stage of development, and entrepreneurial strategy. It covers in particular the various forms of bank loans, access to capital markets, and private equity.

8. To better assess the specific context of this issue, an introductory section reviews the major characteristics of the banking and financial sector in the MENA region, which are then further developed in the appendix. Finally, the difficulties posed by the region's lack of uniform definitions for SMEs/VSEs are also identified, as well as the challenges for the banking sector due to the specific legal environment and to the significant size of the informal sector within the broader economy.

II. AN EVOLVING BANKING AND FINANCIAL SYSTEM[3]

Banking Systems Are Young…

9. The MENA economies have long served as a central platform for world trade. But they have only recently joined the international financial sphere. Most of these are young nations that have only possessed a national currency and a central banking system since the 1950s, 1960s, or even the 1970s. The MENA economies embarked on a path of banking and financial modernisation during roughly the same time period (Brack, 2012).

10. In the mid-twentieth century, the organisation of a banking system around a central bank in the region has benefited from the arrival of the large-scale exploitation of hydrocarbon resources, and then from the formation of nations and the need to recreate national central structures. The model chosen was thus clearly Western or European in inspiration.

… and Generally Dynamic (Conventional Banks and Islamic Banks)

11. The MENA banks are successful and growing robustly, well above the trend of gross domestic product: the net profit of eight banks traded on the Doha Financial Market (Qatar) increased by 15% between the first quarter of 2011 and the same quarter of 2012. The consolidated profit of the Saudi commercial banks was estimated to have come in at just under USD 2.6 billion in the first quarter of 2012, an increase of 24% compared to the previous year's first quarter. The Moroccan Attijariwafa Bank saw its year-over-year net income rise by more than 8% in 2012.

12. The situation, however, is variable: the profit by Emirates NBD - the first commercial bank in the United Arab Emirates - decreased about 55% in the first quarter of 2012 compared to the same quarter in 2011. During this same period, the share of bad loans in the gross loan portfolio increased from 14.2% to 14.6%.

13. Financial markets in the MENA region rose by an average of 10% during the first four months of 2012, with Egypt, Dubai and Saudi Arabia recording the highest growth rates and Qatar, Palestine, and Jordan posting declines. The value of transactions on the Dubai Financial Market has grown from just under USD 3 billion in the first quarter of 2011 to nearly USD 5.6 billion in the first quarter of 2012.

Increasing Integration within the International System: A Convergence Factor

14. Banking systems are now undergoing a third phase of reforms aiming to integrate the MENA economies into the international banking and financial system. These reforms lead to a *de facto* degree of convergence, both of the banking systems within the MENA region, and of the MENA banking systems with those of middle-income countries in Asia, Eastern Europe, and South America. This change is particularly due to the gradual adoption of banking and financial rules based on specialised international organisations, such as the Basel 1, 2 – and 3 – Agreements, the recommendations for good supervision and governance issued by the Bank for International Settlements, and the IFRS accounting standards of the Board of the International Accounting standards (IAS).

15. MENA banks have largely implemented the Basel 2 Agreements and even have sound capital levels. According to the Institute of International Finance and the AUDI Bank, the solvency ratio of commercial

[3] A detailed analysis of the banking and financial systems in the MENA region is provided in the Appendix.

banks operating in the Gulf ranged from a minimum of 15.5% (Oman) to a maximum of 20.8% (the United Arab Emirates) at the end of 2011. As for doubtful accounts, their share in loan portfolios ranged between a minimum of 2% (Qatar) and a maximum of 8% (the United Arab Emirates).

However They Retain Some Specificities

16. In this movement of global convergence, the MENA economies, however, retain some specificities compared with the rest of the world.

17. This is particularly true of Islamic banking. But one should beware of conflating banking in the MENA region with Islamic banking, which is not limited to the region's economies. The share of Islamic banking is 65% in Bangladesh and 25% in Malaysia, whereas it constitutes, on average, a quarter of banking assets in the Gulf countries (35% in Saudi Arabia, and 30% in Bahrain according to the IMF – 46% with investment banking according to very recent sources – and 15% in the UAE). Moreover, it is much less common in countries bordering the Mediterranean (4% in Egypt).

18. Secondly, the systems are gradually opening up, but are still unfortunately characterised by the minimal presence of foreign banks and the great importance of the public sector. In many countries, the public sector still retains a preponderant role, and even in countries where most banks are private, the market is not competitive. Therefore, the banking system, although stable, has performed poorly, with high rates of nonperforming loans, and banking services accessible to just a small proportion of the population.

19. Even the poorest need to save in order to stabilise their resources. There is therefore a gap between supply and demand for financing small and medium enterprises, which is in part due to a lack of trust on both sides, with the bankers, on the one hand, lacking reliable information on the health of the business, and the entrepreneurs, on the other, mistrusting the bankers. And the banking system, unable to make a reliable assessment of the company's investment project, prefers to use the tangible collateral – property or otherwise – rather than relying on the project itself and the cash flows to be generated.

20. The use of the banking system is progressing, and retail banking and corporate finance are developing based on a narrow range of financial products. The sector is showing some stability, with low leverage, but it only serves a minority of the population.

III. EXTERNAL SOURCES OF FUNDING

What Funding? At Which Moment? For What Type of Operation?

21. Whether the company is a very small business, an SME, or a large company, several varied financing options exist. The purpose of this guide is to review the existing options by matching them with examples of practices in the MENA region.

22. There are basically two modes of financing that operate in tandem throughout the life of the company:
- Financing by strengthening equity and issuing calls for investors (contribution of personal funds, private equity, capital increase);
- Debt financing (indebtedness to a bank or to a specialised institution - for example one specialised in leasing).

23. These financing products are available to companies in varying arrangements according to their size. Small businesses will move towards using family capital and credit (from a bank or microfinance institutions) when they have guarantees. In theory, companies can also call for capital funding: there are diverse forms of capital funding, depending on the type of project and the company's development stage (creation, innovation, search for new markets, etc.). Larger companies may also use public offerings on capital markets (stocks, bonds). While this method of financing is currently undeveloped in the MENA region, it has received great attention from public authorities. The entrepreneur also has to choose whether to welcome other partners into the management of the business (by opening its equity portfolio to investors), or whether to retain independent control over the decision-making process (and opt for bank credit).

24. On average, one bank loan application out of two is approved, while other capital solutions, certainly much less used, have a rejection rate of just 12 to 15%.

A. THE CONTRIBUTION OF PERSONAL FUNDS

What is Equity?

25. Equity is the capital that constitutes the company itself, which it has at its disposal in the medium and long term. It comprises a large majority of the share capital (initial capital and capital increases), reserves (undistributed profits), the net operating result for the year, as well as investment subsidies. Equity is the savings of the entrepreneur, the total personal assets. These may be savings accumulated over time or profits from a former business.

26. Equity is essential because it represents a stable funding resource for the company and provides financial strength to it. It represents a safety cushion for the company's creditors, as well as a skill resource for the company itself. Each new partner can add key strategic contributions.

27. Throughout its development, the company builds its equity. Its profits increase its equity whereas its losses decrease it. If losses become too large, the company's equity can turn negative. Such a situation is dangerous for the business because its stable jobs are no longer backed by stable resources. Creditors are no longer assured to be paid back in case of default since the debt amount is larger than the value of the company's assets (buildings, equipment, etc.). Selling the assets at their balance sheet value will not be enough to repay the debt.

28. A company whose equity is low compared to its debt will be less financially sound. The higher the equity, the more the company is sure to withstand temporary difficulties. It can therefore ensure its sustainability.

29. Equity financing is an important source of funding for the company's business. However, it is rare because many activities require high start-up funding for logistical equipment, personnel, or real estate, for example.

30. The personal financial contribution in a business creation or takeover project represents the totality of the capital invested by the entrepreneur (and, if any, by his/her associates) as opposed to borrowed capital. If the entrepreneur (or his/her associates) provides a large part of the necessary funds, the business will be stronger as it will be less indebted in the case of possible difficulties. Yet it is important not to invest the totality of one's savings so as to keep a security margin in case of unforeseen events in the future life of the business.

31. There is no agreed upon standard regarding **personal investment** in a business creation or takeover project. However, a personal contribution is generally expected. The financial commitment is evidence of personal commitment to one's own professional project. In general, for a solid project in a common sector, the recommended contribution should be at least 30% of the total budget. However, an entrepreneur who wants to create a business and whose personal contribution is less than 30% should not be discouraged. He/she must try to present the project as is, or to compensate for this shortfall in personal funds by an additional warranty.

32. Unsecured loans can be granted to an individual. They then serve as personal contribution to the financing plan for the project. Finally, in some financing plans, including specific loans or the intervention of a mutual guarantee organisation, a minimum personal contribution may be imposed.

Advice for Women Entrepreneurs

To find capital, think about investing your personal funds: the higher the amount of your contribution will be, the more your partners will take you seriously. In addition, this contribution will help to fund the start-up costs or certain investments not covered by bank loans.

The most common means of financing never cover the entire investment. You will need to be ready to commit a minimum of your personal equity to convince capital providers.

Equity Financing Has Many Advantages

33. The higher the equity is, the more credit worthy is the company. This constitutes a safe means of financing that reassures investors and business partners. It is a guarantee of confidence in the project. Not to mention that this solution increases the chances the entrepreneur has of obtaining a bank loan. The proportion of the personal financial contribution is part of the overall balance of the financing plan for a business creation or takeover project. Hence it must be understood in terms of the many other criteria that differ depending on the type project. That is why it is difficult to establish a clear rule on the matter. However, the personal financial contribution should reflect the financial commitment of the project initiator and respect the balance that will secure funding partners and promote the project's success.

Advice for Women Entrepreneurs

Call on your loved ones[4]: your family and friends may also be able to help you get started. Prefer a loved one who has knowledge in management, and who will be able to identify the risks and benefits of the new company. Choose someone you trust and who trusts you.

Choose between the loan and the equity. In the first case, you will have to repay the money lent; in the second situation, they can participate in decision-making and receive a share of profits, but you will not have anything to pay back.

You can also apply for unsecured loans, which are medium-term loans granted by non-banking institutions at a reduced or zero rate. Their goal is to help finance the long-term needs of a business creation, such as the initial investment, or the working capital requirement (WCR). Check with the national agency for business creation if necessary.

[4] This is what we call *Love Money*.

B. MICROCREDIT

34. Microfinance has benefited from the long-standing difficulty for women to secure access to bank credit, which was largely reserved for men. It primarily targets women, based on the fact that they constitute the majority of the poor, and because their recovery rates are higher. Women also devote a larger share of their income to household consumption compared to their male counterparts. Microfinance uses credit, savings, and other financial products (such as micro-insurance) to help families take advantage of income-generating activities and better cope with risks.

Professional Microcredit

35. Professional microcredit aims to help entrepreneurs start or expand their businesses while maintaining a social character. Professional microcredit is a small loan over a maximum period of 5 years, granted by a non-banking specialised agency, and intended to finance a business creation or business development project.

36. The repayable loan can be used to acquire the initial materials required to start a business, obtain a first contract, and thus engage in entrepreneurship, or else it can be used to hire an employee to develop the business. This loan can also complement another bank loan or financial aid to create or acquire a business.

37. The interest rate for microcredit is often slightly higher than the rate of a conventional bank loan. This rate includes a contribution to the solidarity fund used to finance other microcredit schemes for future applicants.

Advice for Women Entrepreneurs

Conduct a thorough comparison of microcredit interest rates. They can be high if you need a large sum of money, and thus strain your operating profit margins.

Good Practices

38. In Saudi Arabia, the *Saudi Credit Bank* (SCB)[5] provides assistance to small businesses through zero-interest loans. Saudi citizens with limited resources or in a difficult financial situation are eligible. Loans are granted in exchange for a mortgage collateral or security.

39. Some community organisations in Bahrain provide microcredit: *Bahraini Development Women Association, Awal Women Society*.

40. According to the Grameen Foundation, the Egyptian *Al Tadamun Microfinance Foundation* has financed over 60,000 women microentrepreneurs in the region of Cairo. Its loans are mostly granted for projects in agriculture, domestic services, and artisanal activities.

41. In Jordan, programs that lend primarily to women are: *Micro Fund for Women*[6] (96% of borrowers are women), *FINCA Jordan*[7] (98% women), *Tamweelcom*[8] (95% women), *Alwatani*[9] (85% of borrowers are

[5] http://www.mof.gov.sa/en/docs/ests/sub_tsleef.htm.
[6] "MixMarkets Jordan". MixMarkets. June 22nd, 2010 http://www.mixmarket.org/mfi/mfw.
[7] "MixMarkets Jordan". MixMarkets. June 22nd, 2010 http://www.mixmarket.org/mfi/finca-jor.
[8] http://www.tamweelcom.org.
[9] http://www.nmb.com.jo.

SMEs run by women), *Ahli Microfinancing Company*[10] (all sectors except agriculture), *Development and Employment Fund*[11] (small projects and micro-activities), *Finca Jordan*[12] (for low income entrepreneurs), and *Middle East Microcredit Company*-MEMCC[13] (for rural SMEs).

42. In Lebanon, the public initiative *Economic and Social Fund for Development* (ESFD) aims to support businesses that are too small to secure a loan. It provides microloans of up to 20,000 Euros for investment or working capital. It relies on partner banks: Lebanese Bank of Commerce, Société Générale de Banque au Liban, Crédit Libanais, as well as the European Investment Bank (EIB).

43. The *Palestinian Network for Small Enterprises and Microfinance* brings together credit unions whose outstanding loans rose from USD 20 million at the end of 2000 to USD 42 million in September 2006[14]. Some programs specifically grant loans to women: *Palestinian Business Women's Association*[15] (100% of its borrowers are women), FATEN[16] (99% women), and *Palestinian Agricultural Relief Committees-PARC*[17] (100% women).

44. The Tunisian Solidarity Bank (BTS) is the first Tunisian bank specialising in financing small projects through direct financing or through micro-credit associations (MCAs). It gives its loans without requiring collateral or personal guarantees at an annual interest rate of 5%, which is the lowest in the market. Beneficiaries are mostly skilled young people with a higher educational or vocational education degree who do not have the financial means or guarantees but display a firm commitment and a passion for entrepreneurship and self-support for the success of their project.

[10] http://www.ahlimicrofinance.com.
[11] http://www.def.gov.jo.
[12] http://www.finca-jordan.org.
[13] http://tanmeyah-jo.org/index.php/2013-02-03-14-33-46.
[14] World Bank. Checkpoints and Barriers: Searching for Livelihoods in the West Bank and Gaza Gender Dimensions of Economic Collapse. February, 2010. World Bank Sustainable Development Department Middle East and North Africa Region. p. 38.
[15] "ASALA – Microfinance: Palestinian Business Women's Association". http://www.asala-pal.com/.
[16] "Faten – Palestine for Credit and Development". http://lacarossa.com/.
[17] "MixMarkets Jordan". MixMarkets. July 19th, 2010 http://www.mixmarket.org/mfi/mfw.

C. THE BANK LOAN

What is a Bank Loan?

45. The principle of the bank loan is simple: the bank lends the amount needed to launch or develop the company in exchange for payments spread over time in addition to a fixed or variable remuneration in the form of interest. This is the most well-known and commonly used system of debt financing. This type of financing can be used both by individuals for their projects (real estate, consumption) and by entrepreneurs, associations, and large companies.

46. The bank loan has the advantage of providing external resources while avoiding the intervention of third parties in the management of the business, unlike funding from investors.

47. Bank debt is not intended to fund risky transactions that could jeopardize the resources of the bank (deposits of savers). Bank loans are used to finance assets that can generate sufficient returns without too much uncertainty regarding the repayment of credit instalments. Most often it is used to finance fixed assets (machinery, furniture), real estate, and construction work, but also intangible assets (patents, internet business-oriented website) that increase revenue relatively safely.

48. The bank must guard itself against information asymmetries, that is to say the ability of companies to use the borrowed funds for a private or non-professional project. To avoid this situation, the bank will ask for guarantees (a sufficiently-funded deposit account, personal property, guarantee, mortgage on business property...) and a substantial personal cash investment. It will also require invoices or quotes to justify the company's investment. In the region, it is customary for the guarantee requested to exceed the amount borrowed (120-150% of the amount).

Box1. Testimony of a Banker

Ladies,

Regarding the financing of projects, I wish to remind you first of all that a bank will never take a greater risk than the risk taken by a shareholder. ***The main purpose of a bank is to be reimbursed****, regardless of the nature and form of its support. Therefore it will always seek to optimise the risk level of its intervention.*

It is not so much the real guarantees that you will put at the disposal of the bank that will reassure it and encourage it to lend you money, but rather the credibility and/or reliability of your projects.

In order to conduct your search for bank financing, you must therefore be well acquainted with your banker's expectations and his way of analysing risk. For instance, here are a few elements taken into consideration by a credit risk analyst: the detailed CVs of the company's shareholders, the business associates' assets, the level of control over the project, and the business plan (reliability, credibility of the data based on conservative assumptions…).

Tarek EL BITAR - Banque Palatine – BPCE Group

Advice for Women Entrepreneurs

Note that the amount of bank loans granted will depend on the quality of the project and on the guarantees you can offer. It will also depend on your personal financial contribution. You can apply for a bank loan after starting your business. The banker will often ask you to be able to prove 3-5 years of business activity.

If you have significant equity, you will need to weigh the pros and cons: it is sometimes more profitable to finance by debt when interest rates are low.

For a general credit, banks often require the personal guarantee of the project initiator, who is then required to accept a mortgage on his home or to use his personal property as a collateral. In this case, it is better to opt for the matrimonial regime of separation of property to protect one's family.

Short-Term Advances

Credit Facility and Authorised Overdraft

49. The credit facility and the authorised overdraft is a form of short-term credit for use over short periods.

50. This credit must be authorised by the bank prior to use: that is to say, the bank specifies in advance and in writing the conditions of use, in terms of duration, amount, and interest rate. The duration of use is set with the banker.

51. The authorised amount is stated on your credit facility or overdraft contract. It is determined based on the operating needs of your business. The financial terms are specified in the contract, which is signed between the entrepreneur and the bank. The bank may establish an overdraft contract including these terms or include the overdraft in a more general service agreement.

52. The credit facility and the overdraft offer great flexibility in managing cash. This type of credit can help to deal with the temporary business shortfalls that the entrepreneur may face. It can be used to deal with any unforeseen event that can suddenly occur, such as a customer's delayed payment, which leaves the entrepreneur unable to cover the salaries of the company's employees; such payment extensions are granted to customers for commercial reasons.

53. The entrepreneur will have to pay the bank interest based on the total amount used and the duration of use. The interest (also called premiums) is taken directly from the company's bank account.

Advice for Women Entrepreneurs

Cash flow forecasts serve to evaluate the cash flow of the company over time. They are part of the financial documents to be provided with the business plan. They are generally monthly. But if you conduct weekly cash flow forecasts, you will avoid embarrassing surprises.
This document can help you predict cash shortfalls and anticipate the situation by going to see your bank to solve the problem.

Discount

54. The discount is a form of professional short-term credit. The entrepreneur can use it if she has sold goods to a customer, and granted him/her a payment extension.

55. To materialise this claim and facilitate the settlement at maturity, the entrepreneur issued a bill of exchange payable on the due date. The fact that the customer returns this bill signed for acceptance signifies his/her endorsement of the settlement deadline.

56. If the entrepreneur needs finance immediately (for example, to pay another provider, or settle fixed and immediate charges), she can ask her bank to advance her the same amount on her account (after review of the application by the bank and the signing of a discount line agreement).

57. The discount has many advantages, such as (the list is not exhaustive):
- the immediate advance of the amount due by the customer, that is to say a more positive cash flow than with any another traditional way of short-term financing (cash facility, authorised overdraft);
- the selection of the trade receivables for which the entrepreneur wishes to obtain a discount line from her bank, depending on the state of her cash flow;
- receivables from customers are not recognised in the balance sheet of the company, as they have been the subject of a transfer to the bank.

58. In exchange for this funding, the bank charges different types of fees such as:
- fees for the delivery of the discount remittance (summary sheet on which are summarised the commercial papers that are discounted);
- a fee per commercial paper discounted in the same discount remittance;
- interest rates calculated in advance on the amount of the commercial paper issued at discount. These interest rates are also calculated on the duration of the advance of funds that is made (the time of delivery and the maturity of the effect date).

59. All these fixed and/or percentage-based fees are, in principle, included in detail in the discount line agreement between the bank and the entrepreneur.

Investment Financing

Business Investment Loans

60. A business loan is used to finance a professional investment, whether it is a tangible property (equipment, vehicle, computer, etc.), or an intangible need (financing the working capital of the company, financing the purchase of a license, a patent, etc.). A business loan is generally repayable in monthly or quarterly instalments. Each payment consists of a portion of the principal, interest, and possible death and disability insurance. The loan periods vary depending on the type of item to be financed.

61. The details of the loan are included within the special conditions of the loan agreement with the bank. The general conditions of loan discounts supplement this information.

62. Some banks offer either deferred payment (the ability not to make a loan payment and postpone it until the end of the loan), or payment flexibility (to vary the amount of its maturities up or down). Use of these options indicates that the entrepreneur anticipates a period of cash shortfall.

63. There are many benefits to business investment loans, such as:

- the use of a business loan can allow the entrepreneur to obtain 100% financing, in order not to have to use her own cash, although in some cases a personal financial contribution may be requested;
- the possibility to choose the repayment period, while remaining close to the life of the financed object;
- the possibility of early repayment;
- the ability to receive a tax reduction by declaring the loan interest in the “financial expenses” line of the income statement;
- and more generally, flexibility, in the sense that the bank can often take specific situations into account.

64. The loan periods vary depending on the type of items to be financed, that is to say, depending on the lifetime of the item, its obsolescence, its value by the end of the loan, and/or in terms of its tax depreciation. Indeed, it is better to base the repayment period on the duration of the tax amortisation of the object financed.

65. Interest is calculated at the rate provided in the deed on the amount and duration of the loan. It is listed in an amortisation table attached to the deed. This interest can be calculated with a fixed rate from the beginning to the end of the loan; in this case all of the payments will be of the same amount. Interest can also be calculated with a variable or indexed rate, that is to say with an interest rate that may vary up or down depending on the performance of an index, either internal to the bank (e.g. the base rate of the bank) or external to it (e.g. using an interbank reference rate).

66. In loans with variable or indexed rates, the rise or fall of the benchmark results in an increase or decrease in the rate of the loan as provided in the loan agreement. However, some loans with variable or indexed rates may be capped upward and limited downward, which protects the entrepreneur against any fluctuations in the interest rate benchmark. Bank interest may in some cases be regulated, meaning that the government sets the conditions for granting the loans and the interest rate.

67. Application fees are included in the loan agreement. The amount is generally proportional to the amount of the loan with a minimum charge. Life and/or disability insurance is often optional, but recommended when available: it is also included in the additional costs of the loan. The cost of making guarantees is the responsibility of the borrower. This cost varies with the type of security (pledge of the business, personal security, etc.) and the nature of the underwriter required to intervene (e.g. a notary). If the agreement is subject to stamp duty, tax stamps are also borne by the borrower.

Advice for Women Entrepreneurs

If you choose to use a bank loan to invest in the necessary equipment for the life and development of your business, you will need to submit to the bank a complete loan application, which will include at least:

- the estimate or pro forma invoice for the equipment;
- your latest balance sheet and income statement;
- your financial plan.

The bank will review these documents and may ask for additional information to assess the financial strength and profitability of your business, as well as its capacity to repay the loan. Generally, the bank will grant you an agreement that includes the provision of a warranty on the financed item(s) or on your business.

Real Estate or Equipment Lease

68. In a lease, it is the bank or its specialised subsidiary that buys necessary real estate property or equipment on behalf of the entrepreneur and that rents it out to her for the duration of the agreement, which is between 8 and 15 years for real estate and between 2 and 5 years for movable property (e.g. utility vehicle). Before making its decision, the bank sends an expert to assess the quality and value of the property for which the lease is requested. Monthly or quarterly instalments are called rents, and are payable in advance (referred to as "term accruing"). One hundred percent funding is possible without payment of an increased first month's rent. The first month's rent can also be increased and thus correspond to a cash payment made in a transaction involving a classic business real estate loan.

69. At the beginning of the lease, the entrepreneur may also pay a guarantee deposit, which often corresponds to the cash value of the asset at end of lease. Depositing a guarantee or an increased first month's rent reduces the rent monthly payments.

70. Throughout the duration of the lease agreement, the entrepreneur is the tenant of the property financed. At the end of the lease, or under the agreement according to the type of agreement signed, she usually has the option to purchase the property at a price determined at the beginning of the contract. The price to pay to purchase the agreement or the outstanding capital takes account of the rent already paid: it is the residual value.

Advice for Women Entrepreneurs

Please contact the relevant leasing agencies: these are mainly major commercial banks, specialised leasing companies, or regional development corporations.

Before deciding on the issue of funding, the leasing company examines the financial situation of the company.

Business Mortgage

71. A business mortgage is often a long-term loan (8-15 years) paid back according to a schedule set from the start. Mortgage payments are composed of a part of the capital borrowed, the interest due on the borrowed capital, plus, if applicable, disability and life insurance. The bank almost always requires using the property financed by the loan as collateral (e.g. mortgage).

72. Interest is calculated, at the rate provided in the deed, on the amount and duration of the loan. It is listed in an amortisation table attached to the deed. This interest can be calculated with a fixed rate from the beginning to the end of the loan; in this case all of the payments will be of the same amount. Interest can also be calculated with a variable or indexed rate, meaning that the interest rate may vary up or down depending on the performance of an index, either internal to the bank (e.g. the base rate of the bank), or external to it (e.g. using an interbank reference rate). In loans with variable or indexed rates, the rise or fall of the benchmark results in an increase or decrease in the rate of the loan as provided in the loan agreement. However, some loans with variable or indexed rates may be capped upward and limited downward, which protects the entrepreneur against any fluctuations in the interest rate benchmark. Bank interest may in some cases be regulated, meaning that the government sets the conditions for granting the loans and the interest rate.

Good Practices

73. In Bahrain, the *Tamkeen Fund*[18] supports SMEs in difficulty, with loans of up to 10,000 Bahraini dinars. The *Bahrain Islamic Bank*[19] has also set up specific banking services for SMEs. The *Bahrain Development Bank*[20] has specialised in SMEs since 1992, and provides them with various conventional and Islamic bank loans; the bank also offers financial education program to its customers.

74. The *Khalifa Fund*[21] for SME development in the United Arab Emirates offers various loan products according to the entrepreneur's profile and situation:

- *Khutwa* (microfinance), which specifically targets women (divorced, widowed, or retired);
- *Bedaya* (start-up loan);
- *Zeyada* (growth loan), for SMEs at an early stage of development;
- *Tasnea*, for industrial projects that require heavy investments.

75. Moreover, *Mashreqbank*[22] and *Standard Chartered*[23] have developed products for small businesses, including trade finance products.

76. In Egypt, a number of banks (*National Bank for Development*, *Banque du Caire*, *Banque Misr*, *Principle Bank for Development and Agricultural Credit*, *Commercial International Bank*, and HSBC) focus on the SME market, within which women are very active. NGOs, as well as the *Social Fund for Development*, are also very active in this segment.

77. In Lebanon, with the support of the International Finance Corporation, the BLC Bank has launched the "Women's Empowerment Initiative", which offers services for women entrepreneurs, especially with access to finance. Through this initiative[24], the number of loans to women grew by 55% and the number of bank deposit accounts held by women by 17% (December 2012).

"Initiatives like these are key to changing attitudes about the role of women in society. At the same time, we are also demonstrating that there is a considerable commercial advantage in providing women with concrete means to access financing for their businesses."
(Maurice Sehnaoui, CEO, BLC Bank)

78. Some banks in Jordan have developed products specifically for women entrepreneurs. One example is the *Jordan Housing Bank for Trade and Finance* [25] and its *Sayyidaty Account* service. After opening a deposit account with at least 1,000 Jordanian dinars, the entrepreneur becomes eligible for a loan[26].

79. The *Palestine Development Fund* provides financial support to the small business sector in the Palestinian territories. Branches in Gaza of the *Arab Bank*, *Cairo Amman Bank*, *Bank of Palestine*, *Al Quds Bank*, and *Egypt Arab Land Bank* have shown their support for SMEs.

80. The *Crédit Jeunes Promoteurs* in Morocco is a joint State/bank loan that is available from almost all Moroccan banks. It is intended for Moroccan nationals aged 20 to 45 years old at the time of the loan application. These individuals must hold a higher education degree or vocational or training qualification. It funds 90% of the project amount to a maximum of DH 1 million (45% by the State and 45% by

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18 http://www.lf.bh/en/pss/?p=ESF.
19 http://bisb.com/.
20 http://www.bdb-bh.com/index.php?page=content&id=6.
21 https://www.khalifafund.ae/En/FundingPrograms/Pages/Khutwa (Micro-Finance).aspx.
22 http://www.mashreqbank.com/.
23 http://www.standardchartered.ae/sme/home/en/index.html.
24 http://www.blcbank.com/women/Woman%20Entrepreneur.
25 http://www.hbtf.com/.
26 Jordan Gender Assessment. BearingPoint, Inc. USAID, January 2007, p. 21.

commercial banks), for a period of 12 to 15 years for State loans and a minimum of 7 years for bank loans (with a 5% rate for State loans, 9% for bank loans).

81. In Morocco, *Bank al Amal*[27] grants equity loans to MREs[28] or to current and former MREs that have exercised an activity abroad and seek to create or expand businesses in Morocco. *Bank Al Amal* jointly finances with another bank the creation or development of business in all sectors, with the exception of housing and trade (funding ceiling: 40% of the investment, not to exceed 5 million dirhams, for a duration of between 2 and 15 years, with a maximum grace period of 4 years, and a rate of 7-10% depending on the duration of the loan).

82. In Tunisia, the *Banque de financement des PME* (BFPME) is dedicated to small and medium enterprises. It is intended to help finance the creation of productive entities (excluding those related to tourism and real estate development) whose total cost is between 80,000 and 4,000,000 dinars. It also covers extension projects (excluding tourism and real estate development) whose total cost (net capital assets + new investment) is also between 80,000 and 4,000,000 dinars. The BFPME finances physical investments (excluding land) and intangible investments for creation and extension projects through the issuance of medium- and long-term loans.

83. In the Philippines, la *Rizal Commercial and Banking Co. (RCBC)*, one of the larger banks in the country, launched a loan program for SMEs run by women in 2012. The *Women's Enterprise Loan* was established with the cooperation of the International Finance Corporation.

84. In the summer of 2013, Indian public authorities created *Bharatiya Mahila Bank* (BMB),.the first bank dedicated to women in general, and, more specifically, to self-help women's groups.

85. The *Global Banking Alliance (GBA)* for Women is a network of financial institutions committed to providing women entrepreneurs with customised financial products, with the support of the International Finance Corporation (World Bank Group). Network members share best practices and provide financial services to women entrepreneurs. Its members are:

- Abu Dhabi: *The National Bank of Abu Dhabi*
- Saudi Arabia: *National Commercial Bank*
- Australia: *Westpac*
- Brazil: *Itaú Unibanco*
- Canada: *Scotiabank*
- China: *Bank of Deyang*
- Costa Rica: *Banco Nacional de Costa Rica*
- Equateur*: Banco Pichincha C.A.*
- Indonesia: *Bank Internasional Indonesia (BII), OCBC NISP*
- Kenya: *Diamond Trust Bank Kenya Limited (DTB)*
- Liban: *BLC Bank s.a.l.*
- Malawi : *NBS*
- Mozambique: *BCI*
- Nigeria: *Access Bank, Diamond Bank*
- Uganda*: Bank of Africa, Centenary Rural Development Bank, dfcu Limited, PostBank Uganda Limited*,
- Pacific: *Westpac Pacific Banking*
- Papua New Guinea: *National Development Bank*
- Turkey: *Garanti Bank*
- Democratic Republic of Congo: *RAWBANK S.A.R.L*
- United Kingdom: *The Royal Bank of Scotland Group, Standard Chartered*
- Tanzania: *Selfina*

[27] http://www.bankalamal.ma.
[28] Moroccans living abroad.

D. CASH MANAGEMENT TOOLS

What Are the Advantages of Placing Capital?

86. The entrepreneur may want to save in order to gradually build up business capital, to prepare for a possible contingency, to get a return on capital that she does not immediately need, or to develop personal capital.

87. The availability of funds is essential for an entrepreneur who must be able to cope with any contingency. For this type of savings, a formula with regular deposits is preferable because it makes it easier to forecast expenses by spreading them out over time.

88. As part of setting up a precautionary savings account for cash management, for just dealing with contingencies, or even for coping with a foreseen expense, the most suitable savings options may vary. According to her cash level and planned expenditures, the entrepreneur may prefer to seek a more flexible savings solution that makes funds easily available.

Payment Deadlines

89. Any payment extension granted (to the customer or by the supplier) can be considered as a method of business-to-business financing. By granting a payment extension to a client, the entrepreneur, in effect, finances the latter's cash needs. The situation is reversed in the case of a delay granted by a supplier, which finances the entrepreneur's cash needs.

90. Managing these payment extensions granted or received by the company can be an important first step in reducing the need for cash. It can therefore limit, at times dramatically, the funding level later requested from the banker.

91. In practice, it is more difficult to ask the customer to pay more quickly because he/she faces the same cash flow issues with his/her own customers. On the other hand, asking one's suppliers for a longer extension is not easy either. It all depends on the relationship the entrepreneur has with the supplier (duration of the business relation), and on the monthly volume of orders received by the supplier from the company.

Advice for Women Entrepreneurs

A piece of advice to increase bargaining power with the supplier: optimise the number of suppliers for each item ordered by the company. By reducing the number of suppliers, the contractor increases the volume ordered from each one and is thus in a better position to negotiate an extension of the payment period!

Trade Discount

92. In addition to the payment period, another method for managing capital, whether one is a customer or a supplier, is to use a trade discount. A trade discount is a transaction in which a customer pays the supplier's invoice in cash or in a short period of time (defined by the supplier, usually 10 days), instead of waiting for the deadline, in exchange for a small percentage discount (also defined by the supplier).

93. But beware, the discount given to a customer to encourage rapid settlement must be calculated carefully, because the operation can be very expensive. The use of the discount must be done by

calculating its cost and comparing it with other possible loans in the banking market and their respective ease of access.

Advice for Women Entrepreneurs

To avoid being faced with liquidity problems, make it a habit after each statement to strengthen your own funds by reincorporating some of your results. This will allow you to financially strengthen your business, and will avoid long negotiations with your bank. You will thus be able to build a sufficient reserve, which will be a strong sign for your bank, which, in turn, won't hesitate to accompany you in your development projects.

Factoring

94. Factoring is a way of financing the accounts receivables of a company. Through this method, the company sells the debt it has on its customers to a specialised financial institution. Thus, by selling its debt to the financial institution, the company immediately recovers some cash, and the burden to ensure debt collection is placed on the financial institution.

95. Factoring is a financing technique available for any type of business in any sector, regardless of its size, provided that it works with corporate clients. However, as with any type of financing, prior approval of the financial institution is required.

96. The factor or factoring firm is a specialised financial institution with which the entrepreneur signs a factoring agreement. This contract sets up the framework within which the entrepreneur may assign her bills to this organisation. Upon signing the contract, the entrepreneur may submit bills as they are issued, under the conditions specified by the agreement. The factor pays the agreed amount and ensures recovery of the debt at maturity.

97. When a company sells goods or services to another company, the claim appears when an invoice is issued. If this bill is payable on an agreed date, the entrepreneur will have to wait for this term to cash the funds.

98. Factoring offers several types of benefits:

- First, factoring enables the immediate return of cash upon invoicing without waiting for maturity.
- On the other hand, once the claim has been assigned, the entrepreneur no longer has to worry about paying the bill. It is the financial institution that takes on the task of collection.

99. Before approving the factoring agreement offered to an entrepreneur, the factor analyses the entrepreneur's client file in order to assess the risk. For this to happen, it will be necessary to provide the following information for each client company: contact information, national ID number, and the amount of outstanding bills to be transferred to the factor. After signing the factoring agreement, the entrepreneur shall deliver to the factor a copy of the invoice, stating the schedule of payments granted to the client.

100. The factor pays the entrepreneur the amount for each invoice received, after deducting its costs and possible holdback. He is responsible for getting paid directly by the client at maturity, and takes care of any arrears.

101. The factor finances the entrepreneur’s account receivables and as such gets paid from this funding. This amount takes into account the risk he takes in this operation, and the cost of the collection service. The agreement usually provides a holdback to cover the risk of an unpaid bill; the deposit is generally refunded by the factor in case of end to the business relation or non-renewal of the contract at maturity.

102. Credit insurance is a service provided by factoring companies to their customers who just want to protect themselves against the risk of customer insolvency, but do not need the invoice financing service. In this case, the factor provides its service to prevent risks and safeguard against any payments not made. He can inform the entrepreneur on the creditworthiness of customers. Credit insurance also offers delinquency monitoring, management, and recovery services. Credit insurance can also include a guarantee up to 100% of the invoice amount in case of default.

E. FINANCING OF INTERNATIONAL TRADE

Background Information

103. Needs and expectations for international trade are very specific. Companies are looking for guidance and advice to help them comply with the formal requirements of writing letters of credit, as well as to help them decide which Incoterms to use. This is especially true as trade between geographical areas is changing dramatically.

104. Until recently, in the context of a favourable economic environment, international trade transactions have increased without a corresponding change in payment security, meaning in payments by simple transfers. This situation needs to be reconsidered today in view of the rising risks in a deteriorated economic climate, which has forced companies to seek new security solutions for both import and export. Indeed, commercial risks and political risks are back. Some countries such as Spain and Italy are now in the same risk category as Turkey or Colombia (see the rating assigned by COFACE).

105. On the other hand, companies are looking for solutions to reduce their need for working capital, including through negotiable documentary credits. From the moment the letter of credit is confirmed by a bank, the company can make it “liquid”, provided the required documents are compliant.

106. Medium-sized companies are also looking to streamline costs by standardising their operations and by dematerialising their documentary credits, including through internet tools. In addition to these operations, SMEs are also looking for export support solutions (prospecting for customers and suppliers).

The Letter of Credit or Documentary Credit

107. This is an arrangement between financial institutions for the payment of international trade transactions. The payment is based on documents, and not on the actual goods or services covered. It guarantees the payment of the exporter’s transactions. Upon order by the importer, a foreign financial institution agrees in writing to pay the exporter a specified amount within a specified time, against the documents specified under the letter of credit.

108. There are several methods of payment. For letters of credit payable at sight, payment is due upon presentation of the prescribed documents. For letters of credit due on a fixed date, payment is made after a certain period of time following the delivery of the documents.

Advice for Women Entrepreneurs

Short-term financing is very costly for the company. Plan your finance plan accordingly.

Box 2. The Documentary Credit Process:

1. The contract is made between the buyer/importer and the seller/exporter. During negotiations, it was agreed that the payment would be an irrevocable letter of credit.
2. Opening Instructions. The buyer requests that his bank open a documentary credit, notification of which must be issued without confirmation from the seller's bank. In the opening instructions, the buyer fills out a form specifying the documents required for the importation of the goods.
3. Creditworthiness of the buyer. The buyer's bank verifies the creditworthiness of its client as well as the signatures on the application form. It also ensures that the instructions are clear and complete.
4. Opening. The buyer's bank issues the letter of credit and sends it via the SWIFT network to the seller's bank. The buyer then receives a copy of the consignment.
5. Control. After receiving the letter of credit, the seller's bank verifies the authenticity of documentary credit and if it is subject to the UCP (Uniform Customs and Practice). It then checks if the instructions do not contain errors.
6. Notification. The seller's bank notifies the client that it has received a letter of credit in his/her favour.
7. Control. Upon receipt of the notice, the recipient checks whether the conditions specified in the letter of credit are consistent with what had been established during the negotiations. If the beneficiary does not agree with any term, he/she must ask the buyer to modify the conditions.
8. Shipment of goods. The recipient sends the goods and prepares the documents required by the documentary credit instructions.
9. Delivery of documents. The beneficiary submits the documents to his/her bank.
10. Verification. The seller's bank verifies that all documents comply with what was required in the documentary credit. If errors are found, the client is no longer guaranteed to be paid.
11. Sending documents. The seller's bank sends the documents to the buyer's bank and asks to be paid.
12. Verification. The buyer's bank in turn verifies all documents to confirm their compliance.
13. Payment. If everything is in order, the buyer's bank makes payment to the seller's bank, less any applicable fees.
14. Debit of the buyer and delivery of documents. The buyer's bank debits the client for the amount of the documentary credit, less any applicable fees and gives him/her all the documents. The buyer can then clear the goods and take possession.
15. Payment. The seller's bank pays the customer less any applicable fees.

Supply Chain Finance

109. In addition to the traditional tools of trade finance, a company can now find funding through the structures of supply chain finance (SCF). Supply chain finance is intrinsically linked to the financing of the company's working capital. It is part of asset financing solutions that make it possible to obtain different types of loans depending on the quantity, availability, and quality of the borrower's assets.

110. The SCF solution enables a client company and its provider to conduct their business as part of a tripartite funding scheme: when a client buys products or services from a provider, he/she can use his/her own credit line to ask the bank to pay without waiting for the payment of the bill. The supplier, provided he/she accepts to pay a fee proportional to the receivable, is then sure to be entirely paid a few days after the delivery of the goods or services, which considerably improves his/her cash flow. The entrepreneur thus has a longer time to pay the bill to the bank: up to 90 days following delivery (since the negotiated funding is backed by her credit line).

Cash Credit for Export

Pre-Financing for Foreign Currency Export

111. This is a short-term cash credit in local currency, reserved for leading export customers to locally fund the production cycle of an export order (for acquisition of raw materials and supplies, operation fees, storage costs, etc.). It is primarily intended for leading import and export businesses and SMEs. This form of credit is for one year maximum, but is renewable.

Advice for Women Entrepreneurs

To apply, you must submit to your bank proof of a firm order for export and of having obtained prior approval of the bank committee in charge of this credit line. Pre-financing is generally 10% of the annual export revenue and can reach 15% for seasonal activities.

Mobilisation of Foreign Currency Receivables

112. This is a cash credit in local currency following the mobilisation of a debt in foreign currency granted to the exporter when it granted its foreign buyers payment terms. The objective is to mobilise foreign assets denominated in foreign currencies with the aim of rebuilding the company's cash flow, pending receipt of the proceeds of the bills. This mobilisation is done through an authorised line. The amount can reach 100% of the debt. The mobilisation of foreign currency receivables can generally be carried out in Euros, U.S. dollars, British pounds, Swiss francs, and Japanese yen.

Foreign Currency Refinancing

113. This is a short-term instrument that is widely used by importers. It allows banks to negotiate with their correspondents responsible for the credit lines for financing imports. This instrument allows the importing company to defer the settlement of imports. The duration is specified in the contract (generally 30 days minimum and up to 360 days), and the amount of credit is equal to the amount of the import operation, plus interest. The importing company's bank proceeds with the payment of the provider under the terms of the contract. At the same time, it gives the client a repayment term of up to 360 days. Eligible transactions involve all imports irrespective of their payment methods, billing currency, and the country of origin of the goods.

Export Credit

114. States provide export credits benefiting from public support through export credit agencies. The goal is to help domestic exporters to compete with other countries in foreign markets. Export credit agencies extend credit to foreign buyers either directly or through private financial institutions for which they provide or guarantee operations. These organisations may be public institutions or private companies acting on behalf of the State.

115. Specifically, this device provides access to credit rates – guaranteed by the government – that are more advantageous than those offered on the banking market. In addition, from the perspective of the bank, this type of credit is covered in case of the borrower's default.

Good Practices

116. The "Import" Loan of the *Islamic Development Bank*

The Islamic Development Bank (IDB) finances import operations of products that contribute to the mutual economic development of member countries of the Islamic Conference. Your business is eligible if the entrepreneur lives in an IDB member country. The loan period varies from 9 to 18 months. The maximum funding covers up to 100% of the transaction amount (under a *Murabaha* contract) for export operations worth less than, or equal to, USD 3 million. Maximum funding covers up to 80% of the transaction amount for export operations worth more than USD 3 million. The transaction currency is the Islamic dinar. The bank grants loans and donations. The loans are interest-free (according to Shariah), but they involve administrative costs between 1.5% and 2.5% for standard loans.

117. The *Arab Investment & Export Credit Guarantee Corporation*[29] (DHAMAN) is a multilateral organisation established in 1974 under an international convention registered with the Ministry of Foreign Affairs of Kuwait. Dhaman began operations in 1975 from its permanent headquarters in Kuwait. In particular, Dhaman guarantees Arab exporters for their exports to global markets against commercial risks (e.g. the buyer's insolvency under domestic law, such as in cases of bankruptcy, pre-bankupcy regime (concordat), or receivership, and the buyer's pure and simple failure to the extent that the insured exporter has fulfilled all his/her obligations under the export agreement) and non-commercial risks (transfer restrictions, wars and public civil disturbances, measures taken by the authorities of the importer's country preventing the insured exporter to be paid by the importer, and failure to pay the buyer when the buyer is a government entity or a public entity guaranteed by the government).

118. In Morocco,

- the product called "*Damane Export*" supports the cash flow of exporting companies through a reduction of 70% of the risk taken by banks for extending operating loans to exporters;
- "*Mezzanine Export*" encourages investment for export, through co-financing between banks and the Central Guarantee Fund. The latter intervenes via an equity loan to co-finance up to 40% of the investment program at a rate of 2%;
- the guarantee of export markets increases access to international markets. It consists of guaranteeing the bank financing granted under the guarantees required by Moroccan companies that are bidders for, or holders of public contracts for construction works, supplies or services abroad.

119. In Tunisia, COTUNACE provides economic operators with many products and services, including a Standard Commercial Credit Insurance (SCCI), Simplified Credit Insurance for SMEs (SCI), an Export Multirisk Insurance Contract (CAMEX), as well as general insurance. In addition, the National Fund for the Promotion of Handicrafts and Small Trades (FONAPRAM) aims to promote artisanal projects. It encourages small trades through an investment premium equal to 6% of the project cost or through a grant repayable over 11 years with a grace period not exceeding the term of repayment of the bank loan and with an arrears interest rate of 4%.

[29] http://www.iaigc.net/.

F. CALL FOR INVESTORS

120. SMEs looking for financing through bank credit often have difficulties meeting the eligibility criteria (lack of equity, lack or insufficiency of collateral). Procuring capital from investors does not only eliminate constraints related to the limits of an entrepreneur's personal funds, but it also constitutes a form of guarantee for the banker.

According to a 2007 study (Library House - Dow Jones) conducted on 600 European companies with professional investors in their equity portfolio, companies headed by women have required an average of 35% less capital to generate 12% more revenue.

Venture Capital

121. For the company in need of capital, venture capital consists in opening its capital to one or several investor(s). The term "venture capital" generally relates to investment in unlisted companies.

122. This form of financing is only available to certain types of projects, generally innovative ones with high growth potential and good prospects for rapid returns on investments.

123. The art of venture capital consists in taking majority or minority stakes in the capital of small and medium enterprises that generally are unlisted. This investment helps fund their start-up, growth, transfer, as well as sometimes their recovery and survival.

124. Venture capital supports businesses principally in three areas. It provides the financing and capital necessary for their development; it supports the entrepreneur when strategic decisions have to be made, and it facilitates the improvement of the company's potential for generating value for its customers, shareholders, and all officers and employees.

125. The actors on the market are segmented according to the company's level of maturity:

- If the company is in its pre-start stage, it should approach a seed capital fund;
- If the company is in its development stage, it should approach a venture capital fund;
- If the company is in its development stage, it should apply to a growth capital fund;
- If the business owner, shareholder of the company, wishes to transfer the company (takeover of the company by employees, for example), it should approach a transfer capital fund;
- If the company encounters difficulties, it can appeal to turnaround capital.

The Creation Stage: Seed Capital

126. Investors in seed capital, who are mostly individuals, provide capital, along with their networks and experiences, to entrepreneurial projects that are still at the research-and-development stage. The objective of this stage, which is financially very risky, is to finalise the development of a technological prototype that makes it possible to meet the technological challenge, and begin to assess the existence of a potential market. The signing of a first client constitutes the transition to the venture capital stage.

127. Seed capital can also be sought out later when investors are involved at the time of creation of the start-up and/or in the first phase of development.

128. Business angels usually intervene after the intervention of "love money": the public support and interest-free loans that allow the entrepreneur to find the money to start his/her activity before the intervention of venture capital professionals (risk capital, growth capital).

The Innovation Stage: Risk Capital

129. Venture capital investors provide capital, along with their networks and experience, for the creation and early development of innovative companies with high growth potential. The few successful projects should more than offset the capital losses of those who fail.

The Development Stage: Growth Capital

130. Growth capital is for companies that have passed the venture capital stage, and have thus validated the potential of their market and need additional funding to support and accelerate their growth, whether it is organic growth (financing their needs in working capital) or external growth (acquisitions).

Transfer Capital/LBO

131. Also known under the term LBO (leveraged buyout), these buyout operations involve acquiring the entire capital of a profitable company, usually operating in a mature market, through a combination of capital and bank financing (structured debt). They allow the president of a company, in partnership with a venture capital fund, to transfer his/her business, or more generally to prepare his/her succession by selling his/her business in several stages (double trigger LBO).

Turnaround Capital

132. Investors in turnaround capital usually acquire all of the capital (or a majority share) of a company in difficulty, and then inject the financial resources required to implement a recovery plan.

Who are the external investors?

133. External investors are partners or shareholders who inject private capital into your business. This may be cash funds (in cash) or in kind funds (machine, building, patent). In exchange for their capital, external investors receive shares of the company. What does this mean concretely? This means they have a say in the daily management of the business because they hold part of it.

Business Angels

134. Business angels are very wealthy patrons for the company. They act as individuals and inject capital into companies that often represent a niche or an innovative profession. They represent a good way to fund your business and offer the benefit of the expertise of an experienced sponsor.

Venture Capital Companies

135. Venture capital companies are companies specialising in equity investment. They generally focus on innovative and creative projects with a relatively high expected return. These investors may be involved in the daily management of the company.

Crowdfunding

136. Crowdfunding is a collective investment (a network of individual investors). The principle is simple: the entrepreneur tries to raise funds from ordinary citizens recruited through websites, including social networks. Any citizen can invest in a given project, in exchange for shares of the company.

Advice for Women Entrepreneurs

Are you considering calling for outside investors? Think of the degree of autonomy you want to maintain because you will not be the only one to decide!

Box 3. How do investment funds intervene

Mechanism 1. The investment fund redeems your shares or those of other shareholders wishing to dispose of their stakes.

In practice, this mechanism does not bring new financial resources to the company. The investment fund directly redeems your shares but does not bring new funds into your company. It only allows you to let shareholders dispose of their stakes if they wish to do so, and, more importantly, to increase the value of the assets that you have built over long years. The investment fund that is solicited then analyses the business plan of the target company (balance sheets from the last three years of operation, forecasts, growth strategy, etc.). Based on the fund's mandated audits (accounting, legal, fiscal) and on its perception of the risk associated with investing in the target company, it offers shareholders a price determined by valuation methods. You can either accept or refuse this price.

Mechanism 2. The investment fund brings new capital into your business. This is called a capital increase.

The investment fund wishes to finance the development of your company by increasing its revenue. It is thus ready to finance new investments (machinery, recruitment, buyout of competitors, etc.) and/or to finance the operating needs (inventories, accounts receivables, etc.) of the company. To do so, it brings in new financial resources to meet the costs of the growth strategy, which you have previously calculated yourself (and with your CFO). In this case, the entry of investment funds in the capital of your business is done either by issuing new shares (of your company) or by issuing bonds. The latter is an instrument of private debt issued by the company itself and underwritten by the investment fund. This effectively means that the investment fund lends financial resources to your company, which pledges to pay them back: like any debt, it has a maturity and entitles the lender to the payment of annual interest, collected by the fund. The main advantage of this mechanism is that the private debt originally issued may be redeemed in the company's shares, which avoids the outflow of your business capital.

Good Practices

137. In Morocco, the aim of the *Sindibad* fund[30] is to strengthen the equity of companies by investing in innovative or high technology companies in the start-up stage of their development. Eligible for this funding are start-ups with an innovative project in the fields of engineering sciences, life sciences, and new information and communication technologies. The fund can invest between 10 and 35% of the company's equity, up to a maximum of DH 4 million, by buying a stake in the equity and quasi-equity of the company. The duration of the fund's stake in a company is 5 to 7 years.

138. Also in Morocco, the *Société de Participation et de Promotion du Partenariat* (SPPP-Moussahama) makes equity investments in existing or future Moroccan and foreign companies. It also provides them with advice and technical assistance, and develops studies to serve as the basis for equity investments. This type of financial stake is open to any unlisted company in the start-up or growth stage, with high growth potential, excluding those involved in real estate and trading activities. The amount of the financial stake may not exceed 49% of the capital of the company (and 10% of Moussahama's equity). The sale of the equity position occurs as soon as the company has reached its cruising speed, within 5 to 7 years.

[30] http://www.fondssindibad.com.

Initial Public Offering (IPO)

139. An initial public offering is the traditional way to get listed on a stock exchange. It is the process by which an issuer (company, State) sells securities to the investing public. These securities may be ordinary shares, preferred shares, bonds, convertible bonds into ordinary shares, etc. This sale is executed on the primary market on which the securities are to be traded and circulated beyond a circle of normally 100 people, or through methods such as canvassing, advertising, etc. For trading purposes, the entrepreneur entrusts one or more trading companies with the shares to be circulated so that they commit to circulating them to their customers, institutional investors, businesses, and individuals.

140. This method involves the preparation of a prospectus to be filed with a securities commission, as well as the filing of an application for listing. The prospectus contains detailed information for potential investors so that they can make informed investment decisions.

141. Certain conditions must be met for a company to complete an initial public offering:

- the company must have a strong growth in sales and profits;
- the company must have an aggressive expansion strategy;
- it must be headed by effective management and have a sound financial structure
- the company must compare favourably with other companies in its industry;
- the company must work in an industry sought after by investors, such as those associated with high technology;
- the use of proceeds of the issue must have interesting prospects for the company (investors are not looking for companies that will use the proceeds of the offering to repay all or some of its long-term debt or a shareholder);
- the size of the business is a very important criterion to achieve a certain liquidity and generate enough interest. The value of the company will need to be able to carry the burden of this dilution into the hands of the public.

142. The public offering has a number of advantages:

- Increasing the value of the company by eliminating the private company discount;
- Providing a certain flexibility to the founding shareholders that can help them diversify their investment portfolio and facilitate their financial, tax, and estate planning;
- Improving access to a wide range of financial instruments and markets, including additional common shares, convertible bonds, convertible preferred stocks, and issues of subscription rights for existing shareholders and other persons;
- Facilitating mergers and acquisitions by raising funds through the sale of additional shares and the direct issue of shares, which increases flexibility and offers benefits from tax rollovers;
- Increasing the compensation opportunities for management and employees (through stock option schemes and other incentive plans);
- Enhancing the company's visibility, which allows it to be more present in the community and to improve its relationship with its customers and suppliers.

Bonds

143. There are also different types of bonds that enable (individual and institutional) investors to lend money to a company. This is also a form of debt, much like credit. Bonds constitute contracts whose terms are determined by the company and the investor: the amount, the interest rate, the conditions of repayment, etc. This type of financing is commonly used by large businesses, which can issue bonds on marketplaces in order to raise large sums of money.

Good Practices

144. Siparex operates in the Maghreb. It is a minority shareholder and member of the board of Tuninvest Finance Group (Tunisia), CapitalInvest (Morocco), and Beltone MidCap (Egypt). It performs consulting and management assignments for the managers of these funds. In all, these actors from emerging countries represent €500 million invested in some 80 companies.

145. The Oasis 500 and I-Park programs provide financial and technical assistance to start-ups in Jordan, as well as the *Bab RizJamel*, AGFUND, *Centennial Fund*, and *Riyadah* in Saudi Arabia.

146. In Bahrain, the *Bahrain Development Bank*[31] is contributing 20% of the *Venture Capital Bank SME* fund.

147. At the regional level[32], Abraaj, a private equity group, has USD 6.6 billion under management and operates in eleven countries in the region. Abraaj makes its investments in SMEs through its platform *Riyada Enterprise Development* (RED), and through its offices in Cairo, Istanbul, Riyadh, Beirut, Amman, Ramallah, and Karachi.

[31] http://www.bdb-bh.com/index.php?page=content&id=6.
[32] Including in Turkey, India, and Pakistan.

G. PUBLIC AID TO DEVELOPMENT

PROPARCO[33]

148. PROPARCO's financing is open to all private companies and private sector projects with the exception of real estate and short-term projects. Such funding typically ranges from 2 to 100 million Euros, and targets entrepreneurs who either already have significant experience in the industry or have a partner company with an international reputation in the field. PROPARCO also expects that the project promoters bring in a minimum capital (about 30% of the project cost in the case of an expansion program, or 40% of the project cost in the case of a new project, known as a "Greenfield").

149. PROPARCO intervenes in several ways:

- either by investing in the equity and quasi-equity of the company, in which it takes a minority stake which will be transferred to other shareholders after 4 or 8 years, to third parties, or on the financial market. The minimum expected rate of return is about 15%;
- or by granting a medium- or long-term loan. The objective here is to finance medium- and long-term investment programs (start-up, expansion, restructuring, privatisation, etc.) against collateral (bank guarantee, group guarantee, mortgage, security, etc.). The loan period varies between 3 and 15 years with a possible grace period;
- or by providing a guarantee on the repayment of loans in local currency. This operation facilitates the mobilisation of resources in local currency from private borrowers, as part of the financing of their long- and medium-term investment programs. It also requires a collateral (bank guarantee, group guarantee, mortgage, security, etc.).

150. The PROPARCO office in Casablanca[34] also covers venture capital operations in Algeria, Mauritania, and Tunisia.

The Islamic Development Bank[35]

151. The IDB's strategic framework highlights the fact that trade is a means to improve cooperation and enhance the economic development of member countries. Because of this importance, trade between member States was identified as a priority area of the Islamic Development Bank group. Thus, within the group, several financing windows exist, such as the *Islamic Corporation for Insurance of Investment and Export Credit* (ICIEC), which provides insurance to exporters in member countries.

152. The IDB uses several financing instruments to promote development projects in its member countries. In particular, it offers private entrepreneurs the following products:

- the sale of a deposit: the Bank acquires and delivers assets, and then immediately resells them to the beneficiary, adding a premium mutually agreed upon by the Bank and the beneficiary. The latter pays the price on a semi-annual basis over a period up to 20 years;
- the *istina'a*: the Bank supports the production of equipment, or the construction of a structure, in accordance with the specific characteristics requested by the beneficiary at a specific price. This price is paid over a specified period;
- *Murabaha:* This instrument is used for the financing of trade (imports and exports). The Bank buys the required raw materials and sells them to the beneficiary. In the case of import financing, the financing period can be up to 30 months; it extends to 120 months for exports.

[33] http://www.proparco.fr/Accueil_PROPARCO/produits-services/Les-produits-financiers
[34] http://www.proparco.fr/Accueil_PROPARCO/regional-website/Portail-Maroc/Les-activites-de-Proparco-au-Maroc.
[35] http://www.isdb.org/.

- Leasing: assets are leased to the beneficiary who becomes the owner after a specified period of up to 20 years;
- Financing lines: the Bank provides financing lines to national development finance institutions or Islamic banks to promote the growth of SMEs, particularly in the industrial sector;
- Equity investment: the Islamic Development Bank makes equity investments in productive industrial or agro-industrial projects that are economically and financially viable. The Bank financing is limited to one third of the project's capital;
- Profit sharing: this type of funding is used for projects with a high rate of return. It is a form of partnership between the Islamic Development Bank and another party to finance a project. Each partner gets a share of the net profit (or loss) in proportion to its investment.

Good Practices

153. In Lebanon, the European Commission and the Lebanese government have jointly created the *Economic and Social Fund for Development*[36], operated by BLC Bank. It supports the financing of start-ups and promising projects in the country (working capital, equity). The amount should not exceed 75 million Lebanese pounds, for a period of 5 years, with a grace period of one year at most, low interest rates and no commission.

154. In Saudi Arabia, the *Women's Higher Technical Institute*, affiliated with the *Technical and Vocational Training Corporation* (TVTC), aims to grant loans of up to 200,000 riyals to its graduates to help them launch small businesses.

155. In Tunisia, the FOPRODI's task is to encourage the creation and development of SMEs. It must also implement incentives for the decentralisation of investment in the industrial sector. For the small and medium enterprises, FOPRODI acts as follows:

- for the first portion of the investment and up to 1 million dinars, the investment made on the FOPRODI's resources should not exceed 30% of the minimum capital.
- For the remainder of the investment up to 3 million dinars, FOPRODI's investment should not exceed 10% of the minimum additional capital.
- A study and technical assistance premium representing 70% of the total cost of the study and technical assistance, with a maximum of 20,000 dinars.

156. In Tanzania, the *Sero Lease and Finance Limited* (SELFINA)[37] has provided small amount lease-financing services to help women entrepreneurs since 2002.

[36] http://www.blcbank.com/business-3/ESFD%20Microcredit/Credit%20Facilities.
[37] http://www.selfina.com.

Advice to Women Entrepreneurs

*You will need to be **patient**, and sometimes even **resilient***
You will meet different banks and financial institutions, various interlocutors over varying time intervals. And you will face the same questions from your audience. Be patient and do not give in to discouragement.

"Do not put all your eggs in one basket".
In your search for funding sources, multiply contacts with banking and financial institutions. Do not canvass only your bank. You can compare the rates offered by different institutions, as well as their terms (duration, repayment, etc.). You can put them in competition to maximise your benefits. For your business, this will represent significant savings: an interest rate of 5.5% negotiated with a bank, instead of 6% proposed elsewhere, can represent significant savings (especially depending on the amount of the principal borrowed).

*Be **transparent***
This means that you need to have a unified accounting system, established in the rules of the art and compliant with the chart of accounts. Be in good standing vis-à-vis administrative commitments (up to date declaration of the various taxes due, etc.). This provides the banker with the evidence of the company's good faith, proving that it is transparent. The balance sheet gives an accurate vision for the health of the company. Banks also expect from their clients visibility (constant financial communication with your banker), an optimised organisation, and an efficient monitoring of the company's financial management (financial balance, profitability, creditworthiness).

Behind transparency lies a fundamental concept in the company-bank relationship: **confidence**. As much as he needs to build your confidence in him, the banker must also have confidence in you, as a business executive, and in your capacity as a manager. Only the progressive development over time of this mutual trust will eventually facilitate access to funding.

Advice for Women Entrepreneurs to Deal with Bankers and Investors

Tell a story
Recount what led you to the idea of your project, your successes, the obstacles you faced, and what you learned from your mistakes. Visualising your personal trajectory makes it possible for investors to better assess your entrepreneurial profile and your resilience in business, and to see your strengths as well as the possibility of their involvement in the project.

Show your project meets a real demand
Give a specific example of a problem that your business can solve. Make sure it is clear, with supporting figures. Bankers and investors need to understand if your project meets a real need to better assess their commitment.

Be understandable and use simple terms to explain it
Avoid using complex words so that your presentation is accessible to all. Managing to clearly explain your project in simple language increases your chances of success. Remember that you may have to present your project to investors who have no knowledge of your market or your industry.

Be credible
Make sure you have a solid business model to present so that investors can get a better idea of the benefits of their investments in the short, medium and long term. Talk about growing your market and show your long-term vision of your project. Talk about your serious partners and business associates. Show that you believe in your product and that you have tested it. Talk about your sales, recommendations, or concrete results by clients.
Remember that investors get a lot of information about you and about your company, and that they will have questions that can determine their decision if they suspect something dishonest in your presentation.

IV. NEED FOR A UNIFORM DEFINITION OF SME/VSE

157. There is no common definition for all countries to classify businesses (Table 1). Micro, small and medium enterprises are usually defined in terms of their numbers and their turnover (or their annual balance sheet total). The thresholds vary considerably from one country or region to another. It is normal to take into account the specificities of the local economy, illustrated in particular by the strong differences in average per capita income in the region, compared to Europe or the United States.

158. However, there is an international consensus that holds that small businesses are a source of growth and employment, and are thus vital to the economy because there are so many of them (Table 2).

159. The turnover is the primary measure used by banks to classify SMEs. To assess risks, they generally use an internal rating model, or, in some cases, a register. The decision to grant or refuse a loan is therefore often very subjective to the bank.

Table 1. Definiton of Enterprises According to their Size

		Staff *(Number of Employees)*	**Annual Turnover** (*in million euros)*	**Annual Balance Sheet Total** *(in million euros)*
Algeria	Medium Enterprise	50 to 250	≤ 19	0.96 to 4.8
	Small Enterprise	10 to 49	≤ 1.92	≤ 0.96
	Micro-Enterprise	1 to 9	≤ 0.19	≤ 0.09
Saudi Arabia	Medium Enterprise	50 to 200	≤ 10	
	Small Enterprise	3 to 49	≤ 0.98	
	Micro-Enterprise	1 to 2	≤ 0.02	
Egypt	Medium Enterprise	50 to 100	≤ 9	
	Small Enterprise	11 to 49	≤ 1.5	
	Micro-Enterprise	1 to 10	≤ 0.13	
United Arab Emirates *(services sector)*	Medium Enterprise	101 to 250	≤ 30	
	Small Enterprise	21 to 100	≤ 4.5	
	Micro-Enterprise	1 to 20	≤ 0.6	
Jordan	Medium Enterprise	31 to 100	≤ 0.113 (capital)	
	Small Enterprise	8 to 30	≤ 0.053 (capital)	
	Micro-Enterprise	1 to 7	≤ 0.015 (capital)	
Lebanon	*No formal definition*			
Morocco[38]	SME	≤ 200	De 0.27 to 16	
Tunisia[39]	Medium Enterprise	50 to 199		
	Small Enterprise	6 to 49		
France[40]	SME	≤ 250	≤ 50	≤ 43
Europe[41]	Medium Enterprise	50 to 250	≤ 50	≤ 43
	Small Enterprise	10 to 49	≤ 10	≤ 10
	Micro-Enterprise	1 to 9	≤ 2	≤ 2
United States	Medium Enterprise	≤ 500		
	Small Enterprise	≤ 100		
	Micro-Enterprise	≤ 20		

38 Source: Pacte émergence 2010-2014.
39 Mounira BouAli, *Caractéristiques du tissu industriel tunisien en 2011 - Cadre institutionnel et Financement des PME,* Ministère de la planification et du Développement Régional, Institut Tunisien de la Compétitivité et des Études Quantitatives, 2011.
40 Source: INSEE.
41 Recommendation 2003/361/CE of the Commission, dated May 6, 2003, on the definition of micro-, small, and medium enterprises [*Journal officiel* L 124 of 20.05.2003].

Table 2. Distribution of Companies According to their Size

% of companies (absolute figures in thousands)	**VSE 0-9 employees and/or turnover ≤ €2 M**	**Small enterprises 10-49 employees and/or €2 M ≤ turnover ≤ €10 M**	**Medium enterprises (50-249 employees) and/or €10 M ≤ turnover ≤ €50 M**	**Large enterprises < 250 employees**
Lebanon[42]	94.5	2.2	0.3	
Morocco*[43]	96.43 (46,985)*	1.63 (796)*	1.93 (940)	
Tunisia[44]	97 (583,849)	2.5% (14,891)	0.4% (2,676)	0.1% (806)
France[22]	87.98 (2,656)	10.17 (307)	1.46 (44)	0.36 (11)
Europe[45]	93.01 (23,494)	5.90 (1,491)	0.93 (235)	0.20 (50)

**Threshold set at €2 million and not €5 million.*

[42] Source: Census of Buildings Dwellings and Establishments 2004, CAS.
[43] http://www.emergence.gov.ma.
[44] Mounira BouAli, *Caractéristiques du tissu industriel tunisien en 2011 - Cadre institutionnel et Financement des PME*, Ministry of Planning and Regional Development, Tunisian Institute for Competitiveness and Quantitative Studies, 2011.
[45] Source: DG Entreprises publications, European Commission, 2003/7.

V. THE LEGAL ENVIRONMENT, THE BANKING SECTOR, AND THE INFORMAL ECONOMY

160. Uncertainty remains in many Arab countries regarding the implementation of the law and in the exercise of justice. As corruption remains a widespread practice, it adds to the uncertainty companies may face in their operations, as well as to the lack of investment security.

161. Based on the analysis of available data, we know that the contribution of the informal sector to economic growth is largely underestimated. It could even represent in some parts of the MENA region up to 40% of the economy. In 1999, the Moroccan High Commission for Planning conducted an assessment of the sector, as well as one of very small enterprises (VSEs) in the formal sector in 2000-2001; it found that informal production units represent two-thirds of total small production. For an economic fabric consisting of 98% TPEs with less than ten employees, this is considerable.

162. This quite rare identification of the informal sector provides an indication of its proportions, and naturally has significant consequences on the financing of small businesses: those in the informal sector do not have access to bank credit – or even to microcredit. This explains why the countries of the region continue to see their companies mainly financed, for the external part of the funding, by family contributions.

163. More precisely, the new database compiled by the International Finance Corporation and McKinsey (Stein *et al.*, 2010) suggests that of the 420-510 million small, very small, and medium enterprises (VSMEs) that exist worldwide, only 9% are SMEs operating in the formal sector. Eighty to ninety-five percent of these VSMEs are micro-businesses in emerging markets, of which 7% are formal SMEs, 15% formal TPEs, and the balance (78%) informal enterprises and businesses without employees. Only 12.5% of the 420-510 million are located in the Middle East and North Africa, and among them 68% are informal, 22% are VSEs, and 10% are SMEs in the formal sector.

164. Bank credit remains the main source of external financing for SMEs. One of their characteristics is that, precisely because of their size, they have little access to financial markets. They are focused on debt and equity for their external financing. They also often depend on informal sources in the early stages of development, with external sources becoming more important as the company grows. The fact that they are accessible can decisively determine the trajectory of SME growth. Internal sources of funding are typically composed of the entrepreneur’s savings, the company’s incorporated income, or the proceeds from the sale of assets. External sources are either informal (family loans, for example) or formal (when it is debt or equity investments).

APPENDIX. THE EVOLUTION OF THE BANKING AND FINANCIAL SYSTEM IN MENA COUNTRIES

165. Overall, banks in MENA economies offer deposit, cash management, payment instruments, and transfer services. They also have at their disposal different forms of credit, such as overdraft, trade finance, leasing, and insurance and technical assistance products (Brack, 2012). Technological and innovative investments have promoted the collection of household deposits. Ninety-two percent of banks in the Gulf and 78% of institutions in countries around the Mediterranean have automatic teller machines (ATMs) available to their customers, usually on the basis of a domestic interbank system. Fifty-eight percent of Gulf banks and 28% of institutions in other countries in the region have developed a network of branches, and respectively 88% and 58% offer banking services on the Internet, while 75% and 45% offer mobile phone banking services (CGAP, Financial Access 2010).

166. On the basis of a global comparison, access to banking products in the MENA economies appears limited, and this is especially true of credit. Access to deposit accounts in the region is 853 for every 1,000 adults, compared to 1298 in Europe and Central Asia. The number of credit accounts is 166 per 1,000, while it is 361 in Europe and Central Asia (CGAP, Financial Access 2010).

167. The situation is very diverse in the region. In the United Arab Emirates there are 1,750 deposit accounts for 1000 adults, while in Syria only 191. Between these two extremes are Lebanon (1371), Oman (1,042), Jordan (898), Tunisia (639), Algeria (736), and Morocco (193). This intra-regional disparity is also found in the case of credit. While microcredit is fairly pervasive in Lebanon, Oman, Tunisia and Jordan (520 credit accounts per one thousand adults in Lebanon, 412 in Oman, and 200 in Tunisia and Jordan), it is virtually nonexistent in Syria (73 accounts per one thousand).

168. The bank network also demonstrates different levels of development. It varies from 29 branches per 100,000 adults in Lebanon, unsurprisingly, to 23 in Oman, 21 in the UAE, 17 in Jordan, 16 in Kuwait and 14 in Tunisia; but the figure is just 10 in Morocco, 5 in Algeria, and less than 3 branches per 100,000 inhabitants in Syria and Yemen (1.8).

169. The number of services accessible to the public is directly linked to this situation, as evidenced by the equipment rate in automatic teller machines (ATMs), which is already at a low average compared to other regions. The UAE is rather well endowed (99 per 100,000 adults), ahead of Oman (46), Lebanon (39), Jordan (26), Morocco (19), Tunisia (17), Algeria (6), and Yemen (2.84), which is still ahead of Syria (2.67). Bank branches are rather well equipped with ATMs in Kuwait with an average of 3, followed by Oman (2), Morocco (1.88), Jordan (1.48), Tunisia (1.2), Syria (1.1), Lebanon (1.4), and Algeria (1.08). Network development has been rapid, and the difference is noticeable over the past fifteen years if one compares the current situation with that of the 1990s, when it was necessary to contact the office of the local branch to obtain cash, thereby prohibiting any bank interoperability. Tourists in Tunisia and Morocco no longer need to take travellers cheques with them for the past few years now, and their international payment card (Visa or MasterCard) is now widely accepted.

170. The operation of the payment cards and credit cards system requires both a large number of cards (“issuance”) and an established network of acceptance (“acquisition”), the latter being more difficult to develop. It is indeed necessary to convince the retailer to be equipped with an Electronic Payment Terminal (EPT), which is often rented for a fee, even though he may consider that cash management does not cost him anything. The security associated with electronic banking payment could convince him, in addition, that the risk of holding cash has been reduced, as well as the cost of managing checks. The EPT equipment rate is on average 89 per branch in developed countries, and it reaches a maximum of 63 in

Kuwait and 48 in Lebanon, but remains between 9 and 10 in Morocco, Tunisia, and Yemen. On average, a Syrian bank branch has equipped one store with an EPT. Typically, distributors and retailers are affiliated with the domestic interbank network that is accessible to national carriers and coupled with an international network with “four corners” (Visa, MasterCard), or “three corners” (American Express-Amex). To account for an often restrictive regulation of exchange, only certain privileged clients of banks in the MENA region have international credit and debit cards that they can use freely with ATMs and with the EPT of the relevant network (Visa, MasterCard or Amex) when they travel abroad.

171. The banking sector gained momentum in the early 2000s, as evidenced by the net increase in bank assets, especially in the Gulf countries. Bahrain is a special case, since the assets there went from representing 106% of the gross domestic product in 2002 to 258% in 2008, which was largely due to the conversion of investment banks into retail banks. Total assets have grown more moderately in other countries in the sub-region, reaching 142% of GDP in 2008 in the UAE (111% in 2002), 94% in Qatar (85% in 2002), 84% in Kuwait (120% in 2002, the difference being due to restructuring), 68 and 66% in Saudi Arabia and Oman (68% and 52% in 2002).

172. Jordan (97%), Lebanon (80%), the UAE and Tunisia (64%), Kuwait (62%), and Morocco (61%) have levels of banking intermediation – ratio between credit to the private sector and GDP – that are relatively higher than those of Saudi Arabia (36%), Libya (16%), Syria (15%), and Algeria (13%), reflecting the implementation of earlier reforms in this industry: consolidation, openness to foreign banks, better risk oversight. These differences in levels of intermediation also reflect differences between countries in their respective processes of economic recovery.

The Overwhelming Role of the Banking Sector in the Financing of the Economy

173. The banking sector is often reluctant to finance private sector activities – decrease in the credit to GDP ratio – and remains oriented around financing the public deficit which is around 10% of the GDP. In Algeria, the reform of the banking sector is regularly postponed. The banking sector has provided nearly all the funds on average over the period between 1995 and 2008 in both Egypt and Jordan, and nearly half of them in Saudi Arabia and the United Arab Emirates. The ratio of domestic credit provided by the banking sector reported to the gross domestic product remains high, from 40% on average for the period from 1975 to 1984, and 60% since.

174. Banks hold on average more than half of the total financial assets, after the opening and liberalisation process described above. Besides banks, financial markets – also called “direct” finance – are undeveloped and unsophisticated, even in countries with significant liquidity. We also note that the actors in these markets are often fully-licensed banking institutions. Banking assets account for more than half of the total capital structure (65%), while equity markets represent 30% and there is almost no debt (bonds). For the sake of comparison, the capital structure of global financial markets is, overall, distributed equally between debt, equity, and bank assets. There are regional variations, such as the fact that three quarters of corporate finance in Europe derives from bank credit and the last quarter through financial markets, while the proportion is reversed in the United States where most of the funding comes from the financial markets (in the form of securitised loans, thus taking them out of bank balance sheets).

The Dominance of Public Banks

175. In North Africa, in particular, banking remains dominated by the public sector. This situation is both due to the fact that public banks remain numerous and provide a large proportion of the funding granted, and to the fact that they still provide a lot of funding to public enterprises, to the detriment of the private sector: in Algeria, state-owned enterprises received 45% of loans to the economy granted in 2010, whereas

this share was 80% in the late 1990s. The privatisation process has however been launched in most countries in the region, which gradually reduces this situation.

176. In Algeria, the six public banks monopolise over 90% of assets. The same is true of the five state-owned banks in Libya, which has recapitalised three in 2005. Mauritania implemented a wide privatisation process in the 1990s. In Morocco, public banks are limited to a quarter of the market, a third in Tunisia. In Egypt, Banque du Caire, which was supposed to merge with Misr, the second national bank, was eventually sold to private capital for 80% of its value. Eight months ago, the third largest bank, Bank of Alexandria, was privatised in favor of the Italian Sanpaolo IMI. The proposed sale of Banque du Caire, which has a network of 200 branches, caused discontent in political circles since foreign operators already occupied 29% of the Egyptian market. The sector therefore seems to evolve towards two public fully-licensed banks, instead of the four major traditional banks that dominated the industry for decades.

177. In the Gulf countries, the domestic banking sector – institutions whose capital is in majority owned by nationals of the country – continues to be significantly dominated by public banks, but its magnitude varies widely, from 13% in Kuwait to 52% in the United Arab Emirates, where the shareholders are divided between the State (41.5%) and the royal family (10.3%). Therefore, direct trans-border relations within the sub-region, but also with other foreign jurisdictions close by are relatively small, with a few exceptions. In Oman and Saudi Arabia, the public sector also has an important place (30% and 35% respectively).

Financial Sectors in Search of Efficiency

178. The financial systems remain dominated by banks, which do not however play their role well in promoting economic development. Despite recent privatisation, State participation in the capital of banks is still important and this has an effect on the allocation of resources, which is often not optimal. The loans are often short term, primarily related to business activities, and mostly granted to large – public – companies, rather than to small and medium enterprises, which are both the most important part of the economic fabric and often the largest job creators.

179. In addition, trust is still too often lacking in the relationship between the entrepreneur and the financier, whether the latter provides equity or bank financing. Conditions for aligning supply and demand are not met. This has a particular impact on small and medium enterprises since they encounter difficulties in accessing credit financing due to insufficient collateral and expertise, and because they do not have access to other funding sources, if they even exist (Brack, 2011).

180. Even in countries in which most banks are private, competition remains low, due to sluggish and weak supply. Access to financial services is generally low, with high transaction costs, and is limited to a few well-off segments of the population. However, in some markets, technological investments – ATMs, branch networks – have promoted the collection of household deposits. The significant increase in oil prices has allowed ample liquidity to fuel investment in the banking sector, as well as credit growth, with positive externalities on the stock markets and the real estate sector.

181. Banking systems are often based on a simple model of a bank offering basic banking and financial products. They are also characterised by a relative isolation from the international financial system, limited use of international markets, and the non-convertibility of domestic currency. The main income of banks is based on the collection of interest (or the equivalent) and fees.

182. The credit to the private sector-GDP ratio have increased in the region from 32.4% on average in 1975 to 41.7% in 1984, ranging between 6 and 15% in Yemen, the Palestinian Territories, Algeria, and Syria to 60% and above in Morocco, Kuwait, Tunisia, the United Arab Emirates, Lebanon, and Jordan. In Algeria, although small, the ratio doubled in the 2000s.

183. In some countries in the region, the level of nonperforming loans remains a major concern, despite recent improvements. Strong state intervention in the decision to grant credit plays a rather important role in this situation. Repayment poses problems for almost 30% of the loans granted in Algeria, 20% in Tunisia, and 10% in Morocco (Tahari et al, 2007). Espinoza and Prasad (2010) reported rates of non-performing loans of 1.2% (Oman), 1.4% (Saudi Arabia), 1.7% (Qatar), 2.4% (United Arab Emirates), 2.9% (Bahrain), and 5.5% (Kuwait) in 2008. Over the period 1995-2008, the rate of non-performing loans ranged from 3.1% (Qatar), and 4.3% (Saudi Arabia), to more than 6% (Bahrain, Oman and Kuwait).

184. Economic research considering the bank as a business and trying to measure its ability to minimise costs, have largely developed since the early 1990s. The goal is to test the cost-effectiveness and the "efficiency frontier" by different methods (DEA, DFA, SFA). Studies specifically dedicated to the MENA economies are more recent, and very few adopt a cross-sectional approach to countries in the region; analysis of the results is difficult because of the influence of environmental – economic and political – variables that differ greatly in this context. Only studies on small groups of countries can be of great use.

185. Modelled on the work of Demirguc-Kunt and Levine (1999), Cherif and Ben Naceur (2008) have assessed two measures of the efficiency of the banking sector in the MENA region: the bank interest margin and operating costs. The former is the ratio of net interest income and assets. A relatively high level of this ratio is indicative of a higher cost to the bank financing of the economy, and therefore of a less efficient banking sector. According to their analysis, the banking sectors of the MENA countries experienced an overall improvement in efficiency from this perspective. Among them, Bahrain, Kuwait, Lebanon, Qatar, Egypt, Libya, and Syria had the lowest ratios (0.02) in 2006, and therefore, were the most effective. Conversely, the ratio is about twice as high in Algeria, Jordan, Oman, Morocco and Sudan, while those of Tunisia, the United Arab Emirates and Saudi Arabia are at an intermediate level.

186. The second indicator consists in comparing operating costs to bank assets. Logically, the lower the ratio is, the better the minimisation of costs, and therefore the greater the effectiveness of institutions. According to the same study, between 1997 and 2006, efficiency increased significantly in MENA countries, with a ratio that went from about 0.03 to less than 0.021. By comparison, the improvement was relatively more important in countries of Eastern Europe: the ratio increased from 0.065 in 1998 to nearly 0.03. Egypt, Libya, Kuwait, Qatar, and Saudi Arabia are cited as countries with a comparatively more efficient system, but most other countries converge.

187. For Molyneux and Iqbal (2004), all else being equal among the Gulf countries, (i) the banks of Oman are the most effective, (ii) followed by Saudi banks, (iii) those of Bahrain and Kuwait constituting the middle group, and (iv) those of Qatar and the UAE represented the group with the worst results for the period 1995-2000. They observe that in the Gulf countries foreign banks are less efficient with respect to costs and more efficient in terms of benefits than national institutions. The strengthening of the financial capital appears to be the central element explaining the effectiveness of banks in the region.

188. Basing their analysis on assets, Molyneux and Iqbal (2004) also confirm that the large banks seem relatively more efficient in terms of costs and profits than smaller institutions, because the former benefit from certain advantages relative to the latter: they have access to more effective technology at a lower cost, can make a better allocation of staff — the most specialised to the most profitable activities – and therefore better charge their clients.

189. Ben Naceur *et al.* (2009) examine the effects of financial sector reforms on the bank performance of a sample group of countries (Egypt, Jordan, Morocco and Tunisia) over the period 1993-2001, using the envelopment method of DEA data, and evaluate the efficiency frontier. They conclude that, despite the similarities in the process of financial reform in these four countries, the efficiency scores vary

considerably from one market to another: Morocco and Tunisia have significantly better scores than Jordan and Egypt: the authors believe that the difference is mainly technological.

190. The World Bank (2009) has studied the efficiency of the banking sector in the MENA region as determined by its ability to finance itself as a company. The international organisation considers five dimensions to establish its ranking – depth, use, intensity of use, access, and perception of access – and defines three groups of countries. In Jordan, Lebanon, and most Gulf countries, companies have better access to credit. In Morocco, Saudi Arabia and Tunisia, access is more moderate. Finally, Algeria, Egypt, Libya, Syria, and Yemen have poor access.

The Presence of Non-Banking Financial Institutions

191. Specialised banks, insurance companies, and pension funds are very well developed in Morocco, and to a lesser extent in Tunisia (African Development Bank, 2010). In Morocco, the insurance sector represents 11% of the total assets, which is in line with other markets, such as Mexico (8%) and Poland (10%). In Morocco, insurance companies and pension funds align most of their liabilities with government securities. Insurance companies, pension funds, and banks are also the largest holders of Treasury bonds, which are in a dematerialised form, with very little activity in the secondary markets. In Tunisia, the non-banking financial sector is dominated by mutual funds, venture capital companies, and some pension funds. Non-banking financial companies are rare in the Gulf countries. The largest ones are in the UAE, where the two biggest companies were restructured and have a market share of only 3% in the total of loans granted, including in the banking sector.

192. Investment funds have grown rapidly in several Gulf countries, although they tend to remain largely focused on domestic capital and real estate. Mutual investment funds mostly belong to banks; they are present, although on a limited basis, in Bahrain, Saudi Arabia, and the United Arab Emirates. In Kuwait, there are 95 investment companies, with assets under management that are equivalent to over 100% of the country's gross domestic product (end of 2008), including 42% that are managed for their own accounts. Investment banks in Bahrain are not very numerous, but they are rather large.

193. Securities markets in the Maghreb are small. The Egyptian Stock Exchange is the largest in North Africa, with two times more capital than the other three exchanges in the Maghreb altogether. The rapid growth in the 2000s of the Moroccan and Tunisian stock markets signals a demand in active capital markets in the region.

The Main Banking and Financial Actors in the MENA Region

194. According to the Union of Arab Banks there are 420 banking institutions in the region. The banking sector consists of 280 commercial banks, 60 Islamic banks, and 80 investment banks and specialised institutions.

195. There are 11 banks in the MENA region that are listed in *The Banker*'s ranking of the 200 largest banks for their Tier One capital (end of 2012): *National Commercial Bank* (Saudi Arabia, ranked 115th), *Qatar National Bank* (Qatar), *Al Rajhi Bank* (Saudi Arabia), *Samba Financial Group* (Saudi Arabia), *Riyad Bank* (Saudi Arabia), *National Bank of Abu Dhabi* (UAE), *First Gulf Bank* (UAE), *Banque Saudi Fransi* (Saudi Arabia), *National Bank of Kuwait* (Kuwait), *Abu Dhabi Commercial Bank* (UAE), and *Kuwait Finance House* (Kuwait).

196. This ranking shows the dominance of banks from countries of the Gulf Cooperation Council - Saudi Arabia, Bahrain, UAE, Kuwait, Oman and Qatar – since they account for three quarters of the banks listed in the Near and Middle East (76 banks), among the 1,000 largest institutions. Banks in these countries

constitute 25 of the 29 top MENA banks, along with two Moroccan (*Attijariwafa Bank* and *Banque Populaire*), one Egyptian (*National Bank of Egypt*), and one Lebanese (*Blom Bank*).

197. Despite their weight and the recent development of their economies, banks in North Africa have a relatively smaller size compared to their counterparts in the Middle East. Thus, the average cumulative capital of the four largest banks in each country – three for Morocco and Jordan – differs from the extreme numbers of $7.1 billion for Saudi Arabia, 6.3 for the United Arab Emirates to the more homogeneous group of countries with figures between 2 and 3 billion: 3.3 for Kuwait, 2.5 for Qatar, 2.4 for Bahrain, 2.2 for Morocco, and 2.1 for Jordan (with only three banks in the ranking). The average size of the four largest banks is surprisingly lower in Lebanon ($1.46 billion), Egypt (1.12) and even in Oman (0.82). North African banks are using a regional strategy for their development, which is particularly the case for Moroccan banks: *Banques Populaires* is the first North African bank in the ranking, followed by *Attijariwafa Bank*.

Islamic Finance

198. The Islamic finance industry has extended its borders. Having developed exclusively for the banking industry, it began to enter new markets such as insurance or mutual funds. Similarly, while the original idea is maintained — compliance with the principles of Shariah — the objectives of these financial institutions have gradually evolved from simple development tools to the status of full-fledged financial intermediaries with the objective of maximising profits. Driven by an increasingly sophisticated and dynamic demand, Islamic finance has become more pragmatic and its practices have gradually moved closer to those of conventional finance.

199. Islamic financial assets account for 46% of financial assets in Bahrain, 35% in Saudi Arabia, 31% in Kuwait, 25% in Iraq, 17% in the UAE, and 4% in Egypt[46].

200. Contemporary Islamic banks have recourse to equity participation, commodity transactions, and leasing. The future of the Islamic financial sector also seems to benefit from the trend towards privatisation that we see in some Muslim countries, such as Egypt, Jordan and Morocco. Given the capital requirements associated with many projects, particularly in the Middle East's oil and gas sector, Islamic financial products and traditional financing are rather complementary. The Islamic financial sector has relatively little experience in project financing and the financing of privatisation, both of which require a long-term commitment that is not in the tradition of Islamic banks, although the basic principles of its contracts are those of structured finance.

201. At the same time, financial institutions have increasingly claimed their specificity, in particular highlighting the existence of the Councils of the Sharia, the guarantors of the Islamic character of the financial instruments they propose, which can also be marketing arguments for Muslim investors.

202. The second phase in the development of Islamic finance was marked by profound changes in the functioning and organisation of these financial institutions: they have developed in a more diversified and decentralised manner, as did the rest of the Muslim world. These institutions are mostly concentrated in the traditional lands of Islamic finance in the Near and Middle East and in Southeast Asia. But more and more of these institutions are also penetrating the markets of industrialised countries. Some Islamic banks, historically based in the Middle East, are currently expanding their international business and targeting the Asian markets of Southeast Asia, Japan, India and, more recently, China.

[46] Source: The Banker, Maris Strategies.

203. In the Middle East, and particularly in the Gulf, banking competition has intensified for a number of years due to the growing regionalisation of the banking market. Accession of the countries to the WTO makes international competition more visible and tangible. Small banks have few strategic alternatives. Their options are to merge, specialise, or die (Hassoun and Damak, 2007). Culturally difficult, mergers are rare. Specialisation is therefore most often an attractive, operational, and/or identity alternative via Islamic conversion. For large banks, the solution is to develop Islamic windows in order to protect their share of the retail banking market.

204. For Hassoun and Damak (2007), enterprises are not very sensitive to the religious argument when it comes to funding, but individuals are much more sensitive to it, and increasingly so. Thus, the success of Islamic financial institutions over the past decade is based on retail banking. The sector is experiencing significant growth due to the great need of the people. In addition, the risk-return ratio of the retail banking market is the most attractive in the region, where the failure rate is low due to the fact that the clientele is mostly composed of local officials, and where the products are expensive, and the practice of salary domiciliation almost systematic.

205. New entrants are numerous. New Islamic banks have emerged from conversions or created *ex nihilo* (*Al Masref, Bank Albilad, Al Rayyan Bank, Islamic Bank of Britain, European Islamic Investment Bank, Boubyan Bank*).

206. At the same time, financial innovation has brought new products, which are entering into indirect competition with those of the large global banks. Conventional banks operating in the MENA economies generally prefer creating “Islamic windows” and subsidiarisation. Finally, new professions are appearing, such as structuring, securitisation, assets management, and direct investment (private equity, real estate, infrastructure), giving rise to a new type of actor: Islamic investment banks – *Gulf Finance House, Arcapita Bank, Unicorn Investment Bank.*

207. Today, the techniques and principles of Islamic finance take up new markets, and are used in a growing number of products inspired by traditional financial instruments. Many new Islamic products have emerged in recent years in areas as diverse as trade, stock and bond investment, insurance and reinsurance, syndicated loans, group savings plans, and other portolio and wealth management products.

208. The *sukuk* market is a highly innovative sector that is growing rapidly internationally. Improperly classified as “Islamic bonds”, *sukuk* are very similar financial instruments to the assets backed securities of conventional finance in that they represent an ownership share of the underlying asset, rather than a debt. The remuneration received by the holders is based on the economic performance of the underlying asset (Mehboobhai Tai, 2009).

209. In 2002, the annual volume of *sukuk* did not exceed a billion dollars. It was $12.1 billion in 2005, $32 billion in 2007, and $84.4 billion in 2011. This dynamism concerns, of course, sovereign debt, but also, and increasingly, private debt. Despite this undeniable dynamism, the *sukuk* market is still experiencing some structural weaknesses that may hinder its future development: for the moment, subscribers are happy to hold the securities to maturity with no real secondary market.

210. Islamic investment funds are another area that attracts the attention of investors. Their number quadrupled, and their outstanding amount increased ten-fold in ten years. Originally dedicated to real estate, these funds have gradually diversified their portfolio. These equity funds grow at an annual rate of 25%. The amounts under management went from $29.2 billion in 2004 to $58 billion in 2010[47].

[47] Source: Ernst&Young.

211. The increasing popularity of Islamic funds has prompted some financial platforms to implement devices to attract these institutional investors. In 1999, the *Dow Jones Islamic Market Index* (DJIMI) and the *Global Islamic Index Series* (GIIS) were established in New York, followed in 2007 by the SP500 Shari'ah in order to provide a reference on the financial market for the stock values that correspond to the principles of Islamic finance.

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