Access to Finance
-The Egyptian Experience-

The Eleventh Annual International Seminar on;
“Policy Challenges for the Financial Sector”
Seeing Both the Forest and the Trees-Supervising Systematic Risk

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Outline

- A Snapshot of Egypt
- MSME; A Fundamental Pillar of the Egyptian Economy
  - Facts and Figures
  - Understanding the Gap
  - Bridging the Gap
- The Way Forward
A Snapshot of Egypt

GDP at Current and Market Prices (2009/2010): \(1207 \text{ L.E bn (204 USD bn)}\)

Annual Real Growth Rate of GDP (2009/2010): \(5.1\%\)

Average Per Capita GDP at current prices (2009/2010): \(15509 \text{ L.E (2628.6 USD)}\)

Population (2009/2010): \(77.8 \text{ million}\)

Unemployment Rate (2009/2010): \(9\%\)


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A Snapshot of Egypt

The global financial crisis led to many negative repercussions on several world economies. However, the Egyptian banking sector weathered the negative repercussions due to the successful reform program.
“…the stability of the financial sector during and since the crisis is a testament to reforms since 2004”.

IMF

“The Egyptian financial sector is the most far reaching, substantive and comprehensive drive toward financial sector strengthening so far in Egypt - and indeed in any other country of the Middle East and North Africa region”.

World Bank
A Snapshot of Egypt

Reform Plan
First Phase (2004-2008)

The Central Bank of Egypt in 2004 adopted a reform program that aims at:
- Building solid infrastructure and more efficient and sound banking sector

Reform Main Pillars:
- Strengthening the legal, regulatory and supervisory framework
- Consolidating the banking sector and increasing private participation within banking assets
- The financial, operational and institutional restructuring of public-sector banks

Resulted in (2004 vs. 2009/2010)

Robust, solid and well capitalized banks, as:
- Banks decreased from 57 to 39
- Assets increased by 74% to reach $1033$ L.E bn
- Capital Adequacy Ratio increased from 12.2% to reach 15.1%
- Total Net Worth increased by more than 100% from $32$ L.E bn to $75$ L.E bn.
# A Snapshot of Egypt

## Challenge

### Access to Finance

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Loans/Deposits</td>
<td>54%</td>
</tr>
<tr>
<td>Average Loans/GDP</td>
<td>49.4%</td>
</tr>
<tr>
<td>Average Deposits/GDP</td>
<td>90%*</td>
</tr>
</tbody>
</table>

* much higher than the world average
The second phase of the banking sector reform program that started in 2009 aims at: Deepening the Egyptian banking sector, enhancing its efficiency and competitiveness.

**Through,**

Continuing the strengthening of the regulatory and supervisory framework through the implementation of Basel II/III

Enhancing the implementation of Corporate Governance rules and regulations

**Enhancing Access to Financial Services**
MSME; A Fundamental Pillar of the Egyptian Economy
-Facts and Figures-

2.5 Million MSMEs

75% of the total employed workforce

99% of non-agricultural private sector establishments
SMEs with the capacity of **5-19 workers** represent the highest percentage (**83.70%**).

SMEs in the **manufacturing sector** represent the highest sectors in dealing with banks (**54%**), followed by the **whole sale trade** (**23%**).
MSME; A Fundamental Pillar of the Egyptian Economy
-Facts and Figures-

Formal Sector

40% finance their capital needs from formal financial institutions.

Sources of Finance, for example: SFD, Banks, Venture Capital, Leasing, etc.,

Informal Sector

20% borrow from other non-banking sectors sources.

80% rely on self finance

Sources of Finance:
savings, inheritance, remittances, family and friends, rotating savings groups, and Credit Associations (RoSCAs) Or suppliers of machines, equipment and raw materials, which, represent 16.5% of the informal SMEs sources of finance.

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MSME; A Fundamental Pillar of the Egyptian Economy
-Facts and Figures-

Percentage of SMEs Dealing with Banks

- 53% of the surveyed SMEs don’t deal with banks
- 47% deal with banks

Percentage of SMEs that have Banks’ Facilities

- 78% of the surveyed SMEs have Banks’ facilities
- 22% do not have Banks’ facilities

Egyptian Banking Institute
<table>
<thead>
<tr>
<th>Sales Turnover</th>
<th>Dealing with Banks</th>
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<tbody>
<tr>
<td></td>
<td>YES (%)</td>
</tr>
<tr>
<td>Less than 500,000</td>
<td>30.60%</td>
</tr>
<tr>
<td>500,000 to (&gt; 1MM)</td>
<td>48.60%</td>
</tr>
<tr>
<td>1MM to (&gt; 20 MM)</td>
<td>26.40%</td>
</tr>
<tr>
<td>20 MM to (&gt; 50 MM)</td>
<td>4.20%</td>
</tr>
<tr>
<td>50 MM to (&gt; 100 MM)</td>
<td>0.60%</td>
</tr>
<tr>
<td>100 MM and Up</td>
<td>3.70%</td>
</tr>
</tbody>
</table>

There is a very strong relation between sales turnover and dealing with banks. The higher the sales turnover, the more dealing with banks.
Are SMEs experiencing difficulties in accessing bank finance due to issues related to the demand side or those related to supply side?
MSME; A Fundamental Pillar of the Egyptian Economy
-Understanding the Gap-

70% of non-OECD countries report SME financing gap compared to 30% in OECD ones

Business Landscape:

- 65-75% Micro-Enterprises
- 20% Small Enterprises
- 5-10% Medium Enterprises
- 1% Corporate, Multinational and Large Enterprises

Central Bank of Egypt
Egyptian Banking Institute

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SMEs’ Perception

It is more difficult for SMEs to obtain financing from banks, as:

a) The government and international development communities are focusing more on micro businesses.

b) Banks often prefer to extend credit to large corporate clients and connected individuals that are considered less risky.

c) Banks are much more trustworthy than obtaining it from other sources.
**Larger businesses:**
- a) Are more stable,
- b) Are less prone to risk
- c) Have available records
- d) Have structured information
- e) Are easier to access
- f) Are more profitable

**Small businesses:**
- a) Are less stable,
- b) Are more prone to risk,
- c) Don’t have available records
- d) Have unclear information
- e) Are difficult to access
- f) Are less profitable

**Banks’ Perception**

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MSME; A Fundamental Pillar of the Egyptian Economy
-Understanding the Gap-

Lack of Business Documents (such as registration, license, and tax cards) and the reliability of financial statements, as well as the ‘financial performance’ represent 70%

Weakness of Management

Lack of Business Plans
Encourage competition among banks to provide full fledge of diversified products with lowest charges due to the economies of scale effect. CBE’s relaxation of the 14% banks’ reserve requirements on SMEs lending.

Facilitation of technical assistance to banks.

Improving the communication between the two sides of the SMEs’ lending market through discussing bottleneck issues and bridging the gap.
MSME; A Fundamental Pillar of the Egyptian Economy -Bridging the Gap-

Overcoming the asymmetric information between borrowers and lenders, which is particularly acute in the “informationally opaque” market for small business credit through:
(a.) The establishments of the I-score
(b.) National Census

Qualifying the Entrepreneurs.

Designing and launching a financial education and inclusion campaign.
The Way Forward

Post 25th of Jan. revolution, there is a need for strategic economic reforms to bring Egypt’s economic condition into vitality and promote investment.

Improvements in the legislative infrastructure, several rules and regulations:
(a.) associated with bankruptcy, creditor capacity to take fast possession of collateral in case of default.
(b.) The need to speed up the process of establishing collateral registries which should aim at building electronic registers and streamlining registration process.

Establishing an effective steering committee for planning and coordination of different related economic policies.
The Way Forward

Encourage banks to build on their expertise in matchmaking their clients in different stages of value chain (linkages)

A need for updating financial method for financial reporting (e.g., standardized template)

Changing the Mindset

Enhancing Entrepreneurship Education
The Way Forward

Is there a need to introduce some sort of government guarantees for MSME?

Informal vs. Formal, recommended policies and incentives?
“Egypt of today holds diversified opportunities and a new road map to success.”

_Egypt 2011, a new spirit springs_
THANK YOU