



First Roundtable in Cooperation with the Food Industry Chamber

The Possibilities and Determinants of the Successful Financing of SMEs

Tuesday June 8, 2011

Driven by its deep belief in the role of SMEs in gearing economic development, the Egyptian Banking Institute is keen on the reinforcement and promotion of the SMEs sector and facilitating its access to finance. In addition, EBI believes that holding a number of seminars among stakeholders; i.e. the banking sector and entrepreneurs who belong to different sectors will determine the obstacles that hamper this sector's access to finance, define the financing needs of every sector as well as promoting a constructive dialogue between SMEs entrepreneurs on the one hand, and the banking sector, on the other. Moreover, there is an endeavor to bridge the gap between these two parties through introducing entrepreneurs to the latest and best financial tools as well as the banks' requirements. In this respect, the SME Unit, at EBI held a seminar in cooperation with the Food Industry Chamber in Cairo, which is the first of a series of seminars with different sectors.

At the beginning of the seminar, Dr. Hala El Said – EBI executive director, underlined the success of the first phase of the banking sector reform, the second phase of which was announced in January 2009. Amongst the pillars of the second phase of reform is facilitating SMEs access to finance. The SME Unit, at the EBI, has taken this responsibility through its activities and technical support of banks as well as creating the enabling environment through the following steps:

- Determine the problems which bankers and stakeholders of the banking sector face
- Start a comprehensive census of all the owners of SMEs
- Meet with each sector separately to determine its problems; starting with the food industry sector

From her part, Dr. Yomn Al Hamaki thanked the Egyptian Banking Institute for this insight to reach a constructive dialogue among those who work in the sector of food industry and the banking sector. However, she has

posed a number of questions about the validity of a relative advantage in the food industry and the importance of crucial investments in this sector, in addition to numerous resources. The affirmative response to this question drives to another one about the best use of these resources. The negative response uncovers the difficult obstacles faced by the food industry sector, such as water disorders and the absence of a Food Control Authority. However, starting from June there will be a significant expansion in the European cooperation which will offer employment chances to numerous categories of MSMEs. In a related instance, Dr. Yomn mentioned that the main issue is very much related to other issues and obstacles such as:

1. The absence of a map that associates agriculture to industry
2. The absence of a governmental role in establishing generic groups which result into more spread that, in turn, decreases cost, increases production and promote competitiveness

If these obstacles get overcome, economic feasibility will be enhanced for the current projects as well as start-ups. This will encourage banks to lend these projects. Furthermore, there should be a sub-contractor, like a franchise that is able to deal with all stakeholders through its determination of the following:

1. Determining how to choose projects that enjoy economic worthiness
2. Defining the legislative and regulatory structures of these projects
3. Defining the Egyptian Banking Institute role in encouraging finance through the Central Bank and other banks

In a final note, Dr. Yomn underlined the fact that the added value of food industry is huge and we should maximize the use of water.

Dr. Gamal Seyam argued that the lack of consistency among SMEs is a persisting problem for 20 years, where 80% of the private sector consists of SMEs, 75% of which are unofficial. The problem may be summed up in the fact that there is a structural problem between the industrial and agricultural sectors, where the latter suffers from many obstacles including weak policies; limited share of public investments (around 2-3%) in addition to spending on agricultural research is almost 0%. This weakness of the agricultural sector is reflected on the food industry. The solutions can be summed up in:

1. The need for a good infrastructure (electricity, sewage...etc.)
2. The supply chain infrastructure
3. The institutional infrastructure to keep pace with the desired progress
4. Obtaining finance, but more importantly, devising standards to control production

5. Updating legislations and the distribution of functions
6. Transforming the existing majority of the informal sector to a formal one
7. Reform the institutional framework of the industrial and agricultural sectors
8. Modify the general economic directions in accordance with this modification

However, one of the major contradictions is the facts that despite SMEs pay their dues in almost 98% of the cases, banks still refrain from lending.

In response, Mr. Yousry Tenawy underlined the fact that banks lack the specialized bankers, who enjoy the “know-how” of financing SMEs. However, with the help provided by the Egyptian Banking Institute these specialized bankers started to be available in banks, which started to see the importance of the SMEs sector and has already started financing it, through prudently. The problem behind this careful approach is the inability of these projects in introducing a well-defined business plan. Consequently, the Food Industry Chamber started to acquaint the majority of its members of how to create a business plan. Meanwhile, the chamber needs banks’ funding to reach institutional development as well as reaching a bigger number of industrial units; because the chamber depends mainly on the members’ contributions which are insufficient, in addition to reviving classical foods.

In a more reactive part of the seminar, Mr. Ahmed Kamal, Environmental Commitment Unit Manager – Egyptian Industries Federation defined the aim of the unit as the endeavor to help different industries comply with the environment and achieve a constant development, in addition to providing 2.5% loans annually; in order to cover equipment rental. However, one of the major problems along this path is the lack of uniform tariffs by the SMEs. The Egyptian Banking Institute is requested to devise annual criteria to determine the number of loans provided by banks to SMEs.

On his part, Mr. Waley Lotfy – Head of SMEs, Credit Agricole stated that using clusters is the sole solution, since there are discrepancies between funding mechanisms and the phase which the project goes through. He, also, underlined the responsibility of non-governmental organizations (NGOs), in addition to the fact that SMEs lack a unified definition, unlike Malaysia for example, where the current definition serves the government goals, but each banks has its own definition.

On another instance, Mr. Ayman Sobhy, deputy director of direct lending – Social Fund for Development – stated that the fund finances all

projects with minimum L.E. 3.000 Egyptian pounds as well as financing the formal-sector projects through “One-Stop Shop,” in addition to its role in marketing production. What adds to the value of its role is that the rate of defaulted payment does not exceed 1.5%.

Again, Mr. Bassam Azab, assistant general manager – HSBC, agrees with Mr. Lotfy’s point of view that SMEs access to finance begins through NGOs, then the Social Fund and finally banks, because there is always a difference between banks and venture capital. There should be a grace period available for banks; during which SMEs build cumulative experience that enables banks to accept funding. In fact, banks cannot at the moment allow clients any loans with low interest rate for the benefit of depositors. So, there should be a phase of developing a culture of free work in the existence of studies and science.

According to the Central Bank, there is a difference between micro, small and medium enterprises, where we should admit the fact that the criteria followed by the banks in financing MSMEs would not be much different from financing corporates. For example, banks are more inclined to finance cars because of their tangible documents, while, most SMEs belong to the informal sector. These projects should enjoy an independent management structure without constant dependency on the owner. On the contrary, officials at the Social Fund for Development believe that banks are its executives as well as vents. The issue will not be solved instantly, but there should be a long-run strategy; where entrepreneurs should be technically qualified to submit their loan requests to banks. This long-run strategy should be comprehensive enough (10-20 years) along the line of the Fund’s success in financing agricultural projects where the Fund provides technical and financial support.

Mr. Hamdy Azzam, SMEs marketing sector, National Bank of Egypt, concluded the seminar by stating that one of the bank’s objectives is the development of the food industry sector to overcome the food gap in Egypt. In compliance with this objective the National Bank of Egypt dedicated L.E. 5 million Egyptian pounds to the agriculture sector with a rate of 23%. In fact, one of the major problems that banks face is their lack of understanding the relationship between the nature of projects and the requirements of farmers, because the latter lack a separate financial disclosure from the project, in addition to the deficiency of agricultural guidance.

In conclusion, micro enterprises face 98% of defaulting payment because they need collective finance, whereas the rate in the case of medium enterprises is much less than this.

