



CENTRAL BANK OF EGYPT
Egyptian Banking Institute



EXPANDING EGYPT'S BANKING FRONTIERS

The future of SME Banking in Egypt

'Turning ripples into waves'

October 2011

By: Robert Poldermans, Consultant

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EXECUTIVE SUMMARY

This position paper aims to assess progress and contribute to the current debate on moving SME banking forward in Egypt.

The paper suggests that:

- SME Banking in Egypt is a recent phenomenon, having developed mostly in the last 10 years or so.
- Just under half of Egyptian banks are involved in SME banking in some form or other.
- Support to develop SME Banking has come from numerous stakeholders – the CBE, EBI, the MOF and numerous specialists, projects and international institutions.
- This support has followed four models (and some hybrid forms):
 - i. Policy initiatives e.g. incentivizing lending to SMEs
 - ii. Direct-to-bank support e.g. providing term resources for on-lending, technical assistance
 - iii. Improve the clientele e.g. advising/supporting SMEs to improve their skills
 - iv. Nurture a facilitator e.g. establishing a specialist unit at EBI.

The paper also suggests that there is scope for all these models to make their contribution to developing SME Banking. However, the ‘nurture a facilitator’ model has been particularly successful in Egypt and the experience of BDSSP working with EBI to establish the SME Banking Unit is detailed. Through tripartite agreements, BDSSP and EBI have worked with two banks to develop and publicize the up-scaling and down-scaling models for SME banking.

Overall, Egyptian SME Banking displays considerable achievements in three areas:

- a) Within banks – where adjustments have been made to introduce SME banking;
- b) Within the financial sector – where service institutions are helping the development of SME banking; and
- c) Within the SME sector – where advice is increasingly available to make small businesses more bankable.



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However, set against that there is still a considerable way to go in each of these areas and there are disappointments and shortfalls compared to international benchmarks. But the 'glass is half full' and filling – as opposed to half empty!

International experience is well known amongst the SME Banking stakeholders in Egypt, and based on this a 'vision' for SME Banking Egyptian-style can be articulated. Its key elements are likely to be:

- **IN-BANK CHANGE:** to reflect the realities of a new business i.e. SME banking, and accept that these changes are part of a 'change management' process that starts at the very top.
- **FINANCIAL SECTOR – SME BANKING REGULATION:** to issue a full SME Banking Regulation that provides special conditions for all aspects of SME banking.
- **FINANCIAL SECTOR – UNIVERSAL BANKS WITH SME SBUs:** to have strong universal banks to undertake SME banking because it is highly profitable and it generates important synergies and links.
- **FINANCIAL SECTOR – MORE SPECIALIST NON-BANKS:** to have more high quality non-banks and specialized service providers to work with SME banks.
- **FINANCIAL SECTOR – LEADERSHIP AND PROCESS:** to bring the right stakeholders together in a recognized process where inspiring leadership, technical expertise and wide cooperation moves the development of SME
- Banking forward at an accelerated pace and with a clear banner/brand for public recognition.
- **OPERATING ENVIRONMENT – SPECIAL REGIME FOR SMEs:** to establish a 'Special Regime' for SMEs on all the variables of 'Doing Business In...'

Interviews indicate that there are several obstacles to achieving that vision for SME Banking, including: first; a lack of leadership, process and organization: second; a lack of buy-in amongst stakeholders: and third; a shortfall in technical quality and how to apply international knowledge to the Egyptian context.



INTRODUCTION

This paper is aimed at stakeholders in the development of the SME sector in Egypt. Obviously these stakeholders are well informed about the sector so the paper avoids description and repeating what the reader already knows, and instead concentrates on assessing the situation to date.

OBJECTIVE: the objective of this position paper is to assess progress in developing SME banking in Egypt, and thereby contribute to the current debate on moving SME banking forward in Egypt¹.

Note that this paper is limited to SME Banking – which is a sub-set of the broader issue of SME Development. On the latter topic, some initiatives are currently underway but these are not addressed in this paper.

CURRENT RELEVANCE: the SME banking debate in Egypt is of particular relevance now because:

- Much has been achieved by banks and stakeholders over the past 5-7 years and there is a solid base of progress and lessons learnt;
- The banking reform programme has successfully completed its early phases and the current debate on SME banking will assist banks to fine-tune their strategies as they enter the next phases of financial sector development;
- The demographic imperatives continue – putting strong pressure to create new jobs every year to employ a growing workforce – and the SME sector is expected to create most of those new jobs;
- There is much debate – post-revolution – of making changes and launching new initiatives; and
- The lackluster crisis-speckled performance of the global economy forces Egypt to focus on strengthening the backbone of its domestic economy – SMEs – rather than concentrating on large export-led ventures.

¹ The paper is commissioned by two major players in developing SME banking activities in Egypt: EBI – the banking sector’s training institute and BDSSP – the Business Development Support Services Project, which is CIDA funded and operates numerous programs supporting the development of small businesses in Egypt.



In short, the time for debate and action is now.

THREE PROBLEMS: the debate on SME banking in Egypt and elsewhere tends to run into some views which are – in our opinion – mistaken, and we should like to dispel these early in this paper:

1. First; until we have an agreed definition of SMEs, bankers can do ‘almost nothing’ because we are not clear what we are talking about;
2. Second; bankers only do – and discuss – SME banking to please the Government and be seen as worthy corporate citizens; and
3. Third; SMEs are the solution to all economic problems as they are the ‘ideal’ business providing everything the country needs.

Concerning the first issue – the definition – it is true that globally there are at least three approaches to defining size of business; employment, annual sales and/or capital/fixed assets. Often these are mixed and linked to create composite definitions. This paper is not the place to go into much detail², other than to say that there are definitions of SMEs used in Egypt by Ministries, the CBE, banks, CAPMAS etc which, broadly speaking, give a reasonable impression of the enterprises below large corporate size. Some data is available from a few years ago – see the table below – and this is currently being elaborated and updated by the EBI project with CAPMAS on the SME data base – launched on a partial basis in July 2011 and due to be completed and made available to all banks later this year.

THE

Market sub-sector	Annual sales EGP millions	Employment	Number (guesstimates)
Large Corporate	> 100	>200	1,000-2,000
Medium	10-100	50-200	3,000 – 4,000
Small	1-10	10-49	37,000 – 41,000
Very Small Enterprise (VSE)	0.1-1	5-9	127,000 – 140,000
Micro	<0.1	1-4	2,400,000 – 2,650,000

² Major institutions have analysed approaches to SME definitions in some detail – e.g. IFC, and much information is freely available on the internet.



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Rather than quibble and complain about definitional and data issues (sometimes perhaps as an excuse for doing nothing?), the important thing for Egypt is that:

- The ‘middle ground’ between retail banking and corporate banking is huge – the numbers are so big that fine tuning data by a few thousand in either direction will make no difference to the market opportunity facing banks and their decision taking;
- The ‘middle ground’ contains many sub-segments that banks themselves should define, not only by size but also by type of customer, location, industry, management profile and many other variables. That way banks can select their own priority sub-segments that match their strategies and risk appetite in the ‘middle ground’.

So banks can – and should – move ahead with SME banking by analysing the huge opportunity presented and choosing their own sub-segments within that. Definitional debates are not an excuse for inaction.

Concerning the second issue – motivation – it is entirely wrong to think of SME banking as ‘doing the government a favour’. It is a huge profit opportunity³ and the only favour is to the banks’ shareholders. Furthermore, it is an essential profit opportunity, as profits from corporate banking can be expected to decline and – although retail banking profits tend to be attractive, the required investments and operating costs in that business are high. So the motivation for developing SME banking is commercial and share-price driven – an important new source of profits to hedge against declining profits in other parts of the banking business.

Concerning the third issue – the ‘ideal’ business – bankers, economists and policy makers alike should not get too starry-eyed. Although small businesses are considered good creators of employment opportunities and even versatile and flexible in their reactions to market changes, they also present some disadvantages including for example:

- Typically they have low investment rates and limited capabilities to perform beyond their local environment – either nationally or internationally; and

³ Extracting profit from SME banking does mean ‘getting it right’ in more ways than one – but the ‘formula’ is tried and proven and demonstrated to be successful in other countries. There is no new or complex wheel that needs to be invented.



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- Family SMEs are often set in their ways, not innovative, and riddled with management, succession and strategic problems.

So dealing with the SME sector requires careful selection – cherry-pick and move cautiously – and avoid policies that reduce such selectivity⁴.

⁴ For example, policies and SME lending programmes that contain non-selective statements like ‘SMEs in industry x or region y should be financed’ tend to run into trouble as a) the banks don’t select and b) the specified groups think that borrowing becomes a ‘right’ – even a grant.



1: SME BANKING TO DATE

Egypt and its banks have much to be proud of in their short history of SME banking – but there is a long way to go, several difficult obstacles to be overcome, and no room for complacency.

HISTORY: Although there have been various attempts in Egypt's past – especially with major nationalised state-owned banks – to support priority industries and target groups e.g. micro-enterprises, it is striking that SME banking in Egypt is a recent phenomenon⁵. Altogether (and generalising widely) it has mostly happened within the last decade, and the bulk of the SME banking activity is concentrated within the last 5-7 years⁶. Other countries frequently cited as successful in SME banking e.g. India, Korea, Malaysia, Chile and others in the OECD e.g. Italy, have had anywhere between 40-50+ years of experience to build and develop their SME banking framework and institutions. So Egypt is a newcomer on this stage.

Today just under half of Egypt's banks by number are considered to have some activity in SME banking – at least by having a SME banking Unit (or team) and some activity in that area. This includes some of the biggest banks such as NBE, Banque Misr, Banque du Caire and AlexBank, Suez Canal Bank, United Bank, HSBC (Egypt) and others.

Most recently, in May 2011 the Government announced that Banque du Caire would become a specialised SME bank – although it would also continue with its existing businesses in corporate, mid-caps, syndications, Retail and Microfinance. Although it now looks like that decision may no longer be implemented as originally envisaged, Banque du Caire is well placed to develop a thriving SME Banking business.

MODELS & SPECIFIC INITIATIVES: It is fair to say that the development of SME banking in Egypt was encouraged by multiple stakeholders – the banks themselves, the Regulator, EBI and IFIs – international financial institutions. This support has pursued various 'models' which include:

⁵ Note that the Social Fund for Development (SFD), established in 1991 with a mandate to reduce poverty, is primarily aimed at pro-poor programmes of micro-lending. It has well-known problems and is considered an example of a Government-driven programme lending and not of commercial SME banking. It is therefore not included in the analysis of this paper.

⁶ That is not to say that commercial banks never financed SMEs before – they did – but more on an incidental basis and not as part of a strategic business where that segment was actively pursued.



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- a) Policy initiatives: introducing a global policy applicable to all banks that favour and promote SME banking, for example the December 2008 CBE Regulation that reduced reserve requirements on lending to SMEs.
- b) 'Direct-to-bank' support: providing specific banks with support to develop their SME banking e.g. term resources in a line of credit for on-lending to SMEs, and/or technical assistance to fine-tune aspects such as credit scoring etc. Typically this is the model which is used by IFIs such as the World Bank, the African Development Bank, IFC, EIB and others.
- c) Improve the clientele: improving the sophistication of SMEs themselves, so as to enable them to be more 'bankable' by having better financial records and projections, simple business plans etc. The work of the IMC and other similar business support institutions in Egypt provide examples of this model.
- d) Nurturing a key facilitator: establishing and nurturing a key facilitator to develop SME banking. An example of this model is establishing the SME Banking Unit at the EBI.

The scope of this paper does not stretch to a comparative evaluation of these different models in Egypt. All these models have a contribution to make to the overall objective of developing SME banking. However, one model that has had a particularly noticeable impact in Egypt is model 'd' – see below.

Success with model 'd': BDSSP and the Establishment of the SME Banking Unit at EBI

The Business Development Support Services Project (BDSSP) chose model 'd' above – nurturing a key facilitator – and worked closely with the EBI to establish the SME Banking Unit during 2007. This approach built considerable experience within a Unit mandated to replicate that experience throughout the banking sector, thereby maximising leverage and impact. Some highlights are summarised in the box below:

1: THE BUSINESS DEVELOPMENT SUPPORT SERVICES PROJECT (BDSSP)

The BDSSP was started in 2005 as a nationwide project to support the development of small businesses, as its title implies. With a budget of C\$20 million the BDSSP is



CIDA-funded and executed by the ACCC – the Association of Canadian Community Colleges. BDSSP has a large team pursuing a number of activities nationwide, including:

- The provision of non-financial business development services to SMEs: largely by capacity development of business development facilitators and providers;
- The improvement of the regulatory environment for SMEs: involving a wide range of activities to improve laws, regulations and dialogue; and
- Improving access to information; and
- Improving access to finance

Of note for this paper is the ‘access to finance’ objective, notably the visionary leadership that BDSSP gave in boosting SME banking in Egypt. BDSSP chose to do this by nurturing a facilitator rather than working with banks direct, and of significance are four BDSSP initiatives that unfolded from mid-2007 to date:

1. The establishment of the SME Banking Unit at the EBI to boost training and promote other support activities;
2. Organising some high-level seminars, workshops and study visits to put SME banking on the agenda of important decision takers;
3. The example of the UP-SCALING Model; working with a leading micro-finance bank to ‘up-scale’ from micro to VSE (very small enterprises);
4. The example of the DOWN-SCALING model; working with a Corporate bank to scale down to banking SMEs.

2: THE SME BANKING UNIT AT THE EBI

At the initiative of BDSSP, discussions were held with EBI to establish a Unit specialised in SME Banking. This was agreed and the Unit was formally established in January 2007. A business plan for the unit was produced in January 2008 (funded by BDSSP) and key staff were appointed in April 2008.

Since then the Unit has developed quickly and its numerous achievements are documented elsewhere⁷. It is an impressive array covering a wide range of activities:

- TRAINING: Various Training courses (including the SME Certificate course) aimed at bankers as well as SMEs.

⁷ For example in the EBI Annual Report, on the EBI website, and in the recent presentation ‘SME Unit, Updated Activities’ July 2011.



- **STUDY TOURS:** Organising and leading various study tours to countries such as India, Malaysia and South Africa
- **TA/FACILITATOR:** Technical Assistance to banks wishing to launch or fine-tune SME banking
- **INFORMATION:** Preparing and launching a web-portal for SMEs
- **DATA:** Conducting and publicising an updated SME census
- **PUBLICATIONS:** Publishing the results of the study tours and others
- **SEMINARS & FORUMS:** Various seminars and roundtable discussions (e.g. on specific SME issues and industries) and the SME Banking Forum (held quarterly)

Many of these activities have been supported by BDSSP (e.g. course preparation, the Unit's strategy etc) and other donors have supported the Unit's operations e.g. the F SVC for the SME certificate. Considering the short time since it was established, the SME Unit has achieved a great deal and has serious plans to do more.

3: PROMOTING SME BANKING: SUPPORTING UPSCALING AND DOWNSCALING INITIATIVES

As part of the EBI SME Banking Unit's mandate to provide technical assistance, it signed tripartite agreements with two banks to develop the models of 'up-scaling' and 'down-scaling'. The idea was to create a 'real case' and demonstration effects to other banks of how it could be done – which were presented at a major seminar in the Marriott hotel in November 2007 and the results further debated at the SME Banking Quarterly Forum meeting in May 2010.

The example of UP-SCALING

EBI & BDSSP made a tri-partite agreement with a bank engaged in micro-finance to work together and design an approach to 'up-scaling' i.e. moving from micro clients with had a loan ceiling of EGP 25,000 to VSEs (very small enterprises) with a loan ceiling of EGP 100,000.

A consultant team of 2 (one Egyptian, one international) worked closely with a wide range of management and staff at the bank to a) Review the VSE market b) Design the Business Plan to VSE banking and c) Help implement this via training – in small groups and larger seminar sessions. From early design work in 2007 through to training



seminars in mid-2008, this process spanned about 8-9 months.

Some key themes in the reports were:

- Elaborating the credit assessment process – including the use of a simple score-card for VSEs (not considered necessary for micro);
- Developing additional services for VSE clients (including liability products) so as to move from a lending service to a banking service;
- Adjusting the business process at all stages – originating customers, processing their requirements and distributing the bank's services;
- Upgrading the IT-technology available to branch staff.

Although the bank was undergoing numerous changes with new ownership, the main elements of the work were implemented and the bank considers its entry into VSEs successful. Some key facts and figures supporting this were presented to the SME Banking Forum meeting in May 2010.

The example of DOWN-SCALING

EBI & BDSSP made a tri-partite agreement with a major corporate bank late 2007 to do a 'blueprint' for downscaling from large corporate clients to smaller businesses.

A consultant team of two (again one Egyptian, one international) launched this work to review the changes needed for the SME market segment. The work from late 2007 was not elaborated in detail and also not immediately implemented due to other pressing issues within the bank. However, by late 2008 the bank appointed an Assistant General Manager for SME banking – reporting to the General Manager Corporate Banking – and assigned a team of 3 loan officers to form the SME launch team. It was then decided to undertake an updating and elaborating of the approach to SME banking and from May to August 2009 the model for downscaling was developed by an international consultant working closely with the SME team. This resulted in a full package of outputs:

- A Business Plan for SME banking;
- A full Operational Manual covering all aspects of the business process, products etc; and
- A set of 10 training sessions on specialised topics like product development, marketing, customer relationship management, risk management and credit scoring etc.



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These explained in some detail how to work with ‘non-corporates’ i.e. having less information, standardising the approach to risk by use of a scorecard, and adapting the product range to offer a full SME banking package – as opposed to SME lending. The reports emphasised how success with the down-scaling model required a shift away from the corporate Risk culture.

The bank has begun to implement elements of the model – though some other factors intervened including the departure of the head of SME banking and a continuing reliance on a ‘Corporate Risk’ approach. The bank’s focus in this early stage is to lend to supply-businesses that deal with its existing corporate clients. Again, elements of this were presented to the SME Banking Forum meeting in May 2010.

ASSESSMENT FRAMEWORK: The question arises how Egypt should assess where it has got to – and what future policy adjustments and actions are needed in the development of SME banking.

Assessment discussions held with leading banks raised many valid points, but they tended to be a rather mixed cascade of issues and problems. What is needed is a framework to organise these observations and analyses. Why? Because a) different players are involved in resolving different issues and b) different measures and policies are needed to resolve different problems.

This paper suggests that there are three key requirements for developing a successful SME banking industry:

- a) Requirement 1: The **BANKS** have to do the right things – with the right motivation;
- b) Requirement 2: The **FINANCIAL SECTOR (REGULATOR & SPECIALISED INSTITUTIONS)** has to do the right things; and
- c) Requirement 3: **SMEs** have to do the right things – in the right **OPERATING ENVIRONMENT** and with the right **ADVICE**.

These 3 categories therefore form the simple framework for assessing how far Egypt has got in SME banking, reviewing remaining issues and designing and implementing policies for further progress.

FRAMEWORK AREA	ACHIEVEMENTS	REMAINING	REQUIRED	MAIN
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		PROBLEMS	POLICIES	PLAYERS
1 The BANKS				
2 The FINANCIAL SECTOR				
3 The SME: & THEIR OPERATING ENVIRONMENT				

Obviously ‘things need to happen’ in all three areas for SME Banking to develop – and analysing them separately will achieve the clarity and overview that is needed for the right players do the right thing.

ACHIEVEMENTS: There is much to be praised and proud of regarding SME Banking in Egypt, and it should rightly be viewed as a glass that is half full – and filling.

Using the framework indicated above, the positive achievements are summarised in the table below:

Summary of SME Banking achievements

FRAMEWORK AREA	ACHIEVEMENTS
1 The BANKS	<ul style="list-style-type: none"> a) Out of about 27 private + 5 state banks, about 12-15 have some ‘SME banking’ activity i.e. a unit or department with a mandate to finance SMEs b) Volumes of SME lending are thought to have increased, though the data is not easily available⁸ c) There has been considerable support in the form of advice & TA (e.g. BDSSP, IFC) and the availability of specialised credit lines e.g. EIB, AfDB, and thus there is extensive knowledge of

⁸ The CBE website provides annual consolidated data by type of activity e.g. agriculture, industry etc but not by size of bank client.



	<p>the 'do's and don'ts' of SME banking – there are no new wheels to invent</p>
<p>2 The FINANCIAL SECTOR</p>	<p>d) CBE passed a regulation specially for SMEs in December 2008, providing financial incentives to boost SME lending by offering reduced reserve requirements</p> <p>e) Banque du Caire has been appointed 'SME Bank' in May 2011– to act as a specialist bank</p> <p>f) for the SME sector (though at the time of writing it is not known whether this will be implemented as further changes unfold)</p> <p>g) EBI created the SME Unit early 2007 which has acted as a facilitator/trainer – providing SME courses, the SME certificate, advice/TA to banks, holding the SME Bankers Forum, study tours etc (and organising the SME theme for the EBI Annual Conference Oct. 2010)</p> <p>h) The financial sector has specialised institutions: e.g. CGC of Egypt for credit guarantees, I-Score for credit data, and leasing companies & non-bank specialists</p>
<p>3 The SME: & THEIR OPERATING ENVIRONMENT</p>	<p>i) SMEs have the chance to professionalise using strong direct support e.g. from BDSSP and its partner BDS organisations, from IMC and from others</p> <p>j) There is adequate 'knowledge services' about SMEs e.g. SMEPOL (now closed), CAPMAS and their EBI sponsored census of SMEs etc</p> <p>k) There is a strong 'dialogue buzz' for SMEs: via industry associations, meetings, media coverage etc</p>



It's an impressive list of achievements in all three areas, and furthermore achieved in a short time over the past 5-7 years. This provides an excellent foundation to build on.

DISAPPOINTMENTS: This could also be entitled 'Remaining Issues'. Rather simply, these tend to be the 'other side of the coin' of the achievements listed above. They are the 'but.....' statements, e.g. around 15 banks are engaged in SME banking (positive), *but they are not reaching the real SMEs, nor are they providing a wide banking service (disappointing and negative).*

Summary of SME banking disappointments (Remaining issues)

FRAMEWORK AREA	ACHIEVEMENTS
1 The BANKS	<ul style="list-style-type: none"> a) Overall, banks are not reaching the 'true SMEs', and tend to deal with upper-end small and medium-sized businesses that could be considered mid-caps, and also concentrate in the major urban areas leaving rural SMEs largely un-served b) Overall, banks are not pursuing the right model – some are implementing the right elements but few (none?) has the 'complete package'⁹, and – as part of not following the right model – most banks think SME <i>lending</i>, not SME <i>banking</i> c) Many (most?) banks are using an old-school mind-set in their management of SME banking – a mind-set that is steeped in Credit culture typical of corporate banking, and that avoids change
2 The FINANCIAL SECTOR	<ul style="list-style-type: none"> d) There is no specialised SME Banking Regulation covering all aspects of banking SMEs e.g. information requirements from SMEs, limits per client, treatment of late/delinquent accounts etc. e) It is not yet clear whether there should be universal banks competing in all businesses e.g. retail, corporate, SMEs, or whether the Banque du Caire announcement indicates that

⁹ For a brief glimpse of the complete package see chapter 3; the key success factors for the SME banking model (Pillar 10)



	<p>there should be specialists</p> <p>f) The specialist non-banks are criticised by banks for inadequate performance— e.g. there is only 1 credit guarantee institution so there is no choice, the credit information service is obligatory but found to be not useful etc.</p> <p>g) There is no shared vision of SME banking, coordinated by charismatic, enthusiastic leadership from within the sector (and a striking absence of a strong, articulate Bankers Association)</p>
<p>3 The SME: & THEIR OPERATING ENVIRONMENT</p>	<p>h) The consulting industry in Egypt is under-developed and there is a limited cadre of effective SME management consultants. Furthermore banks have not yet embraced ‘advice’ to SMEs as a core part of SME banking services</p> <p>i) There is no ‘Special Regime’ for SMEs giving them a favoured treatment in all aspects of doing business¹⁰, which gives them a tough operating environment where a SME faces basically the same conditions/requirements as does a multinational</p>

These are formidable remaining issues – a number of significant problems in all three of our ‘attention areas’. Yet they can be addressed by policy initiatives and resolved by all stakeholders involved (management, CBE, Government, SME groups and associations etc.). Other countries have already tackled such issues and their experience is not only well documented but also well known in Egypt. There are no new wheels to invent – it is a question of adaptation and ‘getting on with it’.

¹⁰ See the discussion on ‘Pillar 7’ in chapter 3.



2: THE ROAD AHEAD

The body of knowledge amongst stakeholders in Egypt about SME banking is substantial. Numerous seminars, study tours abroad, training sessions, last October's EBI Annual Conference, and other sources contribute to a good understanding of 'how it should be done'. Yet, as the previous chapter indicated, Egypt does not yet do SME banking as in leading/benchmark countries – so several questions arise:

- a) What exactly is it that other countries can 'teach' Egypt? What are the key lessons to pick up and decide if they are indispensable elements in moving forward with SME banking?
- b) Where would Egypt like to be? An exact replica of benchmark countries – or an adapted version of its own?
- c) What difficulties are slowing/stopping the movement forward? How big a leap in how short a time can Egypt reasonably make?

These three questions are addressed below.

INSPIRATION FROM OTHER COUNTRIES: Egypt is well informed about the SME Banking experience of other countries. As mentioned above, there have been several recent study tours – with findings written up¹¹ – to countries like India, Malaysia and South Africa; and the EBI Annual Conference last October provided more information on experiences by region around the world.

This is not the place to repeat this descriptive information – but instead this paper poses a different, more analytical, question: what are the elements that will lead to success with SME banking at the national level? Reverting to the analytical framework used in the previous chapter, we can identify a number of such elements:

ELEMENTS TO GET RIGHT FOR EXCELLENCE IN SME BANKING AT NATIONAL LEVEL

¹¹ See for example the EBI SME Unit Publication entitled: SMEs Experience in Malaysia, 2011.



IN 3 AREAS	CHECK THE STATUS OF 7 FEATURES.....
1. WITHIN BANKS	a) Model: Are banks using the ‘right’ SME Banking Model, adhering to excellence and KSFs? b) Change: Are banks good at modernising their mind-sets and managing change?
2. WITHIN FINANCIAL SECTOR	c) SME Banking Regulation: Is there a separate specialised regulation? d) Structure: Are there many universal banks in SME banking – providing specialization and competition? e) Supporting institutions: Are the ‘supporting and specialised’ non-bank institutions e.g. credit bureau, guarantee companies etc. effective? f) Coordinated vision: Are stakeholders driven energetically towards achieving a common vision?
3. OPERATING ENVIRONMENT	g) SME Special Regime: Is there a special (and easier) regime for ‘Doing Business’ for SMEs?

The answers to all these questions should of course be ‘yes’ for achieving excellence in SME banking. And the key lesson from other countries is that these elements have all been dealt with and are in place to best-practice standards.

Logically, these elements feed directly into the ‘vision’ for SME banking in Egypt discussed below.

THE EGYPTIAN SME BANKING VISION: Imagine you have just a few minutes to explain to a senior group of stakeholders what Egypt is seeking to achieve in SME banking – the vision of ‘where we want to be’. The key elements – following the above-mentioned priorities pursued by benchmark countries – might be:



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- **IN-BANK MODELS:** we want to adopt the whole package (all-or-nothing) of SME banking best practice ‘key success factors’ in our banks as it is amply proven that this model works well and could be highly profitable in numerous other countries. And we don’t want to leave out any elements that maybe we are unfamiliar or uncomfortable with, because if we do, that will render the model ineffective. We too want to be quoted in benchmarking analyses as having achieved excellence, just like India, Korea and others.
- **IN-BANK CHANGE:** we want to change – and accept that some of our old ways and approaches need to be modernised to reflect the realities of a new business i.e. SME banking, and we also accept that these changes are part of a ‘change management’ process that starts at the very top – involving initially the Board and senior management before it is cascaded through the entire bank.
- **FINANCIAL SECTOR – SME BANKING REGULATION:** we want to go much further than the December 2008 reserve requirement exemptions and issue a full SME Banking Regulation that provides special conditions for all aspects of SME banking; for example information requirements from SME clients, maximum exposures and so on.
- **FINANCIAL SECTOR – UNIVERSAL BANKS WITH SME SBUs:** we want strong universal banks to undertake SME banking because it is highly profitable and there are important synergies and links between SME banking and Retail banking, Fund Management and Corporate (mid-cap) banking, so having these all together under one roof provides significant benefits for CRM, products and other key aspects of SME banking. We also want enough of such universal banks that there is strong competition and the SME has a realistic choice amongst different providers.
- **FINANCIAL SECTOR – MORE SPECIALIST NON-BANKS:** we want more high quality non-banks and specialised service providers to work with SME banks. Specifically, we need more: a) credit guarantee companies; b) credit information providers; and c) leasing companies specialised in ‘small ticket’ leasing. The key aspects are high quality – so as to avoid the current complaints about what is available today – and choice – lots of competition to give the banks a good service at a competitive price.
- **FINANCIAL SECTOR – LEADERSHIP AND PROCESS:** we want to bring the right stakeholders together in a recognised process where inspiring leadership,



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technical expertise and wide cooperation moves the development of SME banking forward at an accelerated pace and with a clear banner/brand for public recognition.

- **OPERATING ENVIRONMENT – SPECIAL REGIME FOR SMEs:** we want SMEs to professionalise by using advice (from banks and consultants) and by operating in an SME-friendly environment, so we will issue a ‘Special Regime’ for SMEs on all the variables of ‘Doing Business In...’ i.e. setting up the business, hiring workers, taxation etc. For each variable simplified stipulations for SMEs will be enacted so that they face a minimum of red tape and other complexities.

These ‘we want.....’ statements define where Egypt wants to be in SME banking. Can it move towards that, or are there insurmountable difficulties?

DIFFICULTIES IN MOVING FORWARD: there are several difficulties in moving ahead, but these do NOT really include technical know-how as Egyptian stakeholders are well informed and familiar with best practice. So if it not in the technical aspects, where do the difficulties lie?

There are probably issues slowing SME banking development in the following aspects:

- a) **PROCESS, LEADERSHIP AND ORGANISATION:** at present, Egypt has not yet got a coherent coordinated development process for SME banking, with strong leadership involving many stakeholders. But that is needed, and we must overcome difficulties in:
 - **LEADERSHIP:** Finding the right person to lead this process; someone charismatic, energetic, professional, accepted and respected, and without conflict of interest;
 - **MEMBERSHIP:** Inviting the right stakeholders to play a leading and deciding role in the process, and other stakeholders to play a technical role in the process. Getting the mix right, and assigning the right roles to the right stakeholders, is a key part to making it work. ‘Inviting everyone who may have something to do with SMEs’ for fear of offending them if they are not in an equal role is likely to create a ‘talking shop’.
 - **ORGANISATION:** Reflecting the membership issues, organising a structure that has a senior deciding team and several technical teams providing know-how and expertise.



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- b) BUY-IN; not all stakeholders, especially not all senior bankers, are convinced that SME banking is good for them. Many have failed to grasp that this is a huge profitable business if done right, and several probably still think that ‘we have to lend to SMEs to do the Government a favour’ but we will do as little as possible because it is so risky. So there are difficulties in:
- OVERCOMING RESISTANCE: developing the arguments, once and for all, that this is a profitable business and an important hedge to declining profitability elsewhere.
 - CHANGING OPERATING CULTURE: getting senior bankers to understand that SME banking is an entrepreneurial fast-moving decentralised profitable business operating within tight guidelines but with considerable autonomy.
 - PACKAGING & SELLING THE VISION; getting the vision articulated and sold, energetically and with some PR and branding.
- c) TECHNICAL QUALITY: much is already known about SME banking – even if some details could be refined – but the difficulties in moving forward are:
- GETTING THE RIGHT SLANT; turning the knowledge into practical actions that can make things happen 9.00 o’clock next Monday morning – rather than leaving it as rarefied theory.
 - STRUCTURING THE WORK: ensuring that the technical recommendations are divided into defined areas which link directly to the components of the vision articulated in the previous section e.g. a technical piece on the model, a technical piece on the SME Banking Regulation etc.

So the main difficulties are likely to be in the ‘process aspects’ – how to do this, rather than in the technical aspects of what to do.



Appendix 1

BANKS' VIEWS

This report is based on informal interview discussions with leading banks in Egypt, complemented by further analysis and international experience. It is not simply a 'compilation' of views and ideas expressed by the banks. However, their suggestions found their way into the proposals, even if they were adapted and re-formulated.

For interest and completeness this appendix records key comments arising from interviews – many came several times in different forms but are recorded only once. The comments below are abbreviated and paraphrased, and presented in random order without attribution to a particular bank.

“We need a culture change and more openness to the role of IT in SME banking”

“I-Score is not really helpful – it is mostly retail: we need better credit information”

“The CBE reserve requirement exemption is not useful – we need an overall policy to incentivise SME banking”

“There should be a more sophisticated and faster guarantee instrument – and we want choice, not a monopoly provider”

“Bank management is ‘old school’ – they need to change their ideas before SME banking can take off”

“We need different skills for SME banking – loan officers should have a business background”

“Our SME clients need advice and less red tape”

“For SME banking to take off in Egypt we need a godfather – a leader who coordinates efforts. At present things are being missed and known things are not actioned.”

“The SME banking model needs many adjustments from where we are today – involving people, speed, products, risk assessment and so on”

“We need to be able to cater for start-ups – this is an important category of the market”



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“The mind-set of SME bankers and risk managers in India is quite different from our banking traditions”

“A big problem is to introduce the SME banking model on an all-or-nothing basis. Banks here will do only some things – but not everything”

“We must educate our SME clients”

“We urgently need to move clients from the informal to the formal sector by giving them incentives to register and formalise their businesses”

“A high-level stakeholder group is needed to make real progress – like a Bankers Forum but specifically for SME Banking”

“Loan officers need to be rewarded for processing many small loans – otherwise they only want to do big-ticket items”

“We need a unified definition of SMEs”

“De-centralisation is needed for fast decision taking; also at branch level”

“There is a role for the media – to create awareness amongst SMEs about opportunities presented by having a banking relationship”