

**Arab Republic of EGYPT  
MINISTRY OF INDUSTRY AND FOREIGN TRADE  
SOCIAL FUND FOR DEVELOPMENT**

**DATA COLLECTION SURVEY ON  
MSMEs PROMOTION POLICY AND  
SYSTEM BUILDING  
IN  
The Arab Republic of Egypt**

**FINAL REPORT**

**JULY 2013**

**Japan International Cooperation Agency (JICA)**

Global Development & Management Consultants Inc.

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## Contents

Executive Summary .....	5
Chapter 1: The survey overview.....	8
1-1 Background and objective of the survey .....	8
1-2 Contents and methods of the survey.....	9
1-3 The mission members .....	11
1-4 Survey schedule .....	11
1-5 Main proper names used in the survey report.....	14
Chapter 2: Current economic issues in Egypt .....	16
Chapter 3: MSME policy in Egypt .....	18
3-1 Position of MSME issue in Egypt.....	18
3-2 MSME enterprises and definition of MSME.....	18
3-3 Governmental MSME policy.....	20
3-4 Issues and prospects .....	24
Chapter 4: Main government authorities relating to MSME issues .....	26
4-1 Ministry of Industry and Foreign Trade (MIFT).....	27
4-2 Ministry of Finance (MOF).....	28
4-3 Ministry of Planning and International Cooperation (MOPIC) .....	29
4-4 Social Fund for Development (SFD).....	30
4-5 Issues and prospects .....	34
Chapter 5: Policy implementing agencies relating to MSME issues .....	36
5-1 General Authority for Investment and Free Zones (GAFI) .....	36
5-2 Industrial Development Authority (IDA).....	37
5-3 Industrial Modernization Center (IMC).....	38
5-4 Industrial Council for Technology and Innovation (ICTI) .....	39
5-5 Industrial Training Council (ITC) .....	40
5-6 Foreign Trade Training Center (FTTC) .....	40
Chapter 6: Finance Access.....	43
6-1 Characteristic of MSE finance market.....	43
6-2 Finance Access.....	44
6-3 Micro Finance.....	46
6-4 Issues and Prospect for Micro Finance .....	55
6-5 SME Finance .....	55
6-6 Issues and prospect on Finance Access.....	63
Chapter 7: The situation of BDS implementation.....	65
7-1 BDS of SFD .....	65
7-1-1 BDS of SFD .....	65
7-2 MSME support by government related organization except SFD.....	74
7-2-1 GAFI.....	74

7-2-2 EBI .....	74
7-2-3 IMC .....	75
7-2-4 ICTI .....	77
7-2-5 KAIZEN Center (Quality and Productivity Improvement Center) .....	78
7-2-6 FTTC .....	79
7-2-7 Issues and Prospects .....	80
Chapter 8: Current Situation of Donors Support .....	81
8-1 Characteristics of Donors Support .....	81
8-2 Donors' Mapping .....	82
Chapter 9: Situation of MSME.....	83
9-1 Micro Enterprises (Manufacture, Retailer and Services) .....	83
9-2 Small and Medium Enterprise (Manufactures).....	84
9-3 Issues and Prospects .....	86
Chapter 10: Employment Creation Status.....	88
10-1 The survey based on SFD data.....	88
10-2 The survey based on CAPMAS data .....	91
10-3 Comparison of both survey results .....	94
Chapter 11: Assessment of MSME promotion policy in Egypt & SFD .....	96
Chapter 13: Progress Status of JICA Two-Step Loan to SFD .....	106
Chapter 14: Benefit to the Japanese Industry .....	108
Chapter 15: Development scenario in the future and necessary process and scheduling .....	109
Chapter 16: Sufficiency Degree of Study Theme and further study items for future project for fund cooperation from JICA.....	117

## Contents of Figures and Tables

### <Figure>

Figure 1 Government organizations relating to MSME policy promotion.....	27
Figure 2 Organization chart of SFD .....	31
Figure 3 Organization chart of SFD .....	33
Figure 4 Business Type of Borrowers (Accumulated figure between 1992- up to August, 2012) .	53
Figure 5 Classification of Borrower Type (1992-August, 2012) .....	57
Figure 6 Organization Chart of BDS at HQ (2012).....	65
Figure 7 OSS Flow Table .....	70
Figure 8 Example of Personnel Development .....	72
Figure 9 Education plan to BDS (Sample) .....	73
Figure 10 Micro Enterprise (Sample) .....	84
Figure 11 Minia / Medical equipment manufacturing industry.....	84
Figure 12 Giza / Glass tableware decoration business.....	85
Figure 13 Assuit / Medial equipment & Pasta manufactures.....	85
Figure 14 Cairo/Tableware production aluminum utensil .....	86
Figure 15 Transition of loan amount .....	89
Figure 16 Transition of the number of the employment.....	90
Figure 17 Transition of the number of the enterprises .....	90
Figure 18 Transition of the number of the enterprises .....	92
Figure 19 Transition of number of the employment .....	93
Figure 20 Composition of Employees .....	98
Figure 21 About the Government MSME Support Program .....	99
Figure 22 Access to SFD Function .....	100
Figure 23 Assessment of BDS in SFD .....	101
Figure 24 MSEM support mechanism in Egypt (For reference only) .....	105
Figure 25 Scheduling of TA provision .....	115

### <Table>

Table 1 Economic Indicators in Egypt.....	17
Table 2 Number of Formal Enterprises in Egypt by Size (2009) .....	18
Table 3 Estimated Number of Enterprises in Egypt in 2011 (Informal Enterprises included).....	19
Table 4 Estimated Number of Employees in Egypt in 2011 (Informal Enterprises included).....	19
Table 5 Small Enterprise Development Law .....	19
Table 6 CAPMAS .....	19
Table 7 CBE.....	19
Table 8 SFD .....	20
Table 9 MSE Constraints .....	25
Table 10 List of projects relating to Ministry of Industry and Foreign Trade.....	28
Table 11 Transition of the amount financed by form of finance .....	33

Table 12 List of projects supported by other donors.....	34
Table 13 Issues on MSME policy .....	34
Table 14 Type of MSE .....	43
Table 15 Sex distinction of entrepreneurs and breakdown of ages .....	43
Table 16 Source of Procurement for Initial Capital .....	44
Table 17 Initial Capital, Breakdown of Loans .....	44
Table 18 Micro Finance Network Members List (24NGOs) .....	46
Table 19 Major NGOs in Egypt.....	48
Table 20 Necessary Criteria for ABA Credit.....	50
Table 21 Operational Performance of ABA .....	50
Table 22 First Tier NGOs by SFD .....	51
Table 23 Second Tier NGOs by SFD .....	52
Table 24 Business Achievements from 1992 and plan for 2013 .....	53
Table 25 Portfolio .....	53
Table 26 SFD, Small Enterprise Finance (1992-2012.8.31) .....	57
Table 27 Outline of Major Banks in Egypt.....	60
Table 28 Table 1 Classification of company .....	83
Table 29 Small enterprise finance .....	88
Table 30 Microfinance .....	88
Table 31 Direct Lending .....	88
Table 32 Total .....	89
Table 33 Loans for the small enterprises, indices against 2009 index .....	91
Table 34 Microfinance, indices against 2009 index.....	91
Table 35 Direct lending, indices against 2009 index .....	91
Table 36 Total, indices against 2009 index .....	91
Table 37 Small enterprise finance.....	92
Table 38 Microfinance .....	92
Table 39 Total.....	92
Table 40 Small enterprise finance, indices against 2009 index.....	94
Table 41 Microfinance, indices against 2009 index.....	94
Table 42 Total, indices against 2009 index .....	94
Table 43 Comparison between SFD data and CAPMAS data .....	95
Table 44 Needs heard from interviewees .....	97

## Executive Summary

After revolution of January 25, 2011, social and economic instability has continued in Egypt. In particular, new graduates emerge in size of 700-800 thousand each year. Employment creation has become a big issue. The Government has put priority on activating micro and small enterprises (MSE) which account for more than 99% of all private enterprises in Egypt. This Survey, under the above mentioned situation, treated MSME promotion policy, its assessment, finance access and business development service (BDS). The outcome of the Survey is as follows.

(1) Egypt has encountered foreign exchange crisis due to social and economic instability since revolution of Jan. 25, 2011. Consultation with IMF has continued. IMF requires economic tightening policy for economic recovery. Employment problem becomes more serious. After revolution, more than 200 factories closed down and more than 2 million lost their jobs. In addition, 700-800 thousand new comers (university graduates; 340 thousand) enter into labor market every year. It is a grave issue to provide employment to university graduates (Ministry of Labor and Migration). After revolution, cabinet changed 4 times and about 120 Ministers were replaced. Political stability should be kept and it is necessary to provide fund with inclination to the industrial sector which might be an economic growth engine. Promotion of foreign exchange earning industry and finance toward economic growth is sought. Flourishing of macro economy is vital for absorption of employment. Growth strategy under preparation in Government (JICA expert has participated in planning) should be implemented in an early date.

(2) The Government MSME policy and implementation mechanism

There exists no central agency which deals with MSME policy unitary. About this, many voices are heard inside and outside the Government. As Social Fund for Development (SFD) that functions as intermediate financial institution to provide donor fund to MSE and was originally established as a safety-net institution to mitigate pain from privatization, finance from SFD is now limited to MSE only. Finance mechanism is not sufficient to provide economic growth area with finance including Medium Enterprises.

There are voices that SFD has become mammoth institution and re-organization might be necessary in order to assure more efficiency. There are many Governmental policy implementation institutions under the Ministry of Industry and Trade which include Industry Development Authority (IDA), Industry Modernization Center (IMC), and Industrial Council for Technology & Innovation (ICTI) and General Authority of Investment and Free Zones (GAFI) which is under the Ministry of Investment. These institutions do not have finance functions and act as coordinator or facilitators through providing Business Development Services.

Overall review of finance structure in the Government Agencies might be necessary, starting at support on the overall economic growth of Egypt (for instance, establishment of Egyptian Development Bank, 100% owned by the Government).

(3) About finance access, there are two types of finance, say, Micro Finance for micro enterprises and SME Finance for SMEs. Micro Finance is simple finance to assess the borrower personality. The finance purpose of donors for Micro Finance is not mainly for growth promotion but for poverty elimination. SME finance is corporate finance and has flavor of growth finance.

In both types of finance, as financing is not for provision of subsidy, and the banks and Non-Governmental Organizations (NGO) as referred to Micro Finance Institutions have achieved very low rate of non-payment (default), as far as they are experienced lenders. It is natural that any financial institutions should take prudent approach in providing credit. They do not lend money unless a loan proposal is bankable. Non-payment rate is 1-2% in case of micro finance and 2-3% in case of SME finance. Both cases, financing has become good profit-making business, as finance goes prudently. For instance, as one of the bank managers says, rate of profit (interest margin) of SME finance is 10 times larger than that of the loan to the large enterprises.

However, generally speaking, interest rate paid by final borrowers might be relatively high. In particular, for the micro finance borrowers, certain measures should be introduced to mitigate interest burden including Micro Finance Act. According to the questionnaire survey to MSMEs, they have many complains for the terms and conditions of borrowing. Between lenders and borrowers, borrower's position is weaker up to actual borrowing. When this relation is left for market power, "market failure"<sup>1</sup> might happen. It is favorable to establish a specialized SME bank (Governmental Bank) and to provide borrower friendly finance support.

(4) To facilitate finance access, movement is coming out to make the finance project more bankable. This is the background that business development services (BDS) are getting more attention. SFD, Banks and all the Government SME policy implementation agencies are moving to substantiate BDS. However, follow-up study should be done to confirm whether BDS responds to actual needs of MSME. In the MSME market, finance literacy is said to be very low partly because of high illiteracy rate. Even the University graduates lack of finance literacy as they have not received practical business education. Since the target domain is like this, employment creation will not be solved in a short time, it will take a reasonable time and a certain shock or paradigm shift to the market might be necessary eventually. National campaign like "Create Business and Promotion of Industry" and "Increase Savings" should be started. The latter is extremely important under the situation that around half of the companies (including informal ones) do not have any banking relation and accordingly, do not make any deposit at banks. In macro-economic point of view, absorption and activation of those savings outside banks are very important.

(5) As future direction of JICA assistance to MSME sector, short-term action for employment is necessary at present, including finance cooperation for micro finance with quick-disbursement character and on the other hand, finance for small and medium-sized enterprises is important as well,

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<sup>1</sup> At result of market power, economic efficiency worsens. For instance, it occurs where in monopoly or one party is too strong in negotiation power, or exists information asymmetry ( information gap of each party)

for support of growth promotion. As the other donors put emphasis on BDS, provision of Technical Assistance (TA) for BDS as one component to the financial cooperation might be effective in case of Egypt, in regards to more efficient use of credit line and to assure project sustainability.

Egyptian agencies are good at setting objectives and goals. However, practical operation like PDCA (Plan, DO, Check, Action) is said to be not good. In this sense, support for capacity building is important as well.

As to TA, it is useful to watch other donors' strategy. CIDA has provided TA over 20 years with high reputation and kept a strong foothold in Egypt. USAID hires about 200 staffs and under the name of Enterprise Competitiveness Program, 6 foreign experts and 40 local consultants are providing consulting services to various agencies like taxation, legal and export administration agencies in order for private enterprises to work more efficiently under the so-called "Enabling Environment".

JICA should provide TA more focusing on the area where Japanese industry advantages (manufacturing technologies, quality control and productivity, and service industry, etc.) are to be manifested. One of the JICA TA along this line is one provided to Kaizen Center in Egypt.

Furthermore, for MSME support system, it is recommendable to support establishment of the Special SME Bank modeled by the Japan Finance Corporation for Small and Medium Enterprise (JASME)<sup>1</sup>

(6) In consideration of the above, the Survey Team makes recommendation as follows.

(Details are described in Chapter 15)

① Succession project to on-going two-step loan

(a) 1<sup>st</sup> priority recommendation----SFD 50%, National Bank of Egypt (NBE) 50%

This recommendation puts emphasis on loan to medium and small enterprises (SME) with growth potential.

(b) 2<sup>nd</sup> priority recommendation----NBE 100%

This recommendation is composed of loan to SME with growth potential through NBE and micro finance through NGO.

(c) 3<sup>rd</sup> priority recommendation----SFD 100%

This recommendation puts emphasis on existing relationship with SFD.

② Consulting service in two-step loan

Provision to SFD and NBE shall be considered with consultation with SFD and NBE.

③ Technical Assistance associated with provision of two-step loan.

Provision to SFD and implementing agencies affiliated to Ministry of Industry and Foreign Trade shall be considered for the area where Japan has strength and advantage.

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<sup>1</sup> Now, JASME has integrated into the Japan Finance Corporation.



## Chapter 1: The Survey Overview

### 1-1 Background and objective of the survey

The Arab Republic of Egypt (hereinafter called Egypt), after the revolution in 2011, is suffering from the continuing social and economic unrest and there are still sporadic anti-government demonstrations occurring on a large scale. About seventy percent of the population is forced to live below four US Dollars per day and the rate of unemployment shows the high 13% currently. Especially, 700 to 800 thousand newly graduates are flowing into the labor market which gives the provision of job opportunities for the younger generation as the matter of utmost importance. (The rate of unemployment of 2011 university graduates is 20.1%.) In Egypt, 98% of private enterprises are micro and small enterprises (MSE), and absorbs 85% of non-agricultural employment and 40% of the total employment, which means MSE has a major role to play in this regard.

Egypt drew up 'Long-Term Development Vision 2022' (prepared in 2012) with poverty reduction and employment promotion as major agenda, and in 'National MSE Development Strategy 2009-2013', (prepared in 2009) had set the goals for 30% increase of MSE and two millions more employment in five years. However, because of the revolution in January, 2011, achievement status of the plan remains uncertain, and hence, the Social Fund for Development (SFD) was given an assignment to draw up a new national strategy for MSE development by September, 2013.

JICA is implementing a Two-Step Loan (TSL) for SFD as the MSE support program and its second project is due to complete in this September. In order to develop the implementing policy of its succession project, consideration of following issues has become absolutely necessary.

- (1) To decide the eligible agency of TSL: (a) SFD only, or (b) combination of SFD and another agency, or (c) another agency only.
- (2) To decide the target of support: micro and small enterprises (MSE) or medium, small and micro enterprises (MSME).
- (3) To specify possibility of technical assistance (technical assistance on loan basis and collaboration with MENA transition fund), and area of technical assistance as well.

Under these circumstances, the survey this time aims to provide the basic information for JICA to proceed with the new strategy in Egypt's MSME development area by collecting such basic data focused on Egypt's overall supporting system of MSME policy, and on access to finance and business development service (BDS).

## 1-2 Contents and methods of the survey

In order to utilize the survey for the formation of concrete MSME support project, we have collected and analyzed the information from main government authorities, policy implementing agencies centered on SFD and other institutions such as: banks, microfinance intermediaries, MSME, donors, and so forth.

As for SFD, interviews were made not only with the actual financing sectors such as Central Sector for Small Enterprise Finance (including Direct Lending Sector), Central Sector for Micro-Finance but also with Central Sector for Non-Financial Services, Central Sector for Planning & International Cooperation, Central Sector for Regional Offices, Technical Office, Central Sector for Human Resources, Central Sector for Community & Human Development and so forth to collect a wide range of information.

Prior to the actual survey, we mailed out the questionnaire to save time, but received responses only from SFD, Ministry of Finance and Ministry of Industry and Foreign Trade, therefore, information were gathered mostly by interviews.

In addition, we had employed a survey assistant and asked her to set up appointments, to act as an interpreter and provide other supporting activities. She had also collected some additional piece of information after the mission had returned to Japan.

During the survey, visits were made to the followings.

Ministries and agencies concerned:

- Social Fund for Development
- Ministry of Industry and Foreign Trade
- Ministry of Finance
- Ministry of Planning and International Cooperation
- Central Bank of Egypt
- Ministry of Foreign Affairs
- Ministry of Insurance and Social Affairs
- Ministry of Manpower and Migration

Government Implementing Agencies:

- General Authority for Investment and Free Zones (GAFI)
- Egyptian Banking Institute (EBI)
- Industrial Modernization Center (IMC)
- Industrial Development Authority (IDA)
- Industrial Council for Technology and Innovation (ICTI)
- Industrial Training Council (ITC)
- Foreign Trade Training Center (FTTC)
- Productivity and Quality Improvement Center (Kaizen Center)

NGO's:

National Foundation for the Development of Families and Community  
Egypt Association in Minia  
Taieba Community Development Association  
Tahla Community Development Association  
Economic and Social Development Association for Early Retirement (ESDAER)  
Alexandria Business Association (ABA)

Banks:

National Bank of Egypt (NBE)  
Banque du Caire (BdC)  
Bank of Alexandria (BoA)  
Banque Misr  
National Bank for Development (NBD)  
Commercial International Bank (CIB)

Guarantee Agencies:

Cooperative Insurance Society (CIS)  
Credit Guarantee Company (CGC)

Donors:

International Finance Corporation (IFC)  
United States Agency for International Development (USAID)  
Canadian International Development Agency (CIDA)  
European Union (EU)  
European Bank for Reconstruction and Development (EBRD)  
African Development Bank (AfDB)  
German Society for International Cooperation (GIZ)  
Reconstruction Credit Institute of Germany (KfW)  
Agence Francaise de Development French Development Agency (AFD)

MSME: 28 enterprises (names abbreviated)

JETRO, Cairo

Bank of Tokyo-Mitsubishi UFJ, Cairo Representative Office

In addition to above, Takeda made MSE diagnosis for two enterprises.

### 1-3 The mission members

The mission from Global Development & Management Consultants Inc. carried out the survey. The mission consisted of three members.

- (1) Leader: Matsuoka, Katsutake, Supervisor (in charge of MSME access to finance)  
Senior Consultant
- (2) Member: Hasegawa, Masazumi (in charge of policymaking and organization establishment)  
Senior Researcher
- (3) Member: Takeda, Manami (in charge of MSME support (soft service))  
Senior Researcher, SME management consultant
- (4) Survey assistant: Almdaris, Enas (staff of Environmental Quality International Inc.)

### 1-4 Survey schedule

The survey was carried out as follows (where there are no names denote full member's participation)

Date	Visit made to	Location
Mar. 31 (Sun)	22:30 Narita departure	
Apr. 1 (Mon)	12:30 Cairo arrival 14:00 – 15:30 Meeting at JICA Egypt Office	Cairo
Apr. 2 (Tue)	10:00 – 12:00 Kickoff meeting with SFD (Central Sector for Non-Financial Service) (Meeting with EBI scheduled from 14:00 was postponed in the aftermath of demonstration.)	Cairo
Apr. 3 (Wed)	10:00 – 12:00 GAFI 13:00 – 15:00 SFD (Central Sector for Small Enterprise Finance) 15:00 – 17:00 SFD (Central Sector for Micro-Finance)	Cairo
Apr. 4 (Thu)	12:00 – 13:30 MOPIC 15:00 – 16:00 CBE	Cairo
Apr. 7 (Sun)	9:00 – 11:00 SFD (Central Sector for Regional Offices) 12:30 – 13:30 MOF 15:00 – 17:00 MIFT	Cairo
Apr. 8 (Mon)	9:00 – 11:00 SFD (Technical Office) 12:00 – 13:30 Ministry of Insurance and Social Affairs 15:00 – 17:00 EBI	Cairo
Apr. 9 (Tue)	10:00 – 12:00 Ministry of Manpower and Migration (Matsuoka, Takeda, Enas) 10:00 – 11:00 JETRO (Hasegawa) 14:00 – 15:30 NBE 16:00 – 17:00 CIS	Cairo
Apr. 10 (Wed)	10:00 – 11:00 CGC 12:00 – 13:00 BdC (Matsuoka, Takeda, Enas) 12:30 – 13:30 Bank of Tokyo-Mitsubishi UFJ, Cairo Representative Office (Hasegawa) 14:30 – 16:00 SFD (Central Sector for Small Enterprise Finance)	Cairo

Apr. 11 (Thu)	10:00–18:00 Diagnosis for Recyclobekia (Takeda) 12:00 – 13:30 NBD (Matsuoka, Hasegawa, Enas)	Cairo
Apr. 13 (Sat)	Travelling from Cairo to Minya	Minya
Apr. 14 (Sun)	9:00 – 11:00 SFD, Minya Regional Office 11:15 – 12:30 NBE, Minya Branch 13:00 – 14:00 Egypt Youth Association, Minya Office 14:30 – 15:00 Dressmaker (Matsuoka, Hasegawa, Enas) 15:15 – 15:30 Frozen meat processor (Matsuoka, Hasegawa, Enas) 15:30 – 15:45 Fruit and vegetable vendor (Matsuoka, Hasegawa, Enas) 16:15 – 17:30 Hospital furniture manufacturer (Matsuoka, Hasegawa, Enas) 15:00 – 15:30 Air conditioner maintenance (Takeda) 16:00 – 16:30 House painter (Takeda)	Minya (stay in Minya)
Apr. 15 (Mon)	9:00 – 11:00 IMC, Assiut Office 11:30 – 12:30 Vocational training center 13:00 – 14:00 Computer school 14:30 – 15:30 Macaroni product processor 16:00 – 16:30 Medical equipment manufacturer Travelling from Assiut to Cairo	Assiut
Apr. 16 (Tue)	9:30 – 12:00 SFD, Sharkheiya Regional Office (Hasegawa, Takeda, Enas) 12:15 – 13:30 NBE, Sharkheiya Branch (Hasegawa, Takeda, Enas) 13:45 – 14:30 Taieba CDA (Hasegawa, Takeda, Enas) 15:00 – 15:15 Carpet manufacturer (Hasegawa) 15:30 – 16:15 Bakery (Hasegawa) 15:00 – 15:50 Feedstuff and pasta processor (Takeda, Enas) 16:00 – 16:50 Meta products manufacturer (Hasegawa, Takeda, Enas)	Sharkheiya
Apr. 17 (Wed)	9:30 – 11:00 Bandage manufacturer (Hasegawa, Takeda, Enas) 11:45 – 13:15 SFD, Qalyoubiya Regional Office (Hasegawa, Takeda, Enas) 13:30 – 14:00 NBE, Qalyoubiya Branch (Hasegawa, Takeda, Enas) 14:30 – 15:00 Tahla CDA (Hasegawa, Takeda, Enas) 15:15 – 15:45 Handwoven carpet maker (Hasegawa, Takeda, Enas) 16:00 – 17:00 Shoemaker (Hasegawa, Takeda, Enas)	Qalyoubiya
Apr. 18 (Thu)	10:00 – 17:00 Diagnosis for El Shorouk Co., (Takeda) 12:00 – 13:30 Bank Misr (Matsuoka, Hasegawa, Enas) 14:30 – 16:00 SFD (Central Sector for Planning & International Cooperation) (Matsuoka, Hasegawa, Enas)	Cairo

Apr. 21 (Sun)	10:00 – 11:00 AfDB (Matsuoka, Hasegawa, Enas) 14:00 – 15:30 BoA (Matsuoka, Enas) 9:00 – 10:30 SFD, Cairo Regional Office (Takeda) 11:00 – 11:30 Kitchen utensils distributor (Takeda) 11:45 – 12:10 Auto supply maker (Takeda) 12:30 – 13:45 NBE (Takeda) 14:20 – 15:20 NGO-ESDAER (Takeda) 15:40 – 16:00 Juice vendor (Takeda) 16:20 – 16:40 Bakery (Takeda)	Cairo
Apr. 22 (Mon)	9:00 – 10:30 SFD, Sixth October Regional Office (Hasegawa, Takeda, Enas) 10:45–11:00 Auto sales and servicing (Hasegawa, Takeda, Enas) 11:15 – 12:00 Steel processor (Hasegawa, Takeda, Enas) 12:15 – 13:00 Air conditioner sales and repair (Hasegawa, Takeda, Enas) 13:40 – 14:30 Confectionery maker (Hasegawa, Takeda, Enas) 14:45 – 15:30 Call center (Hasegawa, Takeda, Enas) 15:45 – 16:15 Women’s wear retailer (Hasegawa, Takeda, Enas) 11:00 – 12:00 Ministry of Foreign Affairs (Matsuoka) 15:00 – 16:00 EBRD (Matsuoka)	Cairo
Apr. 23 (Tue)	10:00 – 11:00 IDA 12:00 – 13:30 USAID 15:00 – 16:45 CIDA	Cairo
Apr. 24 (Wed)	12:00 – 13:30 IMC 14:30 – 16:00 ICTI	Cairo
Apr. 25 (Thu)	11:00 – 12:00 IFC	Cairo
Apr. 28 (Sun)	10:00 – 12:45 Donors meeting (Matsuoka)	Cairo
Apr. 29 (Mon)	9:00 – 10:00 EU	Cairo
Apr. 30 (Tue)	9:30 – 10:30 SFD Giza Regional Office 10:45 – 11:30 El Mobadara CDA 11:45 – 12:15 Cheep sweets vendor, street vendor 12:20 – 12:40 Shoe vendor 12:50 – 13:15 Drug and cosmetic sales 14:15 – 15:00 Exporter of decorated glass tableware	Cairo
May 2 (Tue)	10:00 – 11:30 Kaizen Center	Cairo
May 7 (Tue)	12:00 – 13:00 FTTC 14:00 – 15:00 KfW	Cairo
May 8 (Wed)	11:00 – 12:00 ITC 14:00 – 15:00 AFD	Cairo
May 9 (Thu)	14:00 – 15:30 ABA 16:00 – 17:00 ABA Training Center	Alexandria
May 12 (Sun)	12:30 – 14:30 Recyclobekia, diagnosis result briefing (Takeda) 10:00 – 11:00 CIB (Matsuoka, Hasegawa, Enas)	Cairo
May 13 (Mon)	10:00 – 13:00 El Shorouk Co., diagnosis result briefing (Takeda) 11:00 – 12:00 SFD (Technical Office) (Matsuoka, Hasegawa, Enas) 12:15 – 13:15 SFD (Central Sector for Community & Human Development )(Matsuoka, Hasegawa, Enas) 17:30 Cairo departure	Cairo
May 14 (Tue)	18:00 Narita arrival	

## 1-5 Main proper names used in the survey report

### ABBREVIATIONS

ABA	Alexandria Business Association
AFD	Agence Francaise de Development (French Development Agency)
AfDB	African Development Bank
ATC	Agro-Industries Technology Center
BdC	Bank du Caire (Bank of Cairo)
BoA	Bank of Alexandria
BDS	Business Development Service
CAPMAS	Central Agency of Egypt for Public Mobilization and Statistics
CBE	Central Bank of Egypt
CDA	Community Development Association
CGC	Credit Guarantee Company
CIB	Commercial International Bank
CIDA	Canadian International Development Agency
CIS	Cooperative Insurance Society
EBI	Egyptian Banking Institute
EBRD	European Bank for Reconstruction and Development
EGP	Egyptian Pound
EIB	European Investment Bank
ENPCC	Egypt National Cleaner Production Center
EU	European Union
F/S	Feasibility Study
FTTC	Foreign Trade Training Center
GAFI	General Authority for Investment and Free Zones
GDP	Gross Domestic Production
G8	Group of Eight
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Society for International Cooperation)
GoE	Government of Egypt
ICTI	Industrial Council for Technology and Innovation
IDA	Industrial Development Authority
IFC	International Finance Corporation
ILO	International Labour Organization
IMC	Industrial Modernization Center
IMF	International Monetary Fund
ITC	Industrial Training Council
ITC (Geneva)	International Trade Center

JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute of Germany)
MENA	Middle East and North Africa
MFI	Micro Finance Institution (microfinance intermediary)
MIFT	Ministry of Industry and Foreign Trade
MOF	Ministry of Finance
MOI	Ministry of Investment
MOPIC	Ministry of Planning and International Cooperation
MSE	Micro and Small Enterprises
MSME	Medium, Small and Micro Enterprises
NBD	National Bank for Development
NBE	National Bank of Egypt
NGO	Non-Governmental Organization
OPIC	Overseas Private Investment Corporation
OSS	One-Stop-Shop
PPP	Public-Private Partnership
RO	Regional Office
SANABEL <sup>1</sup>	The Micro Finance Network of Arab Countries
SEDO	Small Enterprise Development Organization
SFD	Social Fund for Development
SME	Small and Medium Enterprises
TA	Technical Assistance
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development

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<sup>1</sup>Microfinance support organization formed in Tunisia in 2002 intended to enhance development of MFI in MENA region. The members consist of 90 MFI's and banks from 12 MENA countries including Egypt, Tunisia, Saudi Arabia, Bahrain and so forth. From Egypt, 17 institutions participate including Alexandria Business Association, Assiut Businessmen Association and Banque du Caire.



## Chapter 2: Current economic issues in Egypt

Though it has passed 2 years and half after revolution of Jan. 25, 2011 which led to collapse of Mubarak regime, large scale anti-government demonstration has not ceased yet. There is no sign for social politics to stabilize. General election of people's assembly has been postponed to the October, For economics, due to affection from political confusion, foreign exchange crisis has arisen, because of decrease of tourism revenue and foreign direct investment, with sharp reduction of foreign reserves to 13.5 billion US\$ as of end of March, 2013. The Government requested financial assistance from foreign donors. The Government hopes to conclude negotiation with IMF for 4.8 billion US\$ emergency credits in June. As prerequisite of IMF support normally requires economic stabilization policy to Egypt, including fiscal tightening measures and elimination of subsidies, etc., it is obscure whether the agreement can be reached with IMF.

From International institutions and donors, AfDB committed 3.5 billion US\$. From Qatar 2 billion US\$, From Turkey 5 billion US\$, United States committed, 4.5 billion US\$ at the time of President Obama's visit to Egypt last year. Under these circumstances, S&P downgraded long-term debt rating from "B" to "B minus" (December, 2012) and re-downgraded to "CCC+" and downgraded short-term rating by one rank to "Caa1" (May, 2013). Moody's downgraded Egyptian national debt rating from "B3" to "Caaa". (March, 2013).

Real GDP growth was low with 1.8% in 2010/11 (Fiscal year July/June), 2.2% (2011/12) respectively. Rate of Inflation is 8% according to the Government forecast. Unemployment figure in 2012 is 3.51 million (Male: 2 million. Female: 1.51 million) and rate of unemployment is 13% (Male: 9.6%, Female: 24.7%-CAPMAS Quarterly Labor force Sample Survey Dec.31, 2012)

Employment issue aggravates. After revolution, more than 200 factories closed down and more than 2 million lost jobs. In addition, 700 to 800 thousand newly graduates (University graduates 340 thousand) enter into labor market each year. In particular, it is difficult for university graduates to find their targeted jobs (labor and migration ministry).

After revolution, the cabinet reshuffle occurred 4 times. About 120 ministers changed. Political stability is needed.

When Egypt successfully reached accord with IMF, there is a possibility that a movement against economic tightening policy might take place. A part of intellectuals has said that this is a time bomb.

Current economic issues are how to tide over foreign exchange crisis (accord with IMF support), implementation of economic adjustment, short-term measures for unemployment issue, recovery of hard-hit tourism industry, and for medium terms, growth strategy and strengthening of competitiveness of Egyptian industries will be needed.

**Table 1 Economic Indicators in Egypt**

Unit : Billion US\$

	2010/11	2011/12	2012/13(Forecast)
Nominal GDP	230.9	254.5	252.2
Real GDP Growth Rate	1.8%	2.2%	2%
Rate of Inflation	10.1%	7.2%	8.0%
Fiscal Deficit/GDP	△10.0%	△10.9%	△10.0%
Foreign currency reserve	17.6	14.4	15.2
Equivalent to month's import (Number of month)	3.3	2.7	2.7

(Source: Bank of Tokyo-Mitsubishi UFJ, Cairo Office)

## Chapter 3: MSME Policy in Egypt

### 3-1 Position of MSME issue in Egypt

Egypt is confronting an issue to raise the employment of the youths who form an important part of the population.

MSE accounts for over 99% of private enterprises in Egypt, 85% of non-agricultural private sector employment and almost 40% of total employment. More than 80% of MSE are informal (MSE National Strategy 2009). MSE has been the primary absorber of labor force.

It is a high priority agenda for Egyptian government to create employment for the new graduates estimated to be 700 to 800 thousand who enter the labor market annually. Unemployment issue can trigger frustration of youths and, further, political instability. This is the reason why Egypt has, as principal pillars of the government policy, focused on economic growth as well as MSME development that will contribute to employment creation.

After the revolution in 2011, G8 Deauville summit was held, in which partnership between G8 and Arab countries was set up aiming at modernization of economy of Middle East and North Africa (MENA) countries. The partnership advocates G8 support for private sector development, employment creation, investments on education and so on. SME development has been taken up as an important issue in MENA area.

### 3-2 MSME enterprises and definition of MSME

(1) Business statics in Egypt is not necessarily in good shape. The followings are quoted from Census 2009, which indicates that 95% of total enterprises are medium, small micro enterprises. Chart 2 shows formal enterprises.

**Table 2 Number of Formal Enterprises in Egypt by Size (2009)**

Size of Enterprises	Number of Employees	Number of Enterprises	Ratio
Large Enterprises	More than 200	1,420	4.8%
Medium Enterprises	More than 50 up to 199	2,997	10.2%
Small Enterprises	More than 10 up to 49	10,518	35.7%
Micro Enterprises	Less than 9	14,550	49.3%
Total		29,485	100%

(Source: IMC)

A research firm made estimation of number of total enterprises including informal enterprises in 2011. The search shows that 3.04 million enterprises are in Egypt as indicated below.

**Table 3 Estimated Number of Enterprises in Egypt in 2011 (Informal Enterprises included)**

Sector of Industry	Number of Enterprises	Ratio
Trade	1,834,008	60.2%
Service/Maintenance	899,842	29.5%
Manufacturing	312,272	10.3%
Total	3,046,122	100%

(Source: CEFRS-Center for Economic & Financial Research & Studies)

**Table 4 Estimated Number of Employees in Egypt in 2011 (Informal Enterprises included)**

Size of Enterprises by Number of Employees	Number of Employees
1	996,126
2-4	4,898,692
5-9	1,226,839
More than 10	790,428
Total	7,912,085

(Source: CEFRS-Center for Economic & Financial Research & Studies)

(2) The followings are the definitions of MSME made by Law 141/2004 (Small Enterprise Development Law), CAPMAS, Central Bank of Egypt (CBE), and SFD respectively. Non-uniform definitions are bringing some confusion in the administration.

**Table 5 Small Enterprise Development Law**

	Employees	Paid-in Capital
Micro Enterprise	None	Less than 50,000EGP
Small Enterprise	Less than 50	More than 50,000EGP/ less than 1millionEGP

**Table 6 CAPMAS**

	Employees	Paid-in Capital
Micro Enterprise	Less than 5	
Small Enterprise	More than 5 up to 49	
Medium Enterprise	More than 50	Industrial Sector: Less than 10million EGP
		Trade & Services Sector: More than 0.5million EGP /less than 2million EGP

**Table 7 CBE**

	Employees	Paid-in Capital	Annual Sales Turnover
Micro Enterprise	Less than 5		
Small Enterprise	More than 5 up to 49	More than 1millionEGP/ less than 20millionEGP	More than 0.25millionEGP/lessthan5millionEGP
Medium Enterprise	More than 50 up to 99		

**Table 8 SFD**

	Employees	Paid-in Capital
Micro Enterprise	Less than 10	Less than 50,000EGP
Small Enterprise	More than 10 up to 49	More than 50,000EGP/less than 1millionEGP

### 3-3 Governmental MSME policy

The government of Egypt made near term plan for MSME development in Egypt. (SFD compiled in collaboration with relevant ministries.) The plan is composed of the following six key issues.

(1) strengthening access to finance and guarantee mechanisms for MSME (2) reducing the administrative burden and simplifying the regulatory environment (3) facilitating public contracting for MSME (4) improving entrepreneurship policies, including women's entrepreneurship (5) expanding the capacity of MSME to integrate in global value chain (6) capacity building in best practices in MSME management .

The brief summary of the near term plan is as described below.

#### (1) Strengthening access to finance and guarantee mechanisms for SME

Access to finance (availability of financing benefit) is one of the most problematic factors for doing business in Egypt (World Economic Forum 2012). 75% of SME apply for bank loans, 92% of applications are rejected. The result is that loans to SME account for only 6% of the total loan portfolio of Egyptian banks (OECD, 2010). The reason is that informal sector is excluded from financial market, and that demand-side factors such as insufficient financial literacy and limited knowledge of accounting methods limit access to finance.

#### Concrete measures undertaken since 2011

- Diversifying financial products  
SFD introduced Islamic finance.
- CBE has exempted commercial banks from reserve requirements for loans extended to SME.
- A regional microfinance policy initiative was created with GIZ and Sanabel (the Microfinance Finance Network of Arab countries) to provide microfinance.
- An Egyptian-American fund was announced, with USD 60 million to provide financing for SME, funded by OPIC.
- KfW created the SANAD Fund, providing debt and equity finance to partner institutions (banks, microfinance institutions, financial service providers, guarantee funds and venture capital funds) in Egypt and other MENA economies.
- The GAFI's Bedaya Centre for Entrepreneurship and SME Development provides financial and non-financial services in support of SME. Bedaya Centre also supports provision of private equity fund. (Bedaya 1 has been already funded.)

### Short term measures

- Broaden the coverage of credit guarantees.  
Increasing the guarantees to cover a more substantial part of loans over 75% (Now already increased to 80%) Introduction of counter-guarantee of the government
- Spread awareness about existing financial literacy training programs and BDS (Provided by EBI, Bedaya Center and SFD)
- Introduction of risk assessment tools for SME (I Score System)

### Long term measures

- Strengthen collateral laws and registers  
Movable assets can be pledged as collateral in Egypt, but the creation of a register of movable assets is still pending. Furthermore many types of non-specific assets should be used as collateral, which makes it easy for smaller borrowers to meet loan requirements (OECD, 2010).
- Facilitate co-operation between the SFD, GAFI, the Federation of Egyptian Banks and CBE
- Promote access to debt finance
- Support the growth of angel funding through measures such as tax incentives

### (2) Reducing the administrative burden and simplifying the regulatory environment

#### Concrete measures undertaken in 2011

- MOF simplified accounting standards for SME in 2009
- Egyptian Regulatory Reform and Development Activity (ERRADA) created e-Registry which includes more than 30,000 business related regulations

### Short term measures

- Increase awareness on the Minister of Finance's Decree, and the associated guide for both enterprises and accountants.
- Adopt a pilot project for Regulatory Impact Analysis (RIA), which is necessary to enable the Government to consider viable alternatives based on accurate estimation of costs/ benefits associated with existing and upcoming regulations through their direct and indirect effects on the SME sector, employment, investment, the business sector and the economy as a whole. Ministry of Administrative Development, MOI, MOF, & MIFT will be involved.

### Long term measures

- Support the implementation of administrative burden reduction to realize the savings in tourism, agriculture, industry and trade sectors (12.6m USD p.a.)
- Launch Regulatory Impact Analysis (RIA) at the national level

### (3) Facilitating public contracting for SME

#### Concrete measures undertaken in 2011

- The General Authority for Government Services (GAGS) has been leading the efforts of the

government to promote a more transparent and effective public procurement system as well as to raise level of awareness of SME. An electronic portal was launched at the national level. Workshops were held to enhance SME participation in public tender.

- SFD signed a US\$ 200 million Public Works Project, where 800 small contractors will be contracted.

#### Short term measures

- Conduct regular awareness workshops through GAGS in the different governorates for the purpose of promoting contracting

#### Long term measures

- Promote the use of the e-procurement portal to ensure sufficient time for the announcement of tenders and enable business to submit their bids on-line.
- Develop reliable and accurate data on the participation of SME in public procurement and their outcomes.

#### (4) Improving entrepreneurship policies, including women's entrepreneurship

##### Concrete measures undertaken in 2011

- GAFI launched a BDS program and a SME Clinic initiative (particularly for early stage of business by reputable consulting firm)
- Bedaya Centre has designed an entrepreneurship program
- Bedaya Centre has launched an initiative to promote the formalization of unregistered enterprises
- IMC, through its entrepreneurship programme, provides BDS for industrial SME including assistance in developing business plans, entrepreneurship awareness to potential entrepreneurs, and facilitation of funding opportunities for start-ups.

#### Short term measures

- GAFI is developing an entrepreneurship mentoring program to enhance the managerial skills of innovative entrepreneurs.
- Encourage the establishment of business incubators and innovation centers attached to universities.

#### Long term measures

- Implement national entrepreneurship education program

#### (5) Expanding the capacity of SME to integrate in global value chain

##### Concrete measures undertaken in 2011

- GAFI and the American Chamber of Commerce in Cairo organised the event "Supply Chain Opportunities: A Partnership for Egypt and the U.S.", bringing together U.S. corporations and potential Egyptian suppliers.

- GAFI is working closely with several multinationals - on a pilot basis - to analyse their supply chain and identify the possible integration of local SMEs.
- Food Technology Center is providing technical assistance and building organic cluster for dairy product focusing on 50 small manufacturers. Furniture Technology Center is providing technical assistance and building furniture cluster focusing on 80 small manufacturers, both of which are financed by SFD.
- IMC, through its National Suppliers Development Program, provides assistance to upgrade and modernize local suppliers to major multinational and local companies in Egypt. In addition, IMC provides enterprises with assistance in technology transfer, and specific technology.

#### Short term measures

- To strengthen the capacity of existing SME support organizations.  
This should include ensuring a supply of trained private sector “brokers” to provide services to SME, and expanding export development centers. They could further work on improving quality, standards, and certification procedures and establish an Export Credit Guarantee system for SME to assist with their export financing.
- Increase match-making events at IMC

#### Long term measures

- Adopt innovative models such as the “one village, one product” initiative.
- Further investment in promoting international standards of corporate governance.

#### (6) Capacity development in best practices in SME management

##### Concrete measures undertaken in 2011

- Entrepreneurship training provide through SFD’s Non-financial department
- GAFI launched SME Clinic Initiative in July 2011.
- Institutional training to SFD staff in credit and investment, administration and collection of bad debts, credit risk, labour-intensive infrastructure projects management, and leadership.

#### Short term measures

- Projects to strengthen managerial skills in SMEs  
Identify which organizations are best equipped to deliver the training at different stages of development (pre-start-up, start-up and post-start-up).
- Develop links between public agencies responsible for incubation programmes and highly experienced industry bodies such as the National Business Incubation Association in the United States and United Kingdom Business Incubation.

#### Long term measures

- Enhance SME’s technology absorption capacity including development of Egyptian Technology and Innovation Center(ETTIC)



- Broaden support program

Most of the enterprise support programs are limited to industrial enterprises and do not embrace services sector sufficiently. Access to service is still concentrated in the Greater Cairo and Alexandria urban regions.

As mentioned in the heading, the above measures are based on near term policy. Long term policy like Master Plan for SME development is not formulated. The works for making National Strategy for SME development started in 2006 with CIDA TA support in collaboration with SFD, relevant agencies and Canadian experts. Though the Strategy completed in June 2009, it has been neither adopted nor activated. In 2011 MOPIC made up Development Cooperation Report with recommendation to establish Supreme Council headed by the Prime Minister as the umbrella agency which will affiliate the implementing agencies dealing with SME issues with the aim to draw up unified policy. However this conception has not been realized.

Under these circumstances Prime Minister's Decree (No. 318/2013) was issued on 1<sup>st</sup> April, 2013.

The Decree entrusts SFD with the followings in conformity with Small Enterprise Development Law (No.141/2004).

- (a) Formulating a National Strategy for Small and Micro Enterprises.
- (b) Coordinating with concerned Ministries and NGOs for Strategy formulation.
- (c) Completing the formulation of the Strategy and related Action Plan within 6month, and submitting a monthly report on work progress.

SFD has started works by organizing steering committee composed of experts of USAID, CIDA and so on. It seems that National Strategy (2007) of CIDA will be the foundation of the Strategy.

SFD intends to elaborate the coordination of stakeholders such as other donors, NGOs, and banks to study various problems, for example ① extending SFD's assignment limited by Small Enterprises Development Law to small enterprises ② changing the name of Social Fund for Development to Socioeconomic Fund in line with economic situation ③ reviewing the services provided by other concerned agencies to avoid duplication.

On the other hand another study on SME issue in Egypt is supposed to start with fund of EU and United Nations. Foreign experts and Egyptian consultants will work on it and complete in September 2013. Two reports on the same subject are expected to come out in September 2013.

### 3-4 Issues and prospects

#### National Policy on MSE

In the National Strategy made by CIDA in June 2009 the following constraints of MSE are specified as shown in the Table 9. It is considered that the coming National Strategy will hopefully propose countermeasures to the constraints. It is noteworthy whether the issues on the structure of financial market, economic growth policy and integrity of strategy will be addressed. For in-depth study for solution of MSE problems extensive deliberation is essential. Formulating national strategy is

important, but implementation of strategy is not easy without strong political determination. Expectation is that the precedent of dormant National Strategy in 2009 will not repeat.

**Table 9 MSE Constraints**

(Quoted from National Strategy of 2009)

Structural constraints	<ol style="list-style-type: none"> <li>1.Small size (Average workers :2.3)</li> <li>2. Skewed geographical distribution. Concentration in big cities</li> <li>3. Lack of diversification. Concentration in trade and service</li> <li>4.Low value-added</li> <li>5.High level of informality</li> <li>6.Low share of women as owners</li> </ol>
Demand-related constraints	<ol style="list-style-type: none"> <li>1.Weak demand as income of customers are low</li> <li>2.Intense competition, particularly with China</li> <li>3.Low involvement in export activity</li> <li>4.Limited linkages with large firms</li> <li>5.Limited marketing channels</li> </ol>
Access-related constraints	<ol style="list-style-type: none"> <li>1.Low utilization of technology</li> <li>2.Poor access to adequately priced suppliers</li> <li>3.Inadequate access to finance</li> <li>4.Low access to information</li> <li>5.Limited access to BDS</li> </ol>
Process and management constraints	<ol style="list-style-type: none"> <li>1.Virtually non-existent modern production techniques</li> <li>2.Weak management skills and know-how</li> </ol>
Labor constraints	<ol style="list-style-type: none"> <li>1.High labor intensive and seasonal workers</li> <li>2.Scarcity of experience and trained workers</li> </ol>
Regulatory constraints	<ol style="list-style-type: none"> <li>1.Excessive regulatory requirements ( inspection , tax reporting)</li> <li>2.low awareness of MSE Law and benefits</li> <li>3.High cost of social insurance</li> <li>4.Insufficient laws for MSE exit and bankruptcy</li> </ol>
Entrepreneurship constraints	<ol style="list-style-type: none"> <li>1.Weakness of engrained culture particularly in rural area</li> <li>2.Lack of entrepreneurial skills</li> <li>3.Limited integration in the education and vocational/technical training systems</li> </ol>

## Chapter 4: Main Government Authorities Relating to MSME Issues

Economic Ministerial Committee is the highest legislative organization relating to economic issues of Egypt. Establishment of the committee was confirmed by the written reply of Ministry of Finance to the questionnaire delivered in advance and on the occasion of an interview with the ministry on April 7th. The purpose of the committee is to deliberate all economic, financial and monetary issues and to propose their solutions, including MSME development policy.

Members of the committee are as follows according to the ministry.

- Ministry of Finance
- Ministry of Investment
- Ministry of Industry and Foreign Trade
- Ministry of Planning and International Cooperation
- Ministry of Supply and Home Trade
- Ministry of Oil and Mineral Wealth
- Ministry of Tourism
- Central Bank of Egypt

(SFD joins the committee when MSE issues are deliberated.)

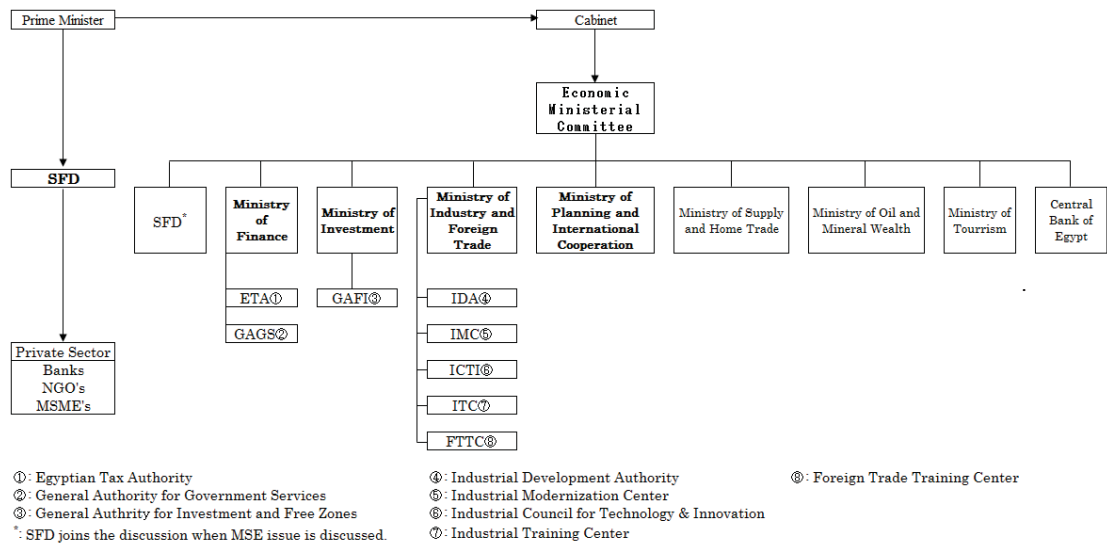
The committee is supposed to participate in unified national policymaking process relating to MSME policy as well however, the committee seems not to fulfill the function because of limited time since its establishment. Present MSME policy is planned by respective presiding ministry within a range of its division of duties, and after a cabinet approval as needed, the ministry carries out a policy. No organization such as Small and Medium Enterprise Agency in Japan is constructed.

Ministry of Industry and Foreign Trade, Ministry of Finance, Ministry of Investment and Ministry of Planning and International Cooperation among the above members play a main role in MSME policy. The outline of MSME policy of these concerned ministries and agencies is as follows. SFD has multiple functions as a policymaking agency and an implementing agency, but is included in this Chapter in consideration of its important role.

(We had an interview with GAFI which is responsible for MSME policy according to the reply from Ministry of Investment. GAFI is described in Chapter 5)

Relationship diagram of government-affiliated organizations is as follows.

**Figure 1 Government organizations relating to MSME policy promotion**



(Information source: Ministry of Finance)

#### 4-1 Ministry of Industry and Foreign Trade (MIFT)

Ministry of Industry and Foreign Trade is a core organization to enhance industrial competitiveness and to promote export expansion, and plays an important role in MSME policy. Main roles of Ministry of Industry and Foreign Trade are as follows.

- Business in general pertaining to export and import
- Promotion of industrial projects
- Standardization of industrial standards and promotion of quality improvement of industrial products
- Development of MSME
- Commercial and industrial licensing
- Provision of training services such as vocational training

Following measures are implemented relating to development of MSME.

- Affiliated implementing agencies such as IMC, IDA, ITC, ICTI, and FTTC are conducting support activities.  
 (Specific activities of the above implementing agencies are described in Chapter 5.)
- Affiliated agencies other than the above implementing agencies also execute various projects. Ongoing projects or planned projects are listed in the following table.

**Table 10 List of projects relating to Ministry of Industry and Foreign Trade**

Project name	Rate of progress	Implementing agency	Technical support agency	Financial support agency
Value chain of Upper Egypt horticultural crop	90%	Agro-Industries Technology Center(ATC) which is affiliated to ICTI	UNIDO UNDP	Millennium Development Goal Fund (Spain)
Export value chain of medical & aromatic plants	50%	ATC	UNIDO	SECO (Swiss)
Energy efficiency of food sector MSE	10%	Egypt National Cleaner Production Center (ENCPC)	USAID IDA	USAID Trade Facilitation Fund
Resource efficiency of MSE	30%	ENCPC	GIZ	GIZ
Execution of resource efficiency method of MSE	50%	ENCPC	CIDA	CIDA
TA to MSE in furniture industry	95%	Furniture Technology Center	SFD	AfDB
Technical innovation of MSE in ceramics industry	Planning	ENCPC	EU companies such as Greece, etc.	EU
Value chain of Egyptian dates	Planning	ATC	UNIDO	CIDA

#### 4-2 Ministry of Finance (MOF)

The biggest political issue of Ministry of Finance is to formalize informal enterprises.

MOF implements the following concrete measures.

- Revision of tax laws is in preparation so that informal enterprises are exempted from taxation subject to their registration to tax offices during a specified period after enforcement of the revised laws.
- By recognition of the fact that current tax system is a burden to MSE, Egyptian Tax Authority (ETA) has conducted the following institutional revisions inclusive of accounting system.
  - Small enterprises and micro enterprises are equally treated in terms of the tax laws.
  - MSE are exempted from keeping account books as long as they issue invoices in business transactions.
  - MSE are exempted from compliance of accounting standards of Egypt when preparing financial statements.
  - MSE are exempted from sample inspections by ETA subject to their tax filling before deadline.
- General Authority for Government Services (GAGS), an affiliate of Ministry of Finance, is

implementing the following measures to thoroughly observe provisions of the small enterprise development law of 2004 to the effect that “Public sectors must procure 10 % of total purchase amount of goods and services from MSE on a priority basis”.

- To provide awareness and training to procurement officers in ministries, governorates and other government agencies
- To educate MSE on how to bid government projects and to provide awareness of advantages of procurement mechanism to MSE
- To prepare data base relating to MSE share in government procurement
- To prepare quarterly reports of government-affiliated organizations about procurement from MSE

#### 4-3 Ministry of Planning and International Cooperation (MOPIC)

MOPIC takes an important role to prepare a national social and economic development plan every year and to allocate the part of the budget (about 15% of the investment budget and national budget) into central and local government agencies.

According to MOF, the budget allotment of the current fiscal year (2012/2013) was increased from 35 billion EGP of the previous fiscal year to 55 billion EGP.

In addition to a single-year plan, a medium- and long-term national strategy, “10 year Strategic Framework (2012/2022)”, was formulated with assistance extended by JICA. Furthermore, the Sixth Five-Year Plan (2007-2012) was formulated with priority issues such as employment increase, economic reforms and expansion of private investment, and with goals of annual economic growth at an average of 8% and a total employment of 3.8 million people.

As for employment, it is anticipated that an increase of employment by 1.4 million people for five years, an average of 280 thousand people per year, will be achieved by contribution of SFD. The number of 1.4 million people which exceeds one third of the total employment shows a significance of MSME policy.

However, under the new government established after 2011 revolution, both the evaluation and effectiveness of Five-Year Plan are unclear.

MOPIC places a high priority on promotion of MSME policy, and is promoting the policy in association with concerned government agencies such as MIFT, MOF and SFD.

MOPIC recognizes the necessity of an organization to supervise MSME issues, and accordingly, proposed an idea of “Supreme Council” in a report prepared in 2011. The mission of the organization is to mobilize all stakeholders relating to MSME issues and to deliberate solutions of various issues.

#### 4-4 Social Fund for Development (SFD)

SFD is an agency under direct control of the prime minister established in 1991 with an aim to reduce poverty and create employment. SFD's paid-up capital is one billion EGP and has a central role in MSE policy in the field of access to finance and BDS with the mission to develop MSE under the small enterprises development law of 2004.

Total employees are 1165 (regular employees are 963 and non-regular employees are 202).

Since new president entered into office after the revolution, SFD has endeavored to focus on policies and to strengthen financial sector and BDS. Specific examples are development of new financial products such as Islamic finance in the financial sector and development of start-up enterprises in BDS. Enterprises targeted for financing from SFD are stipulated in the law, and they are MSE with a capital up to one million EGP and employees less than 50. Enterprises of a larger scale than the above are in principle not intended to be financed, and the limit of loan amount is two million EGP. However, because SFD is required to fulfill a social stabilizing function as well, it lends money exceeding the limit in a state of emergency. (SFD lent 50 million EGP when poultry farmers suffered loss due to bird flu.)

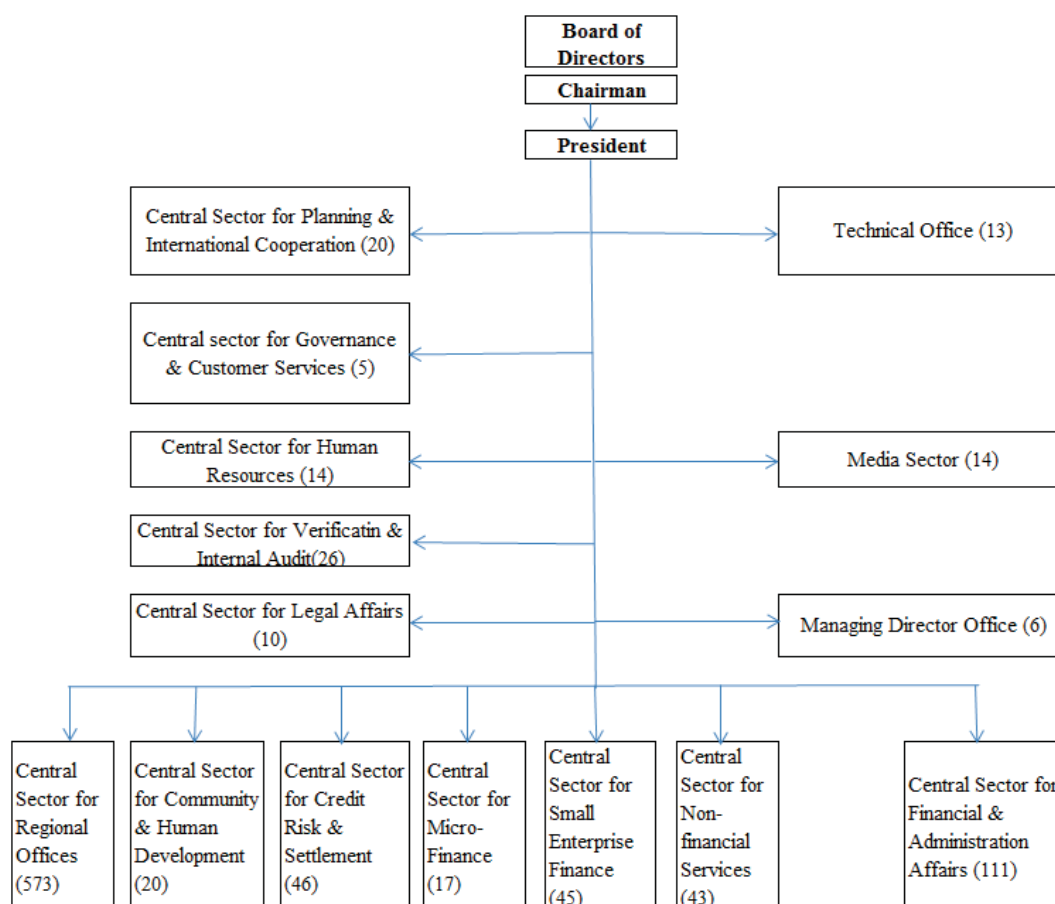
SFD also focuses on BDS and puts in 43 personnel which are virtually the same as Central Sector for Small Enterprise Finance, a core division of SFD, as shown in the following organization chart. A lineup of 74 personnel including 31 sent to each One-Stop-Shop from Central Sector for Regional Offices is promoting BDS.

SFD aims to facilitate and coordinate across concerned agencies relating to MSE policy.

SFD reformed its organization in April this year and made a formal start early May after adoption of resolution by the Board of Directors. It is characteristic that all divisions directly report to the president in order to promote rapid decision-making.

The organization chart of SFD is as below (Number denotes the number of staff)

**Figure 2 Organization chart of SFD**



Non-regular staffs (202)  
(Driver, Security Service, Assistant)

(Information source: SFD)

Main roles of SFD are as follows.

- Central Sector for Small Enterprise Finance (Number of staff 45)  
The sector is assigned to small enterprise finance and direct lending.
  - Small enterprise finance deals with on-lending through ten banks to small enterprises with paid-in capital in the amount of 50 thousand EGP or more and less than one million EGP, and with employees less than 50.  
(Bank names are mentioned in 6-2 of Chapter 6.)  
Cumulative amount of loans from 1992 to August, 2012 is 10.7 billion EGP.  
Cumulative number of customers is 327,445 (males 72% and females 28%).  
Outstanding Portfolio is 3.7 billion EGP.
  - Direct lending started in 2006. At first, regional offices in Cairo and Giza started direct lending with the credit line of 25 thousand EGP. From 2007, all regional offices followed. Currently,



the credit line is two million EGP under the rules of SFD headquarters. Main loan customers are start-up enterprises which find difficulty in finance from banks and NGOs.

Lending decision mechanism of direct lending is as below.

- Finance in the amount of less than 50 thousand EGP is decided by the regional committee of a regional office. In addition, electronic scoring system was employed for loan customers of less than 50 thousand EGP from 2011.
- Finance of 50 thousand EGP or more and less than three hundred thousand EGP is decided by the Credit and Risk committee of the headquarters.
- Finance of three hundred thousand EGP or more and up to two million EGP is decided by the Higher Credit and projects evaluation committee of the headquarters.

Concrete example: The exporter of glass tableware ornaments (handled by Giza regional office) to where we visited on April 30, is an enterprise with 40 employees and monthly turnover of 50 thousand dollars. At the time of its foundation three years ago, it was unable to get a loan from banks and accordingly, Giza regional office made a loan of 50 thousand EGP.

- Central Sector for Micro-Finance (Number of staff 17)

The sector supplies funds through 470 NGOs to micro enterprises with capital of less than 50 thousand EGP.

Cumulative amount of loans is 3.4 billion EGP from 1992 to August 2012.

Cumulative number of customers is 1,340,421 (female 61% and male 39%).

Outstanding portfolio is 0.5 billion EGP.

- Central Sector for Non-Financial Service (Number of staff 43)

Organization of the sector and the content of non-financial service are described in Chapter 7.

- Central Sector for Community & Human Development

(Number of staff 20)

In addition to the mission to develop MSE, SFD takes an important role to develop local community and the sector conducts the following operations.

- Improvement of literacy rate
- Improvement of hygiene
- Environmental conservation activities
- Community development and employment increase by infrastructure projects (water supply projects, road works, canal and river works, etc.)

- Central Sector for Regional Offices (Number of staff 573)

The sector supervises 31 regional offices in 27 governorates sending staff to all regional offices to conduct the following operations.

- Financing service (Through banks and NGOs. Direct lending partly.)
- Follow-up to prevent a bad debt.
- Non-financial service (Sending staff to OSS of all regional offices)
- Development of local regional community and employment improvement thereof

Yearly transition of the amount of small enterprise finance, MF and direct lending, and their respective proportion to the total amount of finance from 2009 to the end of March, 2013 are as follows.

**Table 11 Transition of the amount financed by form of finance**

(Unit: EGP in thousands)

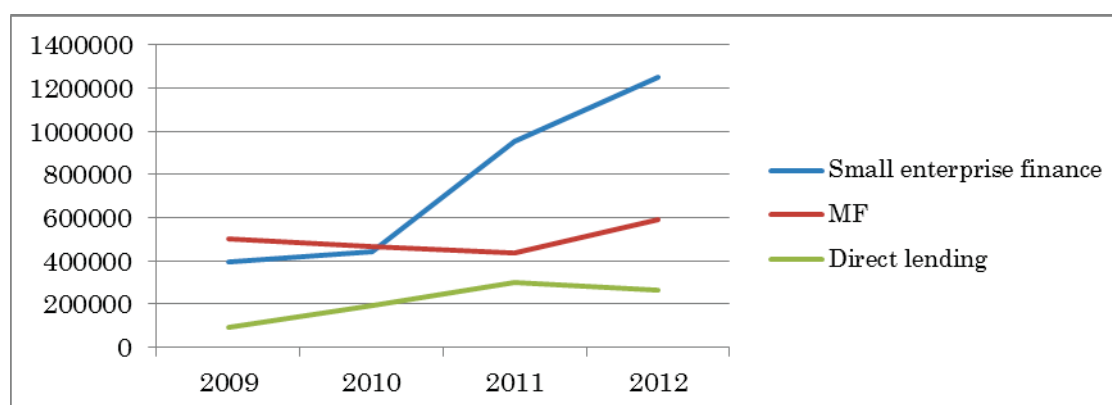
	2009	2010	2011	2012	2013
Finance to small enterprises	395,490(40%)	442,270(40%)	956,737(56%)	1,250,249(59%)	360,153(59%)
MF	504,207(51%)	469,382(43%)	435,090(26%)	592,342(28%)	223,902(37%)
Direct lending	93,590(9%)	192,189(17%)	300,231(18%)	264,592(13%)	26,378(4%)
Total	993,287	1,103,841	1,692,058	2,107,183	610,433

(Information source: SFD)

Transition of the above amount financed is shown in the chart below.

**Figure 3 Organization chart of SFD**

(Unit: EGP in thousands)



SFD is also funded by other donors than JICA and their recent movement is summarized as below.

**Table 12 List of projects supported by other donors**

Donor	Contents of project	Amount
Arab Fund for Economic and Social Development	Emergency assistance for start-up enterprises and employment creation of existing MSE. For three years.	30 million Kuwait dinar (loan)
International Fund for Agricultural Development	Assistance for agricultural MSE. For eight years.	US\$35 million (loan)
World bank	Employment promotion of skilled and unskilled workers in labor-intensive industries. For three years.	US\$200 million (Grant through government)
Danish International Development Agency	Employment of skilled and unskilled workers in labor-intensive industries. For one year.	US\$3.1 million (Grant)
European Investment Bank/the European Union	Support for direct lending by SFD to small enterprises and micro finance through NGOs. For eight years.	• €45 million (EIB loan) • €8 million (EU grant)
AfDB	Credit line for MSE	US\$70 million (loan)

(Information source: SFD)

#### 4-5 Issues and prospects

The categorized issues on MSME policy, as a result of hearings from government offices, government implementing agencies and donors, are as follows.

**Table 13 Issues on MSME policy**

Issues	Agencies raising issues
There is no national level policy.	MOPIC, AFD, USAID
Master plan is required.	MOPIC, USAID, MOF
Establishment of umbrella organization such as Higher Committee	MOPIC, MOF, AfDB
Organization reform of SFD	MOF, KfW
Enactment of a law concerning micro finance	EU, AFD, KfW
SFD focuses on social stabilization function and has no growth strategy for enterprises.	IMC
Although SFD discharges its duties, poverty reduction is not realized as a result.	MOF
Execution of existing strategies and legal system is the first problem to be solved.	CIDA
Making the current status of informal enterprises clear and formalizing them	MOF, CBE

We have learned about SFD's policy to address these issues through an interview with SFD Technical Office and its content is as follows.

- Policy Unit which was newly established in Technical Office in 2012 is in charge of policymaking.
- Currently, there might not be a centralized national policy relating to MSE issues.
- A national strategy will be formulated by the end of September and SFD participates as a secretariat. MSE policy will be promoted on the basis of the strategy.
- Mapping of donors and implementing agencies is currently in preparation. Round-table meetings were already held with donors. Inadequate coordination among donors, implementing agencies and other stakeholders is regarded as one of the issues.
- It seems to be necessary to make a champion in each field of SME issues such as BDS and legal system.
- Proposal to establish National Council on SME issues is under study following experiences in Malaysia.
- Funds for MSE finance are ample. Banks have excess liquidity. It is required to flow funds to enterprises seeking funds. SFD must undertake the role as a facilitator. For customers, speed of disbursement and access is more important than interest rates.
- According to a study by Dr. Aliaa El Mahdy (distinguished socio-economist in Egypt), 82% of MSE is informal and formal is mere 18%. Also, as 99.3% of private enterprises are MSE, it is recognized that growth of MSE is an urgent need for economic development of Egypt.

## Chapter 5: Policy Implementing Agencies Relating to MSME Issues

This chapter overviews the functions of main implementing agencies such as GAFI, IDA, IMC, ICTI, ITC and FTTC.

### 5-1 General Authority for Investment and Free Zones (GAFI)

(1) GAFI is an investment promotion organization under Ministry of Investment and its business is an investment promotion. While SFD deals with enterprises with capital of one million EGP or less, GAFI deals with enterprises with capital of two million EGP or more. GAFI locates nine Investment Offices across the country in addition to the headquarters and conducts promotion of investment to SME. Besides president, three vice-presidents are respectively in charge of policy/investment promotion/IT, free-trade zone/industrial complex such as cluster, and management/administration.

(2) Following the recommendation of UNCTAD and the World Bank in 2003, Bedaya Center was established with an aim to promote investment of small and medium-sized enterprises. Small and medium-sized enterprises currently account for 25% of GDP of Egypt and the center aims to increase it to 40% in 2015, and 50% in 2025. Main promotion measures are provision of BDS, assistance of access to finance, cultivation of enterprise managers, and formalization of informal sectors.

i. The foundation of BDS was created by employed consultants from Europe and the United States, on the basis of BDS service program assisted by CIDA of Canada. In Sohag and Alexandria, a database about financial and non-financial service providers is assembled.

ii. SME Clinic Initiative

The vision was launched in July, 2011. At present, BDS is provided on a volunteer basis, and in the format of face-to-face consultation and work shop. Service is free of charge as politics. Services provided at the clinic are legal advices, accounting/budgeting, access to finance, tax system, market research, optimization of operation, and information technology.

iii. Access to finance

In compliance with Capital Market Law No.95/1992, a private equity fund called Bedayal was established in order to promote start-up of SME. The size of funds is 134million EGP for a period of ten years. The initial target of fund-raising was 250million EGP, but 134million EGP was eventually raised. GAFI invested 80million EGP as a general partner. Cairo Financial Holdings (CFH) and Al Ahly for Development & Investment (ADI) are responsible for fund management.

Investors to the fund are as follows.

GAFI, Ministry of Insurance and Social Affairs, National Investment Bank, Misr Insurance Holding Company, Misr Insurance Company

Investment strategy of the fund is as follows.

- Capital size

Enterprises with capital (net assets) of two million EGP or more and less than 50million EGP, and with annual turnover of 120million EGP or less are the targets.

Not exceeding 50% of the fund is allocated to enterprises with capital size of 25million EGP or more and less than 50million EGP.

2% to 10% of investment portfolio is allocated to new projects.

- Allotment by area and allotment by sector

Top priority of the fund operation is to impact on employment creation and environmental sustainability.

In view of industry diversification promotion, the fund shall not invest more than 10% to one industry.

Property development, tobacco, alcohol, import, and gambling are not subject to the fund.

- iv. Entrepreneur project

Entrepreneur project to change mind-set from job seekers to job creator was worked out, aiming to foster an entrepreneurial culture among young people.

- To provide appropriate guidance in a phase of start-up. To establish work shop for capacity development.
- To set up help desk assist entrepreneurs through the registration of their companies at OSS of GAFI.
- To provide consulting services by Bedaya volunteer consultants.
- To assist an access to finance to banks, angel funds, etc.
- To make it easier to access to technology through Technology Center and Incubator System.
  - iv. To promote a shift from informal economy to formal economy
- To facilitate a shift to formal sector through easier legal registration of informal sector and easier commercial and industrial licensing to informal sector.
- To provide BDS such as accounting, access to finance, marketing, tax system and human resource development to enterprise owners intending to formalize.
- To provide basic information necessary for formalization such as required paperwork and service provider information through internet website.
- To assist formalization by a team organized at GAFI regional offices.

## 5-2 Industrial Development Authority (IDA)

IDA was established in 2005 as an affiliated agency of MIFT. IDA is a policy making organization rather than a service provider.

- Approval and licensing business
- Allocation of industrial site
- Planning of industrial development projects. IDA is now focusing on the following fields.
  - Energy and water resource development

- Development of supporting industries which lead to SME, or especially to large enterprises
- Food industry
- Industrial development in Suez Canal region
- To formulate development plan of Industrial Zone. Presently, IDA places an emphasis on the following fields.
  - ① Automobile-related industry
  - ② Food industry
  - ③ Petrochemical industry
  - ④ Agri-industry

### 5-3 Industrial Modernization Center (IMC)

IMC was jointly established by the government of Egypt and EU in 2000 (EU made an indirect investment via the government). Current paid-in capital is one million EGP. IMC has 19 branch offices with 285 employees across the country. IMC is a consulting agency having about 170 in-house advisers among 285. IMC outsources advisers as needed. Basic philosophy of IMC is to raise the level of industrial foundation of Egypt, increase export through strengthening international competitiveness, and achieve growth and development of Egyptian economy. Intended enterprises for IMC services are in principle formal private enterprises with employees of 10 or more. Main roles of IMC are as follows.

- To provide to SME a broad range of BDS such as accounting and finance, marketing, human resource development, and productivity improvement
- To transfer innovative technology to SME
- To develop import replacement industry
- To promote export by assistance for export market research, education to gain knowledge about international quality standards, assistance for formulation of export strategy, and development of human resources for export
- Value chain analysis for main industrial fields
- Vocational training and capacity development of management and non-management level employees
- Assistance for revitalization of troubled enterprises

IMC not only provides technical assistance for registered enterprises, but also has a function of management consultant to assist for growth of enterprises. IMC monitors and accumulates data of enterprises based on Key Performance Indicator every year, and makes proposals for improvement after conducting gap analysis. Paid in capital, turnover, export amount, number of regular employees are employed as KPI. Proposals cover overall management including accounting, finance, and personnel affairs. In addition, IMC finance section assists customers for access to finance including BDS. Present number of registered customers is 13,000.

The following fields require technical assistance in view of IMC.

- Engineering
- Chemicals
- Handicrafts/Creative industry
- Energy

As for other donors, a memorandum with EU on SME assistance was executed.

Two energy projects with UNDP are progressing.

Discussion on energy and creative industry project is being held with UNIDO.

IMC is funded by the government budget, balance of investments from EU, and consulting fees from customers. Burden rate of customers is 30% and the limit is 850thousand EGP.

#### 5-4 Industrial Council for Technology and Innovation (ICTI)

ICTI provides BDS as an affiliated agency of MIFT. Its staff is 250 and has 13 Technology & Innovation Centers all over the country and conducts technological transfer by OJT.

ICTI takes a role to meet the demands of Egypt for high value-added products by transfer of new and innovative technology to SME, thereby contribute to improvement of national economy.

ICTI receives various technical assistances from foreign agencies. Details are described in 2-4 of Chapter 7.

ITCI's income sources are the government budget, service fees from customers, and grants from donors. Donors are CIDA, UNIDO, JICA, GIZ, Spanish Agency for International Development Cooperation, African Union, etc.

#### <Kaizen Center>

Kaizen Center is a nickname of Productivity & Quality Improvement Center which has the longest history in Africa.

Kaizen Center was established in 2006 with support from JICA and is presently composed of seven consultants (Main staff including the head have Six Sigma certifications) and three trainers. The objective or significance of existence of the center is solely to play a part of a policy to develop MSE in Egypt through the spread of Japanese Kaizen technology to SME. The number of human resources who participated in training courses of Kaizen Center exceeds four thousands, and they undertake productivity improvement and quality control activity and are greatly contributing to improvement of productivity and quality of a number of plants (Japanese temporary consultants also make a substantial contribution).

JICA experts supported the center's activities until 2009, but at the moment, ten local staff conducts activities without any assistance. Main menus of the center are seminar, conference, training, workshop, and field guidance. The center conducts activities in cooperation with NGOs as well as the



ministry level. The center actively participates in overseas Kaizen conferences (in Ethiopia, Sudan, etc.) and makes presentations.

#### 5-5 Industrial Training Council (ITC)

ITC was established in 2006 as an affiliated agency of MIFT breaking away from personnel section of IMC and its staff is 68. The mission of ITC is to manage all vocational training centers under MIFT and to meet the needs of Egyptian industry by achieving maximum effect. ITC manages all the training centers including FTTC (Foreign Trade Training Center), SDP (Skills Development Program), NSSP (National Skills Standards Project), TVET (Technical, Vocational and Educational Training), PVTV (Productivity and Vocational Training Department). There are 26 government training centers. Another important role of ITC is to provide funds to IMC. In case that an IMC registered enterprise is trained by IMC, the pertinent cost is borne by IMC at the rate of 70% and by the enterprise at the rate of 30%, and ITC takes over IMC's 70% burden. The fund source is the government budget.

ITC was funded by USAID and British Council at the time of foundation. Discussions on the following projects are progressing with other donors.

- Employment promotion project in Minia in cooperation with ILO and International Trade Center (Geneva)
- Apprentice education by British Council
- 3R project (recruit, re-train, retain) proposed by USAID for promotion to employ young people
- Technical assistance by USAID for Human Resources system
- GIZ support education of senior managers. GIZ are carrying out training in Germany to promote export to Germany.
- IFC provides technical assistance to a project to establish a private vocational training center (food, chemicals and leather product field)

#### 5-6 Foreign Trade Training Center (FTTC)

JICA started to study on founding of FTTC in 1999 and FTTC was founded in 2001, and commenced operations in 2002. FTTC received Best Project Award from JICA in 2008. Present staff number is 26. FTTC takes a role to provide training to enhance export competitiveness of MSE. Contents of the training are divided into the following six stages.

- Basic domestic knowledge about foreign trade
  - Egypt regulations on foreign trade
  - Domestic government agencies and private companies relating to foreign trade
- Basic international knowledge about foreign trade
  - Overseas organizations related to foreign trade
  - Contents of WTO
  - Agreements with foreign countries on foreign trade

- International marketing
  - Gathering of foreign trade information • Market study • Preparation of export plan
- Product development
  - Quality standards, safety standards • Enhancement of competitiveness • Total Quality Management (TQM) • Quality certification system
- Logistics
  - Transport (domestic transport, overseas transport, shipment) • Payment terms • Inco terms
- Skill
  - Presentation skill • Negotiation skill • Language • Communication skill

Various training courses are arranged according to the purpose ranging from three day to 30 day course. FTTC keeps ten instructors who have a certificate of International Trade Center (ITC Geneva), and it outsources instructors as needed. FTTC studies utilization of a training system called Business Management System (BMS) developed by ITC (Geneva).

FTTC is an affiliated agency of MIFT but not funded by the government budget unlike other agencies such as IMC, IDA, and ICTI. Income sources of FTTC are training fees from trainees and grants from IMC (In case that an IMC registered enterprise receives training, IMC bears 70% of training expenses. IMC is refunded the same amount from ITC.). Trainees have been decreasing in number these few years. FTTC has recently signed a memorandum of understanding with CIDA and USAID on grants. FTTC already received experts dispatched from JICA two times, but currently interrupted.

Mapping of implementing agencies is as shown below.

	Main Target &MSE Definition	Policy & Strategy	Major Role &TOR	Major Tool for Assistance		Challenges Currently Facing	Major Donor Support
				Financial Services	Non-financial Services		
SFD	*To achieve comprehensive economic and social development by mobilizing financial and technical resources. *Paid-up capital (Micro) 50 T< (Small) 50 T-1M	Job creation and poverty reduction through MSE development and employment creation projects.	*Acting as facilitator for MSE related ministries & institutions. *To provide financial services and BDS to accelerate the growth of SMEs as well as to assist start-ups and incubators. *To implement community & infrastructure development.	*Central Sector for Small Enterprise Finance (45staffs) is in charge of small enterprise finance and direct lending. *Central Sector for Micro Finance (15staffs) *31 regional offices in 27 Governorates	43 HQ staffs +31 one-stop-shop	[Financial services] *Transforming informal enterprises to formal. *Insufficient coordination between financial sector and BDS sector. (In SFD and among stakeholders) *Definition of SME is not unified. [BDS] *Donor support duplication *Gov. budget support is insufficient.	[Funding support] *Arab Fund for Economic and Social Development: Loan for start-up and existing MSEs. *International Fund for Agricultural Development: Finance for agricultural SME and BDS *World Bank (through GoE): Labour Intensive Investment project *Danish International Development Fund: Labour Intensive Investment project *EIDB/EU: Direct lending for small enterprises and Micro finance through NGO *AFDB: Credit line for MSE [Technical assistance] *USAID: TA for National Strategy for MSE development *USAID: BDS & incubator support *CIDA: BDS for women and youth
GAFI	To enable and sustain Egypt's economic growth through investment promotion, facilitation and BDS.	To support the growth and development of small & medium enterprises in line with the policy of Ministry of Investment.	*To promote investment from Egypt & abroad aimed at developing small & medium enterprises. (over 2M paid-in capital) *Promotion of entrepreneur *To provide BDS	*Bedaya Center (investment fund) *9 investment offices	*5 one-stop-shop *9 regional offices	*BDS providers are all volunteers because budgetary support to pay fees is lacking. *In-house consultants should be increased as soon as possible. *Transforming informal enterprises to formal.	[Funding support] *UNCTAD, WB: Support for foundation of Bedaya Center [Technical assistance] *CIDA: BDS
IMC	To become the leading Egyptian Development Agency for industry, contributing to competitiveness, economic promotion, export growth and job creation. *Paid-in capital (small)1M-5M (medium)5M-15M or No.of employees (small)10-49 (medium)50-200	To support small and medium enterprises to achieve higher growth rate, to enhance productivity and to increase exports.	*Focus on formal enterprises with over 50 employees *Monitoring performance data (paid-in capital, sales turnover, export amount and employees number) to provide advisory service. *Provide technical support to SME *Promotion of employment through vocational center. *Support for SME finance access.	None	*19 branches, 285 staffs, 170 in-house advisers *Vocational centers all over the country.	*Skilled labours are insufficient. *Finance access to small enterprises. *HR development is to be promoted.	[Funding support] *EU: Equity participation (through GoE) [Technical assistance] UNIDO: TA for energy and creation industry UNDP: TA for energy sector
ICTI	To become the leading providers of technology and innovation services for a competitive Egyptian industry in the MENA region.	To enhance the transfer of new technologies and innovations to fulfill the needs of the Egyptian industry for value-added products while adding to the national income and boosting job opportunities.	*Technical Support for manufacturing industries. *Support for entrepreneur & incubators. *Product Development Testing. *Support for access to finance. *Support for domestic and international networking.	None	*13 technology and innovation centers	* SMEs data-base is lacking. * Transforming informal to formal is not moving on.	[Funding support] *CIDA, UNIDO, GIZ, Spanish Agency for International Development Corporation, African union [Technical assistance] *CIDA : BDS *UNIDO/PEG (Swiss): TA for clean production technology *SECO (Swiss): TA for agricultural technology
IDA	To be a catalyst of industrialization that positions Egypt as a leading economic force in the MENA region.	To accelerate Egypt's national and regional growth to facilitate industrial expansion and enable private sector development of industrial zones.	*Industrial licensing and registration of documents. *Development of industrial zones. *Allocation of land for industrial zones.	None	Network of branches	TA on feasibility study for incubators is insufficient.	n.a.
ITC	To achieve capacity development for strengthening technological capabilities and improving international competitiveness.	To improve training system for capacity development in the industrial sector in order to meet the requirement of enterprises.	*Control and supervise the training centers under MIFT. *Provide subsidies to IMC.	None	Head Quarter 68 staffs	Insufficient TOT (training of trainers)	[funding support] *USAID, British Council: Support for establishment of ITC [technical assistance] *ILO, ITC (Geneva): Employment promotion project in Miniya *British Council: TA for apprenticeship system *USAID: TA for employment promotion for youth and HR system *GIZ: TA for Upper class manager *IFC: Establishment of private sector vocational center
FTTC	To contribute to Egypt's economic growth through improvement of international competitiveness and export expansion.	To strength export competitiveness through developing human resources with broad knowledge and skills for foreign trade.	To provide comprehensive knowledge and skills for foreign trade to private and public sector.	None	Training center operated by 26 HQ staffs	Needs assessment in MSE sector.	[Funding support] *CIDA, USAID: MOU for grant signed.

## Chapter 6: Finance Access

### 6-1 Characteristic of MSE finance market

In MSE market, more than 80% is said to be informal economy (no company register, no tax and no social insurance paid). Though there are no official statistics like how many establishments exist, according to CEFRES Report<sup>1</sup>, there exists an estimated that 3.04 million companies as illustrated in the table in Chapter 3, 3-2. The Report summarizes the precious information about MSE market (definition is subject to small company development Act). The following is a quotation of the important part from that Report, It picked up 3,000 companies from Upper Egypt, Delta Area and Cairo Area. Substance of MSE can be understandable even a little. It will be mistaken if SMEs in Egypt are just like Japanese ones.

- (1) 79% of MSEs lives in rented house.
- (2) Almost 90% engages in trade and maintenance business. Manufacturing is 10%.
- (3) 19.5% is business owners and the rest are managers.
- (4) 91% is individual business and 7.3% is simple partnership.
- (5) Almost all partners come from household or relatives. Some forms partnership with neighbors.
- (6) 84.4% for shops, 9% for workshop the rest for office kiosk and others.
- (7) 55% established in 2000. 45% is not less than 10 years.
- (8) 97.5% of customers are household ones.
- (9) 99.3% is for domestic market.

**Table 14 Type of MSE**

Field	Number of company	%
Trade	1,806	60.2
Service/Maintenance	886	29.5
Manufacturing	308	10.3
Total	3,000	100%

(Source: CEFRES Report)

- (10) More than half of entrepreneurs are more than 40 years old. Rate of entrepreneurs for younger generation is 20% in 21-29 years old. For younger generation than 29 years old, women overtake men.

**Table 15 Sex distinction of entrepreneurs and breakdown of ages**

Ages	Male	Female	Total
Less than 18	0.2%	0.8%	0.2%
18-20	2.0	4.1	2.2
21-24	7.4	9.6	7.6
25-29	12.9	13.0	12.9
30-39	27.2	21.2	26.6
More than 40	50.4	51.3	50.5
Total	100%	100%	100%

(Source: CEFRES Report)

<sup>1</sup> CEFRES-Center of Economic and Financial Researches and Studies (-2013.1.28)

(11) In the initial procurement of capital, 80% is for appropriation of savings. Loan accounts for 4.7% and unexpectedly low figure. Provider of the loan is 50% for banks. SFD is only 10.5%, low than expected. SFD 10.5% includes possibility for SFD direct lending and Banks 50% might include possibility of on-lending by Banks of SFD loan.

**Table 16 Source of Procurement for Initial Capital**

Initial Capital	Staff: 1 person	2–4persons	5–9persons	10–49 persons	Total
Heritage	14.4 %	14.2%	18.5%	24,5%	14.6%
Own Savings	76.8	81.2	76.1	71.6	79.1
Sale of Asset	1.3	0.4	1.3		0.8
Official loan	4.9	3.0	2.5	2.9	3.7
Unofficial Loan	1.8	0.6	0.3		1.0
Others	0.9	0.5	1.2	1.0	0.8
Numbers of Companies	1169.3	1658.2	117.5	42.5	2987.5

(Source: CEFRES Report)

**Table 17 Initial Capital, Breakdown of Loans (4.7%=Official Loan 3.7%+Unofficial Loan 1.0%)**

	Staff: 1 person	2–4persons	5–9persons	10–49 persons	Total
Banks	44.2%	56.4%	62.5%	66.7%	50.0%
SFD	11.9	8.6		33.3	10.5
NGO	15.5	18.6	37.5	0.0	17.2
Family/Relatives	6.5	5.1			5.7
Friends	5.8	6.7			6.0
Neighbors	2.6	1.7			2.1
Business Association	1.7				0.9
Others	11.8	2.9			7.6

(Source: CEFRES Report)

(12) Breakdown of Entrepreneurs: Mail occupies overwhelming percentage. Women are only 10%. Women business overtakes men in rural area, but in city area, women business is few.

## 6-2 Finance Access

(1) It is said that 75% of MSME applies for bank loan, however, 92% of these are rejected. Out of all banking portfolio, MSME only accounts for 6% (OECD Report 2010). The reason is that informal economy dominates and at borrower side, finance literacy is low with less accounting knowledge. At MSME finance market, only 50% of companies including informal companies can keep relationship with banks, Out of this numbers, only 15% can get loan from banks (information from a certain bank), If this is a substantive reality, 50% of companies do not deposit at banks. Money might be kept under mattress. Mattress deposit should be absorbed under banking mechanism. These funds should be utilized more efficiently. This is extremely important in the macro-economic point of view.

Finance access issue has become a big issue in Egypt MSME policy. Core of the problem is that almost all of MSME market belong to informal economy. According to the hearings from SFD and Banks, only 10% of the market is formal economy. The rate of MSME finance is almost 10% at even Bank Misr which is said to be strong in the market concerned. Probably the bank which supersedes Bank Misr in MSME financing might be National Bank of Egypt. Major portfolio of the Banks is directed to large companies and other investment. Accordingly other banks' share to MSEM financing is far small compared with the two banks mentioned above. The Bank of Alexandria, the second largest bank in Egypt is 7-8% for MSME share to its entire banking portfolio. For instance, low share of MSME finance is popular in MENA region, generally 6%. In particular, Saudi Arabia is 1.2%, Morocco is exceptionally high of 30% (heard from IFC).

(2) Constraints of finance access stems from that borrower company belongs to informal sector. The banks, in principle, do not make loan to informal sector. As prerequisite, the banks require copy of the company registration, tax card, etc. For bank finance, they have to make the borrower transit to the formal sector. The entities which tackle with this issue are GAFI and SFD. Both of them have opened OSS (one stop service) for promoting formalization of the companies with one stop windows to provide company with registration services and business permission procedure. In particular, SFD can issue temporary license within 1 month and it will automatically turn to permanent license if formal license is not issued by the competent authority within 3 months. The division of work between GAFI and SFD is that GAFI deals with medium companies and SFD deals with small and micro companies. However, actually, overlapping is taking place.

One of the obstacles for formalization is whether positive merit to urge it can be given. Thereupon, at present, past due is exempted from taxation. But, as this measure is not still enough, the Government considers changing taxation law to exempt formalized company for 10 years. Present incentives include benefits of bank finance, advantage of business expansion fund, utilization of public services, etc.

(3) Credit regulation of CBE has become one of the constraints. The banks have to receive CBE banking inspection. They have to submit the past 3 years financial documents, a certificate of incorporation and the like of the borrower company. Upon these requirements, start-up companies and Greenfield companies are difficult to receive bank loan.

(4) Lack of financial literacy of the borrower entity has become one of the constraints.

Micro entity is almost lacking financial literacy. Even the university graduates lack it because the university does not provide such a curriculum. According to the bank manager, most of the informal entity does not have enough basic knowledge of business, accounting, how to make business plan and business development.

To understand MSME finance, it is better to divide it into Micro Finance and SME Banking.

## 6-3 Micro Finance

### (1) Outline

Micro Finance handles clients which belong to the informal sector. It is so-called “Information Loan” under which credit is based upon information regarding clients, not depending on collateral but on “IOU” and personal guarantee. Accordingly, they are pre-stage borrower for the normal banking operation, say, corporate finance where banks charge B/S, P/L, cash flow table before banks make loan commitment. In Micro Finance, credit procedure is very fast, normally 2-3 days, at the fastest, within one day, client can get loan money.

There are 4 banks which treat Micro Finance. Bank of Alexandria (BoA or Alexbank), National Bank for Development, Banque du Caire and Bank Misr. These banks’ Micro Finance is not object of CBE banking inspection as the loan report to CBE is required for loan size of more than 100thousand EGP. Micro Finance is too small and no report submission is required.

Most of the banks lend money to Micro Finance Institutions (MFI) which include NGO, Community Development Corporation (CDC) and service companies and do not lend directly to Micro Finance clients.

In Egypt, there is an organization called Micro Finance Network which consists of leading Micro Finance Lenders.

**Table 18 Micro Finance Network Members List (24NGOs)**

	Name of organization	Membership type	Representative	Tel.
1	Alexandria Business Association (ABA)	Founder	Moataz El Tabaa	37611564
2	The SFD	Founder	Nevine Badr	33322150
3	LEAD Foundation	Founder	Karim Fanous	33031942
4	Dakahliya Business Association for Community Development (DBACD)	Founder	Hassan Farid	0502260086
5	Sharkiya Business Association for Community Development (SBACD)	Founder	Ahmed El Awady	0552364973
6	Small Enterprise Development Project in Port Said (SEDAP)	Founder	Emad Eddin Harissa	0663336454
7	El Mobadara Association	Founder	Ayman Mahmoud Mahmoud	33038537
8	Upper Egypt Association for Education and Development	Founder	Emile Nowayr	25889635
9	Assuit Business Association (ASBA)	Founder	Dr. Mohamed Raafat Abdel Lattif	0882345405
10	The Central Integrated Care Society	Founder	Mohamed Raouf Ismail	24171787
1	CARITAS	Founder	Shukr Rizkalla	24310213
12	Hawatka CDA	Associate	Sidky Shaifk Bishay / Abdel Azim Mustafa	0882690022
13	Assuit Childhood and Development Association	Associate	Nessamat El Qossy	0882400435

	Name of organization	Membership type	Representative	Tel.
14	El Serayef and El Gohary Community Development Association – Mansoura	Associate	Zaher Mustafa Ahmed	0502980805
15	Small Enterprise Community Development Association	Associate	Mohamed Hamed Saleh	37488478
16	Federation of Associations	Working	El Hussein Gomaa/ Ms. Riham	0862294151
17	The Egyptian Association for Community Initiatives and Development in Aswan	Working	Mamdouh Fouad	0972301525
18	Regional Association for the Development of Projects in Sohag	Working	Esmat Amin Mohamed	09323104200
19	Business Women’s Association in Kafr El Sheikh	Associate	Noha Barakat	0473210658
20	Tadamon Foundation for Microfinance	Working	Riham Farouk	37624732
21	Beni Sueif Nahda Association	Working	Mona Ezzat	
22	The Egyptian Association for Small Enterprise Development (ESED)	Working	Mohamed Refaat	376222037
23	Small Business Development Corporation	Working	Amr Aboulazm	-23589750 23585991
24	First Microfinance Foundation(FMF)	Working	Ashraf Nassif	-25106236 282367466

(Source : ABA)



The following table shows major NGOs' outline.

**Table 19 Major NGOs in Egypt**

	Assiut Businessmen Association (ASBA)	Alexandria Business Association (ABA)	Dakahlya Businessmen Association for Community Development (DBACD)	First Microfinance Foundation (FMF-Egypt)
Establishment	1995	1983	1995	2005
Total Asset (Million EGP)	750	595	229	71
Branch No.	70	74	15	6
Employees	4,000	1,460	629	182
SME Finance%	87.0	85.9	83.0	84.4
Micro Finance %	13.0	14.1	17.0	15.6
Rate of Default%	5.0	6.0	0.88	N/A
Remarks	The largest Micro Finance NGO	Most Successful NGO in 80s, receiving USAID Support	Operate in Dakahiya Governorate	Egypt Operation of AGA Khan Agency for Microfinance

(Source: Study Team)

(2) SFD supplies fund to the Micro Finance Institutions (MFI) and MFI lends to the final clients.

In case MFI utilizes SFD fund (10% interest rate) and final clients interest rate is around 16% (lending period is maximum 18 months). In case MFI does not utilize SFD fund, final client's interest rate ranges between 18-33%. For the banks and MFIs, if the credit is made prudently, rate of profit is very high. At a certain bank, interest margin is 10 times high than normal loan to the large company. In the case of a certain bank, interest rate sometimes goes to more than 30%, depending on the case. If the repayment flow is in order, operation is very profitable. Then, to expand operation is good strategy, however, most of the clients live in rural area like Upper Egypt or Delta Area. Micro Finance is a rural area close adherence loan, then, infrastructure is needed. Unless branch network and good loan officer is brought up, operation expansion becomes difficult.

SFD has kept relation with 470 NGOs under its umbrella. Details of Micro Finance of SFD are handled in later sub- chapter.

Micro Finance network next to SFD is that of National Foundation for the Development of Families and Community (NFDFC) which is NGO and has 73 NGOs, 72 Occupation Training Center n Training center and 325 household industries under its umbrella. Operational fund consists of special contribution from the Ministry of Social Affairs. Operational characteristic is to limit clients to socially weaker groups. So far 11,000 clients received loans totaling 50 million EGP. Interest rate to the participating MFIs is 8% and if repayment is in order, 3% interest rate payment is to be exempted (grant from NFDFC). Accordingly interest rate will decrease gradually to 5%.

### (3) Micro Finance of Alexandria Business Association (ABA)

Let's see Micro Finance of ABA which is a pioneer of Micro Finance and leading entity of Micro Finance in Egypt. ABA was established in 1989 under NGO Act and received support from USAID. At present, ABA has 74 branches in 5 Governorate, with major operation in rural area.

Employees are 1460 and provide loans to small and micro enterprises. Total numbers of clients reached 260 thousand. At the initial stage, it began with loan disbursement of 1.5 million EGP and now developed to loan of 75-81 million EGP per month. About 85% of the ABA clients receive small amount of loan less than 10,000EGP. The rest of 15% borrows more than 10,000EGP.

ABA loan officer knows all information for the client including how much he can borrow. Loan officer also figures out ways and means of financing. They introduced group lending and putting loan at each sections of supply chain. This leads to assurance of repayment. ABA has got a status of "International Technical Service Provider for Micro Start Program" from UNDP. They provide service in Bahrain and Yemen as well, concluding contract with UNDP.

ABA does not make consumer loan and only deals with productive loan, education loan and loan with social implication only. ABA's foundation doctrine is as follows and it does not pursue finance purpose only.

- ① To raise living standard of extreme poverty people, providing financial, medical and social support with them to bring better life.
- ② To be successful as a balanced organization between social purpose and financial purpose.

ABA has possessed Middle-East Training Center at Alexandria, for clients for BDS. Exhibition facility for clients products are attached. Various Training Courses are available. Clients are free of charge.

Necessary factors for ABA's credit are as follows. In principle, Client coming in the morning can get loan in the afternoon (check is delivered).

**Table 20 Necessary Criteria for ABA Credit**

Loan Size	Criteria
Less than 7,500EGP	Reading and writing ability
More than 7,500EGP	Individual ID Card
Less than 10,000EGP	Tax Card
Less than 12,500EGP	Certificate of Social Insurance
Less than 15,000EGP	Checking Account
Less than 20,000EGP	Financial Documents+ Tax Application

(Source: ABA)

**Table 21 Operational Performance of ABA**

(Unit: EGP)

	Small/Micro Enterprise (Finance Product)	Blossom of Micro Enterprise (Finance Product)	Road to Development (Finance Product)	Total
Loan Outstanding	3,609,766,199 (US\$679,114,991)	336,111,100 (US\$58,112,337)	312,196,950 US\$52,395,734)	4,258,074,249 (US\$789,623,063)
Loan numbers	922,626	711,222	319,114	1,952,962
Clients Numbers	361,262	193,738	159,650	714,650
Active Clients	141,442	45,262	68,644	255,348
Loan Outstanding	361,225,973 (US\$55,573,227)	16,057,843 (US\$2,470,437)	43,806,800 (US\$6,739,508)	421,090,616 (US\$64,783,172)
Rate of Repayment	99.78%	99.01%	99.80%	99.74%
Training Officers	75		90	165
Loan Officers	400		238	638
Clients per Staff				229
Clients per loan Officer				400

(Source: ABA)

**(4) Micro Finance of SFD**

At present, 1.3 million projects are active (Indirect Lending). In order to increase, operation efficiency is to be said important. Though usually MFIs are used as intermediary, two banks, Banque du Caire and Bank Misr are positive. CIB, National Bank of Egypt (NBE) and Bank of Alexandria are doing Micro Finance as well. For NGO, ABA and Mobadra are positive lenders.

According to SFD, non-repayment loan in Micro Finance increased after revolution. Now, it is recovering to normal. Say, rate of non-repayment transits as follows:

2010: 2%, 2011: 9.2%, 2012: 7%. In particular, in case of group lending (for instance, group lending to 3 women) non-repayment rate is very low of 0.5%.

SFD is a major funding source of NGOs. It concludes contracts with 470 NGOs. Out of this, 450 NGOs has kept balance. SFD has classified NGOs in accordance with credit rating. Tier 1 Group is best NGOs followed by Tier 2. The rest of NGOs is unclassified and are considered to be difficult for

self-funding.

- Tier 1: 30 NGOs
- Tier 2: 37 NGOs
- The Others

SFD fund to MFI is provided by 4 tranches. The second Tranche is disbursed after 85% of the first Tranche is used up. When there are undisbursed fund, it is deposited to the bank as time deposit. The finance risk of SFD is taken by the NGO because SFD loans to NGO. Final borrower applies loan to NGO. As this is the scheme, SFD examines credibility of NGO. When NGO causes non-repayment to SFD, SFD suspends disbursement after that. SFD contract stipulates that NGO has to be subject to the SFD guideline when giving loan to final borrower. The SFD loan to NGOs bears interest rate of 9%, lending period of 4 years, Grace period of 3 years. When NGO provides loan from SDF fund, conditions are: loan amount: up to 50 thousand EGP, interest rate: 16%, lending period: 18 months at the longest. Average of 10 months.

Follow up of loan is made approximately 30% by SFD and 70% by NGO.

**Table 22 First Tier NGOs by SFD**

	Region	NGO
1	Cairo	El Tadamon
2	Sahiquia	El Wafaa Charity Ass
3	Qalyoubia	Community Development Association at Tahla
4	Assuit	Businesswomen Association at Assuit
5	Assuite	Community Development Association at El Hawatka
6	Qena	Business Association at Assuit for Social & Economic Development
7	Monofia	Community Development Association at Kaqfr Helai
8	Fayoum	SEDA
9	Fayoum	Community Development Association at Fayoum
10	Fayoum	Community Development Association at Kasr Rashwan
11	Fayoum	Community Development Association at Demeshkeen
12	Menia	Eletehad el Nawai for the NGOs working in field of Poverty alleviation
13	Menia	Eletehad el Nawai for the NGOs working in the field of Women Issues
14	Aswan	Busienssmen Association at Aswan
15	Aswan	Family Development Association
16	Giza	SEGDA
17	Giza	National Association for Community Development
18	Behera	BEST
19	Alexandria	Businessmen Association at Alex
20	Garbia	Busienssmen Association at Garbia
21	Damiatta	Small Projects Association at Port Side
22	BeniSweif	Community Develoment As Manshaat Naser
23	BeniSweif	Community Development As at Beba
24	BeniSweif	Small Projects Association at BeniSweif
25	Sohag	Regional Association for Development & Projects
26	Central	CARITAS
27	Central	El Saeed
28	Central	CRS
29	Central	El Mobadra
30	Menia	Youth Association for Community Development

(Source: SFD)

**Table 23 Second Tier NGOs by SFD**

	Region	NGO
1	Cairo	El Amal Association
2	Sharqia	Community Development at Kafr El Mahmodia
3	Sharqia	Community development at Tayba
4	Sharqia	Community Development at Bandaf
5	Sharqia	El Rahma Association
6	Sharqia	Community development Association at Kafr Hamad
7	Sharqia	Community Development Association at El Basaysa
8	Sharqia	Businessmen Association at Sharqia
9	Red Sea	Youth Association at El Kaseir
10	Red Sea	Community Development at Ras Gharb
11	Assuit	Community Development at El Ghanaym
12	Assuit	Community Development Association at Sahei Salem
13	Assuit	Charity Association at Arab Mateer
14	Assuit	Community Development Association at Dewena
15	Assuit	Childhood & Development Association
16	Quena	Childhood & Development Association for Rural & urban Woman
17	Quena	Businessmen Association at Nage Hamade
18	Dakahila	Community Development Association at Took el Aklam
19	Dakhalia	Community Development Association at Bidaa
20	Dakhalia	Community Development Association at Sareef
21	Dakalia	Community Development Association at Shawa
22	Kafr El Sheik	Buisnesswomen Association at Kafr El Sheikh
23	Kafr El Sheik	Community development Association at Baiad
24	Kafr El Sheik	Buisnesswomen Associatin at Fowa
25	Fayoum	Community Development Association at Behmo
26	Fayoum	Community Development at el Allam
27	Fayoum	Egyptian Association for Family Planning
28	Menia	Junk Food Seller at Menia
29	Menia	Hawaa El Mostakbal
30	Aswan	Egyptian Association for Community Initiatives
31	Aswan	Om El Kora Association
32	Luxor	Community Development at el Akalta
33	Behera	Sabri El Kadi Association
34	Garbia	Businessmen Association
35	Damiatta	Community Development Association at Ezab el Nahda
36	BeniSweif	Community Development Association at El Mansoura
37	Sohag	Egyptian Association for Businessmen & Youth Investors

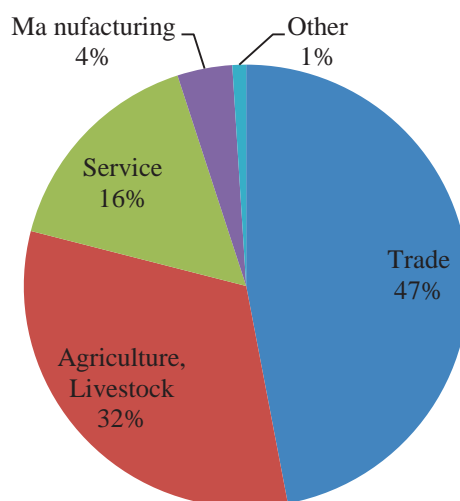
(Source: SFD)

(5) Micro Finance Data by SFD

Started from 1991.

Classification by borrower type is as follows:

**Figure 4 Business Type of Borrowers (Accumulated figure between 1992- up to August, 2012)**



(Source: SDF)

Borrower classification by sex: Female-56%, Male-44%. Female borrower overtakes male.

SFD Micro Finance Achievement is as follows.

**Table 24 Business Achievements from 1992 and plan for 2013**

	1992-2012.12	2012	2013 Plan
No. of Contract with NGOs	784	75	
Contract Amount(EGP)	1,407,241,408	381,155,000	
Transferred Amount to NGO (EGP)	1,093,461,000	246,915,780	
Loan to Final Borrower (EGP)	3,453,932,685	592,288,615	628,350,000
No. of Final Borrowers	1,194,215	128,517	138,237
Job Creation	1,394,903	141,369	

(Source: SDF)

**Table 25 Portfolio**

Numbers of NGOs	443
Outstanding of portfolio(EGP)	476,128,000
Active Clients	240,000

(Source: SDF)

### Criteria of SFD Micro Finance

- (a) Loan size of Micro Finance through NGO:100EGP-10,000EGP
- (b) Interest rate is 16-18%, depending on project and borrowers
- (c) Repayment period: 6-18 months
- (d) Target Clients

University graduates and graduates of secondary school

Skilled worker which can manage small enterprise

Existing small enterprise owner

Unemployed persons under economic reform program

- (e) Conditions of Loan Application

18(Guarantee of a guardian)-55 years old

A permanent resident

Capability of new project or existing project

Those who can go to project site from home

Domestic sale of the product

### Issue of SFD Micro Finance

- Restrictive regulatory framework
- Restrictive finance access
- Tier 1 NGO can procure finance, Tier 2 has availability of commercial finance but needs technical assistance, Tier 3 is difficult to look for investors due to high risk.

### 2013 plan of SFD Micro Finance

- Strengthening of partnership with NGO
- Inducement of the banks to Micro Finance
- Link of NGO with commercial fund(wholesale)
- Inducement of donor fund for capacity building for partner MFI and for SFD itself
- Improvement of regulatory framework of Micro Finance(Legislation of Micro Finance Act, Strategy of Micro Finance)
- Development of new finance product (Islamic finance, etc.)

## 6-4 Issues and Prospect for Micro Finance

(1) Micro Finance is basically considered as loan for poverty reduction (many donors think so as well). Per loan size is small. We visited about 10 micro companies as introduced by SFD, they held very small shops and they were all borrowers with household odds. For Micro Finance, corporate loan type of credit investigation were not applied, Credit approval is fast. As SFD said that all Micro Finance are directed to productive purposes. Many borrowers use repeat loans. In that sense, loan might be used structurally for maintaining their life.

SFD's final borrower has interest limitation of around 16%. Banks and other MFI might charge interest of 25% or so (sometimes more than 30%). MFIs which act as finance intermediary might enjoy befitting margin of profit. It is necessary to confirm that substance might not be support to NGOs. Other donors mentioned that Micro Finance is finance for poverty reduction and social net.

(2) Legislation of Micro Finance Act is necessary. Basic Criteria for public support should be clearly specified.

(3) Survey should be made for promotional effect for economic growth through Micro Finance. Unless it is investigated, donor funds might be directed to the most inefficient (weaker) places.

(4) Micro Finance is outside of I-Score system. This kind of system is necessary for Micro Finance as well.

(5) It is desirable to find many examples of transition of micro enterprise to small enterprise. This follow-up research may be necessary.

## 6-5 SME Finance

### (1) Outline

The Central Bank of Egypt (CBE) promotes SME finance as fund dose not flow to the SME market. It established SME Banking Unit at its 100% subsidiary of the Egyptian Banking Institute. And CBE exempted its requirement for banks to keep reserve money at CBE for SME finance. The banks is required to make deposit at CBE for normal banking operation other than SME finance at the rate of 10% of its loan outstanding. CBE is also considering to request banks to keep 14% of total portfolio for SME finance.

At present, SME market is narrow and high risk compared with large enterprises. As prerequisite for obtaining loan, applicant has to submit financial data, cash flow table, sales and marketing data and feasibility study documents etc. to banks. SME market at this moment largely consists of informal sector, but in future it will turn to the big market.

Major funding source of this market is like the following.

- Indirect financing of SFD through intermediary banks. SFD has concluded contracts with 10 banks at the present.
- SFD 's Direct Lending
- Bank Lending



The banks can deal with formal sector only and request the borrower to submit the following documents, pursuant to CBE regulation. Informal sector applicant, start-ups cannot respond this requirement. It means finance access becomes difficult.

- Copy of the commercial register
- Tax Card
- Certified financial documents by auditor
- Copy of the certificate of incorporation

The banks have obligation to make loan report to CBE as far as loan size exceeds 100,000EGP and report to I-Score for loan size exceeding 45,000EGP

The borrowers of SME finance by banks are SMEs. It is notable that definition of MSME is different by banks. (Refer to Table of Major Banks in Egypt)

## (2) Small Enterprise Finance by SFD

There are two channels for SFD small enterprise finance. One is to channel through Banks.

The other is direct lending (via SFD's regional office). Both ways are managed by Small Enterprise Finance Dept. of SFD. Per project loan size ranges from 50 thousand EGP to 2 million EGP. Non-performing loan rate is 2.5-3%.

### Indirect Finance through banks

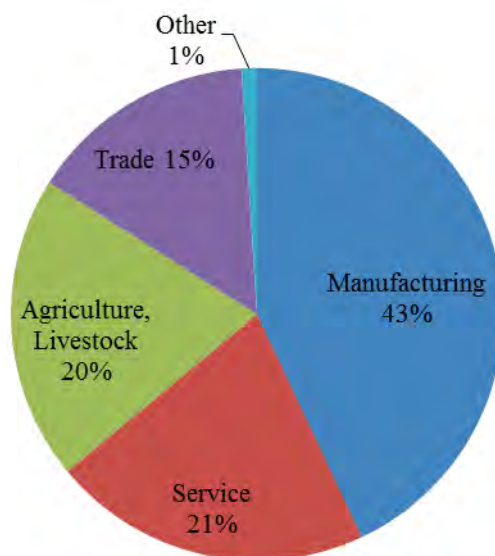
Borrower generally visits regional office (RO) of SFD. If he visits a bank at first, Bank says the borrower to go to SFD at first. If the borrower belongs to informal sector, SFD at the help of OSS which promotes formalization process, assists company registration and business permission and instructs the borrower to prepare necessary documents for bank loan and to return the borrower to the bank. Bank judges whether project is bankable or not after perusal. Even the borrower circulated by SFD might be rejected by the Bank. Loan administration after bank disbursement is to be made in cooperation with SFD. The bank shall submit monthly report to SFD. SFD loan to banks bears interest rate of 7%, repayment period of 5-6 years though different by cases, and no grace period. The bank, using SFD fund, lends to the final borrower with interest rate of 10%. Generally guarantee of Credit Guarantee Company is used. If default occurs, CGC pays up to 80%, the rest of 20% is equally shared by SFD and Bank.

**Table 26 SFD, Small Enterprise Finance (1992-2012.8.31)**

SFD: Small Enterprise Finance 1992-2012.8.31)		
Loan Numbers	327,445(Repeat & Revolving loans are included)	
Disbursement (EGP)	10.7billion	
Male/Female Borrowers	Male	Female
	72%	28%
Numbers of Intermediary Banks	34 Banks	
Outstanding Portfolio (EGP)	3.69 billion	

(Source: SFD)

**Figure 5 Classification of Borrower Type (1992-August, 2012)**



(Source: SFD)

Partner Banks of SFD

Out of 40 banks in Egypt, 10 banks has concluded with SFD as intermediary partner bank

- |  |
|--|
| <ol style="list-style-type: none"> <li>1-National Bank of Egypt (NBE)</li> <li>2-Societe Arabe Internationale De Banque(SAIB))</li> <li>3- PBDAC (Principal Bank for Development and Agricultural Credit (PBDAC)</li> <li>4- Industrial Development Bank</li> <li>5- Commercial International Bank(CIB)</li> <li>6- National United Bank</li> <li>7- Audi Bank</li> <li>8- Misr Iranian Bank</li> <li>9- United Bank</li> <li>10- Baraka Islamic Bank</li> </ol> |
|--|

(Source: SFD)

### (3) Direct Lending of SFD Small Enterprise Finance Dept.

Direct lending of SFD started to support start-up enterprises and existing enterprise which does not want to borrow from banks for collateral issues or some reasons. Direct Lending is available for all industries including manufacturing, trade and services. At present, SFD Direct Lending accounts for 13% of its small enterprise loans.

#### Documents for application

- Consent letter of the Borrower and guarantor to check credit standing
- Public documents (commercial registration, business permission, tax card, in case of start-up company: rental contract of business asset or its possession certificate, a certificate that a company is on process of establishment. In case of existing company, a certificate of incorporation.
- Public financial documents for the past 2 years.
- National ID card, a certificate of permanent residency, registration number of the company.
- Non-crime certificate, Military certificate
- Certificate of Social Insurance and Tax

#### Internal Approval Authorization of SFD

- Per loan size authorization is as follows:
- Regional Office: less than 50,000EGP
- Credit Committee of the Head Office: more than 50,000EGP-less than 300,000EGP
- Superior Committee: more than 300,000EGP-less than 2million EGP
- Loan period: 5 years at the longest.

#### Issues of SFD Small Enterprise Finance

When banks use SFD fund, it used to be good quality fund, however, these days, banks which do not use SFD fund is increasing. This is partly because clerical burden is heavy to prepare monthly report or to fill in other obligations to SFD. As a result of trade-off between advantage of SFD fund and its incidental burdens (time & cost). Some banks go away from SFD. Another criticism is that SFD transfers banks not-good clients and SFD encloses good-quality clients by itself.

SFD should increase Direct Lending. The reasons are that ①SFD can take 100% loan risk. ②SFD can be more prudent and serious in extending loan, ③SFD can get more financial know-how and experience, ④SFD can provide more flexible financial terms corresponding to each clients' needs, ⑤ SFD can become true financial institution not for tunnel institution but for real one, ⑥SFD can be permanent institution as tunnel institution is week in the reason of existence.

#### (4) SME Finance of the Banks

##### Outline

According to EBI, among 40 member banks, 20 banks are making SME finance. Active ones are as follows.

- NBE
- Bank Miser
- HSBC
- Barclays
- NSGB (National Society General Bank)
- Banquet du Cairo
- Commercial International Bank (CIB)

Finance terms are various in each Bank. Interest rate is usually 10-19%, adding spread on the CBE base rate.

In case the banks utilize SFD fund, SFD interest rate is normally 10% and banks make on-lending with final interest rate of around 16% with floating rate. Lending period is 1year-5years (5 years for capital investment case). Fixed interest rate is rare as long-term deposit does not exist.

As for collateral, as there is reality that collateral is insufficient, bank credit primarily relies on cash-flow. Asset financing method<sup>1</sup> is being applied in a certain bank.

Understanding asset conversion cycle (process that asset turns to cash), bank takes perfect assignment of sales contract and payment from the payee is transferred to the bank account of the borrower at lender bank. If the payment becomes necessary, the bank will make payment to the beneficiary directly instead of the borrower. Bank usually requests to be a single lender to the borrower. Collateral usually taken includes personal guarantee and life-insurance as the case maybe. If asset is available, bank takes it.

There are two ways for utilization of credit guarantee. Some banks use CGC guarantee and some banks do not use it because 2% guarantee fee is high. To seek guarantee is secondary reason and banks primarily rely on project cash flow.

It takes normally 2 months from application to commitment. However, if the process is slow, the good clients go to other banks. Then the banks devise various ways to hasten commitment.

It includes to prepare sets of tailor –made products suitable to client types, and to mitigate documentation requirement (only past 1year financial document is OK) under a certain size of loan, to prepare credit guideline criteria of A, B, C, D suitable to the potential borrowers, Lank D is rejected for loan. A certain bank has shortened commitment lead time to 72 hours from normal 2 month time. Parallel to risk factors, banks make efforts to increase SME finance to shorten lead time, because

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<sup>1</sup> Loan method in which value of asset is considered important, more trustable than credit of the Borrower

SME finance is labor intensive. If too much time is taken, it loses advantage of taking up SME finance.

The World of SME finance is a difficult field in the banking business. Good judging is necessary both of borrower and applied project. It is a field where professional can be active. Actually, managers of SEM finance come from experienced staff with more than 10 years practical experience or someone who worked as loan officer at foreign banks. There appears a big room for them to be able to work energetically. Training of loan officers has become a big issue in most of the banks.

**Table 27 Outline of Major Banks in Egypt**

Major Banks in Egypt

	National Bank of Egypt	Bank of Alexandria	Bank Misr	Bank du Caïre	National Bank for Development	Commercial International Bank
Foundation	1898	1957	1920	1952	1980	1975
Total Asset (MillionEGP)	321,459	n.a	187,841	44,277	14,429	94,014
No.of Branches	258	210	470	120	n.a	112
No.of Employees	12,000	5,000	n.a	7,000	2,141	5,000
MSME Finance /Total Loan outstanding( %)	10	7-8%	10%	7.10%	1.55%	n.a
Interest rate	Using SFD Fund:10% Own Fund: 13-14%	Micro: 18-20% SME:13-14%	Micro: 16% Flat, SME: 14.5%	15.80%	14-17%	16.25% ( Via Reefy)
Collateral	Micro: Personal Guarantee SME: Depends on Project, Life Insurance,etc.	Same	Same	Same	Same	Same
Rate of Default	Less than 2% Micro: 2-3%	Micro: 2-3% SME 3-4%	Micro: 0.08% SME: 1%	less than 2%	less than 2%	0.02%
SME Definition (Yearly Sales)	M: less than 1million EGP S: more than1 million EGP- less than 20 million Me:more than 20 million EGP	SME: more than 5-75 millionEGP M: less than 5 millionEGP Micro Loan: Loan size less than 35thousand EGP (to be raised less than 5 thousand EGP)	SME:less than 120EGP	S: more than 1-less than 100 million EGP Me:more than 1 million-200 less than 200 million EGP Tailor made products for less than 20 million EGP	S: less than 1million- more than 5 million EGP Me: more than5 million- less than 50 million EGP	n.a
Remarks	The largest bank, former Central Bank Now called as " Bank of the Government"	In 2006, bought by Intesa Sanpaolo (80%) and IFC(about10%)	Similar to NBE, but less size.	Strong for Micro Finance (from 2001)	In 2007, bought by Abu Dhabi Islamic Bank	Former Chase National Bank Now, largest shareholder is Actis UK IFC took 5% share.

### (5) Guarantee Institution

There are two major guarantee institutions in Egypt. One is Credit Guarantee Corporation (CGC) which provide guarantee to banks and the other is Co-Operative Guarantee Society which provide guarantee to MFIs.

- CGC

CGC was established in 1989, It started operation in 1991 a paid-in capital is 25 million EGP, Shareholders are as follows.

National Bank of Egypt  
 Banque du Caïre  
 Industrial Development Bank of Egypt  
 Misr Iran Development Bank  
 Arab Investment Bank  
 Suez Canal Bank  
 Societe Arabe International des Banques  
 Credit Agricole Egypt  
 Misr Insurance Company

The purpose of CGC:

- ① Encouragement of SME finance by banks by extending guarantee
- ② Encouragement of entrepreneurship
- ③ Transition of informal sector to formal sector

In credit investigation, CGC follows bank's credit judgment. So-called 5C (Collateral, Capacity, Condition, Capital and Character)

When the borrower does not have sufficient collateral, CGC shares risk with banks.

CGC definition of SNE is as follows.

Definition of micro enterprise: Employees-less than 10, Asset is less than 25 thousand EGP (except house and land)

Definition of small enterprise: Employees-more than 10, Asset is more than 25 thousand EGP (except house and land)

At present, CGC has concluded with 30 Banks, and has guarantee outstanding with 57 NGOs. As an operational characteristic, CGC operates 6 types of guarantee programs, each supported by donors' soft loan including EU, USAID, GEF (Global Environmental Facility).

The programs are as follows.

- a. Small & Medium Enterprise Program
- b. HCCP: Health Care Providers Program
- c. PAP: Poverty Alleviation & Employment Generation Fund
- d. SEBs: Small & Emerging Businesses Support Program
- e. IMP CGF: Industrial Modernization Program Credit Guarantee Fund
- f. EEIGGR; Energy Efficient Improvement & Greenhouse Gas Reduction Program
- g. FGP: Factoring Guarantee Program

Limit of CGC guarantee is 80% of 25 million EGP (maximum). When risk exceeds, banks will provide collateral. Procedure is as follows.

- ① Clients approaches Bank or CGC
- ② Banks make credit investigation
- ③ Banks issue judgment
- ④ When bank approves, Guarantee is issued.

CGC guarantee fee is 2%. And Bank charges it to client.

CGC has 7 branches in rural area and 2 branches in Cairo

Total employees are 200. The half is analysts and experts.

CGC guarantees 80% of SFD portfolio.

- Co-Operative Insurance Society (CIS)

CIS started operation in 1999. It is the first credit insurance company and provides credit insurance. It has 7 branches with total employees of 236. There exist 4 competitor insurance companies.

Paid-in capital is 30million EGP with capital increase of 150million planned in 2013. SFD is scheduled to undertake 100 million EGP.

In SFD project, CIS covers 90% risk with 10% risk on SFD.

CIS covers all business up to 1 million EGP. When issuing insurance policy, client issues same amount of check to CGC for repayment collateral.

The Largest client of CIS is NBE.

CIS charges 2% fee which is to be paid to the Government.

Insurance premium is decided by negotiation with clients.

#### (6) Private equity Fund of GAFI

GAFI supported private equity fund to encourage new company's funding requirement. Banks do not provide fund to new company. In facing with difficulty for finance access for equity needs, GAFI took initiative to create an equity fund. Recently, private equity fund is emerging, using donor fund in a certain case.

The following is outline of GAFI supported Private Equity Fund called Bedaya 1

Bedaya 1 is established by Capital Market Law No.95/1992 and initial fund is 134million EGP, operation period is 10 years. Initially 250 million was offered but, final subscription was 134 million EGP. GAFI participated in this fund for 80 million EGP as a general partner. Fund is operated by Cairo Financial Holdings (CFH) and Al Ahly for Development & Investment (ADI).

Investors to the fund are GAFI, Ministry of Insurance and Social Affairs, National Investment Bank, Misr Insurance Holding Company, Misr Insurance Company.

Investment Strategy of the Fund is as follows;

#### Capital limitation

Capital Fund (Net Asset) is range of more than 2 million EGP-less than 5 million EGP

Yearly sales amount do not exceed 120 million EGP

#### Fund allocation

50% of the Fund is allocated to the companies with capital of more than 25 million EGP to less than 50 million EGP.

10%-20% of investment portfolio is directed to the Greenfield companies (new ventures).

#### Geographical and sector distribution

Less than 40% of investment portfolio is for SMEs in Greater Cairo Area.

Impact on the employment creation and maintenance of environment is considered.

One sector is limited for allocation up to 10% of the Fund in diversification point of view for industry.

Fund cannot be used for real estate development, tobacco, alcohol, import and gamble.

## (7) Finance Access and Business Development Service (DBS)

It was already mentioned that in MSME market, finance literacy was low and most of the market belonged to the informal sector. In this market, BDS has collected attention to encourage finance access. There are 3 factors for successful business, say, People, Goods and Money. Big factor to procure money is people. Accordingly, initiative to educate people is coming out. This move includes two guide to a willful borrower, how to apply for loan application, to teach sales method, basic business administration, accounting knowledge and importance of cash flow and the like. Unless doing this, credit quality is influenced.

In the case of the Bank of Alexandria (BoA), they listed at home-page, how to make business, getting cooperation from IFC. This is all for BDS for recipient side, but, for credit side, banks are making training for loan officers. IFC has provided to BoA technical assistance for loan process, information technology, loan collection, risk management, etc.

Quality of credit of SME finance is different from that of large enterprise, educational training of loan officers is necessary. Capacity building to the Banks is also important. In this regard, EBI functions as a service-pool institution for the Banks.

On the other hand, GAFI under MOI has hired consultant on the voluntary basis as GAFI's in-house consultant is very few. IMC and ICTI under MOIT have held many in-house consultant and performed investment promotion for small and medium enterprises. As these institutions do not provide financing, they are directed for coordinator or facilitator role and provides advisory and consulting services to the national strategic projects (industrial zone and cluster projects) along with the national industrial policies. In relation to finance access, in particular, IMC works to make individual project bankable through their provision of consulting services. And IMC does introduce the project to the Bank,. When the bank finances the project concerned. IMC provides investment follow-up services in conjunction with the financing bank.

SFD has set up non-financial service dept. with staffs of 43 and concentrated on BDS (Details later)

## 6-6 Issues and prospect on Finance Access

MSME Financial market is the place where lenders and borrowers encounter. At present, banks are in high liquidity, but the money does not circulate well to the borrower places. This is because conditions for circulation are not well met. SFD wants to intervene into this circle as a facilitator to provide fund to the needed places. SFD role is very important.

- The Banks and NGO think MSME market brighter in future. The prudent lenders have made good profit business in this market as low non-performing loan ratio illustrates. Where risk considered high, return is also high as long as repayment comes in order.
- Large constraints on the market are ①low financial literacy and ②large informal sector
- The former has to wait for diffusion of education and knowledge and the latter has to expect the role of GAFI and SFD for OSS services. More strong incentives are necessary to encourage formalization process.



- Concerning promotion of business creation, support to Start-up Company is weak. The Banks have not walked in sufficiently, partly because CBE regulation. Bedaya 1 of GAFI is a trial for this market. But, much project formulation will not be expected. Macro economic circumstances are not good for such a project. When economic and political stability is recovered, Situation will change better.
- There is doubt whether fund provision system to economic growth oriented field is well prepared or not. There is limitation in SFD operation only to MSE excluding medium and large enterprises. At least, medium company should be object for SFD. Medium company has stronger in employment creation and become more engines for economic growth.  
It is a common sense of business to concentrate rare resources to the strongest field not for weaker field.
- Finance access is to change non-bankable project to bankable project. In Egypt, there seem a lot of business consultants. It is important to figure out to make these resources more active as a system to mobilize them for economic development.
- Major Banks are inclined to be away from SFD partly because they have full liquidity and disadvantages for time and cost for clerical works of monthly report obligation, etc. A certain efforts might be necessary in SFD side to stay them as SFD intermediary institutions. This will require review of present practice.
- If liquidity is high in the private banks, activation of Guarantee is efficient weapon as KfW, OPIC do the same.
- In the Micro Finance area, transparency of micro finance is necessary and if real interest burden is extremely high, and lender is usury, a certain limitation is necessary then, Micro Finance Act should be introduced.
- It is extremely difficult to obtain financial data of SEMs or even from Large Banks. Disclosure of Company Information is one of the business infrastructures. It is necessary to cause paradigm shift in Egyptian business climate.

## Chapter 7: The Situation of BDS Implementation

### 7-1 BDS of SFD

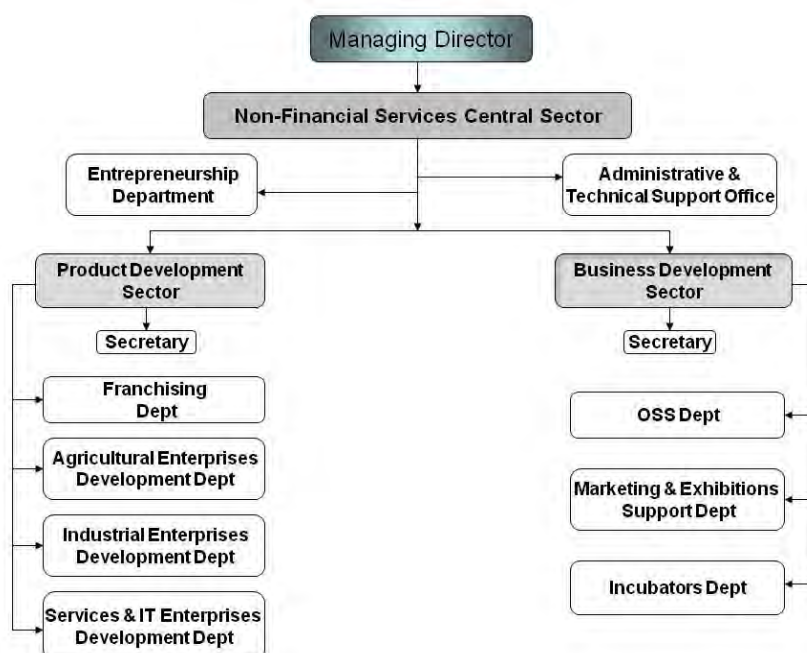
#### 7-1-1 BDS of SFD

Schedule (SFD HQ)

Date	Interviewees	Time	Member
April, 2 (Tue.)	Kick Off Meeting	10:00-12:00	Matsuoka, Hasegawa, Takeda, Almudaris
April, 3 (Wed.)	Small Enterprise Finance Non-Financial Service	13:00-15:00 15:00-17:00	Same as above
April, 7 (Sun)	Regional office	9:00-11:00	Same as above
April, 8 (Mon.)	Policy Unit	9:00-11:00	Same as above
April, 10 (Wed.)	Small Enterprise Finance	14:30-16:00	Same as above
April, 8 (Thu.)	Planning & International Cooperation	14:30-16:00	Same as above
May, 13' (Mon.)	Policy Unit. Human Resources	11:00-12:00 12:15-13:15	Matsuoka, Hasegawa, Almudaris

Organization of BDS at HQ (2012)<sup>1</sup>

Figure 6 Organization Chart of BDS at HQ (2012)



(Source: From SFD)

<sup>1</sup> BDS is to help MSMEs to prepare the project for financing, through advising how to formulate project or how to apply for financing and providing knowledge of accounting, marketing, investment plan, etc. SFD uses the term of Non-Financial Services instead of BDS.

### Organizational configuration

Total numbers of staff are 74-people. 43-people are working at HQ. One BDS staff is assigned to each regional office. (As of May 2013)

Entrepreneurship Department	
Purpose	To enhance awareness of entrepreneurship.
Contents	Leadership training to SFD staff. Execution of sales promotion material. Regular Seminar to clients.

Administrative & Technical Support Office	
Purpose	Provision of professional skills.
Contents	Dispatch of outsourced experts at a client' request.

### Products Development Sector

Franchising Department	
Purpose	Expansion of franchise business. Advice to potential entrepreneurs. To prove support for the franchise company who cannot follow the franchise system.
Contents	Introduction of marketing method the franchise systems. Capacity development for service providers to stabilize management (lawyers, accountants, consultants)
Promotion Department for Agriculture-related sector ,including fishery	
Purpose	Support of business creation for agriculture. Stability of management and business expansion
Contents	Support of F/S Technical support. Support of loan application. Advise on individual issue.
Industrial Enterprises Development Department	
Purpose	Support of Industry-related project
Contents	Technical Support. F/S support Grouping of small enterprises, Support of clusters. Diagnosis Service (assessment of project and technology diagnosis) Improvement Service Support of Bar-coding promotion Workshop and seminar Provision of business Information
Service Industry & IT Enterprises Development Department	
Purpose	To support service industry and IT industry
Contents	To develop e-selling of books and newspapers. To promote sales of cars using Dual Fuel System. To develop mobile Marketing.

## Business Development Sector

OSS Department	
Purpose	To simplify documentary works for application
Contents	To support customer for commercial registration. To support customer for tax cards. To support customer for temporary licenses. To support customer for final licenses. To support customer for national card numbers. ( SFD Direct Lending Counter also prepared)
Marketing & Exhibitions Support Department	
Purpose	To provide marketing and exhibition information.
Contents	Business Match-making Promoting B to B deals among SFD customers. Linking the SFD customers to larger firms Marketing activities To facilitate small enterprises to access to government procurement Advising for MSE to enter into e-commerce market Holding the exhibitions. Export promotion Provision of exhibition information in overseas Holding workshops (Provide knowledge and information required for export of products)
Incubators Department	
Purpose	To find a promising entrepreneur. To assist the entrepreneurs in feasibility study process and designing business plan of the project.
Contents	To support for preparing F/S To provide office for the incubator's To support for procedures to start up business

## Management

BDS contents are originally planned in HQ and implemented by regional offices.

According to Central Sector for Regional Offices, regional information is collected through hearing by HQ and general meeting.

## About Regional office

Schedule (Regional Office)

Date	Interviewees	Time	Member
April 14, (Sun.)	SFD Menia Office	9:00-11:00	Matsuoka, Hasegawa, Takeda, Almudaris
April 16, (Tue.)	SFD Sharqiya Office	9:30-12:00	Hasegawa, Takeda, Almudaris
April 17, (Wed.)	SFD Qalyoubiya Office	11:45-13:15	Hasegawa, Takeda, Almudaris
April 21, (Sun.)	SFD Cairo Office	9:00-10:30	Takeda
April 22, (Mon.)	SFD 6 <sup>th</sup> October Office	9:00-10:30	Hasegawa, Takeda, Almudaris
April 30, (Tue.)	SFD Giza Office	9:30-10:30	Matsuoka, Hasegawa, Takeda, Almudaris

OSS Achievements (2012)

	OSS				
	Tax card	Commercial register	Temporary license	Permanent license	SME ID card
6th October	192	75	167	104	174
Cairo	122	0	50	22	341
Giza	522	434	666	532	856
Menia	367	158	1,313	982	1,466
Qalyoubiya	657	372	640	275	968
Sharqiya	1,819	792	1,244	1,161	1,492

(Source: From SFD HQ)

BDS Achievements (2012)

	BDS					
	Exhibitions (Participants)	Bar code	Business Matching	Information Service	Registered suppliers for government procurement	Exhibition and Display of SME Products
6th October	5 (6)	N/A	5	N/A	21	0
Cairo	8 (177)	N/A	16	N/A	86	14
Giza	7 (20)	N/A	6	N/A	213	3
Menia	3 (17)	12	4	150	45	0
Qalyoubiya	5 (28)	N/A	5	N/A	94	11
Sharqiya	3 (13)	N/A	1	N/A	86	2

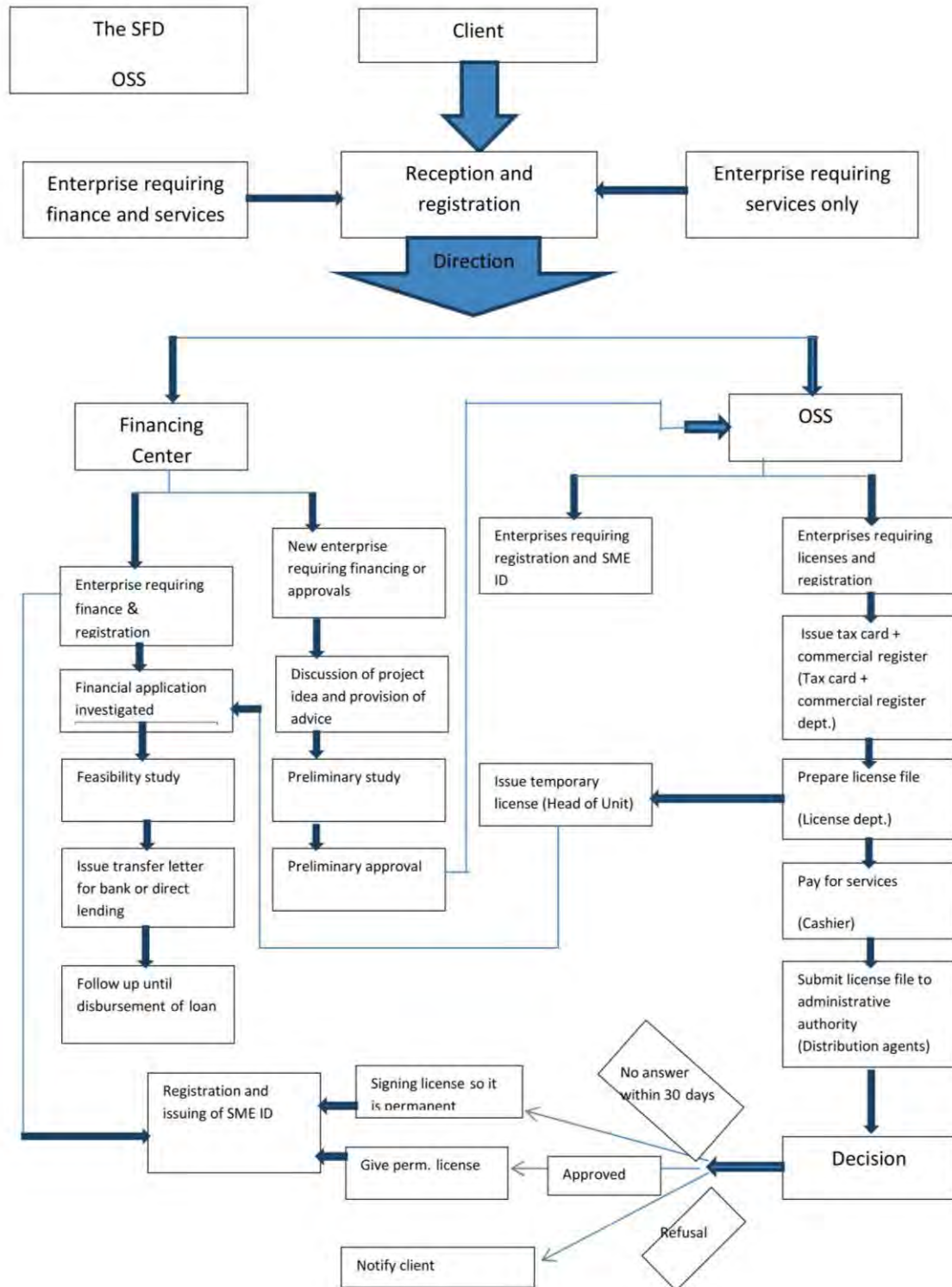
(Source: From SFD HQ)

- OSS has functioned well at regional offices.
- The exhibitions are frequently held as BDS
- According to interview SFD bears 50% of expenses to set up bar code which is necessary for export of products

### **Services of regional offices**

- OSS is set up in all regional offices to promote formalization of informal sector.
- To accelerate the document procedure, staffs in charge are dispatched from related organizations. Temporally license is issued within one month. In case permanent license is not issued in additional one month, the temporally license will be changed to the permanent license.
- Loan officers are assigned at each regional office. The person who has responsibility for BDS is collaborating with loan officers.
- BDS Activities
  - ✓ Before Financing: Awareness promotion activities, research activities, planning activities
  - ✓ At the Financing: Personal advice, F/S
  - ✓ After Financing started: Maintenance of machinery, marketing activities.

Figure 7 OSS Flow Table



(Source: From SFD)

## **Request for Technical Assistance by JICA**

BDS department requested TA for Industrial Clusters, OSS, BDS capacity development, female and handicappers and fisheries industry.

HR requested support to develop performance rating system and education system.

### **BDS**

- Industrial Clusters:  
To enforce the industrial clusters of furniture, petro chemical and port side cluster.  
There is a lack of special skill or knowledge for project planning and project management.
- OSS:  
OSS department needs to establish networking mechanisms with line ministries and OSS.
- BDS:  
A TA package is needed for capacity development of staffs in charge.  
(To focus on increase of export)
- Female and handicapped person:  
Generate the income for women and handicapped persons in rural region by enhancing handicraft production.
- Fisheries  
Introduce the advanced technology to activate.

### **HR**

HR's request is for capacity development.

- Management of Organization (including Personnel management)
- Support for capacity development of SFD staffs who can manage project
- Support for Central Sector for Governance & Customer Service (method, capacity development)

### 7-1-2 Issues and Prospects

#### **Present Condition**

- HQ recognizes that BDS is indispensable for the growth of the company.
- The organization system of SFD is well organized.
- The education to the staffs in charge of BDS has been executed.

Above are highly evaluated.

#### **Issues**

- There is a lack of evaluation system of education.
- There is a lack of management system to manage the activities of staffs BDS in charges.

Above are issues of SFD organization.



**Prospects**

Strengthen the management and education system by introducing the personnel development plan and merit rating system.

Regional BDS staffs need wide range of knowledge to meet the customer need as well as communication skills.

**Possible area for assistance**

To enforce the management capability of HQ and HR such as objective management system and target setting

To build up the capacity of regional BDS staff

**Reference**

Personnel Development

It is said that the education takes time before the effect appears, which will cause backset of the organization. Systematic education system can shorten time for effect expression and activation of organization.

**Figure 8 Example of Personnel Development**

		Off-JT			OJT	Self-development	
		Training by duty position	Training by occupation	Training by issue			
Middle management	Division managers	Division managers training		Evaluators training Objective-setting training	Career vision-forming training		
	Department managers	Department managers training					
Professionals	Grade 1	Professionals training		Problem-solving training	Career vision-forming training		
	Grade 2						
	Grade 3						
Rank & file	Section chiefs	Section chiefs Training	Clerical job training Sales job training Technical job training	Problem-solving training	Career vision-forming training		
	Supervisors	Supervisors Training					
	Forepersons	Mid-career Training					PC training
	Assistants to forepersons	New employees Training					

(Created by Study Team)

Education plan to BDS (Sample)

Pre-study of 2-3 months is needed to grasp current situation of SMEs and to hold seminars and visits to SMEs in a couple of cities in Egypt

No of Experts: 5 Experts (covering each special field)

Duration: 2 years

**Figure 9 Education plan to BDS (Sample)**

<b>Subject</b>	<b>Contents</b>	<b>Standard Hour (Hr.)</b>
General Subject	Economics/Economic Policy	24
Basic Subject	SME Clinic System, SME Policy, Diagnosis/Guidance Technique	16
Specialized Subject	Business management (Strategy, Organization Issue)	(40)
	Corporate Finance (Finance & Accounting, Management Accounting, Cost Accounting, etc.)	(80)
	Production Management (Quality Control, Process Management, CostReduction, etc.)	(160)
	Material Procurement Management	(40)
	Marketing (Shop Operation Management, Sales Management)	(40)
	Human Resource Management, Rearing of Human Resources	(40)
	Management Information System	(40)
	Sub Total	440
Practical Training (OJT)	3 Companies (per One company = 80 hr)	240
<b>Total hours required</b>		<b>720</b>

(Created by Study Team)

## 7-2 MSME support by government related organization except SFD

### 7-2-1 GAFI

Name : GAFI (One Stop Shop)	
Purpose	Simplification of the company establishment procedure
Object	Entrepreneur
Contents	Consultation Counter. Prepared brochures in foreign languages.
Name : GAFI (Bedaya Center)	
Purpose	Investment promotion for entrepreneur of Egypt
Contents	SME clinic program, Seminar, Workshop, Personal interview, Personal interview
Needs	Consultant There is a lack of number of consultants and budget. The volunteer consultants are working with them. From the viewpoint of quality of consulting and sustainability of this service, GAFI wishes to have the consultant in house.

#### Bedaya Center Curriculum

Advice to legal affaires	Financial access
Accounting and budgeting	Tax countermeasures, payment
Marketing	Start-up support
Human Relationship	Information technology

- 40-company is resisted through OSS of GAFA and 38-companay has finished submitting documentation.

### 7-2-2 EBI

Name : EBI	
Purpose	To educate Finance and Business literacy
Object	Banks, Clients, SFD, NGOs, Banks which dealing micro finance, Union Bank, NBE and potential customers
Contents	Seminar (Technical assistant, Improve consultation skill) , workshop, company monitoring system (by data base)
Needs	TA <ul style="list-style-type: none"> <li>• Advisory services</li> <li>• Risk management</li> <li>• Product development</li> <li>• Scouring system</li> </ul>

- EBI belongs to CBE.
- Established by the support of CIDA (Business Development Support Program) in 2005.
- Wide range of support programs are provided including “The SME Certificate Course” from 2008.
- EBI refers to the experiences of overseas countries like South Africa, Italy, India Malaysia and Turkey.
- Educate not only know-how and knowledge but also mental attitude to the bankers.
- Fee: Charged

### Contents of advisory services

From Start-up to under 2-year	After 2-year
Create Business plan Cash Flow Management Management of bill payable and account receivable. Financial Plan	Improvement of the efficiency ( Technical, Finance) Management accounting (Capital and the borrowed money ratio) How to find the partner
Restructuring plan in case of the fund raising crisis.	How to deal with fund raising. How to deal with the environment change. M&A
Advice to legal and tax	Advice to legal and tax
	How to improve corporate governance

#### 7-2-3 IMC

Name : IMC	
Purpose	To develop the economic growth of Egypt. To reinforce the export through raising industrial resource and international competitiveness.
Object	Industrial related companies
Contents	Improving business process Administrative training centers. Supporting access to finance Monitoring company management (data base)
Needs	TA 1. Dispatch expert for one year. 2. Provide an expert to overview the entire sector 3 Send an expert who can overview whole of a company 4. Send expert for training of trainers (TOT) 5. Send some people to Japan to receive TOT Remarks: The main sectors that require TA are: 1. Engineering, 2. Chemical industry, 3. Creative industry (handicrafts and innovation) and energy. (UNIDO and UNDP is supporting these sectors) IMC is member of Egyptian Enterprise Network which is a network of 54 countries and 900 organizations for business relationships and long-term partnerships. TA requested from JICA for this network.

- IMC is a consulting organization with 170 advisors.
- IMC has history and performances in Egypt.
- Hire advisors or experts in case the demand is more than they supply. When outsourcing, IMC advisors develop the TORs and they provide the project management of the consultant.
- Revenue channels: The Egyptian government, the EU and the cost share of clients (Each client share is up to EGP 850,000)

Target sector	Achievement by 2009
Textile industry	3,764
Construction industry	846
Chemical Industry	1,265
Engineering industry	1,350
Food processing, grain industry	1,874
Furniture, timber industry	1,344
Jewel industry	50
Agriculture	538
Leather, dye industry	616
Medical, cosmetics industry	75
Print and package industry	474
Service-related industry	2,054
Movie industry	7
Information and communication technology (ICT)	230

Example:

6<sup>th</sup> October: Focus on the agribusiness, the food sector and engineering and chemicals.

Badr city: Focus on the leather industry

#### Program

Corporate Identity	Management (Strategic Planning)
CSR	Management Information system
Energy saving and environmental service	Marketing
Export development	Productivity Improvement
Finance and Accounting	Public relations
Human resource development service	Quality Services
ICT Training	Transfer the technique and know-how

- Eligibility criteria who will receive the services of IMC.  
Enterprises with a minimum of 10 full time employees  
They have to be in the formal sector  
They have to possess an industrial license
- Company monitoring (Collecting data)  
IMC is collecting data of the enterprises for time series analysis.  
They collect 4-KPI (paid in capital, turnover, export value and number of fulltime employees.)
- Consulting scheme:  
IMC does a CAT analysis (a company assessment tool) or gap analysis (Operation management, sales management and financial plans are investigated and evaluated by IMC. IMC identifies gap, and a proposal is agreed on between IMC and SME, consulting will start. The cost will be charged to the client after submission of proposal.
- The cost depends on the consulting menu. Large size of company bears 15% and medium and small size company bears 7.5% of the total cost.
- IMC Assuit Office  
The objective of the IMC in Assuit is to support the industrial factories by providing technical

assistant and training in training center.

IMC has 2 main services: One is TA and the other is administrating technical training centers.

IMC utilize domestic consultants and foreign consultants. IMC uses the bidding system. There are 300 of manufactures in the territory and 90% of them are clients of IMC.

- Others

There are 20 industrial zones in the Upper Egypt. The infrastructure is in good condition and the land is lent by cost free. 70% of zones are occupied and some of the factories are not operating now.

- Trend

There is industry clusters plan for handy craft, furniture and beverages.

#### 7-2-4 ICTI

Name : ICTI (Industrial Council for Technology and Innovation)	
Purpose	To enhance the transfer of technologies and provide know-how and innovative technology.
Object	Companies belonging to 13 industrial sectors
Contents	To improve business by consultation. To administrate the training centers.
Needs	TA for OJT training to transfer the technologies.

- ICTI is one of the organizations affiliated to the Ministry of Industry and Trade and core organization of technical support.
- ICTI have 13 technology and innovation centers all over Egypt.
- ICTI have the technicians providing TA and they own laboratories.
- ICTI providing technical related service to IMC.
- ICTI is collaborating with SFD for BDS in the industries of daily products, furniture and leather. (Example: ICTI is borrowing facilities of leather tanning center from SFD which is constructed by the support from UNIDO.)
- ICTI is focus on the following industry: Photovoltaic power generation, Alternative energy.
- Areas of activity:
  - Technical support (productivity, quality improvement, resource efficiency)
  - Product development
  - Product design and prototype
  - OJT for technology transfer
  - Facilitating access to business planning
  - Product quality testing
  - Product development testing
  - Incubation services
  - Coordinating with national stakeholders (e.g. SFD, GAFI, NGOs)
- Revenue channels: The Egyptian government, the cost share of clients and donation from CIDA, UNIDO, JICA (KAIZEN), GIZ, Spanish Corporation Agency, African Union

## Partners

Center	Technology Partner
Leather Industries Technology Center Leather Tanning Technology Center	INESCOP -Spain
Furniture Technology Center	Confemadera - Spain, FIRA(UK)
Agribusiness Technology Center	SECO- Switzerland
Cleaner Production Technology Center	UNIDO-PEG- Switzerland
Food Technology Center	AINIA-Spain
Engineering Technology Center	Fraunhofer-Germany
Quality and Productivity Improvement Center (KAIZEN Center)	JICA-Japan
Plastics Technology Center	ASSCOMOPLAST-Italy
Mining Industry & Marble Technology Center	MARMOMACCHINE-Italy
Fashion & Design Center	Burgo Institute – Italy

(Source: ICTI)

### 7-2-5 KAIZEN Center (Quality and Productivity Improvement Center)

Name: KAIZEN Center (Quality and Productivity Improvement Center)	
Purpose	To improve quality and productivity with the method of KAIZEN.
Object	Private company
Contents	To implement seminar, Lecture To improve manufacture site with OJT Remarks: Method for improving 5S/ QC/ KAIZEN/ QC 7-tool/ TQM/6σ/TPS/SCM/JIT/VE
Needs	Practical training opportunity including onsite training to improve the ability of staff. Especially needs the opportunity to study the state-of-the-art technology in Japan. Appreciate to cover the fields that Japan has strength such as 5S and KAIZEN activity.

- KAIZEN Center belongs to the ICTI.
- It trained 4,000 people (as of April, 2013)
- KAIZEN Center is established in 2006 support by JICA.
- KAIZEN Center is consulting with the method of KAIZEN.  
The current target company size is Small and Medium Company. They used to cover all the company size but after the revolution, they changed it by the policy of prime minister.
- Finding Client  
To hold seminar or lecture then visits participants to hear if there is any needs of consultation.  
Sometimes participants try to make contact to them after seminar or lecture.  
Example: Seminar at 6<sup>th</sup> October (April, 2013)  
31 people from 14-company participated.  
Fee: 2,000EGP per company.  
(These profits are assigned to the activity of the Kaizen center)
- Method of Consultation  
Submit consultation proposal to a prospect after fact finding activity.  
70% increased the productivity. 10% reduced the defect rate.  
Focus Industry: Fiber business, an electric apparatus and food.



- Qualifications of staff
  - ✓ The staffs have the certification of 6σ in addition of KAIZEN method.
  - ✓ KAIZEN center is cooperate with IMC as an outsource consultant for quality improvement and quality management.
- Others
  - 8 experts are dispatched from JICA by 2009. Local staff visited Japan to take lectures.
  - One expert is expecting to dispatch from Japan in 2013 as short term.
- Korea International Cooperation Agency (KOICA) offered the cooperation.

#### 7-2-6 FTTC

Name : FTTC	
Purpose	To support company to expand the export business.
Object	In charge of export and specialist (e.g. Marketing)
Contents	To provide training programs.
Needs	TA: Any TA that can share the cost of training fee because after the revolution the number of trainees decreased. Training course: Contributing to increase the trade with Japan. (e.g. Some similar course that Germany providing)

#### Contents of training

Export Basic Course	Trade Information Analysis	Export Costing
Export Pricing	Export Document & Procedures	Product Quality
Terms of Payment	Incoterms	Supply Chain Management
Modern Trends of L/Cs Under UCP600	Export Risk Management	Packing & Packaging for Export
Participation in Trade Fairs	Business English & Commercial Correspondence	Negotiation & Contracting Skills
Presentation Skills		

- FTTC is tied up with ITC of Geneva. FTTC have 10 authorized trainers from ITC Geneva. ITC in Geneva developing the Business Management System (BMS) which targets SMEs and focus on how SMEs can be managed competitiveness so that they are able to export. FTTC is licensed by the ITC (Geneva) to give this coeres. BMS has 26 steps.
- The recruitment of training participants:  
FTTC recruit student via Ministry of Industry and Trade and Chamber of commerce.  
So far 20,000 people participated into the program of FTTC.
- Cost Sharing: Participants owe the cost (e.g. 6,000EGP)
- Collaborating organizations
  - Center for the Promotion of Imports from Developing Countries (CBI)
  - ITC-WTO
  - UK Institute of Export (IoE)
  - Indian Institute of Foreign Trade (IIFT)
  - Hewlett-Packard (HP)



Micro Enterprise Acceleration Institute (MEA-I)  
Industrial Training Council (ITC-Egypt)  
MOU is done with CIDA and USAID.

#### 7-2-7 Issues and Prospects

##### **Fact finding**

- There are duplication of program between public MSME supporting organizations.
- There are needs to TA from local technical experts.
- There are needs for Technical Training Courses in Japan
- There is a needs to provide the curriculum to improve trade with Japan.
- Each organization is collaborating (e.g. IMC requires the support from KAIZEN center to the consultation of quality improvement and management)

##### **Issues and Prospects**

- Overlapping of support programs between organizations.  
Regarding this matter, there are two ways of thinking.
  1. To sort out the overlapping between organizations.
  2. It is desirable condition that there is the environment of competition between organizations. Because organization will try to provide customer oriented program.
- It is necessary to know the detail of needs of each organization.  
Example: It is necessary to inspect the curriculum that organization providing to the customer (e.g. Text, duration)  
To have the interview with trainer and consultants to meet the customer need as well as consultants' need.
- The establishment of the core organization  
It is widely told that to promote, improve the BDS, organizations should be work with collaborate. At Egypt, any organization that coordinates each organization's activity may needs.
- Others  
The trend of the government: By the argument of the national plan that SFD is the coordinator, each organizations activity might be sorted out except their core business.
- How clients evaluate  
The most important thing is how the clients assess/evaluated the supporting system or curriculum. In other words, important is not what the organization implementing but how organizations are implementing their activities. Hope that the organizations can provide the services that the clients satisfied with their services.

## Chapter 8: Current Situation of Donors Support

The followings are the result of interview with the major donors in Egypt except Japan. The contents are summarized in Chart. The characteristics of support of donors are as mentioned below.

### 8-1 Characteristics of Donors Support

#### [Overview]

- After the revolution, the issue of SME has been focused on by donors because this issue is closely related with employment issue. WB donated US\$200 million for a labor-intensive public works project of Egypt as urgent employment measures in 2012. KfW cooperates with WB. The issue of securing regional employment was discussed in G8 at Deauville Summit with the Arab countries. The short term measures to the employment issue have been required.
- AfDB and France focus on an agriculture sector. The target of support is small agriculture communities. They are supporting start-up phase, value chain set up, and access to finance. It is anticipated that this support will be extended to industrial cluster, free trade zone, and growing projects under MIFT.
- EBRD has established Cairo office recently. There is a plan to distribute US\$1 billion into Egypt in the next five years. It is a matter of interest for which sector they will provide assistance.

#### [Finance]

- KfW supports a regional fund, which is noteworthy movement because the lack of the investment function is one of the problems in finance access.
- AFD, KfW, and USAID (OPIC) utilize commercial banks excluding SFD. France has set up the credit line to NBE (government bank). KfW provides guarantee to CIB and Bank of Alexandria. USAID uses HSBC in form of a guarantee scheme. The OPIC has set up a guarantee line to CIB.

#### [BDS]

- CIDA and SFD are closely related organizations. CIDA is cooperating with SFD for capacity development of financial intermediaries such as NGOs.
- CIDA cooperates with GAFI for SME Clinic Program.
- USAID is carrying out Egypt Competitiveness Project (ECP) with 6 American and 40 Egyptian experts for the purpose of enhancing the private sector. They are dispatching experts to the governmental important sections (taxation, customs, legislation, and export procedures etc.) under The Enabling Environment Program.
- USAID provides TA for incubators to SFD.
- IFC provides a program of “Business Edge” as finance-related TA.

8-2 Donors' Mapping

Donors	Purpose of support	Policy & Strategy	Issues of SME	Trend	Finance Support	BDS S Support			
						Contents	Period	Target	Implementation Mechanism
AFD	Infrastructure/Water&Sewerage/Transportation/Underground/Recycled Energy/Agriculture Development/Irrigation/Support for private sector SME	Target of private sector support is SME	<ul style="list-style-type: none"> <li>Lack of National Strategy for SME</li> <li>Lack of law for microfinance</li> </ul>	<ul style="list-style-type: none"> <li>Focus on job creation of SME after revolution</li> </ul>	<ul style="list-style-type: none"> <li>Credit line of US\$430M for NBE</li> <li>EPA(Loan of 40M Euro)</li> </ul>	<ul style="list-style-type: none"> <li>TA for banks</li> </ul>			
AfDB	Poverty reduction/Infrastructure/Governance/Private sector support/Capacity development		<ul style="list-style-type: none"> <li>Lack of National Strategy for SME</li> </ul>	<ul style="list-style-type: none"> <li>Diversification of borrowing banks of SFD loan (Faisal Islamic Bank, Audi Bank etc.)</li> <li>No new project this fiscal year</li> <li>Stance on enterprises</li> <li>-&gt;Micro finance is to reduce poverty.</li> <li>-&gt;Support of medium enterprises can bring about employment creation.</li> </ul>	<ul style="list-style-type: none"> <li>Allocation of 20M EGP for direct lending</li> <li>Loan for SFD</li> <li>1. Loan for MSE : US\$87M/finished Dec. 2011</li> <li>2.Support for franchise business : US\$40M</li> <li>3.Loan for Agri. sector : US\$70M/Cntracted in 2010, on-going project.</li> </ul>	<ul style="list-style-type: none"> <li>TA for franchise business micro enterprises development) :US\$85T</li> <li>TA capacity development of agri. sector (twice of 1M EGP)</li> <li>Setting up supply chain</li> <li>Support of loan to banks for agricultural development (Grant of US\$1M)</li> <li>Support to SFD for industrial cluster development (Grant of US\$2M)</li> </ul>		<ul style="list-style-type: none"> <li>Micro enterprises</li> <li>Agricultural sector</li> <li>Banks</li> <li>SFD</li> </ul>	
CIDA	<ul style="list-style-type: none"> <li>To streamline environment for SME business development</li> <li>Providing techniques required for SME workers</li> </ul>	<ul style="list-style-type: none"> <li>Technical Support (TA) BDS</li> <li>20years of experience</li> <li>Formulated SME National Strategy in 2009</li> </ul>	<ul style="list-style-type: none"> <li>Lack of National Strategy for SME</li> <li>Though various attempts have been made, sustainability is low.</li> </ul>	<ul style="list-style-type: none"> <li>Support policy for 5 years from now is improving environment and capacity development aiming at "Sustainable Economic Growth"</li> <li>Export and foreign trade will be focused on.</li> </ul>		<ul style="list-style-type: none"> <li>Decent Employment for Youth</li> <li>Cairo Economic Livelihoods Program</li> <li>Egypt Enterprise Development Project</li> <li>Providing BDS directly to SDF/GAFI.</li> </ul>	<ul style="list-style-type: none"> <li>2011-2015</li> <li>2008- 2013</li> <li>2008- 2013</li> </ul>	<ul style="list-style-type: none"> <li>Youth, female</li> <li>Youth</li> <li>Female : BDS pilot project</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration with Agha Khan Foundation in the area of skills development, BDS, and finance</li> <li>Increase job opportunities for youth in cooperation with ILO</li> <li>Set up credit line of US\$ 120M for TA to SFD</li> </ul>
EBRD	<ul style="list-style-type: none"> <li>Diffusion of International best practice</li> </ul>	<ul style="list-style-type: none"> <li>Support private sector</li> </ul>	<ul style="list-style-type: none"> <li>Lack of National Strategy for SME</li> </ul>	<ul style="list-style-type: none"> <li>Established Cair Office just recently</li> <li>Planning to allocate US\$ 1Billion to Egypt in 5 years from now</li> <li>TA for banks will be focussed on company governance and risk management</li> </ul>	<ul style="list-style-type: none"> <li>Goose growing business (loan of €50M)</li> <li>Garbage disposal project</li> </ul>	<ul style="list-style-type: none"> <li>Enterprise Growth Program (EGP)</li> <li>Business Advisory Services (BAS)</li> </ul>		<ul style="list-style-type: none"> <li>Technical Assistance</li> </ul>	<ul style="list-style-type: none"> <li>Dispatching about 100 foreign advisors under EGP</li> <li>Dispatching about 50 Egyptian advisers under BAS</li> </ul>
EU	<ul style="list-style-type: none"> <li>After revolution</li> <li>Employment creation</li> <li>SME support</li> </ul>	<ul style="list-style-type: none"> <li>Access to finance</li> <li>BDS</li> <li>Regulatory environment</li> </ul>	<ul style="list-style-type: none"> <li>Lack of National Strategy for SME</li> </ul>		<ul style="list-style-type: none"> <li>Establishing €-10M guarantee fund for Support of Agriculture Project (CGC is considered to control Fund ). Tie up with BoA on loan for agri.-sector.</li> <li>Neighbourhood Investment Facility (NIF):Providing fund to regional fund for North Africa (Controlled by KfW : €100T)</li> </ul>	<ul style="list-style-type: none"> <li>Provide TA, BDS to intermediaries like banks, NGO</li> </ul>			
IFC	<ul style="list-style-type: none"> <li>Targeting private sector only</li> </ul>		<ul style="list-style-type: none"> <li>Lack of banks specialized in SME</li> <li>Lack of definition of SME</li> </ul>	<ul style="list-style-type: none"> <li>Watching situation now</li> </ul>	<ul style="list-style-type: none"> <li>Equity participation of US\$200M in BoA</li> <li>Equity participation of about US\$5M in CIB</li> </ul>	<ul style="list-style-type: none"> <li>TA for BoA</li> <li>Business Edge</li> </ul>		<ul style="list-style-type: none"> <li>Support for training loan officer in charge of SME, and strategy making for banks</li> <li>Customers of banks</li> </ul>	<ul style="list-style-type: none"> <li>in-house consultants</li> <li>Services are subject to fees (Customers bear 50%)</li> </ul>
KfW	<ul style="list-style-type: none"> <li>Targeting private sector only</li> </ul>		<ul style="list-style-type: none"> <li>Lack of banks specialized in SME</li> </ul>	<ul style="list-style-type: none"> <li>Considering of providing €25M of SME loan to SFD, but not decided yet. There is an option to tie up with WB who is studying US\$300M of SME loan to SFD.</li> </ul>	<ul style="list-style-type: none"> <li>Grant of €2.5M for labour-intensive projects (with WB)</li> <li>Guarantee line of €2M for CIB and BoA respectively</li> <li>Established MENA regional fund (€25M)</li> </ul>				
USAID	<ul style="list-style-type: none"> <li>Support of transition to private market economy</li> <li>In Egypt support for economic growth through foreign trade, streamlining of female, education, health.</li> </ul>	<ul style="list-style-type: none"> <li>Focus on tourism and agri. sectors</li> <li>Simplifying customs procedures</li> <li>Removal of non-tariff barrier</li> <li>Improve system to enable growth of small business</li> <li>Strengthening SME (credit - related services)</li> <li>Promote employment of private sector workers</li> <li>Technology (improvement, education, training)</li> </ul>	<ul style="list-style-type: none"> <li>Lack of unified policy</li> <li>Lack of master plan</li> </ul>	<ul style="list-style-type: none"> <li>Support for SME will be focussed on agriculture, tourism and foreign trade. It is now in the working process.</li> <li>Committee is formed to formulate the National Strategy which SFD will submit in September. USAID is cooperating.</li> </ul>	<ul style="list-style-type: none"> <li>Micro finance : Supporting banks, NGO since 1990. Successful example (ABA and Banque du Caire) USAID is supporting TA.</li> <li>Project for SME : working with HSBC (US\$34million)</li> <li>SME finance by DCA (co-work with DBACD, LEAD) * Development Credit Authority</li> <li>US-Egyptian Enterprise Fund US\$60M</li> <li>APS Program (US\$100million)</li> <li>OPIC Loan Guarantee Facility US\$250M</li> <li>EBRD set up credit line for NBE</li> </ul>	<ul style="list-style-type: none"> <li>Enterprise Competitiveness Project (ECP)</li> <li>Trade Facilitation Project US\$14M</li> <li>Project for improving finance circumstances for SME US\$2M</li> </ul>			

## Chapter 9: Situation of MSME

To grasp the situation of MSME, the visits were made to the client enterprises of SFD, GAFI and IMC. The financial statements that were requested to submit in advance were not presented.

Schedule

Date	From April 11 to April 30, 2013
Area	Cairo/Grater Cairo/6th October/Giza/Minia/Assuit/Qaliobiya
No. of enterprise	Total 33-enterprise (Manufacture 12, Retailer 15, Services 6)
Size	Large: 2, Medium 8, Small 12 and Micro 10.
Method	Interview

- BDS of enterprises

The impression was that BDS service was not actively utilized.

The participation in exhibition was made by a number of enterprises.

**Table 28 Classification of company<sup>1</sup>**

(No. of Employee)

Size	Manufacture/Others	Retailer	Service
Large	300+	50+	100+
Medium	21 to 299	6 to 49	6 to 99
Small	Under 20	Under 5	Under5
Micro	Owner	Owner	Owner

### 9-1 Micro Enterprises (Manufacture, Retailer and Services)

- There were various types of micro enterprise manufactures. Some of them have skills like handmade carpet production and sewing cloth. There was an owner who runs sewing business with one second hand machine. At retail and services, there were some companies with monthly net income (after payment of installment) of 150-500 EGP. There were street vendor and female owner with 5-children. These are businesses to earn the minimum income to sustain family's livelihood.
- The business of micro enterprises are in general operated for securing owner's and their family's livelihood. There was some owner who has less knowledge of interest rate of the loan. There was an owner who is only concerned about the repayment amount by monthly basis.  
There was the situation that the accounting of the company was not separated from livelihood. In this case the business is in the elementary stage prior to BDS.

<sup>1</sup> Refer to the law of "Small and Medium Enterprises" in Japan.



**Figure 10 Micro Enterprise (Sample)**



**9-2 Small and Medium Enterprise (Manufactures)**

- Sample of Visited Company

**Figure 11 Minia / Medical equipment manufacturing industry**



- Manufacture of glass tableware decoration business.

Market: Overseas

Target: Wealthy class of people.

Characteristics of Product:

Imitate the design of the Czech glass ware which is popular country for the glass ware.

Ample gold for the decoration is used and the price is competitive than competitors.



Strength point of this company:

CEO had the experiences and the knowledge.

CEO used to work at this market in Kuwait.

CEO had the knowledge of this industry as well as sales channel in advance.

**Figure 12 Giza / Glass tableware decoration business**



■ ISO certified enterprises

IMC supported the following companies to acquire the certificate of ISO. These companies are receiving marketing consultation from IMC. The left is the manufacturing industry of the disposable medical equipment. They make contract of OEM with several overseas companies.

**Figure 13 Assuit / Medial equipment & Pasta manufactures**



- There were some companies with necessity to improve the workplace environment.

**Figure 14 Cairo/Tableware production aluminum utensil**



### 9-3 Issues and Prospects

#### Issues

- Lack of basic knowledge of the management such as cost, profit, inventory.  
Quite a large number of owners are making documents in handwriting basis.  
The problem is that they are not able to analyze the situation of their enterprise, therefore; they are not able to make strategy and tactics by themselves.
- Lack of operation management.  
Manufactures: There is a situation of low productivity because of WASTE (some factory is not sorted out and the layout is not well considered)  
Retailer/Service: There is a situation of low stock management.  
(The documents are not digitalized, lack of store concept and lack of category management for the merchandising.)
- The problem (threat) of retailers  
The shopping malls by the foreign capital open in the big cities.  
The customers of local retail store are likely to shift to the shopping malls.

#### Prospects

- Manufacture: Rearrangement of working environment  
i.e. MIERU-KA (identifying problems and bringing them to the foreground) and 5S  
activity.  
These activities change the working environment and improve the productivity.
- Services/Retail: Improve the knowledge of store management and inventory control.
- Effectiveness:
  1. Reduce the cost of inventory and expenses.
  2. To attract customers by improving store management

- Appeal the effectiveness of BDS to the managements.  
The characteristic of service is that it is intangible<sup>1</sup>. So, it is difficult to aware/realize the importance. It is important that person in charge of BDS have clients understand the effectiveness by advices.  
Action: 1. Have them participate in the seminar.  
2. Staffs in charge of BDS visit company and inform the importunateness directly.
- To develop the person who can act as a family doctor and support MSE.  
The SMSE enterprise has various problems.  
Therefore, to solve one problem cannot improve the management situation.  
It is assumed that the supporting person like family doctor is necessary to MSE in Egypt in addition to the expert supporters.  
He is always beside them and checks the condition and hears any troubles of the body and gives the necessary advices.
- The ability to identify the problem of the customer quickly and advise is necessary.  
If illness (problem) is serious, the ability to choose an appropriate specialist (expert) is also important. The excellent eye is strongly required.
- Following competency and knowledge is required to have the excellent eye of BDS.  
Communicative competence, knowledge of the minimum level of production control, management, marketing, accounting and finance
- Others  
One of micro enterprises producing handmade carpets succeeded in exporting their products after they joined exhibition. This is the example that BDS supports enterprise to develop their business.

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<sup>1</sup> The characteristics of service: It has intangibility, simultaneity, heterogeneity, perishability.



## Chapter 10: Employment Creation Status

In order to help determine what extent MSE financing has fulfilled a role for the employment creation, the survey was made to see the correlation among loan amount, number of the employment and number of enterprises based on the data directly obtained from SFD and the data from the 2013 edition of CAPMAS (Central Agency of Egypt for Public Mobilization and Statistics) yearbook..

### 10-1 The survey based on SFD data

Data obtained from SFD are: yearly loan amount, number of the employment and number of enterprises from 2009 to March, 2013 for small enterprise finance, microfinance and direct lending, as shown in the table below.

**Table 29 Small enterprise finance** Loan amount in thousand EGP

	2009	2010	2011	2012	2013
Loan Amount	395,490	442,270	956,737	1,250,249	360,153
Number of employment	46,740	52,268	67,954	36,499	10,461
Number of Enterprise	7,777	7,328	12,935	12,375	4,238

(Data from: SFD)

**Table 30 Microfinance** Loan amount in thousand EGP

	2009	2010	2011	2012	2013
Loan amount	504,207	469,382	435,090	592,342	223,902
Number of employment	202,608	145,570	116,916	141,378	48,282
Number of enterprise	168,840	132,336	106,287	128,525	43,893

(Data from: SFD)

**Table 31 Direct Lending** Loan amount in thousand EGP

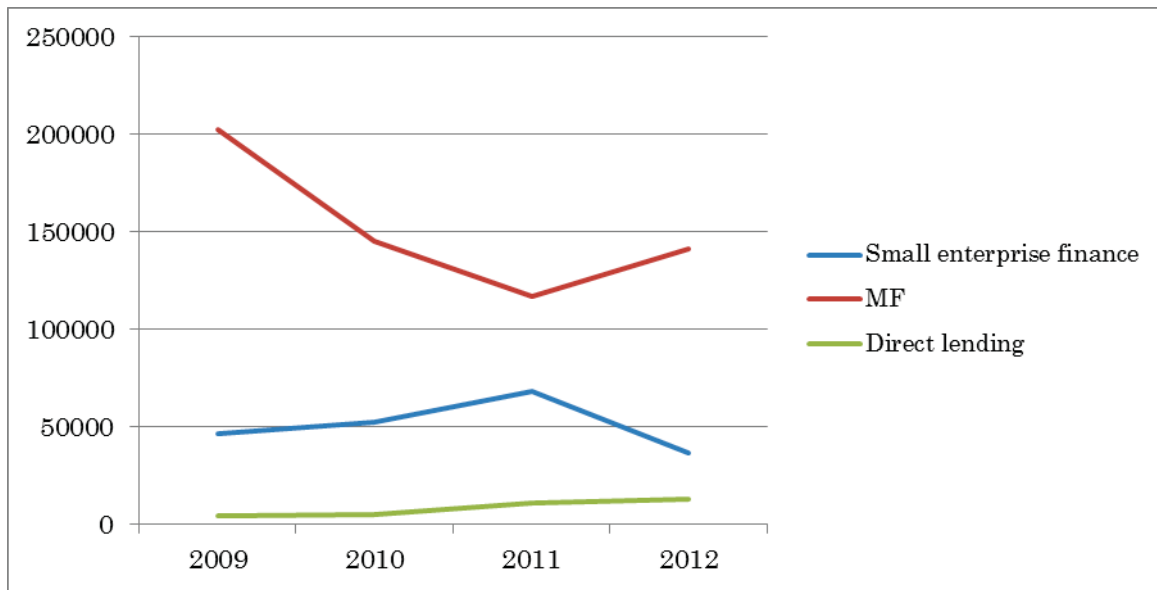
	2009	2010	2011	2012	2013
Loan Amount	93,590	192,189	300,231	264,592	26,378
Number of employment	4,407	5,133	10,615	13,237	1,196
Number of Enterprise	1,844	2,097	5,183	5,542	532

(Data from: SFD)



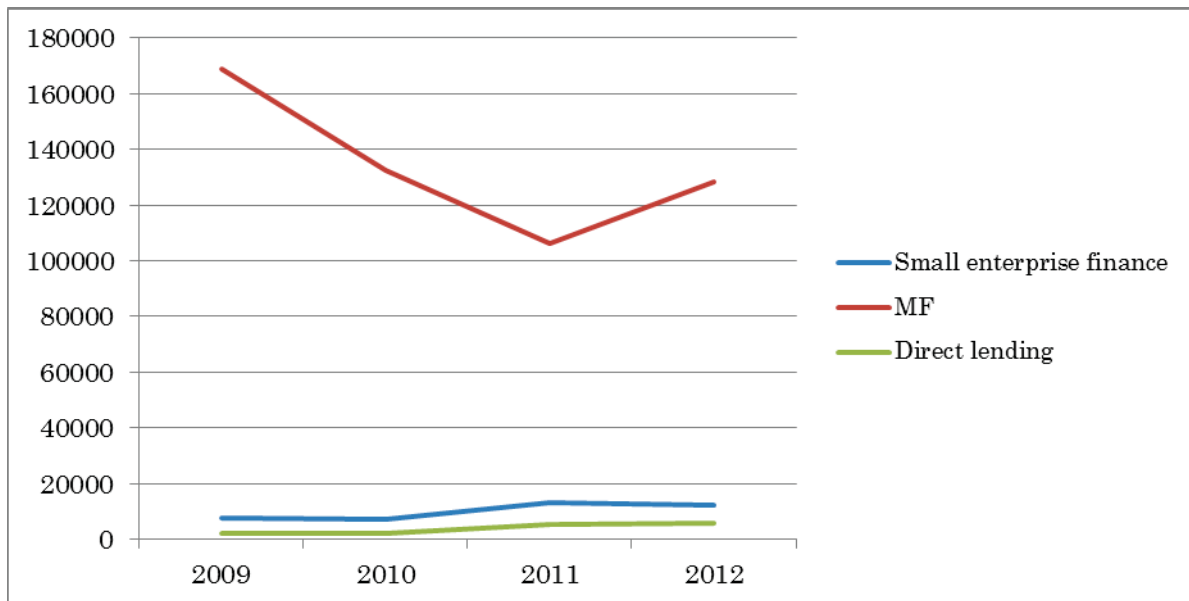
**Figure 16 Transition of the number of the employment**

(Unit: Thousand EGP)



**Figure 17 Transition of the number of the enterprises**

(Unit: Thousand EGP)



Next, as one of the means to predict the correlation among the loan amount, the number of the employment and the number of the enterprises, by using those figures of 2009 as the standard with an index of 1, exponents for 2010, 2011 and 2012 were calculated. Figures of 2013 were omitted because they were interim results.

**Table 33 Loans for the small enterprises, indices against 2009 index**

	2010	2011	2012
Loan amount	1.12	2.42	3.16
Number of employment	1.12	1.45	0.78
Number of enterprises	0.94	1.66	1.59

**Table 34 Microfinance, indices against 2009 index**

	2010	2011	2012
Loan amount	0.93	0.86	1.17
Number of employment	0.72	0.58	0.70
Number of enterprises	0.78	0.63	0.76

**Table 35 Direct lending, indices against 2009 index**

	2010	2011	2012
Loan amount	2.05	3.20	2.83
Number of employment	1.16	2.41	3.00
Number of enterprises	1.14	2.81	3.01

**Table 36 Total, indices against 2009 index**

	2010	2011	2012
Loan amount	1.11	1.70	2.12
Number of employment	0.80	0.77	0.75
Number of enterprises	0.79	0.70	0.82

Above tables imply that loan amount, number of the employment and number of enterprises in 2009 had increased or decreased by number of times in 2010, 2011 and 2012 respectively. With regard to three sectors total, while loan amount in 2012 had increased to 2.12 times that of 2009, number of the employment and number of enterprises had decreased by 75% and 82% respectively during the same period. Only direct lending alone shows correlation among loan amount and number of the employment and number of the enterprises, but as this sector accounts for a smaller portion of the total in absolute figures, we should save our judgment to say the degree of contribution is sufficient. However, in the survey this time, we could not find out a reason why the number of the employment decreased widely in spite of a large increase of loan amount in for small enterprise sector in 2012.

#### 10-2 The survey based on CAPMAS data

CAPMAS contains the data for annual loan amount of SFD, number of the employment and number of the enterprises from 2009 to 2011 which are classified into small enterprises and micro enterprises. Those figures are shown in the tables as follows. (Direct lending is included in small enterprise finance.)

**Table 37 Small enterprise finance**

(Loan amount: Million EGP)

	2009	2010	2011
Loan amount	492	601	1,272
Number of employment	58,110	71,078	150,295
Number of enterprises	9,632	9,268	17,952

(Data from CAPMAS 2013)

**Table 38 Microfinance**

(Loan amount: Million EGP)

	2009	2010	2011
Loan amount	543	496	473
Number of employment	139,682	166,477	232,830
Number of enterprises	126,984	151,341	194,025

(Data from CAPMAS 2013)

**Table 39 Total**

(Loan amount: Million EGP)

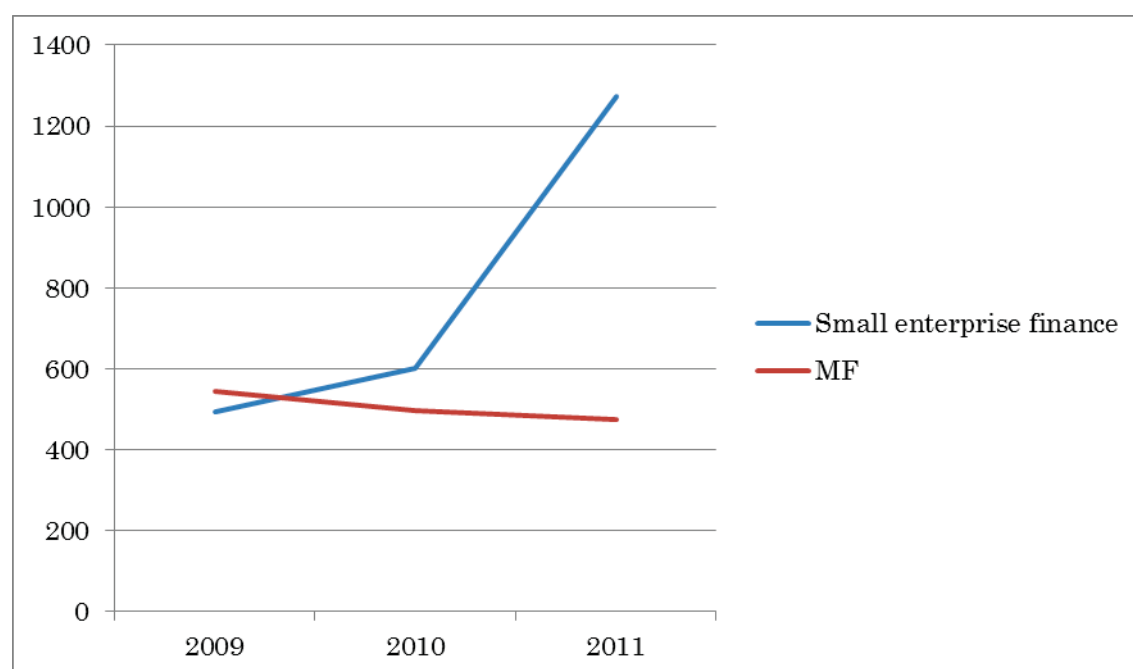
	2009	2010	2011
Loan amount	1,035	1,097	1,745
Number of employment	197,792	237,555	383,125
Number of enterprises	136,616	160,609	211,977

(Data from CAPMAS 2013)

Above figures for the loan amount in number of the employment and number of the enterprises are shown in the transition graphs below.

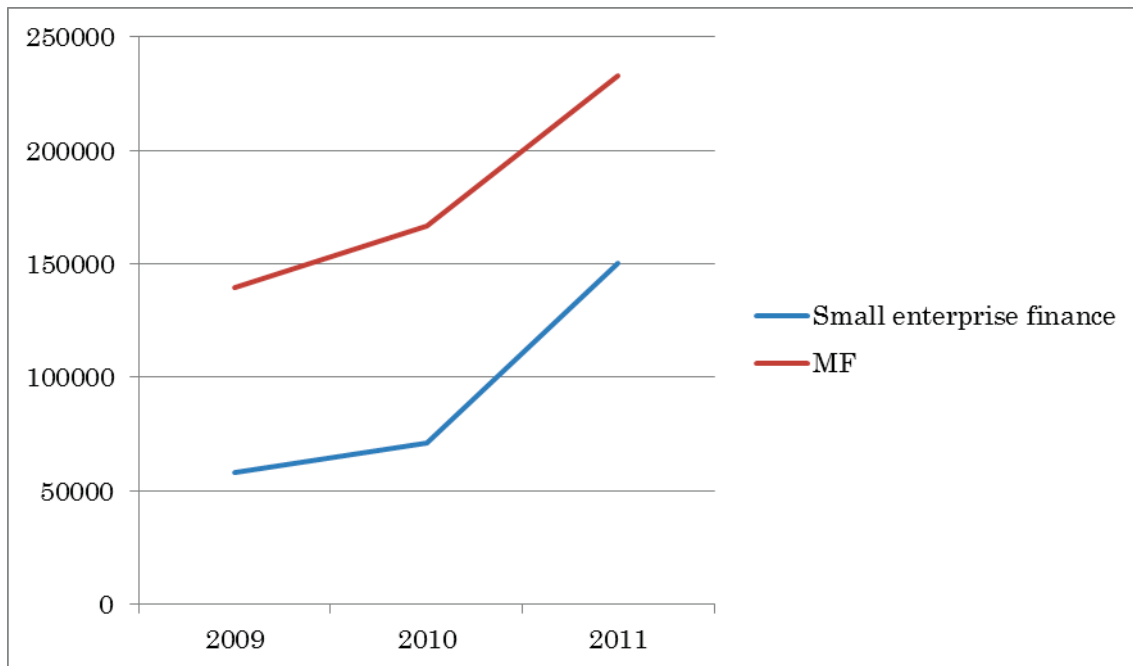
**Figure 18 Transition of the number of the enterprises**

(Unit: Thousand EGP)



**Figure 19 Transition of number of the employment**

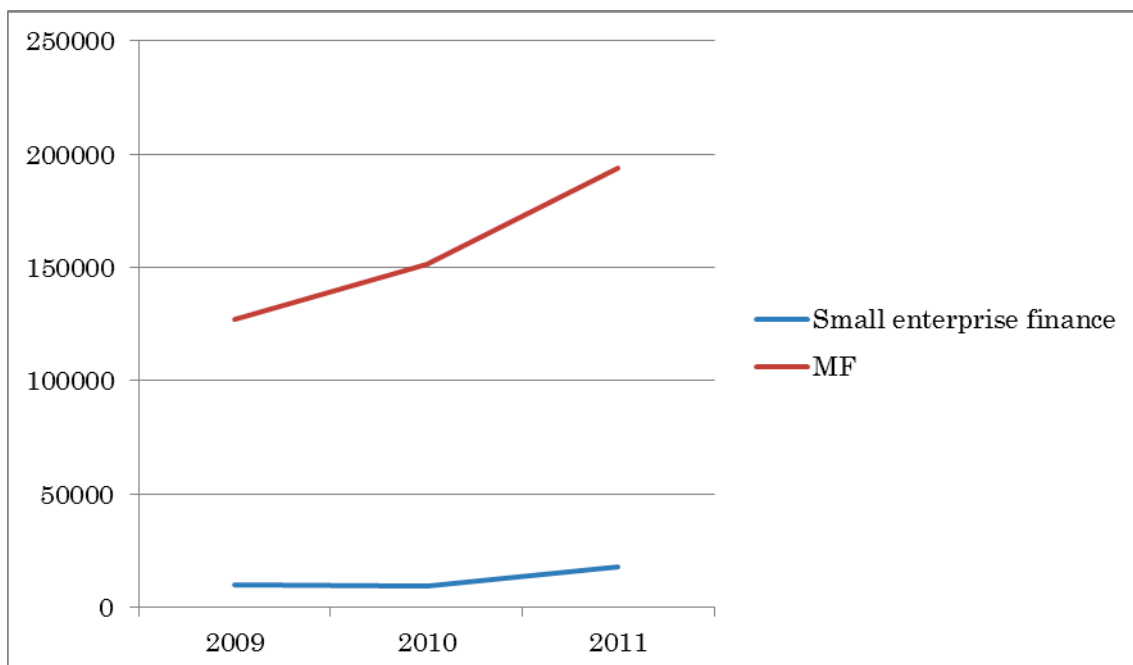
(Unit: Thousand EGP)



(Data from CAPMAS 2013)

**Figure 20 Transition of number of the enterprises**

(Unit: Thousand EGP)



Then, SFD loan amount, number of the employment and number of the enterprises of 2009 are used as the standards with indices of 1, and based on this, indices of 2010 and 2011 are computed respectively.

**Table 40 Small enterprise finance, indices against 2009 index**

	2010	2011
Loan amount	1.22	2.58
Number of employment	1.22	2.59
Number of enterprises	0.96	1.86

**Table 41 Microfinance, indices against 2009 index**

	2010	2011
Loan amount	0.91	0.87
Number of employment	1.40	1.67
Number of enterprises	1.19	1.53

**Table 42 Total, indices against 2009 index**

	2010	2011
Loan amount	1.06	1.69
Number of employment	1.20	1.94
Number of enterprises	1.18	1.55

Take small enterprise as an example, indices of loan amount and number of the employment for 2010 against 2009 show the same figure of 1.22. In other words, both loan amount and number of the employment had increased by 1.22 times compared to the previous year. On the other hand, number of the enterprise decreased by 0.96 times.

As for 2011, indices of loan amount and number of the employment also show similar figures of 2.58 and 2.59 respectively.

This indicates that loan amount and number of the employment of small enterprises had increased at the same rate.

As for microfinance, indices of 2010 against 2009 for loan amount, number of the employment and number of the enterprises are 0.91, 1.40 and 1.19 respectively. Indices of 2011 against 2009 are 0.87 for loan amount, 1.67 for number of the employment and 1.53 for number of the enterprises. Figures of both 2010 and 2011 show decrease in loan amount but increase in number of the employment compared with 2009.

### 10-3 Comparison of both survey results

With regard to the survey results of loan amount and number of the employment based on the data from SFD and CAPMAS are summarized in Table 47.

(Because data of CAPMAS cover only up to 2011, comparison was made up to 2011. Also, direct lending is included in small enterprise finance.)

**Table 43 Comparison between SFD data and CAPMAS data**

(Unit of loan amount: million)

	SFD data	CAPMAS data
Loan amount for small enterprise and number of employment	2009 Loan amount: 489M EGP Number of employment: 51,147	Loan amount: 492M EGP Number of employment: 58,110
	2010 Loan amount: 634M EGP Number of employment: 57,401	Loan amount: 601M EGP Number of employment: 71,078
	2011 Loan amount: 1,257M EGP Number of employment: 78,569	Loan amount: 1,272M EGP Number of employment: 150,295
Microfinance amount and number of employment	2009 Loan amount: 504M EGP Number of employment: 202,608	Loan amount: 543M EGP Number of employment: 139,682
	2010 Loan amount: 469M EGP Number of employment: 145,570	Loan amount: 496M EGP Number of employment: 166,477
	2011 Loan amount: 435M EGP Number of employment: 116,916	Loan amount: 473M EGP Number of employment: 232,830

Major differences between SFD data and CAPMAS data are as follows.

The number of the employment with regard to the loans for the small enterprises in 2011, SFD data shows 78,569, whereas 150,295 in CAPMAS data, a big increase from the previous year and a big difference. Also, there is a big difference with the number of the employment regarding the microfinance in 2011, namely, 116,916 in SFD data, versus 232,830 in CAPMAS data.

As for employment creation, survey this time could go just this much which we think needs further study.

It is said that SFD is using a certain formula to compute the number of employment creation but there is criticisms that it does not provide the reliable figure. We understand that the review is being made with technical assistance from CIDA. With regard to this employment creation data, we have heard also from other source that they are inaccurate. We expect much effort will be made by agencies concerned to collect the accurate data.



## Chapter 11: Assessment of MSME Promotion Policy in Egypt & SFD

Assessment of MSME promotion policy and SFD was made by ①hearing from interviewee at the entities visited and ②questionnaire survey to the 30 SMEs.

Outcome is as follows:

(1) Outcome of direct hearing

### As for MSME promotion policy

There is no agency which takes unitary charge on MSME

The law dealing with MSE exclusively is Small Enterprise Development Law (Law No.141). Each Ministry makes policy along with its role and functions and raises the matter to the Cabinet in accordance with its priority. Policy is implemented after Cabinet orders being promulgated. As before, many reports and recommendations were prepared for MSME issues. Eradication of the report has not been executed. In 2007, by instruction of Prime Minister, SFD as secretariat prepared "Egyptian National Strategy for Micro and Small Enterprise Development and Blue Print for Initiatives" dated June 30, 2009 by technical assistance from CIDA. However, this is not adapted as a national Strategy and not implemented so far. The mechanism of uniform agency to charge policy making and to administer major implementing agencies for MSME promotion has not been established.

In other issues, the points of insufficiency from interviews are as follows.

- It is necessary to establish specialized SME Bank.
- Development Bank to flow fund to the economic growth area is necessary.
- OSS policy has not produced expected effect. In order for informal entity to change to formal entity, incentives are not sufficient including exemption of taxation, mitigation of business permission requirements, etc.
- Support to small enterprises is neglected (Bank Opinion).
- Support to Start-Up Enterprise is weak (Bank Opinion).
- Too much money is needed to obtain business license (reduction of administrative cost).
- Export process lacks smoothness. Export permission takes time or cannot be taken. (2 small companies)
- Uniform definition of SEM is necessary.
- SME data is insufficient.
- Lack of policy coordination.

### About SFD

There was positive assessment that excellent personnel are many at the Head Office. SFD is good at active use of donor fund and operates steadily. And like introduction of policy dept, and non-financial service dept. SFD is changing in good direction. On the other hand, there exists criticism.

- SFD has become mammoth institution and lack of efficiency
- SFD was originally established as a safety-net institution to mitigate social pain from privatization and basically aims at poverty reduction and social relief and it is not proper to perform role of Development Bank which is needed under the present economic environment.
- No value added because SFD is only intermediary and only pours fund.
- Employment creation has not gone up, if effect were strong, present economic difficulty had not been arisen.
- The large banks are going away from SFD. Less attraction to become partner to SFD.
- Lack of sufficient ability for BDS and policy making, donor contribution of TA and Capacity Building is still necessary (from donors).

The table below shows each needs mentioned at the interview to the public institutions. Insufficient parts have appeared in present SMSE policy.

**Table 44 Needs heard from interviewees**

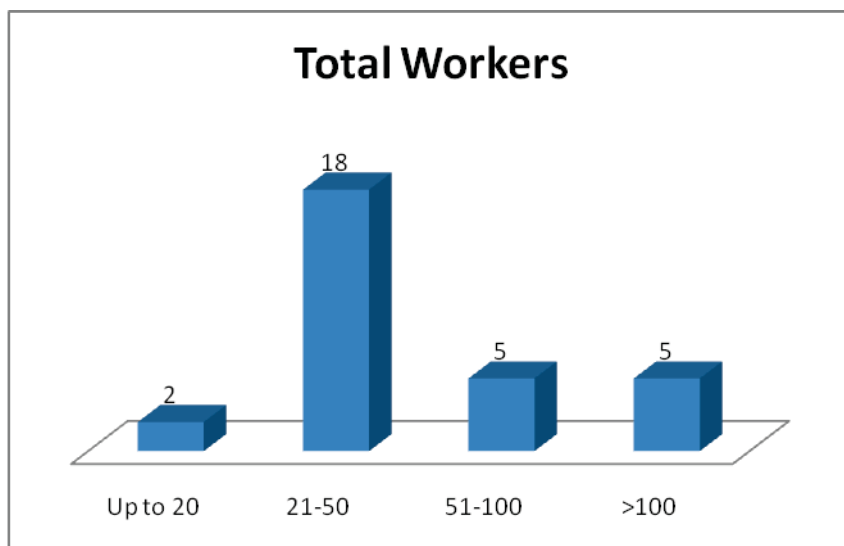
Interview	Contents of needs
MOF	Institutional reform for administration of SME
	Master plan is needed
	Specialized SME Bank is necessary
	Micro Lease Co. is necessary
	Assessment of BDS
	Coordination of BDS among IMC,SFD,ITIC and IDA
MIFT	Uniform Definition of SME
	Uniform Agency for SME
	Overlapping of Implementation Agencies. Mapping is necessary for Study
	Correspondence to each stage of SME development. GAFI for Start-Up. MIFT for Production and Export
MOPIC	Lack of exact data base
	Lack of information for SME Sector
	SME Supreme Council not established
	Lack of effective strategy
	The Banks are not well equipped for SME finance
Labor & Migration	Capacity Building
	TOT(Training of Trainers) for vocational training
	Development for Training Curriculum
	Funding support
CBE(Central Bank)	Uniform Data Base
	SME Census is necessary
	Definition of SME
	Data Base including formal and informal sectors.
	TA for SME clusters

SFD	TA to encourage finance access
	TA for incubator and cluster
	Capacity Building to Banks and NGOs
	e-Portal for market development
	Entrepreneur Education
	Feasibility Study (F/S)
	Mapping for market and investment
	Institutional Capacity Building
EBI	TA for Micro Finance and NGOs
	Receipt of SME Mission to Japan
IDA	Development of advisory service, Risk management, Development of new financial products, Scoring System
	TA for incubator
	F/S for incubator
IMC	TA for bringing investors
	Engel or venture investment
	Environment building to assure least import
	Economic growth oriented Institution to aspire growth is to be established. SFD is a safety –net institution
	Human Resources Development is urgent business
ICTI	Infrastructure Construction
	Finance for Start-Ups
	Engineering sector is important to supply to various industries.

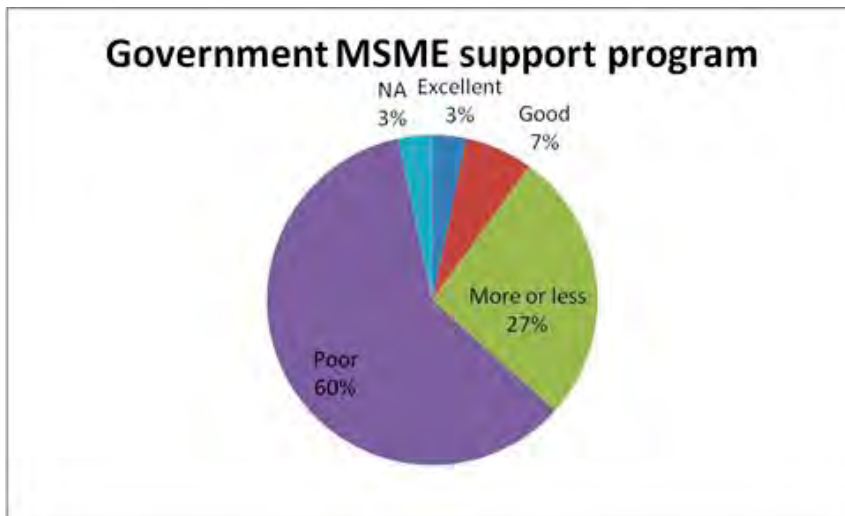
(2) Outcome of Questionnaire Survey to SMEs

30 SMEs were surveyed in Greater Cairo Area and 10<sup>th</sup> of Ramadan. Manufacturing companies are 25. Service companies are 5. Composition of Employees is as follows

**Figure 21 Composition of Employees**



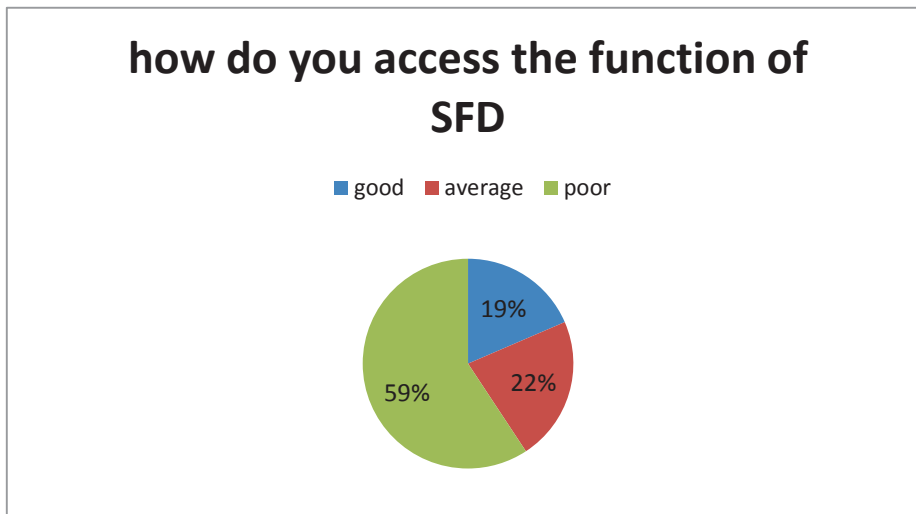
**Figure 22 About the Government MSME Support Program**



- As indicated in the chart above, “Excellent”, “Good” and “More or Less” together account for 37%. 60% answered “Poor”. The contents of criticism are as follows;
- Interest rate is high. There are no discrimination of terms among consumer loan and industrial loan. Surface interest rate is 13-14%. However, real interest rate reaches 30-60%<sup>1</sup>.
- Collateral requirement is strong. (Bank deposit, House, Asset, etc. These are high value than loan amount)
- Complicated documentation requirements and application process
- When repayment suspended, bank officer hissed and booed the client, despite general deterioration of economic situation.
- Commitment process takes 2months. During that time, raw material price rises.
- Soft for large Company and hard for SMEs
- Loan amount is decided by collateral but needed investment amount.
- Deal is decided by document but not by real.
- There is no grace period.
- Usury
- Lend to exporter but no lending to manufacturer.

<sup>1</sup> Ground of 60% is obscure. One of the reason of high interest is that if borrowed 10,000EGP for one-year on interest rate of 16%, each monthly repayment is said to be in the following, despite principal decrease each month.  $10,000\text{EGP} \times 116\% \div 12 \text{ months} = 966\text{EGP}$

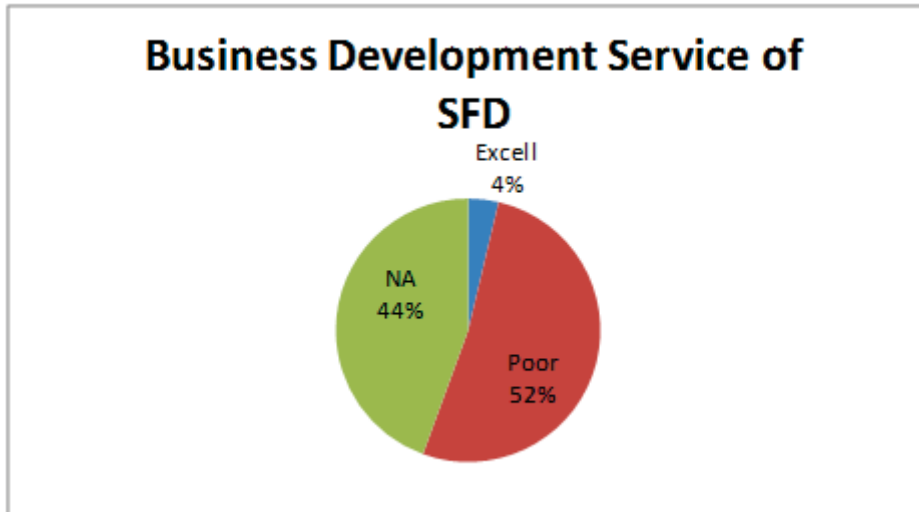
**Figure 23 Access to SFD Function**



“Good” and “Average” together account for 41%. However, “Poor” takes 59%. The reasons are as follows;

- SFD procedure is complicated. SFD require F/S. But, F/S is made by SFD staffs. It is not appropriate because they do not know business and no experience.
- High Interest Rate
- Collateral request is too much.
- Delay for procedure
- SFD transfer a client to a bank, client has to make two wars (negotiation) with SFD and bank. Though final risk taker is client, but procedure burden is heavy.
- By loan, machinery can purchase, but, as loan amount is not enough, liquidity is in shortage, it needs money for payroll, sales, administration, etc.
- SFD is responsible for failure of small industry, close of factory and backwardness of Egypt.
- SFD interest is 8% lower than that of prebake bank.(Good)
- SFD introduces machinery dealer. But, they control price.
- If there is a relative in SFD, client can borrow in better conditions.

**Figure 24 Assessment of BDS in SFD**



52% answered "Poor". 44% for "NA". 44% has probably not utilized BDS. They might not know what BDS is. Comments are as follows;

- Many clients do not know BDS.
- BDS is not practical and useless. Did not turn out as expected.
- Only provide marketing information written in Newspaper. Rather, decrease interest rate.
- Service remains for individual enterprise.
- Nobody provide non-financial service. Entrepreneur does not need this service.
- Training for new employees is welcome. (Good)
- SFD does not provide training for existing staffs.
- SFD is ready to provide foreign marketing experts. (Good)

## Chapter 12: Appropriateness of MSME Promotion Policy and Priority Issues in Egypt

Under the current economic environment, political and economic stability, increase of employment and enforcement of competitiveness of industry are important. To get through foreign exchange crisis with IMF's finance support, economic tightening policy is required. Egypt Government needs to apply national economic growth strategy (JICA expert participated in planning) in an early date and the Political leaders should make dialogue and communications with people to give bright hopes to future. To tackle with employment problem, best way is activation of Macro economy based on the growth strategy. Growth engine should be re-organized. In this connection, the development fund should be injected to the sectors, like tourism and export industry, along with the said purpose. Major policies like encouragement of employment thorough strengthening of SME and finance access, promotion of transition of informal sector to formal sector, etc., are now taken. These policy priorities might come in the second importance. The principal importance is growth strategy for Egypt.

At present, creation of MSE National Strategy has been commenced with US AID TA fund. This initiative as priority issue is appropriate. But, this depends on the contents and study framework. Reform of support mechanism should be also discussed and process chart for implementation is also indispensable.

In particular, it will not be successful without strong support and commitment from the political leaders.

Short term 6 measures for MSEM promotion described in the Chapter 3, 3-3, (Enforcement for financial and guarantee mechanism, Mitigation of administrative burdens and deregulation, Facilitation of government procurement by SMEs. Entrepreneurship including women, Capacity Development of SMEs to enter into global value chain, Capacity development of SEM management by best practice) are all important and appropriate as practical policies for SME. The question is content. It is easy to take up as a policy. For instance, building "Enabling Environment" for SEM activity is feasible or not, whether incentives are good enough or not. It might not be efficient if incentives are small or a little at a time. In this connection, how to attain the purpose is also important, including preparation of process chart for implementation and review.

As it is usual in the developing countries, policy makers are good at drawing the items or dreams. However, they are weak to materialize and realize their drawings. "How to" is weak as experiences are few. Accordingly enforcement in "How to" is necessary for sustaining the purpose of policy and its effect.

It seems necessary to newly establish the Government Specialized SME Bank as questionnaire answers to SMEs complains about present finance system. The criticism include ①Interest rate is high, ②Collateral requirement is severe, ③Loan Procedures are complicated (with SFD and with Finance Intermediaries). ④The requested loan amount and actual loan amount is different and shortfall takes place. ⑤BDS is different as expected.

SME finance needs special response and expert character as different from credit to the large companies. In this connection, specialized SME bank is necessary.

In the Micro Finance area, as real interest rate is sometimes very high, Micro Finance Law is needed in the spirit of protection of the people, which might include qualification of lenders, finance guidelines, etc.

This survey took local survey period of around 45 days including draft report making, which is short for study, the followings are the survey teams' perception to the MSEM issues in Egypt.

To create jobs and creation of business through MSME policies takes time, it is not done overnight. The reason is that ①target market is more than 90% informal sector and 40% is in illiteracy. ② finance literacy is low. The people in the market live in traditional way of life. The culture should be changed. In order for that, National Campaign is necessary. As an example, "Create Industry and Business Promotion", "Increase of Savings for Nation-Building". People's awareness for the Government policy might be insufficient.

Increase of savings is important. 50% of enterprises do not deal with banks. Accordingly it is seemed that remaining 50% has made under-mattress deposit. Absorption of this hidden fund is very important for Macroeconomic point of view. For this purpose, activation of postal savings bank and change of business status of NGOs which should make organizational change to regional bank like, for instance, regional credit union allowed for deposit taking function.

SFD has performed very important role under Small Enterprises Development Act in fund provision to micro and small enterprises. But, SFD provides fund only to small and micro enterprises. Their function lacks fund provision mechanism to medium enterprises and related growth industry field. Therefore, revision of SFD function or establishment of Development Bank is of benefit to Egyptian economy.

As for finance access, there is no long-term fixed-interest finance product. SFD finance problem is risk problem. Private banks are institutions which aim revenue generation and positively response within allowable risk area. To expand finance access greatly leads to who takes risk. If CBI re-guarantees liabilities of a guarantee company without limitation, lending volume by banks would increase. But this is not realistic because finance is not subsidy. Unless a project is bankable, they do not lend. One solution is to establish a specialized SME Bank, they need special knowhow to treat SME finance corresponding to market reality.

Both SME finance and Micro Finance become profitable business for Banks and NGOs, About this, perception is different from the Government people. Their position is that Micro Finance and SME finance is risky business because of lack of information and they need support. In case of Micro Finance, NGO lends final beneficiary in 16-17% of interest, using SFD fund bearing interest rate of 10%. NGO can get spread of 6-7%. Especially, a certain bank said repayment rate is 100 % in Upper Egypt. Generally speaking, big banks and large NGOs the survey mission visited enjoyed low default



rate, it being 0.08-2%. In case of SME finance, default rate is a little bit high, being 2-4%. So, for superior banks and NGOs, Micro Finance and SME banks has become profit generating business. For banks and NGOs which are not good at risk management, outcome might be different.

SFD has instructed banks and NGOs to observe on-lending guidelines to final borrower and beneficiaries (Micro-finance: around 16%, SNE finance: around 10%). Therefore, final borrower and beneficiaries has benefit compared with finances from other commercial sources.

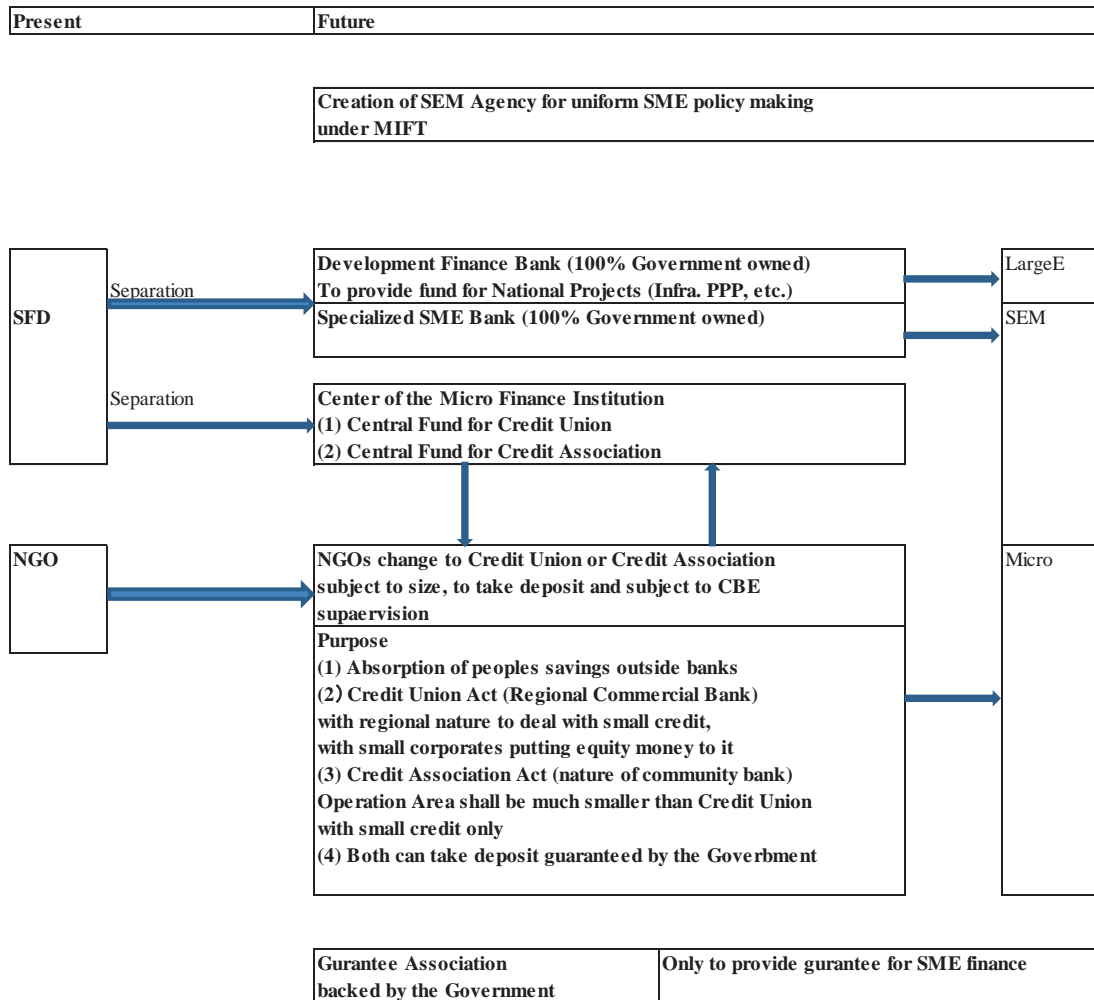
Micro Finance is basically finance for poverty reduction, other donors also has recognized it. It is not growth oriented finance and also employment creation finance. It is rather finance for maintaining employment, the survey team actually visited around more than 10 Micro Finance Borrowers which engages trade and service industries. They included street vendors and small household industries, the clients were said not to know interest concept. They are paying only installments. The net monthly cash flows are not large, only covers monthly living expenses. The loan is cut in as part of their life. If they use repeat loans and if they borrow too much, cash flow problems might occur. A certain cap is necessary, quality of loan officer is very important.

In order for policy-makers to make new mechanism for MSME finance, the study team executed MSME finance structure model chart, referencing that of Japan as per attached below.

**Figure 25 MSEM support mechanism in Egypt (For reference only)**

Egyptian SME Support Structure

By JICA-GDMC Study Mission



## Chapter 13: Progress Status of JICA Two-Step Loan to SFD

Finance commitment and disbursement has already completed both for Micro Finance portion and Small Finance position. According to SFD explanation, the reason of delay occurred for Micro Finance is that loan amount per one loan is so little compared with that of Small Finance portion that it took long time to accumulate loan amounts. In case of SFD, main stream is indirect financing via banks and MFIs except direct lending by SFD. So there is a limit for fast disbursement. One solution is to ask SFD to select MFI which hold a lot of fund demand.

About possibility of next two-step loan, there comes unofficial request for 10 billion Yen from Small Enterprise Finance Dept. of SFD. However it is not a formal request from SFD.

From past experience of SFD, it raised the following request to JICA.

(1) To raise maximum amount per loan from existing 50 thousand EGP to 2million EGP which corresponds with SFD policy and other donors do the same. Loan digestion will expedite.

(2) Problem of Statement of Expenditure (SOE)

To abolish submission of SOE by JICA format and alter it to SFD statement (one paper SFD Format) with certification of auditor. The reason is;

- ① SFD collects information from RO by SFD Format (Management Information System), At the SFD Head office, they have to make manual input to correspond with JICA format, It takes a lot of labor and processing. This operation has become one of the cause of disbursement delay, though not big one.
- ② SFD operation has been strictly checked three times at each stage by auditors not to utilize for other purposes beside loan objectives, so that SFD operation is trustable.
- ③ By input mistakes at RO, there occurs necessity to correct tranche amount. JICA requires actual transfer of fund to correct this. This causes also gives large clerical burden, although same happens for other donors' cases like WB, however, their treatment is flexible to settle it at the disbursement for next tranche. Taking other donors' case into consideration, SFD requested flexible treatment.

No.	Governorate	Intermediate MFIs
1	Sohag	Balsafara Community development Ass.
2	Menia	El Ghad El Mafreq Ass.
3	Gorbia	Social Servies Ass. At Smella
4	Sharqia	Hissanya Women Association
5	Skarqia	Ashraf kafr Sakr Ass. For Community Development
6	Dakahlia	Community Development Association at kafa Tanbool
7	Menia	Egyptian Association, for Community Development
8	North Sinai	El Mouassah Ass. For Community Development
9	Cairo	Social & Economic Development Ass. For Early Retirement
10	Dakahlia	Community Development Ass, at Beida
11	Sohag	Islamic Charity Center in Saflak
12	Menia	Chritian Shabab Ass.
13	Menia	Hawaa El Mastakbal Ass.

14	Menia	El Ghad Ass. For Rural Development at Ashneen El Nasara
15	Menia	Egyptian Youth Community Development Ass.
16	Red Sea	Youth MusilimAss.of Kosseir
17	Garbia	Gharbia Businessmen Ass.
18	Menia	Shamou Ass. For Sustainable Development
19	Bany Sweif	Muslim Women Ass.
20	Dakahlia	Local Community Development Ass. At meet Abo El Hareth
21	Menia	Islamic Charity Ass. At Ezbar El Haj Kandil
22	Menia	Social Services for Community Development
23	Menia	Social Justice Ass. for Community Development
24	Bany Sweif	Community Development Ass.at galia elkobura
25	Sharqia	Commnity Development at Toyba
26	Menia	Abna Misr Ass.
27	Sohag	El Sharouq Ass.
28	na	Alamal Ass.
29	Sharqia	Community Development Ass. At Bassaysa
30	Sharqia	Bani Hassan Ass.
31	Dakhalia	Tame El Amdeed
32	Aswan	Baqshair el Kheir
33	Sohag	Ro ya Ass.
34	Luxor	Armont El Heet
35	Dakhalia	Businessmen Ass.
36	BanySweif	Community Development Asosociation of El Heet
37	Aswan	Kofour Koom Omba
38	Bany Sweif	Belfia Ass.
39	Bany Sweif	Monshaat Naser

## Chapter 14: Benefit to the Japanese Industry

The GDP breakdown of Egyptian economy is Manufacturing 16%, Agriculture /Forestry/ Fishing:13%, Wholesale/Retail:11%, showing economic diversification and Tourism accounts for only 4.4%. It is not so large percentage.

Economic relationship with Japan is: Japanese export:127.5 billion Japanese Yen (Transport Equipments, 37%, General Machinery 32%, Electric machinery 8%, Rubber Products 5%, Precision Machinery 4%, Steel 3%) Japanese Import:40.4 billion Japanese Yen, Trade balance is largely Japanese favor (all for 2010). Japanese residents in Egypt are 1050 persons in 2011. Japanese investment companies are 82 including Toshiba, Sharp, Otsuka Pharmaceutical, Isuzu, Suzuki, Nissan, YKK, SWS Co. Ltd., Kobe Bussan Co. Ltd., Orix, Tokyo Marine & Nichido Fire Insurance, HIS, Unicharm, Mitsubishi Heavy Industries, Toyota, Japan Tobacco Co. Inc., Nippon Express Co. Ltd. (From JETRO)

In this background, when JICA considers next two-step loan, it might consider benefit to the Japanese investment companies in the following field.

- (1) When Japanese investment company intends to make capital investment, it might use two-step loan and might procure local parts, other materials, etc. for which local supply companies can use two-step loan as well.
- (2) When Japanese investment company needs working capital requirement, it can borrow two-step loan (for alternative to import usance which might not be available at foreign exchange crisis)
- (3) To include project which may involve Japanese investment company as candidate, for two-step loan like an automobile industry industrial zone, chemical clusters, food-industry clusters, engineering clusters.

However, for the above (1)-(3), if SFD will be borrower of two-step loan, availability is difficult, because SFD is unable to lend to the foreign investment companies. For avoiding this, borrowing window of two-step loan should be for the Bank of the Government which operates in private principles.

(4) To provide TA program for promotion of Japan-Egypt Trade Expansion with FTTC, including Japan's import program, information for Japanese market, import requirements for Japanese companies, etc. and to invite Japanese investment company's staff as FTTC instructor who can explain supply parts and materials procurement conditions.

(5) JICA should hold regular meetings with Japanese investment companies in Egypt to hear their opinions as to problems facing like necessity of deregulation, or other business and the Government administrative factors hindering smooth operation of their operation. This is necessary to identify the area for providing JICA TA to Egypt.

## Chapter 15: Development Scenario in the Future and Necessary Process and Scheduling

Possibility for fund cooperation (development scenario)

### (1) Succession two-step loan of the existing one

As general understanding, fund requirement is still large and demand for fund cooperation continues as well. As there is mismatching between demand and supply, it is important to select an institution to be able to match it and though such an institution, JICA extends necessary fund cooperation.

In the first place, JICA should decide direction of fund cooperation. There are two sides, say, “Poverty reduction” and “Finance for growth”. Poverty reduction is area of Micro Finance and Finance for growth is area of SME finance. As the purpose is different, if emphasis is placed on increase of short-term employment, fund should be allocated for Micro Finance (though for sustaining employment level than increasing it). If medium-term increase of employment is emphasized through measures for strengthening industry, enforcement of SMEs as growth engine for economy, fund should be allocated to SME finance as growth finance. The survey team recommends SME finance. The reason is that finance objective is not for maintaining livelihood of the borrowers, but for important productive projects, developmental projects which have growth prospective in the medium term. This strategy leads to strength of Egyptian economy and sustainable development. When this idea is developed, the projects supported by MIFT and MOI might be likely objects for the fund cooperation by JICA. In other words, JICA should direct attention to economic growth support finance, providing loans both to small industry, medium industry. The next JICA fund cooperation should take the type of credit line to support MIFT policy as providing growth infrastructure.

Contents of Economic Growth Support Finance

- ① Small and medium manufacturing enterprises which satisfy the following are prioritized. This is based on the idea that manufacturing industry has high employment absorption capability.
  - Possibility of export
  - Buyer of the products is determined in relation of supply chain or strong product demand exists or anticipated.
  - The company which received technical support for productivity increase or quality improvement from Kaizen Center, for instance, and attained its effect.
- ② The company which received management advice, feasibility study, etc. from IMC is prioritized. Various industrial zones, clusters for engineering, chemicals, furniture and food are planned. These growth ideas should be supported. When these ideas are confirmed feasible after feasibility study, the project including the participating SMEs might be supported by JICA loan.

For receiving institution of JICA two-step loan, the following is recommended:

Priority 1-SFD 50%, NBE50%

For SFD, Direct Lending is preferable. The reason is that loan commitment becomes more prudent, because it is SFD risk and more flexible terms and conditions are possible, along with the characteristics of the project. (In the case of indirect loan, flexible response is difficult under the

present scheme). JICA has special relation with SFD, being two times borrower so far and SFD has been activated since alteration of president. SFD might change itself bearing policy making function and remains the institution of central importance in the area of MSME support.

The reason of NBE selection includes;

- It is the largest bank with 100% government capital fund.
- It has experience of using other donor's fund and has many SME finance experience.
- Fast disbursement is expected because it has big clients base.
- NBE is involved in a lot of national projects and is said as the bank of the Government

The reason why two institutions are used is that this will expedite loan usage because that when one institution meets some problem, the other supplements.

For the terms and conditions, it should not be uniform rate but flexible depending on the project nature for which prior consultation is necessary between JICA and potential institutional borrowers.

#### Priority 2 \*NBE 100% (50% allocated to Micro Finance)

The reason is;

- NBE is direct lending and disbursement is fast. For Micro Finance, provide loan through ABA. ABA is the high reputation leader of Micro Finance with clear cut corporate doctrine and good policy.

#### Priority 3\* SFD 100% (Small enterprise finance 75%, Micro Finance 25%)

The reason is;

- Per loan amount is very small in Micro Finance and prior consultation is necessary to designate Micro Finance Institution which is expected to have a lot of loan backlog. As for small enterprise finance portion, rate of allocation between direct lending and indirect lending should be consulted.

Finance requests from each institution are not issued yet, because this is the most important matter of negotiation between JICA and the potential borrowers. Next JICA mission should treat it. For reference, SFD small enterprise dept. informally quoted the amount of their financial needs is 10 billion Japanese Yen for their portion.

\* Priority 2 and 3 include Micro Finance Portion, This is to cope with JICA's case where JICA prefers Micro Finance as an urgent needs for short- time employment creation.

Growth Finance	SFD	NBE
Advantage	On-going close relationship with JICA	Small and Medium Industries can be taken up Project identification is fast Strong for SME Loan(75% of SFD fund through NBE) Japanese Entity can use.
Disadvantage	Only for Small and Micro Enterprise Japanese company is not available. Indirect Finance is large (80-85%), though direct lending is available.	

(2) “ Consulting Service incidental to Yen Loan Operation”

As JICA loan is soft loan and quality of loan is very good, when JICA explains well about this TA incidental to the provision of two step loan and that proceeds of loan is also counted as loan outstanding, SFD or NBE would not have any objections.

TA is to be used, for instance, for smooth implementation of the Loan and provision of knowhow including how to apply, support of business plan, business and project administration, risk management, follow-ups, etc. An expert is to be dispatched. The expert with SME expert consultant with a certain official certificate is preferable.

Subject	Contents	Standard Hour (Hr.)
General Subject	Economics/Economic Policy	24
Basic Subject	SME Clinic System, SME Policy, Diagnosis/Guidance Technique	16
Specialized Subject	Business management (Strategy, Organization Issue)	(40)
	Corporate Finance (Finance & Accounting, Management Accounting, Cost Accounting, etc.)	(80)
	Production Management (Quality Control, Process Management, CostReduction,etc)	(160)
	Material Procurement Management	(40)
	Marketing (Shop Operation Management, Sales Management)	(40)
	Human Resource Management, Rearing of Human Resources	(40)
	Management Information System	
	Sub Total	440
Practical Training (OJT)	3 Companies (per One company = 80 hr)	240
Total hours required		720

(Created by Study Team)



(3) TA (Technical Assistance)

The following 5 plans are recommended.

Plan	Reason for take-up	Field of Japan's advantage
1.SFD	Central MEMS promotion Agency, Now involved in Policy matter, Close relation with JICA	SFD request: 5 Project formation SFD Management Administration (HR Dept. including personnel management), Project Management, Establishment of Client service Division
2. KAIZEN Center	Under MIFT, JICA TA experience (Establishment and maintenance) , Performance achievement, Monopoly for quality management and Productivity improvement, famous among African Countries	Quality management and productivity improvement is vitally important for Egyptian industries, Training in Japan and dispatch of experts (deficiency area is specified in the table blow.)
3. IMC	Under MIFT. Focus on enforcement of SMEs, Growth strategy is their target. The largest Governmental consulting agency. Strong relation with SMEs, International Network is available. High performance and good business track records	Deficient area is engineering and chemical, creation industry Energy Sector Dispatch of expert for one year and TOT training in Japan are requested.
4 FTTC	Under MIFT, Specializes in Training for Trade, Trade field is important to strengthen industry. Receipt experience of JICA TA	Preparation of training course to promote trade with Japan
5 Establishment for Specialized SME Bank	Counterpart is MIFT. There are many ideas for SME promotion mechanism. This concept is better for Japanese TA as it can be modeled by the similar Japanese entity	Japanese Model is The Japan Finance Corporation for Small and Medium enterprises(JASME) (If national peoples life is objective, Model is The National Life Finance Corporation) Model of Japan Style Cooperation

The reasons of the five plans proposal are in the following

The reason of SFD selection is;

- SFD is the central implementation agency of the Government for MSME. For the time being, the importance of SFD stays as before. Mainstream business of SFD acts as intermediary for donor funds. But for future, there is a possibility for SFD to change its status as a MSME bank like Japanese SME Bank making direct lending to SMEs. Capacity Development should be enhanced.

The reason of KAIZEN Center selection is;

- KAIZEN Center is a part of ICTI and specializes in quality management and productivity improvement. They owe this monopolistic responsibility. In the actual condition of the Egyptian industry status, these kinds of technology transfer have vital importance. High needs are anticipated.

KAIZEN Center has achieved high performance so far and received many appreciations from industrial customers for their services. KAIZEN Center is indispensable for modernization for Egyptian industry. As it was established by Japanese assistance, successive cooperation might be effective as this area is one of the stronger field of Japanese economy.

The reason of IMC selection is;

- IMC is also one of the Governmental Agency for strengthening of SME under MIFT. It achieved high performance so far and holds about 170 in-house consultants. They have their own growth strategy. In each sector, they want to grow excellent company, at first one company, then second and third company. If this continues, sector will become strong. For another candidate, GAFI is considerable. At present, interest of GAFI stays in Start-up Company. And GAFI is in shortage of in-house consultant, only 7-8 experts. In terms of sustainability, IMC is superior to GAFI.

The reason of FTTC selection is;

- FTTC is a training institution under MIFT focused in training for export trade. Promotion of export trade is also important under the current Egyptian economic situation. JICA TA should be directed to provide training program to enhance trade relation between Japan and Egypt and to put rail for future FTA and/or EPA with Japan.

The reason of establishment of specialized SME bank like Japan finance Corporation for Small and Medium Enterprise (JASME)

- In Egypt, this kind of specialized SME bank does not exist.
- Where private banks come at front to MSME clients, as lenders are usually stronger than borrowers, the weaker borrowers can not gain satisfactory terms and conditions. As shown in the questionnaire answers from the SMEs, they complain about borrowing conditions. There appears so-called “market failure” in economic terms. This situation should be cured in establishing SME bank. 3 months of concept making. Total 1 year TA cooperation is desirable including 3 months of necessary draft law, 3 months of finance guideline and 3 months of institution mechanism building.

Name of subjects	Training		Consultation (Practice)	
	Not needed	Needed	Not needed	Needed
Total Quality Management	√		√	
Total Productive Maintenance	√			√
Just In Time	√			√
Kanban system	√			√
Industrial Engineering	√		√	
5S	√		√	
Quality control system	√		√	
Quality control 7 Tools	√		√	
New Quality control 7 Tools	√		√	
Quality Control Circles	√		√	
Lean Manufacturing	√			√
Value Stream Mapping	√			√
Quality Assurance		√		√
Poka Yoka	√			√
Visual Control	√		√	
Kaizen	√		√	
Productivity Measurement	√			√
Inventory Control	√		√	
Process Capability	√		√	
Facility and Layout Design	√			√
6 σ (six Sigma)		√		√
Plant Maintenance		√		√
Brief Work Factor	√		√	
Supply Chain Management		√		√
Quality Control Story	√		√	
Design Of Experiment		√		√
Toyota Production System	√			√
Single Minute Exchange of Dies	√			√
Failure Mode and Effect Analysis	√			√
Production Management	√			√
Value Engineering & Value Analysis		√		√

Source: Kaizen Center

**Figure 26 Scheduling of TA provision**

**Case1 (TA to SFD) Duration: 3 years**

	First Year				Second Year				Third year			
	1st Q	2nd Q	3rd Q	4th Q	1st Q	2nd Q	3rd Q	4thQ	1stQ	2ndQ	3rdQ	4thQ
Project Formation	[Timeline bar from 1st Q Year 1 to 4th Q Year 3]											
Capacity Development	[Timeline bar from 1st Q Year 1 to 2nd Q Year 2]											
1.Organizaiton mangement	[Timeline bar from 1st Q Year 1 to 2nd Q Year 1]											
2.Personnel Management	[Timeline bar from 1st Q Year 1 to 2nd Q Year 1]											
3.Client Service	[Timeline bar from 1st Q Year 1 to 2nd Q Year 1]											
4.Peoproject Management	[Timeline bar from 1st Q Year 1 to 2nd Q Year 1]											

**Case2 (SFD+NBE) Duration: 3 years**

	First Year				Second Year				Third year			
	1st Q	2nd Q	3rd Q	4th Q	1st Q	2nd Q	3rd Q	4th Q	1stQ	2ndQ	3rdQ	4thQ
Project Formation	[Timeline bar from 1st Q Year 1 to 2nd Q Year 1]											
SFD Capacity B.	[Timeline bar from 1st Q Year 1 to 2nd Q Year 2]											
NBE Capacity B.	[Timeline bar from 1st Q Year 1 to 2nd Q Year 2]											

**Case 3 (NBE+ABA\*) Duration: 3 years**

	First Year				Second Year				Third year			
	1st Q	2nd Q	3rd Q	4th Q	1st Q	2nd Q	3rd Q	4th Q	1stQ	2ndQ	3rdQ	4thQ
Project Formation	[Timeline bar from 1st Q Year 1 to 2nd Q Year 1]											
NBE Capacity Development	[Timeline bar from 1st Q Year 1 to 2nd Q Year 2]											
1.Governance	[Timeline bar from 1st Q Year 1 to 2nd Q Year 1]											
2.Finance Product	[Timeline bar from 1st Q Year 1 to 2nd Q Year 1]											
3.Risk Management	[Timeline bar from 1st Q Year 1 to 2nd Q Year 1]											
4.IT	[Timeline bar from 1st Q Year 1 to 2nd Q Year 1]											

\* As to ABA, depending on their request

**Case 3 Capacity Development (Kaizen Center / IMC / FTTC as common) Duration: 2 years**

	First Year				Second Year			
	1st Q	2nd Q	3rd Q	4th Q	1st Q	2nd Q	3rd Q	4th Q
Training in Japan 3 staffs	[Timeline bar from 1st Q Year 1 to 2nd Q Year 1]							
Dsipatch of Expert					[Timeline bar from 1st Q Year 2 to 4th Q Year 2]			

**Case 4 Specilatzed SME Bank Duration: 1 year**

	First Year			
	1st Q	2nd Q	3rd Q	4th Q
Idea	[Timeline bar from 1st Q Year 1 to 2nd Q Year 1]			
Draft Law	[Timeline bar from 1st Q Year 1 to 3rd Q Year 1]			
Loan Guideline	[Timeline bar from 1st Q Year 1 to 4th Q Year 1]			
Draft Organization	[Timeline bar from 1st Q Year 1 to 4th Q Year 1]			

(4) Utilization of MENA Transition Fund (MENA Transition Fund)

6 Egyptian TA projects for MENA Transition Fund has been approved at present as shown in the following table. For application, Egyptian Ministry in charge and ISA (Implementation Support Agency) will cooperate.

Country Name	Name of the Project	Amount (US\$)	Approval Date	ISA(s)
Egypt	MSME Support Program	2,936,080	February 20, 2013	EBRD
Egypt	MSME in Organic Clusters	2,000,000	February 20, 2013	AfDB
Egypt	Logismed Soft Project (Regional)	1,565,403	February 20, 2013	EIB
Egypt	Green Growth through Industrial Waste Management	2,000,000	May 15, 2013	AfDB
Egypt	Energy Social Safety Nets Sector Reform Technical Assistance	7,097,200	May 15, 2013	WB
Egypt	Regional Integration through Trade and Transport Corridors (Egypt Activities)	4,230,000	June 7, 2013	EIB
Egypt Total		19,828,683		

(Source: MENA Transition Fund)

When JICA identifies TA project which might be a good candidate to apply for MENA Transition Fund (MENA FUND) for its finance cooperation, there is a possibility for utilization for MENA Fund, in conjunction with one of the ISA (International Finance Institutions)

One possibility is to improve export procedures which bear a lot of complaints from SMEs. Exporters have suffered from severe export regulations. They resulted in hindrance of export facilitation and increase. For instance, glass products exporter has encountered problem of safe custom clearance for a burglar and difficulty for obtaining export permission. Water buffalo cheese producer said export permission is very difficult to obtain. Olive Oil and other producer said that it took a lot of time to clear quality inspection prior to export. Quick export is impeded. Deregulation might be necessary.



(2) Follow-up items for further study to actualize fund cooperation from JICA.

Study Item	Visit	Matters for Investigation
1.MSEM Policy/System	SFD	Hearing and consultation on the MSE National Strategy to be completed in the end of September
2.Make consultation for actual fund cooperation	1.SFD	1. Getting medium financial gap plan of SFD, discuss about next two-step loan (loan amount, small enterprise finance, direct lending or indirect lending, allocation for Micro Finance, Terms and conditions for Final Borrowers, Criteria of taking up sub-Loan, Designation of Intermediary, etc.
		2. Consultation on TA (Loan Account) Contents of TA based on SFD request
	2.NBE	1.Credit Investigation of NBE 2 Confirmation of NBE's interest for two-step loan, Consult about loan terms (Amount, selection of projects, Sub-loan conditions, Loan Report or other JICA requirement etc., Confirmation of receipt of TA (loan) and TA contents
		3.In case of Micro Finance, designation of MFI, Sub-loan terms, follow-up procedures, Report and administration matters
3.Provision of TA	1.SFD	SFD Capacity Development: actualize TA based on SFD request
	2.KaizenCenter	Kaizen Center Capacity Development: Actualize, based on their request
	3.IMC	IMC Capacity Development, actualize,based on their request
	4.FTTC	FTTC Capacity Development, actualize contents of TA which contributes promotion of trade between Japan and Egypt
	5.MIFT	Consultation about establishing specialized SME Bank for JICA TA

(End)