Access to Finance for Micro and Small Enterprises in Egypt

Overview

Despite being the main source of private sector jobs and the largest sector of enterprises that exist in Egypt, micro and small enterprises (MSEs) face great difficulty in gaining access to finance. Analytical work conducted by the Bank shows that firm size is the single most influential factor associated with whether or not a firm had a loan and it is estimated that around 2.1 million MSEs in Egypt do not have access to finance. As a result, the Enhancing Access to Finance for Micro and Small Enterprises, a US$300 million investment loan to Egypt, delivered a line of credit to the Social Fund for Development (SFD). This fund, the apex institution for MSE finance in Egypt, on-lends funds to eligible microfinance nongovernmental organizations (NGOs) and banks, which in turn on-lends to MSEs with a focus on the most marginalized geographic areas as well as women and youth.

Since its first disbursement in April 2011, the program has served more than 4,000 MSEs, of which approximately 1,000 are women entrepreneurs. Furthermore, the preparation of this loan has proved to be a major catalyst for reform through redefining the way in which the SFD operates, and hence micro and small finance operations in the broader and more general sense.

Challenge

Micro and small enterprises suffer from limited access to financial products. In most of the poor villages, there are no banks or NGOs that operate on a small enough scale. The only institution that is familiar to the residents that has any type of capacity is the post office. Access to finance is also a serious problem for women entrepreneurs due to geographical and cultural barriers. Another major obstacle for MSEs is a lack of financial products that are Sharia (Islamic) compliant.

Approach

In response to a request from the new Egyptian government to maintain job creation as a priority, and to ensure the financing needs of micro and small businesses were met, disbursement to the fund was accelerated. A lending mechanism centered on post office windows was developed to cater to MSEs in even the most
remote areas. The fund also included windows that directly target disadvantaged women in the poorest villages in Egypt. Furthermore, this operation also included a Sharia-compliant Islamic finance product catering to the needs of the potential MSEs that are currently outside the formal financial system.

A number of innovative solutions were discussed, including granting NGOs and the micro and small enterprises to which the SFD directly lends, a grace period of three months that will allow them to get their business in order and not be characterized as de facto defaulters. The Ministry of Finance, which has expressed a great deal of interest in supporting MSEs, was encouraged to subsidize part of the high interest rates that are charged to the end beneficiary. In doing so, the SFD can help MSEs cut costs without enforcing a cap and distorting the market.

Results
The project began disbursing in April 2011. As of January 2012:

- Egyptian pound LE 412.5 million (approximately US$ 68 million) has been disbursed to NGOs and banks.

- A total of LE 367.5 million (approximately US$ 61 million) has been lent to micro and small enterprises, with approximately 25 percent of these beneficiaries being women entrepreneurs.

- The project has served more than 4,000 MSEs, of which approximately 1,000 are women-owned in urban and rural areas in different governorates and villages across Egypt.

Moreover, this project has had a strong impact on developing the MSE sector through initiating critical reforms, including:

- Removing ceilings on the interest rate that Microfinance Institutions (MFIs) and NGOs can charge end beneficiaries; and

- Raising the previously low LE 5 million ceiling of its loans to NGOs to LE 25 million.

Voices

“I started this business to help support my family in the wake of the January Twenty-Fifth Revolution with the decline in tourism that affected my husband’s business.”

— Marwa Essam, a mother of three from Qenna, was struggling to make ends meet before she received a LE 100,000 (about $16,800) loan to open her own corner supermarket.
Bank Contribution

The Bank's contribution was in the form of an investment loan of US$300 million accompanied with technical assistance and advisory services. This operation was prepared by a joint team—the World Bank, the International Finance (IFC), and the Consultative Group to Assist the Poor (CGAP)—providing an excellent model of partnership.

Partners

The World Bank team has worked in coordination with numerous development partners and donors who are providing technical assistance to micro and small finance providers and for related non-financial services to MSEs to ensure synergies and prevent a duplication of work. Development partners include the U.S. Agency for International Development (USAID), the African Development Bank (AfDB), the European Union (EU), the Canadian International Development Agency (CIDA), the German Development Bank (KfW), the Japan International Cooperation Agency (JICA), the Arab Development Bank and the International Fund for Agricultural Development (IFAD). The Bank chairs the MSME Donor Subgroup that meets once a month and includes representatives from all the aforementioned agencies and ensures the optimal use of grant and loan resources.

Moving Forward

Moving forward, the project team is documenting the challenges and also the recent developments post-revolution, taking into account all the lessons learned. Now, the project will incorporate these lessons learned during implementation, and in the design of other MSE projects in the Middle East and North Africa Region.