FEMIP

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The authors take full responsibility of the contents of this report, an independent feasibility assessment. The views and opinions expressed do not necessarily reflect the view of the European Investment Bank. Although this Document has been prepared in good faith and with the due professional care, this is a global view of the various Mediterranean countries and more in-depth specific analyses will be necessary for the implementation of a number of the proposed instruments if and when a decision is taken on the launch of the Initiative.

ABBREVIATIONS and ACRONYMS

ABU	Autonomous Business Unit
AfDB	African Development Bank
AFD	Agence Française de Développement
AKAM	Aga Khan Agency for Microfinance
BFPME	Banque de Financement des PMEs (Algeria)
BTS	Banque Tunisienne de Solidarité
CCG	Caisse Centrale de Garantie (Morocco)
CGAP	Consultative Group to Assist the Poor (Microfinance)
CGCI PME	Caisse de Garantie des Crédits d'Investissement des PME (Algeria)
CIDA	Canadian International Development Agency
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DFI	Direct Foreign Investment
ESFD	Economic and Social Fund for Development (Lebanon)
EIB	European Investment Bank
EIF	European Investment Fund
EU	European Union
FEMIP	Facility for Euro Mediterranean Investment and Partnership
FMO	Nederlandse Financierings Maatschappij voor Ontwikkelingslanden Netherlands Development Finance Company
FGAR	Fonds de Garantie des Crédits aux PMEs (Algeria)
FNG	Fonds National de Garantie (Tunisie)
GTZ	Gesellschaft für Technische Zusammenarbeit
Gvt	Government
HR	Human Resources
IFC	International Finance Corporation
IFI	International Finance Institution
JEDCO	Jordan Enterprise Development Corporation
KfW	Kreditanstalt für Wiederaufbau
LGIS	Loan Guarantee Institution of Syria
m	Million
MCC	Millenium Challenge Corporation
MFI	Microfinance Institution
MoF	Ministry of Finance, Ministry of Economy and Finance
MSE	Micro to Small Enterprises
MSME	Micro to Small and Medium Enterprises
MPC	Mediterranean Partner Countries
NBE	National Bank of Egypt
NGO	Non Governmental Organisation
SAR	Syrian Arab Republic
SEBC	Syrian Enterprise and Business Centre
SFD	Social Fund for Development (Egypt)
SME	Small and Medium Enterprises
Syria	Syrian Arab Republic
TA	Technical Assistance
ToR	Terms of Reference

Exchange rate (Source: Inforeuro)

1 Euro	Algeria (DZD)	Egypt (EGP)	Jordan (JOD)	Lebanon (LBP)	Morocco (MAD)	Syria (SYP)	Tunisia (TND)
31/12/2008	86.18	6.96	0.915	1944	11.07	58.87	1.76
31/12/2009	107.73	8.19	1.06	2248	11.39	68.15	1.92

Executive summary

The main objectives of this report are to assess the unmet needs of micro, small and medium enterprises- MSMEs- (both in terms of finance and assistance) in the Mediterranean Partner Countries[1] (more specifically in Algeria, Egypt, Jordan, Lebanon, Morocco, Syria and Tunisia) and to evaluate the feasibility as well as the various implementation options for organizing and structuring the proposed Mediterranean Business Development Initiative. As per our TOR, "the Initiative will provide a toolkit of both financial instruments and technical assistance activities".

There is recognition, in all surveyed countries, of the importance of MSMEs and the wide array of Government programmes dedicated to the development of the MSMEs. The implementation of the Euro-Mediterranean Charter for Enterprises (MED Charter) has increased awareness of the issues at stake and provided a framework for improving the business environment. Most of the instruments for the development of SMEs, and addressing the problems listed below, already exist (with differences and some gaps according to countries). However, those programmes differ widely in efficiency and focus as well as in volume.

This executive summary presents briefly the findings, the proposed financial instruments and their associated TA, the possible organization for the structure and a business plan.

1. Key findings

The key points which emerged from the fact finding missions and from our analysis are:

(i) Financing and access to finance are considered as the most important problems for MSMEs. *Most banks have liquidity, but only 15 to 20% of SMEs have access to finance. The access to finance and the needs of MSMEs varies with their size. The largest and more structured SMEs have no particular difficulty in their access to financing in the countries with an efficient banking sector. They also benefit from most SME programmes. The next levels of SMEs, the micro-enterprises, and the start-ups are the ones which require most support. Segmentation in the population of MSME is thus needed to better differentiate and understand their needs and to tailor instruments. A field assessment of the various segments indicates different attitudes according to the volume of sales and number of employees which should be addressed in the design of instruments.*

(ii) The family structure of the target enterprises *often leads to a lack of transparency and to an inefficient use of human resources (hiring according to family membership rather than capacity). Most enterprises are undercapitalized with a significant current account from associates, in order to retain flexibility and family control. This prevents the banks from lending, unless they can obtain significant guarantees.*

(iii) The limited capacity (mostly shortage of trained professionals) of existing financial institutions to process financing proposals, and the need to train professionals in the main proposed fields of intervention. *The situation varies from one country to another, but this may prove to be one of the major constraints to fully benefit from MBDI financing, and leads to some of the proposed actions.*

(iv) The surveyed countries are quite different (in terms of size and degree of State intervention, use of financial instruments, size of the internal market, trade links), but they face similar challenges. *While common instruments and criteria must be retained for all the projects of a given category covered by the Initiative, the implementation will have to take into account each particular situation and tailor-made approaches will be needed.*

(v) Although special social programmes are devoted to women, we found no significant MSME programme devoted specifically to women *(except a few microfinance schemes and incubators). Women entrepreneurs, though, have specific problems, due in particular to cultural factors, to the fact that women own very few properties that can be used as collateral, and to the scarcity of women in the workforce and in*

[1] / with the exception of Israel and Turkey which are under different development conditions

management positions

(vi) The importance of non-financial constraints which should be addressed in parallel to, or jointly with, financing, to avoid failures of the proposed programmes. *Those constraints have already been highlighted by numerous studies, and can be broadly summed up by surveys such as the Doing Business and Global Competitiveness reports. The Euro-Mediterranean Charter for Enterprises has set a framework and targets for improvements (some of which are already visible). However, the solution to most of those constraints (especially those related to the business environment and to infrastructure) falls outside the scope of this project, as defined in our terms of reference.*

(vii) There is a need for coaching and supporting small entrepreneurs as well as new entrepreneurs *to ensure that they sail through their first years of operation. A major reason is that there are very few large enterprises where young graduates can start as junior or even as interns, where they can learn from more experienced professionals. This increases significantly the risks of failure. All stakeholders agree that a first work experience considerably increases the chances of success. The incubators act as proxy, but more support, mentoring and coaching are needed for young entrepreneurs. There are embryos of entrepreneurs' networks in a few countries, but this has to be organized and developed to secure impact.*

(viii) The major importance of the implementation procedures *(in terms of speed of decision, procurement procedures, documentation required, independence and margin of decision of the project teams), which have proved critical to the success or failure of past private sector projects. The Initiative should have the possibility to refocus its action, if the initial actions prove obsolete or impractical after a few years. The procedures should be simple, user-friendly to meet the needs of the smaller and micro-entrepreneurs.*

(ix) The local implementing bodies must be private, or public with an independent management, or any form of public private partnership. *In several countries, public sector financing schemes for the SMEs and new entrepreneurs have shown that the urge to repay money borrowed from a State-owned institution is low. Borrowers tend very often to assimilate a loan from the State to a grant, and the Governments may be reluctant to seize the assets of defaulting citizens.*

(x) The impact of the crisis on the banking sector has been limited (almost non-existent) if compared to Europe *(mostly more difficulties to access foreign exchange). But the crisis has impacted some of the real sectors, in particular export industries and tourism. The foreign exchange risk still exists and may even have increased due to the higher costs of hedging. The main impacts are a decrease of remittances (thus decreasing the family money available for their small business) and an increase of unemployment. This may add to the expected relevance of the MBDI.*

(xi) There is a demand for the development of partnerships with European companies *(though this varies from country to country)**.*** *Numerous Mediterranean forums, associations, bi- or multilateral chambers of commerce, already exist, and are not within the scope of this Initiative.*

2. Complementarities

To be successful, this Initiative should complement and build on (i) existing local resources and (ii) current and projected MSMEs financing and assistance programmes. It will not duplicate them, but complement their action by creating new supportive programmes or by taking part to the existing schemes. For example, as banks are liquid, the initiative should not propose lines of credit, but instruments and incentives to mobilize the local money towards SMEs. In microfinance, although there is room in most countries for more institutions (several of them are being considered), the objective is not necessarily to create new MFIs but to create or reinforce mechanisms which will allow them to function better (guarantees or counter guarantee funds, regional training centres, reinforcement of credit bureaus). It could also participate to existing or proposed financing schemes. With capital investment, it should not compete with existing funds, but (i) provide confidence to mobilize private funding; and (ii) target sizes of companies (small companies) not covered at this stage and badly needing equity funding. With guarantees, it should not create new institutions, but focus on improved guarantees (and financing of new programmes) and counter guarantee schemes and on technical assistance to existing institutions.

The business environment differs widely from country to country and is a pre-requisite of a proper MSME development. We consider that other programmes are already addressing these issues (in particular EU programmes, OECD, the World Bank, IFC and USAID to mention a few) and little complementarity could be provided by the MBDI.

Complementarity would also mean better coordination with other donors to avoid duplication of programmes, and sometimes joint programmes should be developed with some of the donors as the case may be. The MBDI may be seen as a platform to better coordinate financing and cooperation programmes.

3. Proposed actions

Taking into account those findings and the existing financing and support mechanism, we are proposing various financing actions (with the associated TA and training support), with ***a strong focus on the micro and small enterprises, the currently orphan segment****. Technical Assistance and coaching are included in practically all proposed activities, as providing some amount of TA with the financial instruments improves significantly their efficiency. In developing our proposal, we have tried as much as possible to build on existing institutions, with the necessary strengthening measures if needed.*

The objectives of the main proposed actions are:

- ⇒ ***To strengthen MFIs for their operations addressing micro-entrepreneurs***
- ⇒ ***To strengthen the equity base of SMEs, and in particular the very small ones,***
- ⇒ ***To improve access to finance of SMEs through a counter-guarantee fund and, under some conditions, support to existing guarantee funds***
- ⇒ ***To improve access to finance for very small entrepreneurs, and for entrepreneurs with higher difficulties to access finance: new entrepreneurs, women.***

Action is also needed to train professionals in order to achieve the expected impact.

In practice, the mix of actions may differ from country to country to take into account each country's priorities.

3.1. Financing micro-entrepreneurs through the development of microfinance institutions (MFIs) and new microfinance products

We propose the MBDI focuses mostly on business-developing microfinance (individual loans to micro-entrepreneurs). The potential market for microfinance is much higher than its current outreach. MFIs do exist in nearly all countries, but they could very much benefit from additional technical assistance, funding, and from the implementation of risk mitigation mechanisms. The MBDI could promote the development of existing MFIs or new ones (in some countries, there is a need for mergers, in others a need for new institutions) through financing (loans and equity if and when legally authorised), technical assistance to improve operations and develop new markets (including up-grading to better serve the micro-entrepreneurs segment), training, and guarantee schemes (the later instrument would enable the MFI to get loans from their country commercial banks). The MBDI will assist them with the introduction of new products (such as micro-insurance, micro-credit in rural areas, mobile banking for microfinance). It will also assist existing efforts by Central Banks and donors projects for the evolution (or creation) of credit bureaus, so that those bureaus answer the needs of MFIs (i.e. include all types of lending, be cheap enough for MFIs). When no such institution exists, it will foster its creation. The MBDI could also promote the rating of MFIs which would enable them to obtain more funding from financing commercial institutions.

Given the small size of most MFIs, they would not be able to cover a foreign exchange risk[2], and all loans/equity would need to be in local currency, with the foreign exchange risk being taken by the MBDI.

[2] Currently some private investment funds targeting MFIs have liquidity, but cannot lend in most countries of the region due to non-convertibility of the currency and to the prohibitive cost of their offer if it has to include a foreign exchange hedging.

*MBDI should also focus its **support in developing the businesses of micro-entrepreneurs with potential**, which means assisting the largest MFI to offer larger loans and support, with an appropriate methodology and the necessary coaching/ support of the client (marketing, quality, design, etc). Some conceptual work (or pilot) has to be financed to "industrialize" the processes, both for lending and coaching.*

3.2. Improving the equity base of SMEs through a support to investment funds/ risk capital, and to pilot funds for small enterprises

***Capital investment funds** do exist or are about to be launched in nearly all countries (most of them with EIB as an investor, with FEMIP funding and many of them with IFC, Proparco and other bi-lateral investors). However, they target mostly the largest SMEs, as the cost of investing in the smallest ones would be too high using the current model. The MBDI should continue to support this activity in order to increase private financing in this segment (an EIB investment today or a MBDI investment in the future, is providing not only funding but, more important, confidence to would-be private co-investors).*

***Investment funds targeting small enterprises** (smaller end of SMEs) incur extra costs: (i) larger number of due diligence while a due diligence is almost as costly for a small company than for a large company; (ii) convincing family SMEs owner; (iii) assembling a meaningful documentation, etc. are time consuming. Finally, traditional exits (Stock Exchange, sale to a strategic investor) are almost impossible. This explains why fund managers are not targeting this segment. In order to motivate them to target this segment, there is a need to provide them with incentives and to support the creation of a new model. Pilot funds will have to be created to test new approaches. For example, those funds may have a more "blanket" approach to company evaluation. They may target a larger number of enterprises (for example some 40 to 50 each against 10 to 15 in present funds) to get a scale effect and mitigate risk, have a longer time horizon (maybe up to 15 years with a revolving fund). They may also have different class of shares for public/ institutional and private investors. They will have to provide both financing and coaching to the investees, and the coaching and support may have to be provided through a grant. Developments of various innovative approaches to this issue will be asked to professionals through specific calls for proposals. In addition, other types of funds such as seed and early stage funds will be supported.*

The provision of guarantees for investors (see below) may be an additional incentive for investors to target the smaller companies.

3.3. Increasing access to finance for SMEs through a support to guarantee institutions and the creation of a counter-guarantee fund

Guarantee institutions (under different legal forms) exist. Dozens millions of Euros have already been spent in the region by donors (and in particular EU) in order to start or support such funds. While those guarantee funds are necessary, can be improved and supported by the Initiative, a cautious approach should be taken before defining the type and volume of financial support which could be brought by the initiative to a specific institution. In particular, a careful evaluation should be done ex ante and some of the funds or guarantee companies would need a complete overhaul before any money (be it direct funding or counter-guarantee) is committed and disbursed.

*In addition to direct funding to the institutions (with equity or loans), it is proposed to create a **Mediterranean counter-guarantee fund to increase the leverage.** In addition, this fund may also provide advice to the guarantee institutions and create and support a guarantee network.*

*For the time being, the guarantees are mostly provided for bank loans. With the probable and necessary growth of equity investments through funds or other instruments, it might be interesting to promote **guarantees for equity/ quasi-equity investments**[3]. This would require both additional funding and specific know-how.*

[3] / An investor, usually an investment fund, would be guaranteed at 50 to 70% of its initial investment in a small enterprise in case of bankruptcy of its investee.

*Support to the **development of new guarantee instruments** (with both funding if needed and TA) could be provided by the MBDI such as*

- *Portfolio guarantees for certain banks with proven and efficient SMEs activities*
- *Guarantees for long term loans for specific activities (with long term profitability) such as arboriculture, clean tech and sustainable energy, etc...*
- *Guarantees of Women enterprises (see below)*
- *Guarantees for innovative enterprises*

3.4. Support to SME segments with higher difficulties to access finance

3.4.1. Support to start-up enterprises through start up funds and industrial parks

In the Mediterranean region, new entrepreneurs rarely have an enterprise experience. Various programs provide awareness on entrepreneurship, but much more is needed, and financing is only one aspect of the problem of how to grow start-up and micro-enterprises into small and later medium size enterprises.

*Start-up and early stage funds are still a rarity. Incubators exist (financed by governments and a number of donors), and are starting to develop even more, but the existing programmes have much to do to attain the level reached in some other countries. These programmes are generally supported by public funding and fall outside of the proposed aim of the MBDI. However, **MBDI can complement existing programs** and bring follow-up activities to strengthen them:*

- *Creation of seed and early stage funds*
- *Support to learning from experienced professionals. Creating or strengthening the network of business angels and mentoring /coaching by seasoned entrepreneurs from both Partner countries and European countries,*
- *Promotion of new entrepreneurs, entrepreneurs of the year, getting specific financial (with soft loans) and coaching support, and assistance to get European partners, as the case may be.*

***Business/industrial parks** proved a very effective way to bolster the implementation of enterprises of all sizes. This type of activity is growing, but assistance from the MBDI could reinforce them, especially in providing access to smaller facilities adapted to the needs of smaller companies or central business park for services in cities where getting space is difficult or very costly. This type of activity can be implemented as Public Private Projects. The availability of small workshops and offices can be complemented by the creation of dedicated Business Support Shops providing accounting, HR, financial advice.*

3.4.2. Support to women owned enterprises

Women entrepreneurs would deserve a specific programme (TA and finance) to foster the development of their enterprises and the role of women in the modernisation of the Mediterranean society. This should not be a "charity" support, but actions to compensate specific difficulties

- *Higher guarantees for loans extended to genuinely women owned and managed enterprises to compensate for their lack of collateral, (but of course there should be no difference in the appreciation of the investment to be funded by the loan)*
- *Support to incubators for women-owned projects,*
- *Coaching and support to women associations, etc.*

In order to promote women, it may also be envisaged to require a minimum percentage of women in the management teams of the institutions financed by the MBDI, or that institutions such as MFIs and Investment funds have a given percentage of women managed enterprises in their portfolio (e.g. similar to the covenants on environment).

3.4.3. Increasing the volume and outreach of other financing instruments such as Leasing and factoring

Leasing is already developing at a satisfactory rate in the Maghreb region and in Egypt where there are already strong leasing companies (most of them linked with banks) which do not require support from the Initiative. However, it is not yet having its full impact in the Levant region (recent laws and law just under finalisation in Syria). There is a need to diversify the instruments and to develop the market in these countries. This activity

*may be developed as a case of **intra-Mediterranean cooperation supported by the MBDI and by Mediterranean specialized lessors** with equity, loans and TA. Other donors having experience in this field such as IFC could also contribute to this development. Furthermore, some lessors have developed interesting new products or approaches, close to Islamic financing, which can be developed and shared with other lessors of the region. Again, this could be a good example of intra-Mediterranean cooperation.*

Factoring is also badly needed (recovery of payables seems to be a real problem in one or two countries), and is existing only in some MPCs. MBDI may support the development of this activity through joint equity financing with specialized private companies and other donors.

3.5. Support to training of finance professionals

The insufficient number of qualified professionals, in microfinance, investment funds and guarantees may block or delay the implementation of the proposed actions under the MBDI. *In order to eliminate this potential bottleneck, professional training is needed. Training centres and internship will have to be developed to train professionals, as human resources is one of the main limiting factors of this industry.*

Finally, the MBDI may support a number of associations and institutions directly related to SMEs financing.

4. Proposed volume

Based on intensive field work in the seven countries, various analyses and forecasts, as well as assessment of current and potential programmes of other donors and financing institutions, we have evaluated the global MBDI financial needs of the countries under review at about 2.2 billion EUR for four years, with a major focus on counter-guarantees, investment funds and microfinance. This financing covers also catalytic activities for the future, such as young entrepreneurs, innovative enterprises, women entrepreneurs and very small enterprises[4].

5. Proposed organisation and disbursement criteria

5.1. Organization

*The participation to the MBDI will be based on voluntary membership. In order to structure such an organization, we have investigated two broad concepts: either to locate the new Initiative next to an existing institution, providing experience and support and able to be operational rapidly (option I and II) or to create a new institution (option III), with more political visibility, but which will take more time to create and would be more costly. All options have MPCs branches/offices or work with intermediaries with local outreach, as **working with SMEs and Micro-enterprises is a proximity business**. There might also be a dual source for funding: (i) the funds brought by the MBDI itself, with the objective of at least breaking even, and (ii) other funds, which could be brought by other donors, and which could co-finance certain instruments.*

In all the three options, the organisation should have:

- *A **Strategic Board, staffed by representatives of EU Member States and Mediterranean Partner Countries**, that will make decision on strategy and policy, volumes, instruments, and control (with an audit sub-committee if necessary) .*
- *A **Financing Committee**, staffed with EU and MPC professionals. This committee will make the individual investment decisions, following the guidelines set by the Strategic Committee and upon proposal from the MBDI staff. The financing committee may be split into sub-committees according to*

[4] Our mandate has been to design a sustainable institution, operating under market conditions. We have interpreted this as TA and supporting grants proposed within MBDI to be financed by profits from other activities. However, during the field work, we met various demands requiring soft loans for infant activities or grants to support the transfer of know how, the development of associations, etc. Two solutions can be envisaged to cover these needs, not included in our study: (i) mobilizing grant funding from individual donors on a case by case approach; or (ii) creating a trust fund with contributions of various donors and management by the MBDI. In view of the current multiplicity of activities and the difficult perception of aid in the field, we believe that the constitution of a trust fund managed by the MBDI might be the most efficient answer.

the investment being considered.

- ***An operational staff of Mediterranean and European professionals**, in the Central Headquarter and in the country branches. This staff will be in charge of proposing budgets, strategies to the Strategic Committee, of proposing investments to the Financing Committee. It will be in charge of implementing the decisions of the Strategic Committee and of the Financing Committee.*
- ***Independent monitors, evaluators and auditors.***

Option I: Organisation similar to FEMIP, with the Creation of an Autonomous Business Unit (ABU) within EIB. *The MPCs will be involved in the decision-making process (representatives at the Strategic Board and in the financing committee) and in the professional staffing of a dedicated MBDI Autonomous Business Unit in EIB (staff should come from EU and MPCs). The country teams (necessary as MSMEs financing is a job of proximity) would be initially hosted by existing offices of EIB or other donors in the country. This organisation could be very rapidly operational and cost effective as it would benefit of the infrastructure and staff from EIB (lawyers, IT, HR, treasury and back office, etc...). Most proposed projects would be appraised by the staff of the MBDI, although some variants may be allowed over time.*

***Option II: Partially decentralized organization with a dedicated EIB Autonomous Business Unit as above, but an important part of the processing outsourced** – Financing is mainly processed by decentralized and privately managed structures organized in funds (e.g. microfinance fund, fund of funds, counter-guarantee fund). In these cases, the financing decision will be made at the level of each privately managed institution. Those institutions (probably consortia of EU/MPC public/private experienced institutions) will be chosen through international tender following a call for proposal based on pre-set criteria. Their Terms of Reference should include, in particular, the targeted clients. The smaller central team of the ABU will be focussing (i) at the beginning on designing the decentralized funds and selecting fund managers and (ii) on all projects during the first year and afterwards on projects outside the funds' mandate, on not yet mature projects (e.g. guarantees until the institutional aspects are cleared), on new/special projects, e.g. pilot fund(s) for small enterprises, or development of new instruments (e.g. mobile banking, Islamic instruments, postal banks, etc) as well as supervising and monitoring the funds. This organisation would take some time to be fully operational with funds, although centrally prepared projects may be financed during the first year until the private managers are appointed. The advantage of this organisation would be to mitigate the risk of political interference (the financing committees of the funds will have a total independence); it will also provide a professional to professional approach.*

Option III: A separate agency to manage and finance the projects. *This option, which offers more visibility, would require having a complete staffing (Treasury, Legal department, Human Resources, IT etc), while in the above options, the support staff is shared with another institution, e.g. EIB. It will certainly take a significant time to establish, delaying the implementation by more than one year in our view. Moreover, the cost of creating a new structure will be higher. There is a risk of seeing the agency continuing its activity while this type of assistance is supposed to have a limited time frame and a volume decreasing over time. The Agency will have to establish its financial international cooperation agreements and its credibility. While interference may exist in all cases, the risks of seeing the political interference have the upper hand over market and development considerations seems higher to us with this option.*

Option I and II, as ABUs may evolve over time as necessary if the EIB organisation and mandate were to be changed... They also benefit of the credibility of its "host" institution. Option III, a separate agency may have more political visibility, but will take more time to be operational, and would be more costly. It will have also to establish its own credibility.

In all cases, we believe that the FEMIP activities (and may be portfolio) related to the MBDI proposed actions should be transferred to the MBDI.

5.2. Disbursement criteria

The disbursement criteria will have to be precisely set by the Strategic Board. The generic, most important points to be considered are:

- *First come, first serve, with no country-specific amounts*
- *Private sector operations or supporting schemes, with MSMEs as main target*

As mentioned in the key findings, the procedures should also ensure that:

- *The disbursement procedures and specific criteria and targets permit a speed of decision, while retaining the usual professional caution.*
- *User friendly approaches are introduced at all stages, to effectively reach the smallest SMEs.*

6. Business Plan

The evaluation of probable disbursement, cost and repayment (no repayment for TA and training activities) of the proposed MBDI has been done taking conservative hypothesis if compared to international benchmarks. The evaluation has been computed over an 11 years period. Disbursements are expected over a 4 years period (a little longer than originally expected in the ToR) to take into account the time needed to set up the MBDI institutions in particular in option III. The repayments will not start before year 6 (year 7 in option III), and will continue until year 11 (year 12 for option III) depending of the structure of the various instruments.

The professional staff and the unit cost for staff (including all direct and indirect expenses associated with the staff) have been evaluated using comparisons with other international institutions. The management fees (in the case of option II and for the counter-guarantee fund) have been set at 1.4% of funds under management, which is in line with the practice of current funds.

Key results from the 11 years business plan (based on 2.2 Billion EUR financing with zero financial cost)

All finance data in Million EUR

	Option I	Option II	Option III
Approx. number of professional staff	50 (60 in peak years)	50 at the beginning Then 40	Average 66 (78 in peak years)
Expenses (staff + Management fees) Non discounted	249	302	386
Cumulated Treasury Balance after 11 years (non discounted)	-32	-83	-241*

**in this option, due to a late start, the repayment extends to year 12.*

Our calculation indicates that the profits generated over the 11 years period will more or less cover the TA and training costs (grants evaluated for a total of 300 million EUR), the cost of instruments which are unlikely to generate profit (e.g. guarantees, innovation and new companies loans) and the foreign exchange risk of loans and guarantees for MFIs.

7. Conclusions

The Mediterranean MSME and particularly the smaller and micro-enterprise sector have huge needs for additional financing, probably around 2.2 billion EUR for the Mediterranean zone of the seven countries under review. The creation of a Mediterranean Business Development Initiative is feasible and sustainable. It is almost covering all the proposed associated TA and training costs (300 million EUR) which are, at this stage, necessary to the development of the MSMEs. Such an initiative would be able not only to provide financing and technical support, but also to leverage additional funding from other donors and private banks and investors. Our estimate would have to be refined once a final decision on the instruments, the pricing, the geographical coverage and the structure of the MBDI has been finalized.

The proposed MBDI will foster the development and competitiveness of the MSMEs in the Mediterranean region. It would also help "industrializing" the MSMEs financing approach and as such, contribute to the decrease of processing costs. This would contribute greatly to the economic growth, employment creation and poverty alleviation.

The organisational analysis shows that option I and II (in both cases, an Autonomous Business Unit next to an existing financial institution) may evolve over time and can be adapted; it may also benefit of the credibility of its "host" institution. Option III, a separate agency may have more political visibility, will take more time to be operational, and would be more costly. It will have also to establish its own credibility.

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TABLES

1. Introduction

This report presents the findings of the feasibility study of the Mediterranean Business Development Initiative, as per request of the EIB. It is based on deskwork (information available on Internet or other public sources, on personal files of the consultants), on data assembled by EIB, on the work of the Spanish/Italian team for Maghreb countries and Egypt, and, mostly on data and ideas gathered through intense fact finding missions in all the selected seven countries (Algeria, Egypt, Lebanon, Jordan, Morocco, Syria and Tunisia) as requested in the original TORs and in the December 2009 FEMIP meeting. The interviews were held with public institutions, with major donors, with private or public private institutions (banks, MFIs, funds, associations, business development organisations, etc) and with private entrepreneurs. These interviews were critical to gather data; to cross check previously obtained information, to discuss major issues and constraints, to test cooperation ideas, and their acceptability; and to identify new directions for stimulating a solid and sustainable growth for the SMEs and micro-enterprises .Some interviews were also conducted in Europe.

In the field (close to 200 interviews in the seven Mediterranean Partner Countries and numerous contacts in the EU), the team has focussed on

(i) gathering information on the unmet needs of the SMEs and micro-enterprises in the Mediterranean countries as well as on the current cooperation and financing programmes;

(ii) identifying the problems that may have occurred in the past with certain programmes; or conversely identifying causes of success;

(iii) confirming and identifying major non-financial constraints

(iv) understanding the gaps where the MBDI could be useful, as well as the possible links between financing and technical assistance; and

(v) testing some ideas on possible structuring and disbursement of the proposed MBDI funding.

Based on their analysis, their experience, their understanding of the organisation and operations of a number of multilateral financing institutions, the consultants have attempted to propose feasible organisational options taking into account the principles as set in their mandate:

- *Value added and additionality in order to achieve complementarities and avoid any possible overlapping with already existing instruments or programmes*
- *Market orientation*
- *Co-ownership by the Mediterranean Partner Countries (MPC)*

This independent assessment has been conducted between July 2009 and February 2010. The report has been prepared by a team assembled by ECO from Sabaudia Consulting. The principal authors are Mrs Annie Cordet-Dupouy, team leader and M Jean Michel Netter, private sector expert. They have been supported in the field by Mrs. Amal El Tobgy (Egypt), Mr. Khaled Baccar (Tunisia), Mr. Smail Seghir (Algeria) and Mr. Omar Zaid (Morocco).

2. Main characteristics of the seven targeted countries

The objective of this chapter is to highlight the main similarities and differences between the seven countries, in the fields which are relevant for the MBDI.

2.1. Main Macro economic data

The seven selected countries vary widely in terms of macro-economic situation.

Table 1: Comparison of the main macro-economic data of the various countries - 2008

	Algeria	Egypt	Jordan	Lebanon	Morocco	Tunisia	Syria
Population 2008 (Million) (a)	34.4	81.5.	5.9	4.1	31.2	10.3	21.2
GDP 2008 (USD Billion) (a)	174.0	163.0	20	28.9	86.0	40.3	54.8
GDP per capita 2008 (USD) (d)	4,588	2,160	3,421	7,616	2,748	3,907	2,756
GDP structure 2008 (in %) of GDP (c)							
Agriculture	8.7	14.0	3.6	5.5	15.6	10.0	20.
Industry and extraction	68.7	36.4	32.3	22.0	20.2	28.4	35.0
Services	22.6	49.6	64.1	72.5	64.2	61.6	45.0
GDP growth (percent 2008/2007) (d)	3	7.2	7.9	8.5	5.6	4.6	5.2
Exports of goods & services 2008 % of GDP (a)	59.1	37.7	57.8	33.0	40.6	65.1	31.3
Imports of goods & services 2008 % of GDP (a)	24.5	44.4	102.9	57.9	50.0	68.3	31.6
Ranking, Doing business 2010 (b)	136	106	100	108	127	69	143

(a) OECD Database
(b) World Bank Doing Business 2010
(c) World Bank 2008 data base
(d) IMF World Economic Outlook 2009

2.2. Characteristics of the seven countries significant for SME development

Most countries of the region have started (40 to 50 years ago) with some degree of centrally-planned economy, with the exception of Morocco, Lebanon and Jordan (but even in Morocco and Jordan, the public ownership and government interference have been strong until the nineties). A shift away from centrally planned economy occurred

- in Algeria, reforms started from the 1990s, but wereas then abruptly put in the background by internal security problems, and have only started again around 2002, but the public sector is still dominant in finance. This explains the relatively low number of SMEs in Algeria.

- in Egypt, the "Open Door Policy" started in the mid seventies allowing the establishment of private banks and increasing the participation of the private sector in the economy. This was followed by economic reforms in 1991, which developed with remarkable speed since 2004, to the extent that most finance and industry are now private. The public enterprises are now restricted mostly to a few banks (albeit major ones) and some strategic companies in addition to some ailing enterprises.
- in Syria, reforms started after 2000 and gathered speed after 2004. Most sectors have been opened to private enterprises, under Government regulation. A strong attention has been paid to the role of the financial sector with a series of laws covering operation of private banks (including Islamic banks), operation of microfinance institutions and the creation of the Stock Exchange.

The table below summarizes the main characteristics of the countries under review

Table 2: Main characteristics of the seven surveyed countries (Source: Consultant team)

Country	Main characteristics
Algeria	High level of bank liquidity; new foreign borrowings are prohibited, except with concessionary terms (as of Feb 2010); All the necessary mechanisms to promote SMEs exist – but regulations, some of which were originally enacted to limit the excessive flow of imports, also limit for the time being the possibilities of action of the MBDI (for example, the need for a positive foreign currency balance requested from foreign investors, the comparatively high minimum capital requested from micro-credit institutions, the near prohibition of foreign borrowing and a social approach to micro-entrepreneurs financing). Practically no stock exchange – which limits the exit possibilities for investment funds. The Algerian Dinar is not convertible.
Egypt	A very high number of SMEs, either formal (close to 2.5 million) or informal (about 1.5 millions or more) spread on a large territory, even if the largest concentration is in the greater Cairo area, serving both the largest market of the region, and exporting to Middle East and Europe/ USA. A strong and modern financial sector, with very dynamic banks (of which close to 60% are private as measured by assets), very liquid (liquidity ratio 55%); the largest stock exchange of the region, with some 330 listed companies and a nascent Nilex exchange targeting mid and small cap companies. An already significant microfinance sector (NGOs, banks and financial institutions) which should grow rapidly with the new regulatory system of the Egyptian Financial Supervisory Authority (in charge of licensing and monitoring all non-bank financial institutions) and the up-coming new microfinance law which should eliminate current bottlenecks, in particular the current cap on interest rates for all credit activities (except banks and capital markets). The Egyptian pound is fully convertible, an important point behind the increase in DFIs.
Jordan	A small country where the predominant activity is the service sector (from banks to tourism, medical and professional services) and an orientation towards exports. Growth has been mainly fuelled by exports and construction. The enterprises benefited greatly during the Iraq embargo period, which fostered growth of many industrial enterprises, not always competitive and quality conscious. Recently, the economy has been affected by the down turn in the Gulf region, which has led to a significant reduction of the real estate programmes. Jordan has a modern financial sector, although conservative and a reservoir of highly qualified professionals, especially working in the Gulf area. The microfinance sector is relatively small and fragmented. It is not regulated for the time being. Jordan has set-up a good support for enterprises development (JEDCO) as well as incentives for investments in order to increase competitiveness of its industries and services, and attract foreign investments. The Jordanian Dinar is pegged to the dollar and fully convertible.

Lebanon	A unique banking sector in the region (around 65 banks with assets equivalent to 3 times the GDP, 26% of assets invested in Lebanese sovereign debt and 30% are placed with the Central Bank), almost not affected by the crisis, still very conservative in its approach and products An important emigration and brain drain of the highly educated population (there are more Lebanese abroad than in Lebanon), providing at the same time remittances (20% of GDP) and global networking opportunities Over 25 years of civil and external wars have affected enterprises and infrastructure. Provision of electricity and basic services (e.g. telephone and Internet) to enterprises are poor and costly, sometimes non-existent, impacting negatively the competitiveness of Lebanese enterprises. Except in services and in particular banking, there are almost no large enterprises in Lebanon. Several support schemes, in particular through guarantees and subsidised loans for investments in major sectors, have been set-up successfully to re-start enterprises. The Lebanese pound is freely convertible and linked to the dollar.
Morocco	A very developed microfinance industry, the largest of the region, with a good regulatory framework and solid institutions. The microfinancing which started as group lending is now evolving towards individual lending for economic activities A strong government-led SME development programme, focussed on improving competitiveness of enterprises and on developing selected sectors. Over the last 3 to 4 years, Morocco has developed a solid private equity industry focussing mainly on medium size enterprises. In order to stimulate the development of private equity funds targeting small enterprises, the government has recently announced a new approach with public private partnership. A significant domestic market, but a need to develop competitive export activities and to improve job creation. Strong, mostly private banking sector, but limited liquidity. A non-convertible currency, but large possibilities for export and import of capital, and for trade.
Syria	Formerly a centrally managed economy, with public sector enterprises and financial system until 2000. Syria is now moving towards a market based economy, with a major role for the private sector, while the Government retains the regulatory and control powers and the management of strategic activities. The financial system has been opened to foreign banks; new laws have been implemented (on microfinance, on investments) or are being prepared (leasing, funds). Administrative procedures are being simplified. A Stock Exchange has been opened in March 2009 and has now 12 companies listed, of which 7 banks (Feb.2010). The practical implementation of those measures, however, is sometimes slowed by insufficient human resources, capable to implement modern financing techniques and work with the private sector, all activities which are comparatively new in the country. For many Syrian firms, previously shielded from outside competition, competitiveness is also a major challenge. The Syrian pound is not freely convertible.
Tunisia	A high number of already existing government controlled mechanisms, organisations etc to foster the development of SMEs. Practically all the possible mechanisms have already been implemented. A strong government development programme, which gave birth to most of the support projects, and coordinates all donors. Action is focussed on modernisation and innovation. There is a strong need to integrate with the other markets, in particular European, as the local market (10m inhabitants) is too small. A non-convertible currency, but with a plan to become fully convertible by 2014, and already large possibilities for export and import of capital, and offshore activities.

2.3. Main indicators of the financial system

- **Banks**

The development and regulations of the banking and financial sectors and the business environment (in particular the ease of creating and operating a company) are very different as shown below.

Table 3: The banking sector at a glance (million EUR)

Million Euros, Dec 2008	Algeria	Egypt	Jordan	Lebanon	Morocco	Syria	Tunisia
Number of banks	20	40	24	65	18	18	20
Of which State- owned	6, with 92% of deposits	6	0	0	5	6	5
Total credit	30,333	61,666	14,106	36,041	45,167	14,783	17,893
Of which :							
- to private sector firms and individuals	54%	64%	92%	45.4%	72%	70%	71%
- from private banks	12.5%	20%	100%	100%	26%	14%	22%
Total deposits	65,117	110,297	19,783	64,338	51,761	18,028	21,260
Loan to deposit ratio (in percent)	46%	55.9%	71.3%	56%	87.3%	82%	84,2%
Existence of a credit bureau	Yes	YES (I-Score)	No	Yes	YES (Experian)	Yes	Yes
- covering bank loans	X	X		X	X	Over 5000€	X
- covering ALL lending activities, including microfinance		Under discussion	Basic information exchange	No	Under discussion & implementation	Not yet, but planned	

Source: Annual reports from central banks; field work

Very few banks of the region have set-up SMEs departments, but many are considering such a move and are starting to train SMEs professionals.

As in European countries, post offices of the region are starting to get transformed by separating postal services from financial services. With their thousands of branches, they can become an important conduit for financing small enterprises, provided they acquire know-how and retrain their staff (or recruit new professionals).

- **Microfinance**

The development of microfinance differs widely from one country to another. Two countries, Egypt and Morocco have already a significant microfinance activity, with a certain positive impact. In these countries, microfinance has been recognized as an efficient tool of development (not only to combat poverty, but also to support the creation of income generating activities and micro-enterprises) and the two countries are implementing a new regulatory and legal framework to accelerate the growth of this sector, while regulating it. Syria, which has not yet developed a significant microfinance industry has also recognized the need for such financing and has passed a new law (2008) and regulations which should pave the way for a sound industry.

Tunisia is not opened, at this stage[5], to the creation of independent microfinance institutions, except as a government financed safety net, but has authorized one NGO on an ad-hoc basis. This has created a dual system targeting different populations. There is no microfinance in Algeria (as generally understood on a market basis), but various institutions offering State support to young entrepreneurs and unemployed youngsters.

While there are differences as outlined above, both in terms of structure and target clients, it can be estimated that today, the seven countries have an approximate number of 3 million clients, with average loans of 1000 USD per clients (about 700 EUR) and the demand is growing rapidly, both in terms of number of clients and in terms of size of loans. In addition, new entrants are most probable in Egypt and Syria.

Table 4 : Microfinance in the seven surveyed countries

	Algeria	Egypt	Jordan	Lebanon	Morocco	Syria	Tunisia
Legislation	No. The same regulation applies to all non-bank financing institutions	Under discussion in parliament; to be adopted latest spring. 2010	No	No	Yes, since 2006	Yes, since 2008	Yes since 1999; Cap on interest rate at 5%
Regulator	Bank of Algeria	Egyptian Financial Supervisory Authority	No	No	Bank Al Maghrib	Central Bank of Syria	Ministry of Finance
No of Active borrowers (31.12.08)	Around 30,000[6]	1.2 million	140,000	45,000 Plus probably 63,000 Islamic financing	1.3 million	63,000	200,000
Total No of MFI	100% State institutions provide micro-credit with a comparatively low repayment rate	About 450 11 MFI cover 80%	6, plus one state organisation	About 15 Plus al Qadr Al Hassan (islamic financing) 2 MFI cover 70%	12 4 MFI cover 80%	1 Major MFI; plus 5 or 6 very small NGOs	2; plus a number of very small NGOs

Source: Consulting teams

In all countries (except Syria), almost all institutions are NGOs of various types. But this situation may change rapidly, in particular in Egypt with the enactment of the new law (still in discussion in Parliament as of March 2010). Syria is the only country to authorize and regulate microfinance institutions with a deposit activity. Only a few MFIs are linked to a bank (Morocco, Egypt, Jordan).

While many MFIs (and all the larger ones) recognize the need to have information on cross-indebtedness and debts of their clients towards other suppliers of credit, the sharing of information and the participation to a credit risk scheme or a credit bureau is still at the discussion level in most countries (see above table 3). If

[5] / A study is under way

[6] / ANGEM has extended 131,365 credits between 2003 and 2009, and ANSEJ 150,000 between 1996 and 2009

microfinance is to develop with the support of MBDI and other donors, which is expected, then the constitution of credit bureaus covering both banks and microfinance institutions is critical, and should be almost mandatory. This evolution will also impact the need for improved software and loan tracking systems in MFIs.

As an example, while Moroccan institutions were in discussion for years about exchange of information and credit bureau, it is only after the "difficulties" happened (one institution was in financial difficulties and repayment rates dropped to close 90% after years of 98-99%) that the credit bureau has been fully launched.

Most MFIs are members of the SANABEL network, which provides an exchange forum and training, as well as some capacity building. But there is a need for an improved organization (variable again according to the countries) of the industry at the countries level, with both regulation and supervision.

3. MSMEs: Characteristics and constraints to development

MSMEs are the back bone of all the countries. The small countries like Jordan, Lebanon, Tunisia have to rely mostly on services and exports to grow while the medium to large ones (Algeria, Egypt, Morocco, Syria) may offer a reasonable internal market for consumer goods and services in addition to potential exports. Women contribute significantly to the economy, but women owned or managed enterprises are still rare specie. No statistic covers this gender aspect, but their number, while growing, represents a fraction of the total number of enterprises.

3.1. Number of enterprises

Statistical data on SMEs must be taken with caution, due to the difficulty to gather information. In particular, formally registered SMEs rarely de-register when they stop their activity, and different sources (Chambers of Commerce, Tax authorities, Ministry of Economy etc) may have different data. Moreover, there is a lack of a coherent definition of SMEs. In some countries, there are even different definitions adopted by different institutions.

Table 5: Estimates of the number of formal SMEs in the target countries (2007/2008 unless indicated)

	Algeria	Egypt	Jordan	Lebanon	Morocco	Syria	Tunisia
Total Number of formal enterprises	400,000	2,500 000	140,000	180,000*	755,000	700,000**	102,000
Number of SMEs < 50 employees	390,000	2,450 000	135,000	175,000*	750,000	695,000	98,000

Source: Estimates based on various national statistics
** 2002 Study, based on 1996 census is indicating 166,000*
*** estimate based on data from several ministries*

To these numbers should be added the informal sector which may represent from 50% to 100% of the formal sector (estimates vary widely). The informal sector covers not only micro-enterprises, but also numerous formal enterprises with a significant number of employees, a number of which are not declared. The total number of SMEs and micro-enterprises in the seven countries under review is therefore probably around **4.5 to 5 million formal, or about 7 to 10 million taking into account informal activities.**

3.2. Size of companies

When speaking with the various professionals and analysing the results of past SMEs programmes, it appeared that most SMEs programmes have evolved to support and finance mostly medium size companies and that the small to very small ones are left without any support (with only micro-finance for the micro entrepreneurs). In order to reach all the companies and not to leave an orphan segment, as is the case today, A MSME approach is needed, a segmentation of enterprises should be done, a differentiation of needs by segment should be carried out and new tools developed. This segmentation can be used as a base for targeting financing and to design specific support programmes and instruments for each segment.

There is not always a legal definition of SMEs. In this case, the criteria used for access to tax benefits, or access to benefits from dedicated SME agencies, are used as the SME criteria. We used a pragmatic approach in this study and made our own assessment. However, when implementing the MBDI, a more specific and common definition should be adopted. The question "what are your definition of SMEs?" has been the most frequently asked during the field work, reflecting the confusion on this topic. Also, many people stressed that SMEs in the region are different from SMEs in Europe, and than a Mediterranean definition is needed.

The segmentation criteria should be the same for ALL the Mediterranean Partner Countries to enable the implementation of regional programmes for the various segments and a proper evaluation of these programmes. While this definition is beyond our mandate, we have established a tentative segmentation to be used as a base for our analysis as outlined in table 6 below:

Table 6: Indicative segmentation of the SMEs and micro-enterprises
(basis for discussion as further work is needed to ascertain the segmentation)

Type of enterprise	Med Size (measured by annual sales)	As a comparison, EU definition
Micro-enterprise and start-up	Below 100,000 EUR	Below 2 million EUR
Small enterprise	Between 100,000 and 2 Million EUR	Between 2 and 10 m EUR
Medium enterprise	Between 2 and 20 Million EUR	Between 10 and 50 m EUR

Of course, this is a simplified approach and more complex models can be used. Critics may rightly argue that sales are often underestimated, (but so is employment) and that no reliable figure exists. A combination of sales and number of employees may be used. But a common definition is absolutely necessary at the onset of the programme.

3.3. Financial characteristics

In the entire region, most or all MSMEs are family owned. They started with money from family and friends. Not only SMEs have difficult access to finance, but they are under capitalized. Most companies in the SME segment, especially the smaller ones are undercapitalised due to (i) the origin of capital (families/ friends) and a slowly, emerging VC industry, still in its infancy, and (ii) the financial environment, in particular the well known difficulty for SMEs to access bank finance. Not much data is available on this aspect, but the reaction of SMEs to a fiscal incentive associated with capital increase in Morocco indicates clearly a huge need of capital, certainly similar in all countries of the region. In the absence of a proper capitalisation, enterprises rely mostly

on loans for development. It is difficult to estimate the access to finance, but most estimates indicate that no more than 15 to 20% of SMEs have access to finance.

In most countries, the rural zones are the most deprived of access to finance with limited banking coverage and very limited micro-finance services (when existing). Economic activities are often organised as small cooperatives which have no access to bank financing.

3.4. Non-financial constraints

While many entrepreneurs quote finance as the most critical constraint, it appears that other constraints will have to be alleviated at the same time in order to secure the success of an initiative like the MBDI.

Access to land is often quoted as a major impediment. This is due not only to the cost of real estate and to the lack of a land market, but also to the imprecision in land titles registration and to the cumbersome procedures for title transfer, as well as to the use of land by people without any use or ownership right. However, this can be overcome by the development of industrial/business parks or zones, offering long terms lease for land and leasing of existing facilities, thus significantly lowering the initial investment cost, especially important for new investments. In addition, it shortens the delay to launch the investment. Some partner countries have already developed this approach or are starting to do so.

Management and governance are also a major issue, often used by banks as an excuse for not lending to SMEs. As banks cannot rely on the financial statements, they tend to rely more on guarantees (very often personal), and are less likely to take risks.

3.4.1. Weakness and non transparency of enterprises management

Many professionals speak of the weakness of the management in enterprises, with the lack of transparency and governance as a critical factor. Many enterprises are a one man (or woman) proprietorship. This has been recognized for years. A number of technical assistance programmes have addressed this issue (but mostly targeting medium enterprises), but it is still critical and often a reason behind the refusal of a loan by a bank or capital investment partnership. A fund manager was mentioning that their main contribution to their investees is not finance, but governance and organisation. This is directly related to the business environment, as mistrust of the arbitrary nature of the authorities, and in particular of tax administration, is at the root of this attitude, much more than an attempt to gain some money from defrauding the Budget. There is also in many cases a lack of understanding of enterprise management, the role of finance and accounting and confusion between the pocket of the entrepreneur and the money of the enterprise.

3.4.2. Need for know-how and partners, especially from Europe

The need for know-how is important not only in industry, but also in services; and it is essential for all countries to accelerate their modernisation. All countries, and especially the smaller countries, need partners to develop new products and new markets. Despite numerous programmes and forums intended to gather together entrepreneurs from the two sides of the Mediterranean, more needs to be done. In addition, the countries of the region have hardly developed any link between them and tend to trade outside the region. Egypt and the Levant countries have already developed a strong partnership with their Arab neighbours, but need also more partners in Europe (and in the Maghreb). Morocco has started a strategy towards sub-Saharan Africa, but also

need Europeans partners to develop other activities and sees most of its growth from this zone. Tunisia has been working with Libya, but sees its growth coming mostly from European partners. And Algerian SMEs would certainly benefit from partners from the region and from Europe to improve their competitiveness and increase their share of their domestic market.

3.4.3. Capacity to process of financial institutions

While some countries of the region have already developed good financial institutions and in particular banks, this is clearly not sufficient if a stronger effort is made towards SMEs and micro-entrepreneurs of the region. As we were trying to dimension this important cooperation (financial as well as technical) programme, the critical road blocks quoted by some top professionals in various financial institutions (banks, investment funds and microfinance institutions) is and will be in the near future the **capacity to process,** and we fully agree with this statement. This means not only the necessary creation of new financial institutions or branches / department of existing institutions, but the need for selection and training of finance professionals (loan officers, fund managers, investment officer, microfinance officers, risk managers, etc..) specialized on MSMEs. In addition to improved university curriculum, this implies a parallel, or even better, an initial **practical** training programme with (i) selection of young graduates, young and mid-careers professionals, and (ii) targeted and practical training courses covering both the financing techniques and the specifics of the target clients. Most countries have set-up bank training Institute (and more should be done on SME bank funding), but there is no structured training for the other professionals of the financial sector (except the microfinance training centre in Morocco). As many of these skills are only acquired on-the-job, internship programmes with the oldest institutions of the region may need to be designed and partially financed to enlarge the reservoir of skilled professionals.

Bank professionals working with the smaller enterprises have not only to read balance sheets, but to re-build financial data through discussions with the entrepreneurs. This is a time consuming process requiring SME loan officers to understand businesses and to spend time with their clients.

3.4.4. Need for innovative financing approaches and structures

If the MBDI wants to have a significant impact and double for example the number of enterprises accessing finance within 3 to 5 years, there is a need for improved mechanisms

- New approaches for loan guarantees or counter-guarantees to accelerate both the processing of guarantee requests and the settlement of claims
- New guarantee products such as guarantee for equity investments;
- New types of investment funds will have to be designed, especially for small enterprises, catering for example for 40 to 50 enterprises as against 10 to 15 at best today. This could be achieved probably through simplified analyses and other ad-hoc tools to be developed, with appropriate tools and structure to mitigate risks. In order to provide incentives to funds managers targeting this segment, funds can be created (at least at the beginning) as Public Private Partnership, with different categories of shares. This type of fund might need to be longer (for example 15 years as compared with the current 8 to 10 years) and revolving to enable additional support. The exit (probably the most difficult aspect of this type of fund) would have to be carefully worked out (probably more quasi equity and specific shareholders agreements).
- New types of funds, for example targeting transmission or restructuring
- Improved approach for seed capital funds

- Development of SME lending using new tools, and better risk management
- New management information systems (for example through joint back office companies) will have to be in place in microfinance institutions (especially the small ones) to enable them to better approach risk management, and permit a better control;
- New technologies should be developed to industrialize financing processes and decrease costs. For example, **mobile banking** is now well established in countries like Kenya, South Africa, and the Philippines; and in the region, mobile phones are used by almost everybody (except some rural areas in certain large countries). This could be an important tool to accelerate the access to financing of small and micro companies, in rural areas as well as in cities. As in the Philippines, it can also be an important and cheap tool to **transfer remittances**.
- Post offices or more precisely postal banks may play an important role in the future if properly structured and professionalized.

➢ **Credit bureaus are critical:** they should be in place and operational in each country to cover not only loans provided by banks, but also by all other providers of credit, be it consumer loans, MFI, NGOs, mobile phone companies to avoid unbearable risks for credit institutions, decrease risk cost and prevent over-indebtedness of the poorest people.

3.4.5. Management and technical capacities

Several diagnoses point out the lack of adequacy between the education provided in most universities and the actual needs of the enterprises. This is certainly beyond the scope of the MBDI, but complementary actions (from other donors for example) to address this issue are certainly needed.

Several countries have attempted (and some continue) various forms of financial support to stimulate **entrepreneurship** of young graduates and support of start-up with limited results. The impact of such programmes has been limited, at best, and insufficient to solve the problems they were designed for. On the contrary, they have created a mentality of assistance for young graduates.

Incubators, even if they have not yet reached a full success need to be continued, expanded and supported. Such support, associated with financing is now being developed and is recognized as more efficient. Although it is a very difficult field, start-up and early stage support is necessary and would need to be properly designed, addressing not only high tech and innovative companies, but young entrepreneurs in the widest sense. MBDI may promote and support the creation of coaching networks (provided by local experienced entrepreneurs) in structuring existing initiatives and in stimulating support from seasoned Mediterranean entrepreneurs. They would support the new and young enterprises in the early years of their life (the first two years are the most dangerous ones). Specific support to women entrepreneurs, rarely provided in the region, should be developed to increase the role of women in the society, both as creator of economic activity and role models to accelerate the modernisation of the society.

Some form of support to micro-entrepreneurs will have to be designed to help them moving gradually from a micro, informal stage to a formal stage. Some countries have initiated some activity in this field, but this would need to be expanded.

Finally, the MBDI may create an annual competition[7] for new would-be entrepreneurs to be granted specific funding **and** coaching (and access to European networks), with the associated promotion of the **Mediterranean entrepreneur** in different categories (e.g. innovation, environment friendly, women, etc) so as to create role models and positive images of new entrepreneurs.

4. Support and financing from other donors

In addition to the EU large MEDA programmes, and EIB (through FEMIP), other donors/IFIs have already a significant presence (variable according the countries) in the field under consideration, in particular

- KfW /GTZ and AFD/ PROPARCO which are the most important for all sectors indicated above
- FMO, Italian and Spanish cooperation
- The World Bank group, and specifically IFC for microfinance, investment funds, leasing and factoring, as well as TA for SME lending
- USAID and MCC which are important for microfinance (depending of the countries)
- CIDA for SME development

The list below indicates the most important programmes and the focus of the donors active in the region. However, it is impossible to list all donors' activities in the framework of this report, but it would be critical to improve coordination in the future. The MBDI may be used as a tool to this end.

➢ **EU MEDA and ENPI**

EU MEDA has had large private sector and SMEs programmes in all seven countries. The approach is now more diversified as the EU is either continuing its support through SMEs projects, or providing support through budget support programmes, or has shifted its priorities away from SMES.

In Algeria, there is still an on-going programme (PME 2, 40m€ from EU, started in 2009). It follows PME 1 (EU, 57m€) and other related EU programmes, now closed (Support to the financial sector modernisation, support to privatisation).

In Egypt, the major Industrial Modernisation Programme IMC is now closed and transferred to the Egyptian Government. Other programmes (support to the financial sector reform, support to the Social Fund for Development) are now closed and no private sector development project is foreseen.

In Jordan, the EU has supported various programmes targeting private enterprises and SMEs, in particular EJADA now closed (46 million €) intended to improve competitiveness of industrial enterprises, including improving access to finance with support to the only Loan and Guarantee company in Jordan. It has recently provided capacity building for the Jordan Investment Board. The EU is now supporting an important programme for the modernisation of the service sector (JSMP 15 million €) implemented by JEDCO. Another upcoming programme is to reinforce support to enterprises and export promotion over the next 3 years (15 million €).

In Lebanon, the EU has supported SME development through a 15 million € programme, a grant of 4 million € to Kafalat in 2006 to expand its guarantees to the SMEs sector (an additional grant is planned for 2010) and is providing a grant for interest rates subsidies to long term loans extended to SMEs by EIB through a number of Lebanese bank. Moreover, through its budget support facility, the EU is also supporting actions for the private sector. Finally, the Economic and Social Fund for Development (ESFD) has received a grant of 31 million € to

[7] / A number of competitions of business plans providing the winners some grants exist, but they are in most cases a one shot support, and not a support with proper coaching over a longer period, say two to three years or more if necessary.

facilitate bank loans to small enterprises.
In Morocco, large programmes (EDPME) are now closed, PAIGAM (25.5m€, see below "Guarantees") is also closed and the remaining funds are to be transferred to the CCG. The assistance to SMEs is only indirect, through assistance to the reform of the tax system and public administration.
In Syria, in 2006, the EU has promoted the establishment of the SEBC (Syrian Enterprise and Business Centre), an implementation Agency for various EU and other donors programmes: It now hosts SSP (SME Support Programme, 15mEUR); the Syrian Quality Programme (12m€); the Business Environment Simplification Programme (5m€) and the Trade Enhancement Programme (15m€), the Enterprise Europe Network, and a chain of incubators. The SEBC management and business training centre is also hosting the SKILLS educational system implemented with the European Training Foundation (ETF)
In Tunisia, the EU has supported the PMI (Projet de modernisation industrielle, 50 million EUR, closed in 2009). It was closely integrated within the Tunisian enterprise support organisation; it has provided Technical Assistance to the "Centres Techniques", to enterprises, State financial institutions (BFPME, Sotugar) and to business support institutions (Industrial Property, Certification). It also financed market studies and research, and provided part of the initial funding (9 million EUR) for the SOTUGAR guarantee institution. The PMI is to be followed by the PCAM (23 million EUR over 4 years), which will be assisting enterprises and the "Quality" institutions.

The EU is also financing a number of horizontal information and exchange programmes such as ANIMA, Medibtikar, Med-Invest, etc. The ENPI (European Neighbourhood and Partnership Instrument) and the ENF (European Neighbourhood Facility) cover the Mediterranean countries and other countries. One of the focuses of these new instruments is SMEs and Social sector. However, the initial feedbacks from the field indicate that these first projects addressing SMEs in the region mostly benefit associations and only indirectly SMEs, and will not provide or foster any funding for enterprises.

Finally, it is worth mentioning that the EU is supporting the implementation of the Agadir Agreement which entered in force in 2007.

- **FEMIP**

FEMIP trust fund, managed by EIB has been providing significant funding, and sometimes TA to most new investment funds in the Mediterranean region (often co-investment with another donor such as IFC, Proparco). The fund has also provided financing to a few microfinance institutions, as well as TA. Most FEMIP activities have targeted so far medium size enterprises, above 100 employees.

FEMIP has been financing a number of studies and has provided assistance to a number of banks to improve their efficiency.

- **IFC and the World Bank group**

The World Bank group has been strongly supporting the improvement of the business environment and has set-up a special group (CGAP) to support the development of microfinance. CGAP has been supporting several Mediterranean institutions and countries with several studies and policy advice.

IFC is providing support to a number of microfinance institutions through guarantees, subordinated loans and/or participation to the shareholding:
- in Morocco (Fondep, Zakoura –now taken over by Fondation Banques Populaires- , Al Amana, Jaida)
- in Egypt, it supports the Alexandria Business Association microfinance programme

It is also currently financing a study aimed at better understanding the sector in view of the up-coming changes.
- in Jordan, it has given guarantees to the Microfinance Fund for Women

IFC also participates to the Altermed regional fund, as well as many investment funds, and invests directly into large companies (for example Bank Alexandria in Egypt, Fuba printed circuits and Monastir airport in Tunisia).

IFC has also provided technical assistance to a number of banks to set-up SMEs departments and implement down scaling activities. It has also given assistance to the set-up of the legal framework and the implementation of several credit bureaus.

IFC has been very active in supporting leasing in most countries, both at the level of the legal framework and in taking equities in a number of leasing companies.

- **USAID and MCC**

USAID has been the major actor supporting the start of microfinance in Egypt. It provided soft loans and grant for an Egyptian guarantee fund. The aid amounts are now strongly diminishing. It has been assisting the Government in preparing the new policy for microfinance.

Millenium Challenge Corporation (MCC) started its programme in 2008 in Morocco and is to support several SMEs and MSEs sub-sectors, in particular fruit-tree growers, small-scale fisheries, artisans, and an enterprise support programme.

USAID is very active in all sectors of assistance for enterprises in Jordan, with grant funding for a number of sectoral activities. (Jordan is currently the fourth largest recipient of US aid).

- **AFD/ PROPARCO**

AFD and PROPARCO have been active especially in the Maghreb area (started only two years ago in Egypt and the Levant). AFD has been financing microfinance in Morocco (Al Amana and Jaida), and PROPARCO has financed several investments funds in Morocco, Tunisia, Egypt as well as regional funds (Maroc Invest, Capital Invest, Al Kantara, Tuninvest, SPPI) and is a partner in the Averroes fund of fund.
Proparco is also financing directly some larger enterprises.
AFD opened an office in Syria in 2009, is considering infrastructure projects (water, sanitation) but also SMEs (in particular through the guarantee scheme ARIZ.)

- **KfW/GTZ**

In the fields connected with the proposed MBDI, GTZ is offering a limited (but well designed) TA programme in Algeria (an interesting attempt at microfinance with a pilot scheme), in Morocco and In Tunisia (the GTZ project supports innovation and entrepreneurship); GTZ is also supporting vocational training in Morocco and Lebanon, and assists in the renovation of the Old Town of Aleppo (Syria) with schemes to improve and modernize small businesses and artisans.

KfW is implementing significant programmes in the seven countries, targeting microfinance (for example JAIDA fund in Morocco) and very small enterprises. KfW has also programmes in the Palestinian territories (guarantee fund with EIB and others) and in Yemen. The main focus of KfW programmes is currently to promote cleantech, energy savings and water management in enterprises through subsidized loans.

In addition to its current activity, KfW has two projects in preparation, very similar to what MBDI might be targeting

- A MENA fund (initially 75 million EUR) offering a variety of adequate financial instruments such as guarantees or loans for refinancing microfinance institutions for smaller enterprises (through banks) to be financed by KfW and other donors, and some private investors. This fund would be managed by a private manager (somehow similar to the current refinancing crisis facility set-up by KfW and IFC (MEF) for bigger MFI in need of short term financing
- A specific programme for small and very small enterprises in Tunisia (ETAPPE)

➢ **AKAM**

The Aga Khan Agency for Microfinance (AKAM) has set up the First Microfinance Institution, in Syria the only large MFI at this stage, which could, in the near future, be funded by other donors, in particular EIB and KfW. They have also created a microfinance institution in Egypt.

Some of the donors have already **joint actions**, e.g. the FAIPA fund in Morocco to finance microfinance, or several joint actions between EIB and IFC, and sometimes Proparco for investment funds. It is also worth mentioning the recent joint KfW/IFC fund for global microfinance, privately managed by Blue Orchard and ResponsAbility. As one of the objectives of the MBDI is "complementarity", it will be useful to build on existing joint activities and identify possibility of future joint actions or other mechanisms by which the European donors with strong know-how in certain fields may contribute to the MBDI (or conversely the MBDI may contribute to other donors' programmes).

5. Assessment and evaluation of the needs for potential instruments

Despite the global crisis, in all but one of the countries under review, there is an excess of liquidity. The main issues are therefore to mobilize the local resources towards MSMEs lending. In order to achieve this and change banks strategies and perception of SMEs, it will be necessary (i) to increase confidence between the lenders and the borrowers, (ii) to assist lenders to better understand the risk issue, and in some cases to provide funding or guarantees to mitigate the risks, (iii) to support the creation and the operation of private specialized departments/institutions to foster the growth of SMEs and micro-enterprises, and (iv) to assist enterprises to better understand financial management and financial institutions requirements. In the case of Morocco, which has already dramatically increased its credits to the private businesses, there is not much liquidity and maybe additional resources for the banking sector may have to be envisaged.

5.1. Foreseeable impact of the crisis on the financial sector and the potential needs

According to a number of economists and analyses by OECD, EIB, EU and other institutions, the impact of the global crisis on the Mediterranean countries has been relatively limited. Not a single Mediterranean country needed emergency financial support. The countries have been relatively shielded from the global turmoil due to a combination of a relatively less sophisticated banking sector and non-convertibility of most currencies, as well as reasonable levels of international reserves.

However, the impact exists, and may materialize more in 2010 in a number of sectors:

- remittances are globally decreasing
- capital flows and direct foreign investments have been decreasing
- export industries have been and are affected in all countries
- tourism revenues have decreased
- Revenues linked to global trade (e.g. Suez Canal in Egypt) have decreased

This downturn (variable from one country to another) has not been compensated by a growth of internal consumption. But this has not led to a catastrophic situation as for example in other regions. MSMEs have been suffering, but no more than the large companies in the region. But this more limited impact has still provoked a serious increase of unemployment. In addition, the decrease of remittances has also impacted the availability of funds for the family businesses.

The IMF forecasts positive growth rates in the entire region, but this growth will not be sufficient to have a positive impact on unemployment which has increased significantly in 2009.

Table 7: Comparison of real GDP growth (annual percent) actual and forecast

Country	Algeria	Egypt	Jordan	Lebanon	Morocco	Syria	Tunisia
2007	3.0	7.1	8.9	7.5	2.7	4.2	6.3
2008	3.0	7.2	7.9	8.5	5.6	5.2	4.6
2009	2.1	4.7	3.0	7.0	5.0	3.0	3.0
2010	3.7	4.5	4.0	4.0	3.2	4.2	4.0

Source: IMF, World Economic Outlook October 2009

The role of MSMEs, a major source of employment creation will therefore be essential to mitigate the increased unemployment, and accelerate recovery and growth. If rapidly launched, the MBDI would provide an important contribution to boost the growth of the MSMEs sector.

5.2. Technical assistance and "MBDI Training Initiative"

As mentioned above, it will be critical to assist both the entrepreneurs and the financial institutions **at the same time** the financing is provided. The focus of the TA should be in general to link TA and financing, so as to increase the chances of success of the schemes and mitigate the risks. The target of the TA should be

- Improving management, operation and transparency of enterprises in all sectors (not restricted to industry) in order to facilitate the evaluation of their financial situation and later support their future growth (of course as complementary to existing programmes, as significant TA programmes have already provided support in this field, but more is needed, especially for smaller enterprises). In our view, it will be essential that this assistance be coupled with the provision of finance (be it loan, equity or quasi equity or guarantee)
- Improving operations of financial institutions (training of officers, systems, etc..) and development of new technologies to improve the reach and cost efficiency of financing delivery
- Supporting the operation and/or the creation of credit bureaus covering ALL borrowers and not only bank clients
- Maybe supporting the development of back-office platforms for smaller microfinance institutions (banks are more and more outsourcing their back office and the cost of up-to-date computer systems in microfinance institutions are very expensive and often out of reach of smaller microfinance institutions)

- Improving the regulatory framework to facilitate the creation of financial institutions and of new services (especially in the field of microfinance) through studies and benchmarking, assistance to the organisation of regulators and training/ coaching officers
- Supporting professional associations and regional meetings

As a comparison, it should be noted that at the time of the transformation of former Soviet Union, the financing of investment funds under the "Bangkok programme" managed by EBRD included an almost equal amount for technical assistance and for funding (not to mention the significant size of the structural funds extended to the new EU member states).

A very important pre-requisite for the success of the MBDI is the **practical training** of the future financial staff of the financial institutions clients/intermediaries of the MBDI. We propose to create a **MBDI Training Initiative** with two parallel curricula to be set-up in coordination with the professionals of the sector.

(i) Risk capital and investment funds: three to six months curriculum

The course(s) will be open to any professional having a minimum of hands-on experience in finance or enterprise management. The course should be common to all countries and delivered in two languages English and French (two different courses?). Participants would have to pay a minimum fee (eligibility criteria to be determined). If the two courses can be organized at the same place, and at the same time, the MBDI academy would be a place for Mediterranean networking.

This training should be complemented by an internship programme with the oldest and most efficient institutions of the region, to be partly financed by the MBDI.

(ii) Microfinance: two to four months curriculum

Contrary to the first course, this course will be specific to each country (but with common modules for all countries), to be delivered in the local language(s) (plus English or French as appropriate). Participants will have to pay a minimum fee. The course will be open to any university graduate. It should build on initial training already provided in the country, and expand it, with a very practical focus. The organization of these courses should be coordinated with regional support provided by Sanabel and other courses provided in some of the countries.

This intensive training effort will decrease the poaching of analysts and loan officers, which has increased with the rapid expansion of the non-bank financial institutions. It will also improve the quality of operations and mitigate the risk.

5.3. Financing micro-entrepreneurs

5.3.1. Micro-credit and micro-insurance

The overall microfinance industry of the seven countries has now over 3 million clients. And two countries, Egypt and Syria have a huge untapped potential demand which can materialize very rapidly. The situation is much contrasted between the seven countries. Morocco and Egypt have a significant activity conducted mostly by NGOs and by a few banks with a microfinance department, while Tunisia and Algeria rely partially or totally on solidarity support extended through public institutions. Syria, a late comer rapidly growing is the only country authorizing and regulating microfinance institutions with deposits. Jordan and Lebanon have small NGOs and a non regulated industry. As a number of countries are envisaging authorizing non bank financial

institutions to provide credit, a number of NGOs (in Morocco, Egypt, and Lebanon in particular) are envisaging transforming their institution into a financial shareholding company. It is a complex transformation, which may need support from MBDI.

The status of the NGOs combined with an absence or limited supervision makes it difficult for them to raise funds (equity or loans)[8]. The regulation and supervision have been in place in Morocco for two years and are expected to be implemented in Egypt, after approval of the law by the Parliament. As of today, the MFIs offering consists mostly of micro-credits, but their offers in terms of size of loans vary with the countries and the specific strategy of each MFI. The MFIs offering individual loans start offering not only finance, but also value chain services (in particular quality, packaging and marketing services). This higher segment of microfinance is in practice targeting micro-entrepreneurs and independent businesses with loans between 1,000 to 10,000 €. Support to activities in this segment should be a priority for the MBDI.

Other non micro credit instruments are being tested or at a pilot stage (micro-insurance in particular). Syria is authorizing micro deposit, and the first institution of its kind in the region seems to do well. Rural microfinance is in its infancy, with a certain presence only in Morocco, but will need to be rapidly developed. In addition to demand, important points to be assessed are the regulatory environment (authorisation and licensing, possible structure for MFI, supervision, regulation, and possibility of guarantees), the activity of credit bureaus and the relations with solidarity schemes.

When a State solidarity scheme co-exists with microfinance, the important factors of choice for microfinance clients are accessibility and speed. Even if the borrowers have the possibility to get a loan (for example from a public bank or a public institution) at a subsidised rate, they often prefer borrowing at a higher interest rate, getting their loan immediately which would enable them to seize an economic opportunity, which may be lost in several months when the public bank/ institution will answer.

The foreign exchange risk is a critical factor for small institutions and, as EIB has done in the past, it will be critical that the foreign exchange risk be at the level of the MBDI, with financial instruments for local MFI denominated in local currencies. Again, the question of the efficiency of the smaller institutions will have to be raised in the more mature markets (Morocco and Egypt).

5.3.2. New products and technologies: mobile banking and transfer of remittances

Mobile banking, as developed by banks and mobile phone companies is profitable and does not seem to need support. However, the use of mobile banking technology by microfinance may need some support, especially to avoid over-indebtedness (the same person borrowing from a number of MFIs).
Another generic project which may be financed by the MBDI is the development of transfer of remittances[9] using mobile phone as is already experimented for example between Great Britain and Kenya (not to mention the advanced case of the Philippines).

Other products may emerge such as “on live” web loans for micro-entrepreneurs. The opportunity of a MBDI support to these products will be examined on a case by case basis, but the initial focus should remain

[8] Lately the situation has been changing with some commercial banks, flushed with liquidity extending loans to MFIs, even without guarantees (e.g. Jordan), but this may change again with the improvement of the economy..
[9] Recorded remittances as percent of GDP vary from quasi nil (Algeria, Syria) to some 20% (Jordan, Lebanon), with intermediary figures (5-8%) for Egypt, Morocco and Tunisia. (World Bank data base, 2008)

traditional instruments.

In the new instrument category, we would suggest to investigate further the role that the "postal banks" may have in the future for the financing of MSMEs, if they are properly structured and staffed.

Finally, some work may be done on Islamic financing, but this would require a specific analysis.

5.4. Strengthening the equity base of SMEs and in particular the very small ones

AS mentioned above, SMEs are undercapitalized in all the countries. Risk capital and investment funds which started in the region some 15 years ago have really seen some growth and momentum over the last four years in three or four of the seven countries. Local and regional funds have announced their intention to enter the market of the other countries. There are no real statistics on the investment fund industry, and when an association exists (for example in Morocco and Tunisia), they do not cover all the industry as only a limited number of funds are members of the association (for example, in Morocco, only 10 funds out of the 18 existing are part of AMIC). The difficulty is compounded by the fact that some funds are registered offshore (due to problems with the local regulation or because they are regional). According to our very rough estimate, there are about 2 billion EUR (may-be 2.5 billion) under management targeting investments in the MBDI region (all Mediterranean region excluding Israel) with about 50% in regional funds and 50% in national funds.

While the first funds were typically national, focussing on their country of origin, regional funds (with local teams) have appeared during the last four years, and are probably among the most efficient now. They are growing rapidly and focus mostly on the medium size companies. However, it should be noted that while fund raising has been significant in the region over the last two to three years, investments are lagging behind.

Seed and early-stage funds are almost non-existent in the region: two in Morocco of which only one has really invested, one in Tunisia, one in Lebanon. They are small and have difficulties to grow. Certainly, more funds are needed, but their chance of success is linked with the quality of incubators and other "innovation" schemes.

Turnaround funds have only developed so far in Egypt (as seen above the largest market of the region).

Transmission funds do not exist as such, but several SME funds have included transmission in their more general target. They may develop in the future.

There is certainly a need for more equity investment in the region, but the delays and difficulties of fund raising and the insufficient number of professionals must be taken into account, not to mention the lack of openness of family businesses. The funds targeting the higher end of SMEs should be larger and regional. MBDI has certainly a role to play in investing in capital development funds, where it will bring not only money, but also confidence and comfort to attract private investors. Some research may be carried out on this aspect, for example the creation of two categories of shares (for public and private investors) whereby the private investors would have a small additional advantage (important to attract not only institutional private funding, but also private wealthy individuals). The MBDI investment will thus have an important **catalytic role in mobilising local private funds**. The experience of the last four years seems to point to the need of larger, regional funds to improve efficiency.

Exit is and will remain a major issue in most countries. A recent analysis on Morocco points to the fact that on 29 exits, sales on the stock exchange represented 64% of the total value of exits, while buy-back exits represented 10% of the total value of exits. This illustrates clearly that, in addition to the quality of the management team, the existence of capital markets and the attractiveness of the country play a significant role in the success of funds. However, as buy-back will certainly remains the prevalent exit (in terms of number), more work will be needed to improve the conditions of this type of exit as it remains problematic in a number of countries.

The slow investment rate (and in a case or two the non investment) of existing funds call for an improved diagnosis of the issue and certainly to a revision of the design of the funds targeting smaller SMEs. The structure and management fees as currently practiced (around 2%) are not adapted to the operation of funds targeting numerous small SMEs (a time consuming and costly activity). Efforts should be made to design new types of funds, targeting smaller companies with both equity and quasi equity financing and with a country focus at this stage. These funds, maybe including also public money in addition to MBDI and other donors money, should have a longer duration (say 15 years if they are revolving), have probably two categories of shares (public/ institutional and private as mentioned above), be revolving and have access to grant technical assistance to (i) prepare the companies before investment and (ii) support and coach them during the investment period. Morocco has announced in February the support to funds in this category with public money and a partial guarantee of investments in SMEs (as proposed above in guarantees). Private fund managers in charge of raising private funding and manage the funds will be recruited through a call for proposal. A similar project is underway in Jordan (although on a smaller scale).

5.5. Improving access to finance with guarantees

5.5.1. Guarantees for SMEs loans

Guarantee institutions exist in the six of the seven countries and Syria has just launched its guarantee institution in January 2010. A very preliminary assessment indicates that, on average, they are not yet very effective in providing the necessary stimulus for bank lending, and that their quality and efficiency vary widely from one institution to another (with the exception of two institutions which have already reached a good level). The European Union has already heavily subsidised, through MEDA grants or counter-guarantees, guarantee companies in each of the six countries and is supporting the new Syrian institution. The limited success can be attributed to a number of factors. Some factors are common to all the institutions:

- In all cases (except in an attempt by Tunisia and in the FGAR scheme in Algeria), the company searching for a loan goes first to the bank. The bank keeps the best cases, drops most cases they do not understand or which are poorly prepared and sends the bad cases to the guarantee funds. This means that the first filter through the banks eliminates most cases.
- The situation is no better when entrepreneurs obtain a guarantee from a guarantee institution, then ask the bank for a credit. Only in a small proportion of cases does this guarantee translate into a bank credit (e.g. FGAR).
- The one by one treatment of files by the guarantee institutions once the bank has already done its analysis is heavy and takes time (but necessary during the first years until a confidence relationship is established between guarantees institutions and banks).
- There is a lack of dialogue and confidence between the banks and the Guarantee companies. The lack

of incentives also often led the guarantee managers to limit the publicity for their financial instrument, which is hardly known from the banks (at least from the credit officers in the branches).

Some factors are different according to the country or to the management of the company:

- Some guarantee companies are afraid to take risk, and are happy to announce that they still have all the money given by donors,
- In some guarantee schemes, the compensation for claims takes forever, and
- Some guarantee companies are under government interference and, with no proper risk management, have accepted such risks that they have been "washed out" in a couple of years.

The very quick analysis above is indicating that (i) the approach adopted so far needs to be revisited, (ii) the risk management needs to be improved; and (iii) a balance should be found between control of expenses and speed of guarantee. In the coming years, if well designed and understood, guarantees could be a major tool for young companies and a tool to provide incentives for special categories of entrepreneurs. A proper balance between risk, efficiency, and impact on development has to be found. The very laudable concern of many guarantee managers and designers, to protect the money of the taxpayers and limit the risks, led them to implement such conditionalities to grant a guarantee, and to disburse in case of claims, that the banks are not interested: the firms which meet those conditionalities are those which do not need a guarantee, the paperwork and study time for the preparation are inordinate. Those conditionalities also translate into additional delays, which limit their effectiveness.

Probably, in the future incentives and pressures (positive or negative) should be put through the central banks on commercial banks to increase their lending to MSMEs. This, combined with guarantees tailored to specific activities or specific categories of entrepreneurs (young, innovation, women, etc), would provide real incentives to stimulate the growth of MSMEs.

New categories of guarantees should be designed according the needs/ characteristics of each country and its development strategy, but with safeguards to avoid misappropriation of the incentives.

- Guarantees for young entrepreneurs (criteria to be defined) with a higher level of guarantees and a maximum amount (may be only once in their life as Kafalat has been implementing successfully)
- Guarantees for women entrepreneurs with a higher level of guarantee (to compensate with their frequent lack of personal property) probably with a ceiling and safeguard to avoid women to be taken as proxy by male entrepreneurs
- Special schemes for long term investments, such as arboriculture, clean tech and sustainable energy equipments, water saving equipment, etc...

Table 8: Main guarantee schemes already in place in the seven countries

Country	Institution	Shareholding or source of funding	Characteristics and funding	Evaluations
Algeria	CGCI PME	MoF Treasury 60% Public banks 40%	Since 2009, for guarantees above 5,,000,000€	Target larger SMEs
Algeria	FGAR	State, through Ministère de l'Artisanat et des PME	Seed funding by EU 20m€ Can provide guarantees after or *before* the acceptance of the credit by the bank	Some 400 guarantees given, 138 of which resulting in a bank credit (Oct 2009)
Egypt	CGC	5m EGP, Egyptian banks, plus one insurance company	Many donors funding as soft loan (USAID 60 M EGP) and grants for a trust fund (current value) USAID > 200 M EGP EU 6.5 M € (56 M EGP) Italian gvt 4 M EGP UNDP 1.8 M €	Hardly active Only donors driven programmes No pro-active strategy
Egypt	Cooperative insurance Society	Capital 30mEGP Social Fund for Development	Targets very small companies Donors support	In difficult financial and managerial situation, being restructured, Negotiations for capital increase to EGP 150m.
Jordan	Jordan Loan Guarantee Corporation	Central Bank 47% Social security 5% Commercial banks 31% Misc public & private Listed on Amman Stock Exchange To be merged with the Mortgage Refinancing Co	- Established in 1994 - Several programmes for export guarantees and SMEs 6 m€ grant from EU (EJADA) 2 m€ grant from EU (JSMP) - Distributed dividends in 2009 while the value of its assets decreased	Limited image in the banking sector Largest activity is personal loans guarantees Most SMEs guarantees cover real estate or buildings. Only 20% of SMEs guarantees are for productive assets
Lebanon	KAFALAT	- 75%: The National Institute for the Guarantee of Deposits (50% Gvt 50% banks) - 25%: banks, with a shareholders pact not to distribute dividend for the first 15 years	Established in 1999 4 m€ grant from the EU	One of the few successful guarantee schemes in the region, wish to expand to new domains Very defaults and calls for guarantees
Morocco	CCG	State But the GPBM (Association of banks) and a few professional associations seat at the board	Established in 1949 Recently restructured In discussion to receive the unused part (25.2 m€) of the PAIGAM counter-guarantee	Now rapid approval of bank request (5 to 10 days depending of the type of request) and claims settled within 30 days (50% of the guaranteed amount) and the rest within 3 years
Syria	LGIS	Independent institution established based on a EU grant	Established in 2009 Initially based on an EU grant, with further funding of 8 million€ to provided by the Syrian Gvt	Initial procedures being implemented
Tunisia	SOTUGAR	State. Initial funding by State and EU To be merged with BFPME and FNG	EU grant 9 m€ Launched recently an export credit guarantee,(FGE), and Energy Efficiency Fund Guarantees SICAR investments	Could reach the limit of its capacity if no new funding

Source: Consultant analysis

Insurance companies are also starting to provide some insurance against credit risk and specialized risk such as export.

Some guarantee companies (CCG in Morocco) have started to combine guarantee with TA support to the clients in order to mitigate risks. This is an interesting development, which might need to be investigated further.

We do not see the necessity to create new SMEs guarantee funds at this stage as this field has been widely covered already with a limited impact to date. But guarantees are necessary and there is a necessity to revisit and redesign the approach, and support management restructuring if necessary. The provision of additional guarantees or counter-guarantee, certainly needed, should only occur after the institutional improvement.

5.5.2. Mediterranean Counter-Guarantee Fund

Our evaluation is that:

- Yes, there is a need for more money for a few institutions, but probably the largest funding (and leverage) should be provided as counter-guarantee.
- The counter-guarantee should not be given without a serious diagnosis of the institution and the adoption of efficiency improvement measures
- The counter-guarantee should be global, and its volume should be calculated by category of risk based on benchmarks, and stop-go limits.

It would provide the mutualisation of risks for the Mediterranean region, an increased leverage without additional funding at the country level and it may also provide in parallel advices, capacity building and support to the various guarantee institutions.

5.5.3. Guarantees for portfolio

The guarantee institutions may also develop SMEs portfolio guarantees with some of the commercial banks.

5.5.4. Guarantees for new entrepreneurs or women owned enterprises

The guarantee may be used as an additional incentive for categories with higher difficulties to access finance, new entrepreneurs and women. Special guarantee products may be designed, with a higher guarantee coverage, but for a maximum amount.

5.5.5. Guarantees for SMEs investment

This is not covered at this stage in the seven countries under review (or indirectly, as SOTUGAR in Tunisia provides coverage for SICAR investment in SMEs). It may be envisaged as an additional window of existing institutions if funds for small enterprises or any other equity investment vehicle were to be developed.

5.5.6. Guarantees for microfinance institutions

MBDI may provide **microfinance portfolio guarantees** (under different forms, for example portable guarantees (to be further analysed) in order to enable microfinance institutions (whatever their form) to raise funds on the local market with a requested leverage of, say, at least 2. This would have the advantage to mobilise local resources (avoiding the costly hedging necessary for foreign loans), and to establish confidence links between local banks and microfinance institutions, creating a move towards sustainability. The amount evaluated for this guarantee will be included under the microfinance category as it may substitute to direct loans.

5.6. Financing and support of enterprises with most difficult access to finance

5.6.1. New entrepreneurs

Our rapid assessment shows that many of these public programmes have been approached with a solidarity view in order to attempt giving employment to University graduates. They do not seem to have fulfilled their objectives and created enough new entrepreneurs. It might be useful that donors review the situation and propose to improve on existing schemes.

While several countries have adopted innovation, often with a restricted focus on high tech innovation as their strategic focus, it might be useful to review the processes of creation and growth of enterprises in the main competitors of the Mediterranean countries. Firms and individuals will need to innovate, that is to develop and implement new commercially viable ideas, in all sectors of the economy. The knowledge economy should not be an end in itself, but a tool to develop the Mediterranean countries economies.

MBDI should complement the current incubators and other entrepreneurship development activities. In order to help new entrepreneurs to succeed, whatever their activity, it would be critical to provide them with coaching and mentoring in addition to funding. Coaching and mentoring networks should be established by today entrepreneurs from both sides of the Mediterranean.

The early stage financing would need to be better coordinated with the various innovation support institutions.

5.6.2. Women entrepreneurs

Fostering women entrepreneurship has been in many declarations, but impact is still limited. MBDI should adopt a very practical approach to accelerate the rate of creation of enterprises by women and to help them to grow their enterprises. Women entrepreneurs would deserve a specific programme (TA and finance) to foster the development of their enterprises and the role of women in the modernisation of the Mediterranean society. This should not be a "charity" support, but actions to compensate specific difficulties

- Higher guarantees for loans extended to genuinely women owned and managed enterprises to compensate for their lack of collateral;
- Support to incubators for women-owned projects; and
- Coaching and support to women associations, etc.

In order to promote women, it may also be envisaged to require a minimum percentage of women in the management teams of the institutions financed by the MBDI, or that institutions such as MFIs and Investment funds have a given percentage of women managed enterprises in their portfolio (e.g. similar to the covenants on environment).

5.7. Credit bureau, rating, etc.

The MBDI should find ways to provide incentives for local banks (for example guarantees, rating) so that they can participate to the financing of MFIs. The parallel development of consumer credit and the ease of use of the forthcoming new technologies (mobile banking) may increase significantly the risk of over-indebtedness of micro-borrowers and lead to a significant increase of default in microfinance institutions. The support to a credit bureau by the MBDI is essential. While the operations are generally standard and self-financed for the

banks' client segment, the main issues are the cost of a request for a MFI given the small size of the loans (very similar problem in Egypt and Morocco) and how to merge the ad-hoc data exchange set-up by the MFIs with the banks' credit bureau.

Rating of microfinance institutions, which has been supported in part by donors at the beginning, needs to be expanded as it is an excellent tool to evaluate MFIs in view of lending or other financial support. It might be worth to have a joint review of the situation with other donors to widen the coverage of leasing activities. According to some interviewees, one major constraint is again human resources as it is very difficult to recruit Arab speaking professionals for this activity.

5.8. Leasing, factoring, etc…

While leasing is generally well implemented in Maghreb countries and Egypt, it is lacking behind in Lebanon and Jordan, and not available in Syria. The leasing companies (lessors) may have suffered from the financial crisis, with more difficulties to get financing. But this does not seem to be a major issue for the time being. The still missing areas are leasing for agricultural equipment and micro-leasing which should be tackled by the microfinance institutions.

In Jordan, more resources allocated with the elimination of the last legal impediments may stimulate the accelerated development of the industry. In Lebanon, the sector suffers from the competition of subsidized loans. In Syria, a draft law is being discussed and once it is approved, the sector would need technical assistance, training and funding. This assistance may be provided by experts from other Mediterranean countries such as Egypt, Morocco and Tunisia.

Factoring is not well developed in the region and it might deserve support (in particular joint equity financing with an experienced partner) as the case may be.

5.9. Professional associations and regional meetings and forums

As support to SMEs is a young "industry", professional associations, be it at the national level or Mediterranean level, hardly exist[10] and would need support to increase their reach and to disseminate know how and other information between their members. In addition, women entrepreneurs are in most cases not receiving attention and support as they should. Only the microfinance sector is relatively organised, but with the decrease of traditional donors, it would need to find new support. The Mediterranean associations need to be created for guarantees institutions, investment funds, etc… and more targeted forum and conferences need support to facilitate networking and exchange of experience.

There are a lot of talks about angels networks, but very few angels, with "real" time to support new enterprises exist. At this stage, it would be necessary to mobilize seasoned larger entrepreneurs of the region who have built experience and success to transfer not only money, but know how. The financial assistance to new entrepreneurs does exist (albeit very small), but the latter lack practical advice and support. The MBDI may provide initial support to create this activity.

[10] / There are a number of Mediterranean programmes such as ANIMA, Medibtikar, Med-Invest, etc but they focus mostly on networking and exchange of information.

6. Basis for a MBDI strategy

6.1. Organisational prerequisites

In the past, many well intended programmes have failed or have had a limited impact, not because of their objectives (well identified), but because of practical factors such as a rigidity in procedures creating difficulties to change certain parameters, too heavy and lengthy selection procedures to select beneficiaries, too high costs (e.g. foreign exchange risk not sufficiently assessed) etc… Moreover, some TA programmes were successful, but not sustainable. Embedding private activities in a public structure has sometimes led to un-sustainability as the public structure cannot pay the wages which would be required to attract and retain professionals. For the MBDI to be efficient and provide a real sustainable support to the private sector, the design should pay attention to flexibility, speed and ease to use funds, ease of disbursement, structure of the intermediary while of course containing the risks of fraud and misuse of funds.

6.1.1. Flexibility and capacity to evolve

A lesson learned from earlier programmes in the region and from programmes in other zones is the necessity to have built-in flexibility. This flexibility is needed in view of (i) the probable technological changes (for example, three years ago mobile banking was at the experimental stage and (ii) possibilities of economic and political changes which might have a positive or negative impact on reforms (example of the recent adoption of a microfinance law by Syria) (iii) the delay which may occur between the moment a project is decided, and the moment it is implemented, or the delays in the implementation of the programme, which can make some features obsolete. A built-in decision mechanism to approve deviations from the agreed implementation scheme is needed.

In addition, the existing structures and schemes already in place in the various countries are different, sometimes very different. This means that the instruments to be developed will have to be precise (to avoid waste of money in inefficient structures), but flexible (to be able to be mobilised in different contexts).

This flexibility means that there should be a built-in possibility, in every project, for the project management to adapt to circumstances, and not to follow strictly the original design. There should of course be a control mechanism, to ensure that those changes do benefit the project.

The flexibility should also exist within the various categories of instruments. For example, if after two years, the funds earmarked for investment funds are not disbursed and have limited prospective chance to be disbursed, part of these funds could be re-allocated, for example, to the microfinance activity, or the reverse of microfinance money is too slow to disburse.

6.1.2. Speed and Ease of operation

In all the projects, whether equity investment, microfinance, technical assistance, guarantee institutions etc, the details of the implementation will be critical. Many past projects, which were relevant for SMEs, potentially very useful for their development, and well designed at a global level, did not reach their objective because of implementation problems (be it processing or institutional capacity of the beneficiary). In particular, the speed of approval and disbursement, and the amount of documentation necessary to apply for support, are critical in the success of the development scheme. A balance must be found between the need to avoid fraud or failures

on the one hand, and the need to process requests rapidly on the other hand. An enterprise (especially the small ones) cannot wait for weeks, sometimes for months, before getting approval for its financing or technical assistance: the business opportunity just no longer exists when the positive answer arrives. We found numerous cases where enterprises, including banks, did not use the services offered, just because the supply of those services was too slow or too cumbersome. They preferred other solutions, often more expensive, but more immediate, in line with the business cycle. Project designers and project managers had rightly taken all the necessary precautions to screen proposals. They had implemented procedures designed to combat possible fraud or to ensure that the project to be financed was properly thought out. But the time needed to screen the projects made them obsolete or irrelevant when the approval was eventually given – and the development project did not meet its objective. Project designers must be aware of the fact that private sector development projects do entail a percentage of failures and that some fraudsters will get through the screening procedures. But they must carefully weight those costs against the risk of making the project ineffective because of its too rigid procedures.

6.1.3. Ease of cooperation and joint financing

As mentioned above (section 4), many financing packages are implemented jointly by several donors (microfinance financing schemes, guarantee schemes, investment funds, etc...) and sometimes private investors and public institutions. It is therefore essential that the structure selected for the MBDI be compatible with the one of other financing institutions. It is also critical that it can work with the private sector, as one of the roles of MBDI financing is to leverage its contribution and facilitate funding by private institutions, which should be the ultimate goal.

6.2. Time horizon

The consultants have been asked to propose a three year budget and action plan. The very instruments proposed lead to the necessity of a longer time scale: guarantee schemes do not prove their worth before a couple of years, start up funds before 3-5 years and capital investment before 5-10 years. While we believe a MBDI effort should not be seen as a permanent objective, but as a transition mechanism to overcome current gaps, it is certainly necessary to envisage its overall role for probably 10 to 15 years.

Disbursement will have to take into account the absorption capacity and the necessary capacity building before the funds can be disbursed efficiently. As mentioned above, the speed of disbursement will be limited by the availability of experienced professionals. So, we are evaluating the initial disbursement over 4 years and the global Initiative over 11 years,

6.3. Criteria for the development of the initiative

In order to be able to propose a structure for the programme (volumes, instruments) and an organisation suited to the needs of MSMEs of the various countries, we have first analysed the criteria impacting the choice.

6.3.1. Criteria to select and dimension the instruments

- Availability of a positive business environment
- Appropriate regulations/ legislation enabling the development of the proposed instruments

- Understanding of the necessity to have a public/ private approach and not a "solidarity" approach which weakens the entrepreneurship spirit – and leads to limited or non repayment.
- Market orientation vs. central planning
- Size of the MSME segment and volume of financing (actual and future) of current operators, as well as availability of experienced professionals
- Attitude of final borrowers/ clients (e.g. preference of getting a loan/ leasing almost immediately rather than in 6 months, even if it has a cost)
- Possibility to implement the instrument according to the needs of the private sector (speed, ease of use) while limiting the impact on the risk factor (fraud, failure of projects)

6.3.2. Criteria to structure the programme (target, geographical scope, etc...)

- Specificity of the needs of the various segments and differentiation between countries
- Mitigation of risk
- Current assistance programmes from other donors and potential of complementarities
- Potential of sustainability
- Potential economic and financial impact
- Need of capacity building or other specific training and support
- Absorption capacity

6.3.3. Criteria to design the MBDI organisation

- Ownership of the Initiative by both sides of the Mediterranean to be reflected in the decision and operating structures of the Initiative.
- Availability of intermediaries to channel funds and provide support to companies (preference to existing institutions, with adequate TA if changes are needed and the management is willing to implement them)
- Transparency and governance while maintaining rapidity of support
- Need for flexibility to react easily to any economic or political changes (e.g. new law or regulation for microfinance, change of economic policy, etc.).
- Cost of operation
- Delays to set-up the proposed organisation
- Limited life
- Speed of processing requests (either TA or funding)
- Speed of disbursement of the funds
- Need for proximity
- Need of monitoring and impact analysis to refocus programmes as necessary

6.4. Country analysis and potential fields of action for MBDI

The details of the country findings and the proposed actions are summarized in the seven attached tables. The evaluation of the needs have been done globally taking into account the specificity of each country, and factors affecting future disbursement speed. The combined demand as evaluated in table 16 (page 58) below has been used to dimension the programme and assess its sustainability in the business plan. We recommend not earmarking any specific amount per country as this programme should be flexible and regional (although regular evaluation procedures may be built in to check the impact of the programmes and verify that it benefits to all countries). Moreover, if changes in the business environment occur (positive or negative), the funds

would be easily reallocated according to the changed needs. It should be noted that commitments and disbursements may be slower in the first years as the new system will have to be put in place and no financial institution (existing or on the drawing board) at this stage is anticipating the role and volume of funding proposed under the MBDI.

Table 9: Algeria - Evaluation and potential for MBDI support

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
Guarantee	Slowly gaining acceptance Already well funded for the present level of guarantees granted, and Split of the market between twos Sate-owned institutions (CGCI and FGAR).	No additional funding needed for the time being. In any case, no foreign funding could be supplied under the current regulation	TA already supplied through EU MEDA programmes, but an evaluation and recommendations for restructuring might be useful if warranted by the Algerian Government.
Leasing, Factoring	Starting to develop,	No special needs from MBDI. A 6m € guarantee was given by the AfDB to Maghreb leasing Algeria	No particular need
Investment funds	The activity is not developed, but new capital investment funds are starting to be created. This new development will probably be effective when the requirement of "a "positive foreign currency balance" for foreign investors is adapted to the specific case of capital investment.	The present implementation procedures concerning the "positive foreign currency balance" of foreign investments cater to industrial investments. The corresponding by-laws for financial investments are still pending (Nov 2009). After their publication, funding can be considered for the funds targeting smaller companies ▪ Seed ▪ Growth funds (between seed and development) and to larger funds to provide some stamp of guarantee	TA can come only when there is the possibility of a practical application.
Training of fund professionals	Much needed, but will be feasible only when the funds start their operations		Training should come only when the funds start to operate. Otherwise, the trainees will be poached by foreign funds.

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
Microfinance	The perception of the need for a larger use of Microcredit is progressing. For the time being, the present Central Bank Regulation, which sets at 35m€ the minimum capital for any credit institution, prevents the creation of new microfinance institutions. The repayment rate is also markedly lower than the usual 95-98% of most microfinance institutions, due a different, more social, approach to microfinance. Today, only state institutions (ANSEJ and ANGEM) are active	Many MFIs are interested in working in Algeria, provided the regulations, which are currently designed for general banking activities, are adapted to the special needs of micro credit.	There is a need for assisting those promoting the concept of micro credit through lobbying and information campaigns. TA can be provided to new institutions (if and when they will be launched), as well as to ANSEJ and to the Ministry of SMEs if requested.
Microfinance training	Not to be considered for the time being as long as no actual non-solidarity fund is functioning.		Will be needed in the future
Industrial zones	Access to industrial land is considered a major problem by all stakeholders. Industrial zones exist, but still have f high prices or inadequate facilities	Access to industrial land is part of the improvement of the business environment, which is not considered by this programme.	
Women entrepreneurship	Contribution of women is still low Some dynamic women associations	Assisting women entrepreneur organisation(s) through grants and TA.	May be TA for women incubators
Direct technical assistance to SMEs	Already undertaken by -EU MEDA programmes PME I (57m€, until 2007) and PME 2 (40m€, started in 2009). -Government programmes for SMEs and craftsmen		The present programmes are covering a fair range of the needs

Table 10: Egypt - Evaluation and potential for MBDI support

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
Guarantee	Two institutions, not very effective and poorly managed; very long processing time, either to accept a guarantee, or to pay a claim The guarantee society is said to be close to bankruptcy; Both institutions have very limited impact Lack of awareness and contact with banks	Probably need of limited additional funding, such as a limited MBDI counter-guarantee, BUT only after in depth efficiency assessment and a restructuring of the two institutions	Efficiency diagnosis and restructuring recommendations Need to increase relationship with banks Regionalisation Management and training
Leasing, Factoring	Well developed private activity May be need for micro-leasing	NO; No special needs from MBDI Possibility of equity investment on an opportunistic way	NO
Investment funds	Difficult to evaluate the number of funds and amounts under management; the regulatory environment is not very positive and many funds are registered offshore Very rapid and diversified development over the last two to three years - several midcap funds - three turnaround funds - several large to very large private equity funds targeting large investments Very dynamic stock exchange (the largest of the region by far) and very high direct foreign investments offering good possibilities for exit Orphan segment of smaller companies Need to create funds coverings small co and target between seed and development; Policy of the MOF to stimulate the creation of funds targeting SMEs (not yet effective)	Funding necessary for the funds targeting smaller companies ▪ Seed ▪ Growth funds (between seed and development) targeting companies incorporated as joint stock as well as limited partnership Investment in development funds is still necessary as funds for midcap segment are young and much more are needed given the size of the Egyptian market	Work on innovative approach for growth fund - large number of companies - SARL as well as SA - coaching and support - not only capital, but also participating loans - revolving; longer term (e.g. 15 years) May be Public-Private approach to launch such an initiative Support to the creation of an Association, non existing as of today

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
Training of fund professionals	Ad hoc training by some funds, internally or abroad Not enough professionals on the market	Co-financing of an internship scheme in the older and most efficient funds, in Egypt or in other countries of the region	Creation of a Mediterranean Training Initiative to train (practical) professional, either junior (graduates or mid-careers with finance or management experience) and strengthen capabilities of professionals already in the field Need to support the creation of an association[11]
Microfinance	Regulation now in place by EFSA and new law being discussed in Parliament, to be enacted in 2010. Over 100 NGOs and a few bank departments active in Egypt Now around 1.2 million active clients Large potential for growth and many foreign institutions interested to enter the Egyptian market Probably, transformation of some NGOs into financial institutions in need of increased capital Problem of the credit bureau (see above); how to increase the efficiency of the very small NGOs	Capital for transformation Loans either direct or through a MBDI instrument or through other vehicles As there is a high liquidity on the banking market, may be an interesting tool could be a guarantee from a Mediterranean Fund or a portable guarantee enabling institutions to get local funding with a leverage versus the guarantee.	Support to management of smaller NGOs, maybe to organize a joint back office company to enable the smaller associations to improve control and risk evaluation
Microfinance new tools	Several associations are already offering micro-insurance A number of them are thinking of mobile phones (over 50 million mobile phone accounts for a population of 80 million), but not real project at this stage		Survey of the micro-insurance needs and development of products better adapted to this market Support to the creation of a mobile phone microfinance-finance

[11] Seems about to be created at the time of printing

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
Microfinance training	Training has been carried out in the past financed by USAID. Today, larger NGOs have an internal training, but new entrants face difficulties as donors financed programmes have inflated the cost of training. No training of microfinance clients, but some coaching in the case of the best institutions Risk of poaching professionals from "old" MFIs by new entrants		Setting-up of a microfinance-finance training centre (maybe similar to the bank training centre) to be financed both by the microfinance-finance institutions, Egyptian public funding and MBDI Use or co-production of joint training material, like the video clips proposed by the Moroccan for illiterate clients Can train professionals from other countries
Credit bureau	I-Score, under the Central Bank and with all the major banks as shareholders exists Microfinance institutions are not yet participating to the credit bureau; they have developed their own exchange and say they cannot pay the fees asked by the bureau		Assist the parties to find a common solution, either one unique bureau or two bureaus which exchange data. Maybe initial declining subsidy to enable ALL parties to participate and to get information at a reasonable price given the small size of the loan
Industrial zones	A significant number exists, mostly as free zones, but not adapted to the needs of SMEs Good solution for new entrepreneurs to decrease the initial cost through leasing or renting of facilities given the difficulties of access to land	Co-investment in selected zones Offering of smaller spaces for small companies or development of SMEs parks	Creation of "support shops" offering all services to enable young companies to externalize accounting, HR, etc... and get coaching/ training
Women entrepreneurship	Contribution of women entrepreneurs still low Key to modernisation of the society	Maybe a proposal of a special funding for women entrepreneur or a Mediterranean women fund covering several countries	Maybe creation of an incubator dedicated to women, with coaching from senior business women

Table 11: Jordan - Evaluation and potential for MBDI support

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
Guarantee	Not really efficient for SMEs development; seems to have a blurred mission statement as the company is listed (while some 60% are state owned), seem averse to risks, and have a complex set-up of administrative procedure Questions on governance Need certainly an assessment, restructuring and changes of procedure in order to play a significant role in the economy Not sure that the proposed merger with the mortgage refinancing co is the solution to the problems	Probably too small capital base Need for funding to expand to activities other than real estate	Have been trying recently to improve their product design and offering Need restructuring and capacity building with the aim of creating a sustainable and efficient institution with a clear mandate Need to have a clearer focus and understanding of SMEs
Leasing, Factoring	A few specialized companies, mostly linked to banks Mostly focus on large corporation for transportation fleets Room for expansion for industrial equipment and small leasing	Cost of leasing seems high (origin to be checked: cost of funds or processing?) Need of additional funding in order to expand in new areas such as food processing, buses and labs for education institutions, and equipment for industry and SMEs activities Support to the development of factoring through co-investment in factoring companies and funding to jump-start the activity	Review to be done , probably in cooperation in IFC, but no significant needs Factoring has not yet been introduced in the Jordanian market and TA and know how transfer from experienced companies may be needed
Investment funds	There are only 3 investment funds operational, all registered offshore. Only one is dedicated to Jordan. Two funds are under preparation as Public Private Partnership, and are targeting respectively early stage with a possible focus on high tech companies and SMEs	The need for funding is not immediate, but will emerge rapidly once the first two funds are fully launched. The support to very small companies is still missing	Certainly needed within two years to assist launching of and support to new funds, in particular for SMEs
Training of fund professionals	Limited availability of trained specialists within Jordan		Important needs of training if the industry develops, but given the small size of the market, would need to be implemented jointly with other countries to benefit of a scale effect

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
Microfinance	Very small institutions, with limited outreach in the rural areas and competition in urban zones, in a unregulated environment Mainly group lending and focus on poverty alleviation. Limited coverage and support of micro-entrepreneurs. No activity in the agricultural sector as gvt subsidized schemes prevent the operation of "commercial" lending with repayment.	Some MFIs benefit from banks loans. Maybe guarantees will be sufficient to increase lending from commercial banks	Need of more modern systems and back office; probably some capacity building to improve cost efficiency and outreach Lack of an efficient association or network to promote policies Support to increase exchange of information and experience with other regional MFIs
Microfinance new tools	Probably not the priority at this stage in Jordan, although mobile phone is well developed and can prove an interesting tool. But should be developed jointly with other countries to share the cost		
Microfinance training	The market is growing, but other sources of funding (USAID) are available May be a different approach could be interesting to diversify the culture		For training in a Mediterranean Center
Credit bureau	Non existing and badly needed, to cover both banks and microfinance Six microfinance institutions have signed an agreement to exchange information on the credit history of their clients and have established an exchange system managed by Delta to make up for the lack of central system	No need at this stage Banks can fund it, and USAID has expressed an interest to fund it	It does not seem to be a technical issue, but more a lack of awareness of law makers
Industrial zones	Have been well developed There are both public and private sector managed parks and zones. May be need of business parks with affordable rents for young entrepreneurs	Establishment of more zones and entrepreneurial support centres is a priority, in particular outside the capital city of Amman	Assistance in designing, targeting, costing and developing the project
Women entrepreneurship	While with a high rate of women in universities, Jordan has a low rate of professional women. Need some policy changes to enable women (or men) to work from home	Need of special funding schemes (may be through guarantees) for start-up and growing business,	

Table 12: Lebanon - Evaluation and potential for MBDI support

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
Guarantee	One guarantee institution, Kafalat, rated by all stakeholders as most successful and useful	Additional funding is needed for specialised guarantee schemes: arboriculture, clean tech and sustainable energy	
Leasing, Factoring	There are three major leasing companies. Leasing, however, did not develop as bank offer credits at comparable costs	No particular need at present	
Investment funds	Investment funds are handicapped by the lack of transparency, resistance to capital sharing and difficulty to exit route Existing investment funds are targeting mid caps have a regional approach and have been successful to attract not only institutions but also private investors. Smaller funds targeting smaller companies are handicapped by unadapted design and management problems. A seed fund linked to an incubator which is at its early stage seems to have adopted a model adequate in the Lebanese environment	There is a need, within the general framework of new types of investment funds.	Benchmarking with foreign successful funds could be a plus as there is an important need to review the cause of the difficulties of some of the funds and strengthen them as needed
Training of fund professionals	As is often the case,, human resources is a major bottleneck to expansion	Funding training for fund professionals is a common need for all countries, incl. Lebanon	Training to improve design and management
Microfinance	There is at present no specific law on microfinance, which limits the possibilities of development. In addition to formal NGOs, there are several other sources of microfinance, political parties subsidies, Islamic loans of Al Qard Al Hassan and remittances	There is a need for formal lending (but not possible or difficult without a regulatory environment)	Need of capacity building and systems to both (i) decrease costs and (ii) link with a centralised system of credit information (credit bureau) Training for banks interested by a down-scaling to go into microfinance-finance
Other tools	The ESFD is not stricto sensu a microfinance tool, but an interesting instrument which assists small enterprises, many of them informal, to have access to finance from three pre-selected partner banks	Additional funding to expand the scheme	Need additional TA funding to expand the volume beyond the current 3000 clients (30 million USD); will add one more partner bank in 2010
Microfinance training	Not enough loan officers, in particular in the rural regions	Grants to cover training	Training needed to expand to new segment of the population and different activities
Credit bureau	Credit information are recorded in the Central Bank only for loans above 10 million LP (about 5000 €). Access to this credit information is restricted to banks. There is a project to implement a credit	Funding support for the implementation of a credit bureau covering all lending institutions	The Association of Banks envisages an extension of the coverage. Important need to upgrade the records to cover all loans and to ensure that smaller credit providers are

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
	bureau.		able to access the system on line
Industrial zones	There are already some industrial zones in Lebanon lacking management; there are no special incentives A new Special Economic zone is under development in Tripoli	Need to create PPPs to develop industrial zones and business parks Need of support infrastructure such as cold storage, wholesale storages, etc	Management training for special economic and industrial zones Benchmarking with successful foreign industrial zones
Women entrepreneurship	Although not required by law, banks commonly require a male guarantee to provide a loan for women Women lack information on existing financial facilities to support investments	Needed to provide for higher guarantees for women entrepreneurs (to compensate for lack of "real" collateral)	Capacity building and mentoring of women entrepreneurs

Table 13: Morocco - Evaluation and potential for MBDI support

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
Guarantee	Relatively well organised CCG through the recent restructuring designed in coordination with the banks Volume still too low Lack of awareness and contact with banks	May need limited additional funding, such as a limited MBDI counter-guarantee, BUT AFTER in depth efficiency assessment	Need to increase relationship with banks Regionalisation Management and training
Leasing, Factoring	Well developed private activity	No No special needs from MBDI May be possibility of equity investment on an opportunistic way	No
Investment funds	18 funds today of which 16 development funds Orphan segment of smaller companies Need to create funds covering small companies and target between seed and development	Funding necessary for the funds targeting smaller companies ▪ Seed ▪ Growth funds (between seed and development) targeting companies incorporated as SA as well as SARL legal form Additional investment in development funds is still necessary, but more as a comfort and rating to accelerate and increase private funds raising	Work on innovative approach for growth fund - large number of companies - SARL as well as SA - coaching and support - not only capital, but also participating loans - revolving; longer term (e.g. 15 years) May be Public Private approach to launch such an initiative Support to Association
Training of fund professionals	Ad hoc training by some funds, internally or abroad Not enough professionals on the market	Co-financing of an internship scheme in the older and most efficient funds	Creation of a Mediterranean Training Initiative to train (practical) professional, either junior (graduates or mid-careers with finance or management experience) and strengthen capabilities of professionals already in the field Need to support the association of investment funds

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
Microfinance	Regulation in place by the Central Bank Well known in Morocco, with a few very efficient large associations/ institutions. The 4 largest cover 80% of the market 1.3 million active clients In a stabilisation phase; may be transformation of some NGOs into financial institutions Problem of small associations: What is and will be their role? How to ensure they are efficient and not prone to high risk?	Capital for transformation Loans either direct or through a MBDI instrument or through JAIDA Financing is important as, up to now, microfinance institutions have been able to get financing from Moroccan banks, but the shortage of liquidities means they now have to look elsewhere to finance their growth	Support to management of smaller NGOs, maybe setting up a joint back office company to enable the smaller associations to improve control and risk evaluation
Microfinance new tools	Several associations are already offering micro-insurance Some institutions are thinking to move to mobile banking, but no real project at this stage		Survey of the micro-insurance needs and development of products better adapted to this market Support to the creation of a mobile phone microfinance-
Microfinance training	Excellent training centre, with good ideas for development (training of professionals and also training of microfinance clients)		Training and coaching of clients, including interactive training using video clip for illiterate clients Production of video clips which can be used not only in Morocco, but in other countries Can train professionals from other countries
Credit bureau	The central bank has given the management of a credit bureau to a private company, Experian. So far, banks' clients and clients of the largest microfinance association are covered, but not the clients from the small ones for the time being (Nov 2010).		Assist the parties to find a common solution, especially the small actors
Industrial zones	A few under development (CDG and Chambers of commerce) Good solution for new entrepreneurs to decrease the initial cost through leasing or renting of facilities	Co-investment in selected zones Offering of smaller spaces for small companies	Creation of "boutique de gestion" to enable young companies to externalize accounting, HR, etc... and get coaching/ training
Women entrepreneurship	Contribution of women entrepreneurs still low Very dynamic association Key to modernisation of the society	May be a proposal of a special funding for women entrepreneur or a Mediterranean women fund covering several countries Creation of special guarantees for women with a ceiling and safeguard provisions	Support the first incubator for women (already receiving a small support from the Spanish cooperation) Try to develop regional actions (Tangiers, Meknes, Agadir)

Table 14: Syria - Evaluation and potential for MBDI support

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
Guarantee	A first guarantee fund has been set up through the SEBC, with the funding from EU and Government. It is not yet fully operational (Feb. 2010) and is looking for support from other donors.	There will most probably be a need for funding and TA after the first steps of this new guarantee fund	TA may be needed for the new guarantee fund (as complementary to EU funding and TA)
Leasing, Factoring	There factoring and leasing is by law only permitted by Islamic banks. A proposed law has been drafted by the Central Bank and is under discussion in the MOF Recovery of payables seems to be a real problem in Syria and a factoring industry is badly needed	- Once the leasing law is enacted, it is probable that the commercial banks will provide the necessary funding, but equity financing may be needed as complement or confidence support to other investors (banks or foreign lessors) - Creation of factoring company(ies) will require specific know how (to be transferred by a private operator) and equity financing	TA may be necessary to ensure that the leasing law is properly implemented and that the leasing institutions and the enterprises make full use of it Design of products tailored to the specificity of the Syrian market
Investment funds	It may be too early to operate investment funds for SMEs, as the regulations do not exist and the level of transparency and corporatisation is not sufficient. A few years may still be necessary to reach a suitable level.	No significant funding necessary for the next few years. Some pilot investments by regional funds may be assisted in order to prove the concept.	TA may be necessary both for the regional funds and for the pilot investee company(ies) May be TA from other donors could be mobilized to help private enterprises to be converted into enabling legal forms and to implement more transparent procedures
Training of fund professionals	Much needed, but will be feasible only when the funds start their operations		Training should come only when the funds start to operate. Otherwise, the trainees will be poached by foreign funds.
Training of bank professionals	Private banks have extensive professional training programmes targeting individual employees. However, the public banks are still lagging behind in bank professional training. This is due to both lack of trained professionals and to the structure of the Bank Training Center. It is a public institution, which cannot recruit and keep private trained professionals to deliver proper SME training	There is a need of both training rapidly bank professionals and train trainers in a context able to ensure sustainability	Banks can certainly pay for training as they do in other countries, but they need to get proper trainers. The issue is not to supply more consultants to deliver training, but if the Government and the Central Bank wish so, to review the organisation and structure of the Bank Training Centre and help them with capacity building and train the trainers schemes

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
Microfinance	One recent MFI organized under the new law 15/2008 More funds are interested to enter the Syrian market. It is hoped that not too many ad-hoc changes will be introduced to accommodate special requests	If the industry develops as expected, significant funding will be necessary over the next 4 years	No local training available, and in house training is mostly carried out by expatriates, mostly Egyptians. In addition to training provided by Sanabel, more training is needed as well as support to MFI clients
Microfinance new tools	Too early at this stage, with the exception of micro-insurance		
Microfinance training	Trained human resource are already a major limiting factor – this limitation will be more acute as microfinance expands		Organize training both in Syria and abroad to support the creation of new MFIs and the growth of current ones (as a complement of existing programmes such as Sanabel)
Support to young entrepreneurs	SEBC provides some support to new entrepreneurs, a kind of mini-incubator (only in Damascus)	Need of special financing schemes, associated with support	Huge need of TA, coaching and mentoring as the country has been insulated from the rest of the region for some thirty years
Credit bureau	The present central credit scheme registers loans down to 300 000 SYP (about 5 000 EUR). It is due to evolve to cover all loans, whatever the amount	Funding may prove useful for new users of the system (MFIs)	TA might be necessary, to assist the creation and more important the implementation of a full fledge Credit Bureau, which would require n improved systems. Moreover, extension to small loans mean that hitherto not concerned institutions (MFIs, consumer credit) will have to use the reporting system
Industrial zones and business parks	Except a few free zone near Homs and other large cities, no industrial zones and business parks able to accommodate small enterprises Very difficult to find offices and workshops in big cities, and when possible, very expensive		
Women entrepreneurship	A number of NGOs are targeting women in business and business incubators for women have proved very successful in the past. The government is providing special funds for women entrepreneurs and have allocated 0;025% of the public budget		

Table 15: Tunisia - Evaluation and potential for MBDI support

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
Guarantee	The guarantee fund SOTUGAR has now gained acceptance among banks and is steadily increasing its activity	Is reaching capacity and will need limited additional funding, but only after in depth assessment.	SOTUGAR received significant TA from EU MEDA
Leasing, Factoring	Well developed private activity Could provide know how to other countries	No, no special needs from MBDI	NO, local operators are highly professional
Investment funds	41 SICAR, but they are not actual investment funds, and they may get into trouble following the latest tax measures which oblige them to invest faster than before- and maybe too fast to be safe. A few efficient funds registered as Tunisian offshore funds (Tuninvest, Swicorp), with a regional activity One start up fund., Phoenicia ACP	Funding necessary for the funds targeting smaller companies ▪ Seed ▪ Growth funds (between seed and development) targeting companies incorporated as SA as well as SARL legal form Additional investment in development funds is still necessary, but more to provide comfort and rating in order to accelerate and increase private funds raising than for purely financial purpose.	Maybe a review to evaluate options to revitalise the SICAR system and add efficiency to an otherwise well targeted instrument (aimed at supplying SMEs with share capital). This will most probably involve training of fund analysts.
Training of fund professionals	Ad hoc training by some funds, internally or abroad Not enough professionals on the market	Co-financing of an internship scheme in the older and most efficient funds	Creation of a Mediterranean Training facility to train (practical) professional, either junior (graduates or mid-careers with finance or management experience) and strengthen capabilities of professionals already in the field
Microfinance	The market can be developed through more institutions and studies are currently carried out financed by EIB and AfDB to expand its outreach and increase the efficiency of BTS microfinance bank. As per law, cap of 5% on interest rates.	Provided there is a change in the law, and following the result of the studies that are being carried out, funding of new institutions and reinforcing of present ones	Support to the change in the way microfinance is being implemented now

Type of instrument	Consultant evaluation/ comment	Need for additional funding	Need for TA
Microfinance training	Little, in house by BTS and Enda		Sending loan officers to training centres ,for example in Morocco Setting up a training centre in Tunisia Exchanging courses between training centres
Industrial zones	Free zones and industrial zones have been created by the Government.	No special need	
Women entrepreneurship	Contribution of women entrepreneurs still low, while probably higher than in other surveyed countries Key to modernisation of the society	Maybe a proposal of a special funding for women entrepreneur or a Mediterranean women fund covering several countries	
Incubators, technopoles, innovation centres	Being implemented by the Government, with the assistance of EIB, GTZ Very variable results, sometimes too many centres		
Direct Technical Assistance to SMEs	Significant and structured government programmes for TA, financing, tax incentives, support to Quality and innovation.	Funding already undertaken by EU MEDA, PMI programme (50m€ ending in 2009) followed by PCAM (23m€, due to start).	

6.5. Volumes

Based on the analysis of the unmet demand at the level of countries, the absorption capacity and the real disbursement possibilities taking into account the legal and practical environment, the needs (financing and associated technical assistance and training) of the countries under review have been established by category of instrument for four years.

Table 16: Proposed MBDI 4 years financing (million EUR)

Instrument	Total Mediterranean (as specified above)
Microfinance	**650**
▪ Financing Equity Loans/ guarantees ▪ TA	600 *100* *500* 50
Investment funds (medium to very small target)	**600**
▪ Financing ▪ TA for funds for investees	500 100
Guarantees	**250**
▪ Financing Direct (incl. specific guarantees for investments, and women,) Counter-guarantee fund ▪ TA	220 *50* *170* 30
Women and New entrepreneurs financing and support	**150**
▪ Financing ▪ TA and coaching	100 50
Leasing, factoring	**100**
▪ Equity and loans ▪ TA	90 10
Industrial Zones	**150**
▪ Financing ▪ TA	130 20
General TA and Sponsorship	**100**
- for new institutions, new instruments, new regulation, credit bureaus, etc. - for training, professional associations, awareness campaign, professional meetings	
Unallocated (new or other instruments, new country programmes, etc)	**200**
TOTAL	**2,200**

This financing should leverage other donor financing and, more important, private sources of financing.

We propose that the MBDI mobilizes a total volume of financing of 2.2 Billion EUR to improve directly and indirectly MSMEs access to finance. This amount (finance and associated TA support) would be disbursed over a four years period, and repaid within some 11 years (depending of the type of instrument and the financing conditions).

While the decision on the launch of the MBDI is a governmental and political decision, it will be important to consult associations of private entrepreneurs and other professional associations to the design of the various programmes which will need to be tailored to the specific needs of the targets.

As seen above, certain very much needed activities such as "Women and new entrepreneurs financing and support" are receiving a more limited funding. This is due not to the lack of demand, but to the lack of demand that the MBDI could finance within its stated mandate of "market orientation". During the field work, we met various demands requiring soft loans for infant activities, innovation or grants to support the transfer of know how, the development of associations, etc. In order to accommodate these requests (only very partially covered by the MBDI) requiring for both support, coaching/ mentoring and soft financing, we propose three alternative options:

- to allow the MBDI to have more significant losses over the period,
- to mobilize donors grants on a case by case basis, or
- to create a trust fund managed by the MBDI of say 50 to 100 million EUR which can be used to subsidize partly the loans made to young entrepreneurs and finance additional support (coaching, MED innovation portal, etc)

In view of the current multiplicity of activities and the difficult coordination of aid in the field, we believe that the constitution of a **MED trust fund** managed by the MBDI (where donors would contribute as they wish) might be the most efficient answer.

7. Proposals for organisation and disbursement of the MBDI funding

The participation to the MBDI will be based on a voluntary membership. In order to structure such an organization, we have investigated two broad concepts: either to locate the new Initiative next to an existing institution, providing experience and support and able to be operational rapidly (option I and II) or to create a new institution (option III), with more political visibility, but which will take more time to create and would be more costly. All options have MPCs branches/offices or work with intermediaries with local outreach, as **working with SMEs and Micro-enterprises is a proximity business**. There might also be a dual source for funding: (i) the funds brought by the MBDI itself, with the objective of at least breaking even, and (ii) other funds, which could be brought by other donors, and which could co-finance certain instruments.

At this stage, we envisage three different options for the organisation of the MBDI.

1. Option I - Similar to FEMIP, but with involvement of the MPCs in the decision making (board and financing committee) and in the professional staffing of a MBDI Autonomous Business Unit. A variant can be that, in addition to the MBDI Unit processing of projects to be presented to the financing committee, the MBDI appoints (over time) a few authorized intermediaries from the MPCs who might be qualified to present projects to the financing committee (and paid a success fee if the project is approved)
2. Option II - Decentralized organization - with a strategic board in charge of strategy and control (as above), a financing committee with reduced activity and a smaller team in a MBDI Autonomous Business Unit (for projects not outsourced, new projects or development of new instrument and for supervising and monitoring the funds) which are kept in central. Financing is mainly processed by decentralized and privately managed structures organized in revolving funds (as the case may be).

The financing decision will be made at the level of each independent institution (to be established through a call for proposal based on pre-set criteria), except for special cases.

3. Option III - A separate agency to manage and finance the projects.

Those options do not take into consideration a possible extension/change of the mandate of the EIB, which may facilitate the implementation of the first two options, or enable further modifications of the organisation.

Whatever option is selected, there will be a need of

a. A **strategic board** with representatives of the MBDI participating members (EU and Mediterranean participating countries) to review and decide of the strategy to be adopted for the MBDI, and execute a control of operations based on report from the staff and external monitor, evaluators and auditors
b. **A financing committee** with professionals from the EU and Mediterranean participating countries to decide on the proposed investments, loans or assistance projects (a simplified system may be put in place for smaller assistance projects, for example similar to the current EU framework system)
c. **A team of EU and Med professionals**. It will include experienced professionals from all participating countries, recruited only on their merits. This team will follow and review requests for finance or / assistance, execute a due diligence of the most attractive projects in line with the strategy defined by the board and prepare documentation for the financing committee. It will also prepare strategy, budgets and other documents for the board decision.
d. **Small country teams** located in the countries (next to the EIB office or to another European donor office) to weave links with the local entrepreneurs, financial institutions and associations so as to better understand their needs and the environment constraints. The local teams will be very important to provide proximity feedback
e. **An external independent monitoring team** to review the implementation of projects, and bring feedback to a dedicated team within the MBDI. This external team will pass the information to the officers in charge of the projects for action and will prepare a general review highlighting the successes and the problems for the financing committee and the board.
f. **An external evaluation team** to carry out evaluations for the largest projects or groups of projects
g. **An external audit.**

The precise structure and the size of the various elements as described above will vary with the options.

Based on the assumption that a similar volume of funding is provided through the various options, the comparative evaluation of the options is based on:

- The delay needed to launch the proposed scheme
- The potential time needed to process
  - A TA request
  - A financing request
- The operational cost
- The flexibility in view of possible economic and business environment changes in the region
- The risk of political interference

- Its sustainability, with its potential impact on the development of efficient private financial intermediaries (in addition to the core objective of development of MSMEs).

When we speak of a MBDI Autonomous Business Unit, its precise location and specific arrangements have to be decided according to the legal possibility of EIB (detailed legal analysis not within our mandate). We have also assumed that if there is a political will to create the MBDI, there will be possibilities for Mediterranean professionals to work within this structure in Europe. The details of the proposed organisations are provided hereunder.

7.1. Option I – Creation of a MBDI dedicated Autonomous Business Unit next to EIB (similar to the FEMIP organisation, but with more autonomy)

In this option, we propose to create a specialised MBDI dedicated Autonomous Business Unit next to or within EIB, which would function somehow similar to the current FEMIP structure, but with a mixed EU and Med team. The preparation of projects will be centralised and approval of projects will also be centralised.

While most projects will be prepared by the MBDI team (with the exception of the counter-guarantee fund to be outsourced), a variant or better an additional channel to present projects[12] may open the possibility to Mediterranean financial advisers to be authorised and to prepare and submit financing proposals to the financing committee. While this would have a negligible impact during the first two years during which the MBDI team would assist the Mediterranean Financial Advisers to prepare their projects according to the required standards, they would, in a later stage, contribute with projects. They would be paid a success fee if their project is accepted by the financing committee.

This structure, that could be implemented easily and rapidly, requiring the least organizational efforts, would enable the dedicated MBDI team to benefit from the general services from EIB (eg back office, treasury, legal, IT, HR) and to be cost effective. In addition to its general impact on the development of SMEs and microfinance, it would also contribute to the growth of financial Mediterranean professionals, offering them additional practical training and a Mediterranean network. If needed, this flexible structure may evolve over time towards option II that is to disburse some of its financing through refinancing funds.

The proposed variant (to be developed over time) will offer a potential for development to Mediterranean financial advisers, thus increasing the chances of sustainability of the MBDI programme.

7.2. Option II– Creation of a smaller MBDI Autonomous Business Unit with decentralised financing structures mostly managed by two or three specialized refinancing fund managers.

The core governance of the MBDI remains the same (strategic board, financing committee), but we propose to decentralize a significant part of the work and financing through privately managed institutions (private or public private). Instead of having all the projects processed centrally, more than 50% of them would be processed by dedicated funds, may be revolving in specific cases (for example a counter-guarantee fund, one or several fund of fund for capital development funds, one or several microfinance fund with two windows for equity and loans) with adequate funding and managed by professional teams selected through a call for

[12] / This additional channel can be organized in all the three options

proposal once the specifics of the proposed funds have been approved by the MBDI strategic board[13]. They can be launched by the MBDI (alone or with other donors) or the MBDI may join funds launched by other donors, as the case may be.

In practice, this option will have similar generic feature to the first one, but with the added features:

- The board role will be similar to the previous one with representatives of the EU countries and MPCs.. It will decide of the strategy to be adopted for the MBDI, in particular the strategy to decentralize (instruments and volumes). The board will also control and review the performances of both the internal team and the independents funds.
- A financing committee staffed with experienced professionals which will decide on
    i. The structure and role of the proposed decentralized funds, including precise targets, qualifications of the consortium, cost, etc...
    ii. The documentation for call for proposals
    iii. The selection of the winning teams
    iv. The selection of other projects not within the scope of the decentralized funds

  The financing committee will have a heavy work load during the first two years, until the funds are fully operational and a much lighter load in the following years.
- A monitoring and auditing committee staffed with professionals, in charge of reviewing the situation of the decentralized funds and inform the board of actions to be taken (if necessary)
- The team of professionals will have a size similar to the previous one during the first year, and then start to decrease. From the second year, they will focus on projects not covered by the decentralized funds and on new types or pilot instruments (for example fund for small enterprises, mobile banking for microfinance, guarantee for equity investments, etc...)
- Country teams located in the countries (next to the EIB office or to another European donor office) to weave links with the local entrepreneurs, financial institutions and associations so as to better understand their needs and the environment constraints (local team still needed to send a feedback to develop new instrument and to report on any problem identified in the field.

7.3. Option III: Creation of a new Agency

While this option could be an attractive one, with more political visibility, it will certainly be the most expensive and time-consuming option, legally and politically complex:

- Creating a new institution takes time, not only in terms of organization, appointment and recruitment, but also to sign all the financing cooperation agreements with the various countries.
- A full fledged institution would be much more expensive and subject to more political influence to get key positions and to set amounts country per country
- The legal status of an "Agency" making credit, investments, that is more like a bank, would certainly need research and creativity to give it a sustainable mission.
- Dismantling the institution, after it has achieved its purpose in 10 to 15 years, may prove even more difficult. The only successful case of a temporary institution is the Treuhand in Germany, created to privatise East Germany within a limited number of years.

But it will offer an increased visibility and will increase attention to SMEs and micro-enterprises issues.

It will have similar feature than the first option, but will need to recruit all professionals needed to provide services (e.g. back office, treasury, IT, legal, HR)

[13] / This type of refinancing funds has already been implemented with success by a number of donors IFC and KfW, and AFD for microfinance, Proparco for investment funds, etc..)

Once the new Agency is created, it may decide of its strategy and may also adopt part of the instruments mentioned above for the other options. However this would imply a delay of at least two years before it starts disbursing.

7.4. Disbursement criteria

While the target seems clear, it will be important to specify the main criteria for disbursement in order to avoid misuse of funds during the implementation period. The list below is indicative, but would need to be re-worked more in details once the main parameters of the MBDI are set.

- **Financial support to companies (direct or indirect)**
  - Institutions supporting MSMEs (private or public with an independent management)
  - Private sector (local or Mediterranean)
  - SMEs and micro entrepreneurs (size to be defined at the onset of the programme)
  - No country specific
  - First come, first served
  - Direct investment (equity or quasi equity) or loans or guarantees
  - No environmental or social damages … (e.g. children work)

- **Technical assistance and training**
  - Associated with the preparation and implementation of a financial support
  - Training programmes and training institutions (companies management, professionals of financial institutions)
  - Capacity building
  - Regulatory or business environment directly related (new law, credit bureau, restructuring of a guarantee institution, etc)
  - Creation of new instruments or support (mobile technology for microfinance, joint back-office for microfinance, etc.)

- **Support to associations and regional meetings and Technical assistance**
  - Local and regional professional associations (guarantee, microfinance and investment funds);
  - Women entrepreneurs associations; and
  - Complementary funding, only if warranted, for associations already receiving EU or other supports.

8. Business Plan

In order to provide a more solid base for discussion, we have prepared a simplified estimate of the costs and revenues, so as to check that the proposed initiative is self supporting, not a loss making activity.

The main hypotheses used in the business plan are detailed below. In our view, the most significant difference (with an impact on all parameters) is in the setting up of an Agency. We consider that achieving a consensus on location, senior staff, hiring the staff, starting the relationships with the authorities in the various countries, obtaining the licence to operate as a financial institution, would take at least one year, in an optimistic

scenario. Accordingly, all the disbursements and repayments have been postponed by one year, as compared with the other options.

The key hypotheses are:

- Disbursement is carried out over a 4 years period
    - From year 1 to year 4 in the case of the first two options
    - From year 2 to 4 in the case of the Agency as we estimate it will take a longer time to be established and operational
- Repayments over an 11 year period (12 years for the Agency); as the repayment of all options is over a 8 year period. The evaluation of probable repayment of the proposed MBDI has been done globally taking conservatory hypothesis if compared to international benchmarks. For example
    - Very small profit on microfinance loans due to the foreign exchange risk (loans will have to be in local currency) and risks, especially for smaller institutions
    - No profit on the equity investment in microfinance institutions as this investment will be made in local currency and the potential buyers would probably be local institutions
    - Limited revenue in capital gains from divestiture from investment funds (IRR of 10% as compared with usual 20 to 40%) in capital gains from divestiture from investment funds
    - Counter-guarantee managed by an external team no profit, but no loss
    - 20% loss over the period on guarantee
    - No profit, but no loss from financing industrial zones

- Staffing and costs
    - In the case of option II, there will be a lower level of staff (if compared to option I), but there will be management fees to be paid to the managers of the independent funds. We have adopted 1.4% in average (currently microfinance refinancing funds and funds of funds have management fees between 1.1 and 1.5%) as fees vary with the level of development of institutions in which the funds invest, and with volume (smaller funds are more expensive). The fee may also decrease over time,
    - For all options, the counter-guarantee fund (170 million EUR) is managed by an external team against a 1.4% management fee
    - For option III (independent agency), we had to take into account the fact that a large part of the support staff (human resources, IT, legal, back office, treasury, etc), which would be shared with the EIB in the first two options, would have to be hired by the Agency. The number of management positions will also probably be much higher. For these reasons, the full costing of the staff will be much higher, as the costs of support staff, office rental, etc would not be shared and the management cost will be also higher. The cost of independent country teams in the field will be higher.
    - Unit cost, including all direct costs (office rent and costs, travel of staff and of committee members, etc) and overheads (including external monitoring, external audit) have been estimated using comparison with other international institutions.
        - 450,000 EUR per person in the case of the first two options
        - 550,000 EUR per person in the case of the Agency

As this business plan is prepared only to check the feasibility and compare the options, we have not taken into account inflation.

Table 17: Summary of the main results from the business plan analysis (11 years) for a volume of financing of 2.2 billion EUR

	Option I	Option II	Option III
Approx. number. of professional staff	50 (60 in peak years)	50 at the beginning then 40	Average 66 (78 in peak years)
Volume of financing outsourced (Million EUR)	170	1020	170
Start of disbursement	Year 1	Year 1	Year 2
Associated Technical Assistance, training, coaching (Million EUR)	310	310	310
Unit cost of staff (Million EUR)	0.45	0.45	0.55
Management fees as percent of committed funds	1.4%	1.4%	1.4%
Total Expenses (Million EUR) (staff and management fees)	249	302	386
Cumulated treasury balance (Million EUR)	-32	-83	-241

The most important results are:

- Whatever the options, the profits generated over the 11 years period practically covers the TA and training costs (grants) and the cost of instruments which are unlikely to generate profit (guarantees and innovation and new companies' loans). Over an 11 years period, the cumulated treasury balance close to nil (slightly negative).
- Expenses are higher in the case of an Agency (more staff and higher unit cost)

9. Conclusions

The Mediterranean MSMEs have a huge need for financing: around 2.2 billion EUR. While the actual volume of financing may be argued at the level of the details, the need to bridge the financing gap exists and warrants action from the MBDI to develop and jumpstart if necessary various financing instruments. **The creation of a Mediterranean Business Development Initiative is feasible and such an Initiative would be able not only to provide financing and technical support, but also to play a catalytic role and leverage additional funding from other donors and private banks and investors.** Our rough estimate will have to be refined once a decision on the instruments, the pricing, the geographical coverage and the structure of the MBDI has been finalized. But it indicates that a MBDI operating under market conditions is feasible, and that such an institution would be able to provide not only financing if properly structured, but also the associated technical assistance, coaching and training necessary to secure the success of the Initiative and, more important, to foster the development and competitiveness of MSMEs in the Mediterranean region. The MBDI assistance will also contribute to "industrialize" the financing processing for MSMEs, and as such contribute to the decrease of processing costs. This would contribute greatly to the economic growth, employment creation and poverty alleviation.

The organisational analysis shows that while option I to II (an organisation attached or next to EIB) may provide rapidly financing, may evolve over time and can be adapted, option III, a separate agency which may have more political visibility, will take more time to be operational, and would be more costly.

The table below summarizes the pros and cons of the various options. The final decision should take into account

- The delays to set-up the institution
- The rapidity of disbursement and of decision
- The risk of political interference in an institution dedicated to the private sector
- The needed flexibility in a changing environment
- The need to associate MPCs financial institutions to ensure success and provide proximity
- The operational cost
- The possibility to generate enough profit to finance the necessary associated support and TA

Enterprises from the MPCs, whatever their size are longing for such an instrument. If properly implemented, this new instrument will certainly provide a significant boost for all these entrepreneurs, and their enterprises, with proximity and user-friendly procedures.

Table 18: Comparative characteristics of the three options

Option	Financing decision	Preparation of projects	Advantages	Problems/ issues
Option I Creation of a specialised MBDI Autonomous Business Unit within EIB Similar to FEMIP, but with MPCs co-ownership and involvement in strategy and operations; costs and revenues separated Possibility of some external preparation of projects	Financing Committee made up of professionals and civil society representatives from the MPCs and the European countries	MBDI staff made up of both MPCs and European professionals; Small MBDI local teams in the main MPCs to facilitate generation of projects (to be attached to a EIB or another donor country office to accelerate set-up and decrease costs) Possibility to have Pre-qualified MPCs intermediaries to prepare and propose projects to the financing committee; first four projects from each institution to be reviewed by MBDI department before Committee presentation and final qualification	Rapid start-up, can start almost immediately using existing FEMIP resources Gradual implementation (six months for the MBDI team to be in full operation and 8 to 12 months for the MPCs financial institutions to start presenting projects) Easy to implement Cost efficiency with the use of EIB professional and general services Flexibility to evolve over time towards option II Increased participation of MPCs and strengthening of MPCs financial institutions and advisers dealing with SMEs Would benefit of the confidence image of EIB.	Integration of MPC professionals in a EIB Autonomous Business Unit Less political visibility Limited capacity and interest of MPCs financial advisers to prepare relatively smaller deals
Option II. As above, MBDI Autonomous Business Unit within EIB Decentralized structure with a reduced central team; the initial preparation of the call for proposal may be done by a special task force and partly outsourced to consultants	Each of the institution (fund of fund for investment funds, microfinance fund for financing and support, counter guarantee fund) is managed by a private (or public private) consortium and has its own financing committee, whose composition and operation have been vetted when the manager has been selected (as well as the management fees) The MBDI keeps an independent central financing committee to make decisions (i) on all projects until the funds are operational and (ii) on those projects not included in the mandate of the funds.	The management teams of the decentralized institutions are preparing the projects (within their mandate) to be approved by the financing committees of their institutions. The central team prepare projects until the decentralized institutions are in place, and later projects out of the mandate of the decentralised institutions. Managerial teams should have experience, both of the kind of financing and of the Mediterranean region, and include both MPC and European professionals The MBDI teams would be composed of Europeans and MPCs professionals recruited on their own merits	Limited risk of political interference Professional to professional support and advice; fostering the development of MPCs financing institutions MPC and European consortium requirement will provide a strengthening of MPCs institutions and an increase of MPC/ Europe or intra MPC exchanges Possibility to use the central MBDI team to process projects until the funds are in place; and to continue playing this role for the development of new instruments or projects not included in the mandate of the funds	Delay to prepare the selection criteria and the call for proposal (probably 12 to 18 months before the decentralized funds are fully operational) Capacity of MPCs institutions and professionals to staff the decentralized funds

Option	Financing decision	Preparation of projects	Advantages	Problems/ issues
Option III Creation of a new Agency	Financing Committee composed with professionals and representatives from MPC and Europe	Projects prepared mostly by the professionals of the Agency	Ease of recruitment of professionals from MPCs and EU Independence from other institutions Political Visibility	Delays in launching the Agency Higher cost (administrative and support structure, etc..); Significant delays in implementation with probably 2 years before reaching an operational status Higher risk of creating a new administrative institution and risk of political interference. How to terminate the institution role or adapt it to changing needs? Probably need of continuous financing and risk of creation of an assistance mentality. Need to build confidence and credibility

FEMIP for the Mediterranean

Facility for Euro-Mediterranean Investment and Partnership

The main objectives of this report are to assess the unmet needs of micro, small and medium enterprises -MSMEs- (both in terms of finance and assistance) in the Mediterranean Partner Countries (more specifically in Algeria, Egypt, Jordan, Lebanon, Morocco, Syria and Tunisia) and to evaluate the feasibility as well as the various implementation options for organizing and structuring the proposed Mediterranean Business Development Initiative. As per our TOR, "the Initiative will provide a toolkit of both financial instruments and technical assistance activities".

There is recognition, in all surveyed countries, of the importance of MSMEs and the wide array of Government programmes dedicated to the development of the MSMEs. The implementation of the Euro-Mediterranean Charter for Enterprises (MED Charter) has increased awareness of the issues at stake and provided a framework for improving the business environment. Most of the instruments for the development of SMEs, and addressing the problems listed below, already exist (with differences and some gaps according to countries). However, those programmes differ widely in efficiency and focus as well as in volume.

This executive summary presents briefly the findings, the proposed financial instruments and their associated TA, the possible organization for the structure and a business plan.

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