



EU Initiative for Financial Inclusion

DG for Neighbourhood and Enlargement Negotiations



European
Commission

Private sector development approach in the Southern Neighborhood region

At policy level: Economic integration

- Support regional connectivity
- Address common environmental challenges and sustainability
- Promote trade: Regional trade integration and DCFTA
- Support UfM regional integration initiatives

Trade & regional
Cooperation

1

Policy reforms
& Business
climate

2

At macro level: Enabling Environment

- Support to Economic reforms, inclusive growth & rule of law
- Enhancement of the private sector & investment framework
- Promote public-private partnerships

Inclusive &
sustainable growth

At meso level: Capacity building and networking

- Public administration modernisation (twinning)
- Chambers of Commerce and Business Support Organisations
- Investment promotion agencies
- Support RTD & Innovation clusters development

Institutional
capacity
&
Business
intermediaries

3

Micro &
SMEs
development

4

At micro level: Access to finance

- Lending to SMEs
- Micro-finance
- Innovation and start-ups
- Local banks lending through guarantees schemes
- Advisory services to MSMEs



SME Finance in the Mediterranean Partner Countries

*80-95%
of businesses are SMEs or
micro-enterprises*

*20-40%
of all private sector
employment is generated by
SMEs or micro-enterprises*

*less than 20%
of SMEs have a loan or
credit line*

*only about 10%
of local banks' investments go
to SMEs*

**Strong SME sectors contribute to social stability, growth of the middle classes,
more equal income distribution and economic diversification**



Access to finance

- 6 million micro and SMEs (mSMEs) in the region with potential need for economic expansion, large potential for job creation, should be inclusive
- Access to finance very limited, e.g financing committed by local banks to SMEs in Egypt represents no more than 5% of total lending, in Palestine 6%, in Jordan 10%, in Tunisia 15%, in Lebanon 16% and 24% in Morocco
- Need to facilitate access to finance to increase competitiveness and create much needed jobs in support to the development of innovative start-ups and mSMEs.



EU Initiative for Financial Inclusion

Who?

EU in partnership with key financial institutions (EIB, EBRD, KfW, AFD) to expand financing to micro, small and medium-sized enterprises (including support to innovative start-ups)

How?

Five complementary regional facilities financed under the Neighbourhood Investment Facility, with different lead financiers, representing comprehensive support package to be launched by the end of 2016.



EU initiative for financial inclusion, addressing different aspects of SME finance

Facility	Aspect of SME finance
SANAD micro-financing and micro-enterprises fund (KfW)	Microfinance through local financial institutions and capacity building
SEMED Small Business Support –(EBRD)	Advisory services to SME through grants, to support access to finance
FEMIP Support to Risk Capital Operations (EIB)	Risk capital/venture capital to support business start-ups and microfinance
MENA SME Guarantee Fund (EIB)	Guarantee funds to cover losses of local banks lending new funds to SMEs-
SEMED MSME Financial Inclusion (EBRD)	SME Credit lines and capacity building to local financial institutions



European
Commission

Financial Inclusion facilities with NIF support	Lead Financier	EU/NIF Grants € million	Financiers Funds € million	Local/Third party € million	Total financing € million
Fund in support to micro-finance institutions (SANAD)	KfW	30	140	60	230
Support to Risk Capital Operations (equity, venture capital, microfinance)	EIB	50	100	325	475
Small Business Advisory services (SBS)	EBRD	20	-	5	25
Support to MSME Financial Inclusion	EBRD	26	100	100	200
MENA SME Guarantee Fund	EIB	24	320	320	640
Total (indicative)		150	660	810	1,560



Coordinated approach under AMICI (A Mediterranean Investment Coordination Initiative)

- 1) Creating of a **Coordination** Committee on SME finance counting with the participation of the Commission and EFI / IFI's implementing MSME facilities in the region
- 2) Exchanging information / pipelines / experiences on individual operations. Ensuring **complementarity**
- 3) Promoting common **EU branding / visibility** in partner countries
- 4) Leveraging in the **policy dialogue** to improve the regulatory environment on access to finance in each country



Impact

- Increased access to SME finance:
 - **More than EUR 1,5 billion expected to be mobilised**
 - **More than 200,000 Micro and SMEs benefitting**

- Capacity building available to Partner Financial Institutions

- Job creation and other key indicators, eg. women entrepreneurship, shall be reported under each financing operation



SANAD Fund for Micro and SMEs

KfW

www.sanad.lu

Objectives

SANAD was founded in 2011 as a response to the Arab Spring and is funded by EU, BMZ and KfW in order to foster employment creation, economic development and building of inclusive financial systems

Current eligible countries:

- Algeria
- Egypt
- Iraq
- Jordan
- Lebanon
- Morocco
- Palestinian Territories
- Tunisia
- Yemen

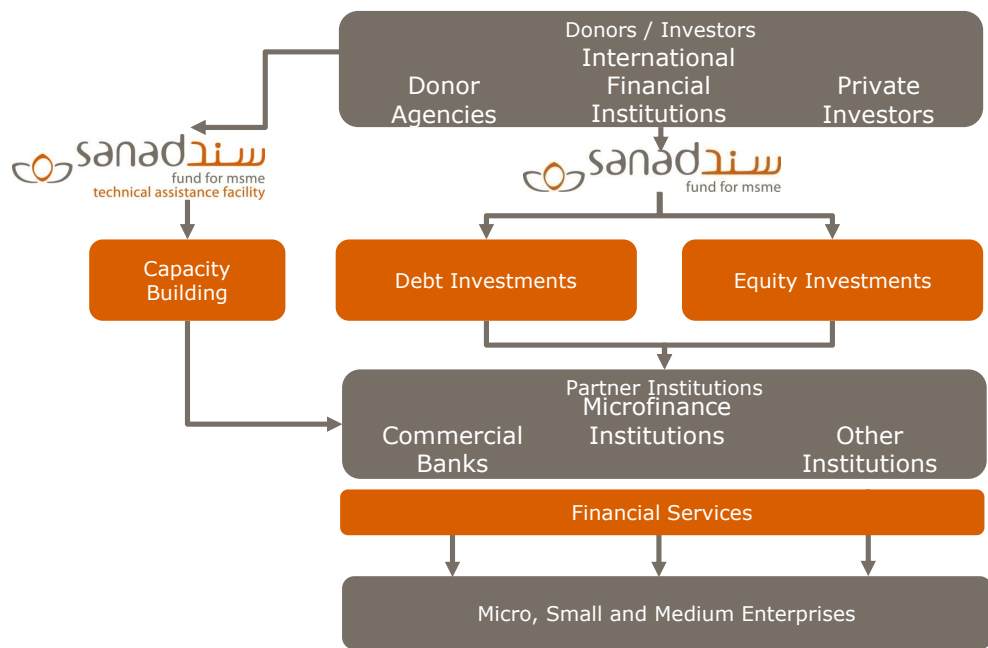


EU investments only fund projects relating to NIF eligible countries (notional approach: Morocco, Tunisia, Egypt, Palestinian Territories, Jordan, Lebanon)

11



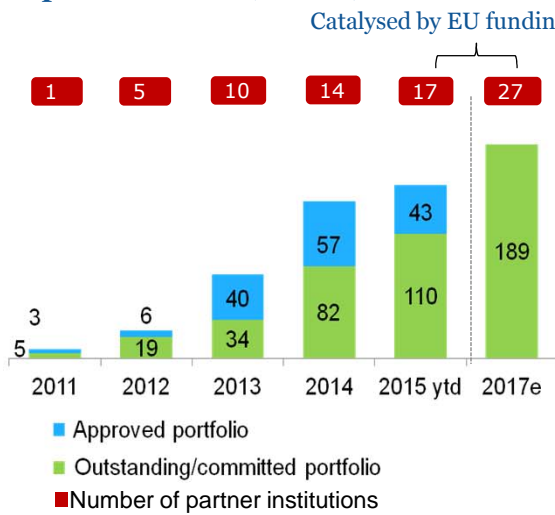
Structure





Financing

Output - Portfolio (USD m)



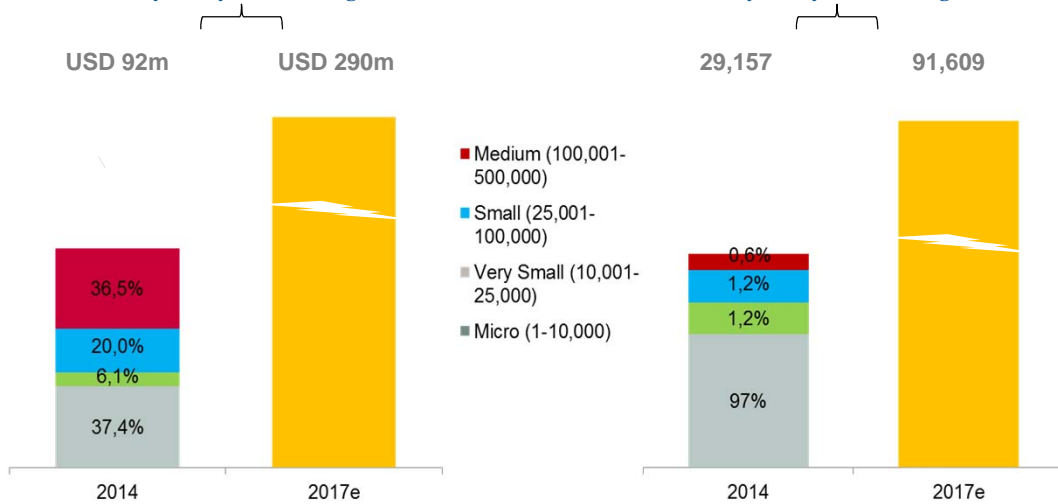
Key achievements / additionality

- **Specialized fund structure provides**
 - risk buffer necessary for investments in partners in instable countries with catalytic effect
 - local currency lending to partners without access to hedging options
- **SANAD TA supports capacity building and investments to weaker partners**
- **SANAD's lean structure allows for small ticket investments, e.g. to MFIs**
- **SANAD's track record and unparalleled network allow it to impact sector development**

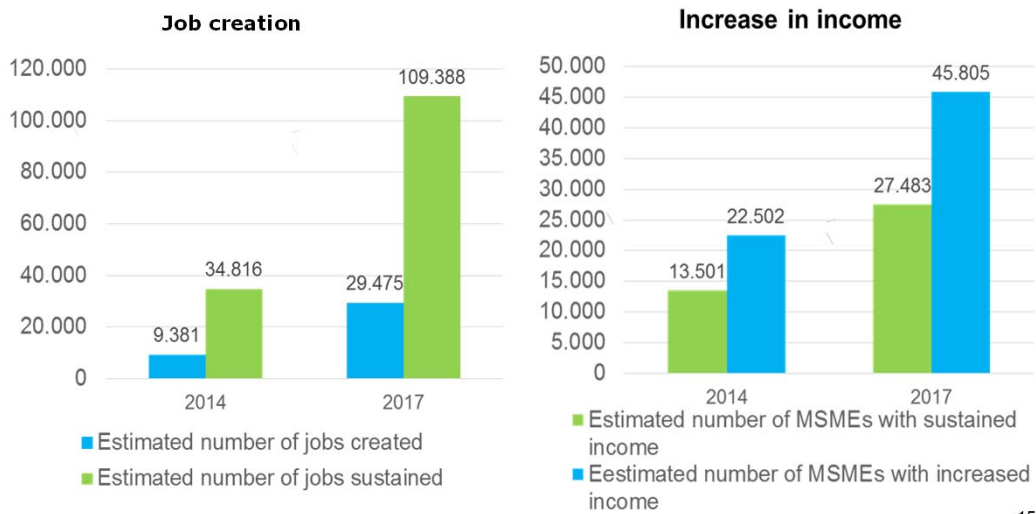
Impact

Volume of sub-loans since inception
Catalysed by EU funding

Number of sub-loans since inception
Catalysed by EU funding



Impact





Risk Capital Facility for the Southern Neighbourhood Countries

EIB

<http://http://www.eib.org/projects/regions/med/>



Objectives

The Facility was launched in 2016 to provide access to equity and debt financing to SMEs in order to support private sector development, inclusive growth, job creation and entrepreneurship.

The main activities of the Facility will be:

Investing in private equity funds (including venture capital funds)

Investing in and lending to microfinance institutions and microfinance investment vehicles

Providing Technical Assistance to Financial Intermediaries or Final Beneficiaries.



Main features

Duration:

2016-2032, signed in December 2015

Amount:

€150 million initial financing, blending EIB funding with EU budgetary resources (NIF),



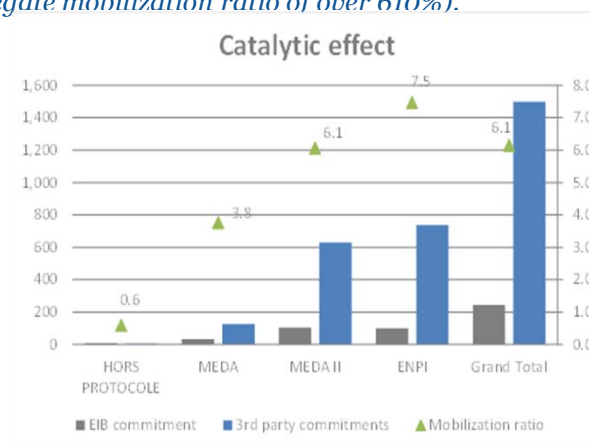
Context

- SME and MSME based economies
- Political instability
- Limited private sector resources dedicated to risk capital
- Low SME and MSME lending from private Banks
- Private sector development and job creation
- Improve access to finance for SMEs and private microfinance
- Strengthen financial intermediaries and encourage them to SME and MSME lending
- Support venture capital industry
- Further develop local financial markets on sustainable and market based principles
- Mobilize additional resources from third parties
- Aim to achieve a financially sustainable Facility

Specific context for venture capital

Since the early 1990s, EIB has been developing local financial markets with a particular focus on the private equity industry.

Catalytic effect: Since 1998, third party funds mobilised have exceeded EUR 1, 498 million (aggregate mobilization ratio of over 610%).



Specific context for microfinance

Morocco (large market; MFIs operate as associations; new legal framework - although not implemented yet);

Algeria (very difficult market, microfinance operated only by the State);

Tunisia (new legal framework, one large player and 4 new MFIs);

Egypt (large market, new legal framework – although not implemented yet, difficulties linked to the central bank for payments outside the country);

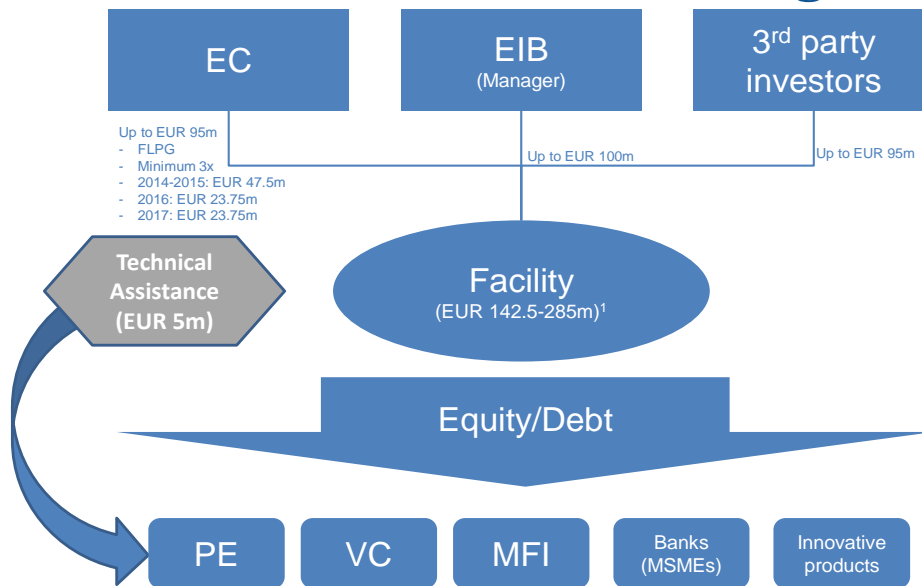
Lebanon (2-3 large MFIs, some of which active in refugees camps);

Jordan (competitive market, some large MFIs);

Palestine (new legal framework, transformations ongoing, difficult overall environment);



Structure and funding



¹ Assuming equal participation of EUR 95m of the three boxes (3x leverage of EC resources)

Expected impact

Financing

- EUR 142.5m available to local financial institutions
- EUR 130m in loans and investments
- 22 local financial institutions to be backed by the Facility

Final beneficiaries

- Over 95 000 Micro and SMEs to be supported
- Over 600 thousand private sector jobs sustained

Development

- Support emerging venture capital Teams
- Promote bank lending to Micro and SMEs
- Development of the entrepreneurial ecosystem



EBRD Small Business Support Activities in the SEMED (Southern and Eastern Mediterranean Countries)

EBRD

<http://www.ebrd.com/what-we-do/sectors-and-topics/ebrd-small-business-initiative.html>



Objectives

The Project is the **continuation** of the EU NIF-funded Small Business Support activities in the Southern Neighbourhood region ('Phase I' ended in 2015).

The Project is built on the notion that SMEs **need know-how and finance** to develop and grow.

It is designed to assist SMEs in **Egypt, Morocco, Tunisia and Jordan** in enhancing their competitiveness and ability to **access external financing**.

The Project will facilitate SME access to high quality **business support services**, enhance managerial capacity in all areas, with a focus on financial literacy, and strive to develop the capacity of the **local consultancy market** to deliver needed services.

The Project is based on the **positive results from Phase I** and **positive feedback** from SMEs, local stakeholders, EU Delegations and other private sector development initiatives active in the countries.

Improving access to finance

Engage international industry advisors and local consultants to improve performance and competitiveness, and **prepare SMEs for investments**

Direct SMEs with investment needs to **SME finance facilities** of local banks/MFIs or through IFIs and their local financial intermediaries

Provide **post-investment** advisory support to SMEs that received finance from local banks/MFIs or IFI sponsored facilities

The **Project structure** allows SMEs to **decide which funding facility is the most appropriate for their needs**

Pre-investment support

**Strategy, Marketing,
Organisation, Operations,
Quality Management, ICT,
Engineering solutions,
Financial management and
reporting, Energy/
resource efficiency,
Environmental
management**

Post-investment support



Impact

	Phase I: 2011 -2015	Phase II: 2016-2020 (expected impact)
Funding from EU NIF* Funding from other sources*	€ 5.0 million € 9.2 million	€ 20.6 million € 5.0 million
Countries	Egypt, Morocco, Tunisia	Egypt, Morocco, Tunisia, Jordan
Duration	1 year for projects by international advisors (EGP) 2 years for projects by local consultants (BAS)	4 years
Project target (of which under EU NIF)	530 projects (380 projects)	1,314 projects
Project started to date (of which under EU NIF)	498 projects (333 projects)	-

*Excludes client contributions

Impact

2011-2015 (phase I covering Morocco, Tunisia and Egypt)

Turnover growth

77% of clients increase their turnover, average +23%

Job creation

57% of clients increase number of employees, average +14%

Productivity

71% of clients increase productivity (turnover per employee), average +8%

Access to finance

150 SMEs supported, 17% of clients secure external financing, totalling over €650 million in 2011-13

Impact

2016 – 2020 (phase II covering Morocco, Tunisia, Egypt and Jordan)

Turnover growth

92% of clients increased their turnover, average +57%

Job creation

63% of clients increased their number of employees, average +36%

Productivity

63% of clients increased productivity (turnover per employee), average +45%

Access to finance

1200 SMEs supported, 25% of clients secured external financing, totalling over €9.7 million in 2014



MSME Financial Inclusion in the Southern and Eastern Mediterranean countries

EBRD

<http://www.ebrd.com/what-we-do/sectors-and-topics/financial-institutions/overview.html>



Objectives

Improve financial inclusion for MSMEs in Egypt, Jordan, Morocco and Tunisia in a sustainable manner

Develop sustainable financial products suitable specifically for MSMEs
Support MSMEs in accessing finance for their sustainable growth as well as advice and market know-how

Support development of policies tailored to the needs of MSMEs

Structure

Instrument 1
Indirect Financing



Financing of
Participating
Financial Institutions
for on-lending to
MSMEs to
promote financial
inclusion

Instrument 2
Market Know How*



TA to support
PFIs capacity
building to serve
MSMEs

Instrument 3
Policy Dialogue



Policy dialogue
aimed at improving
MSMEs' access to
finance



EBRD financing through Financial Intermediaries

Main features:

Financing products: debt financing, subordinated debt, equity

Eligible PFIs: local financial institutions (banks, leasing, MFIs) following a comprehensive due diligence process (including financial, compliance, environmental, legal aspects)

On-lending to local eligible MSMEs as per EU definition, operating in a wide range of sectors

Resources from the EU/NIF to cover first losses:

Risk Share EUR 25 million First loss cover for EBRD and co-investors: adequate risk-return profile

First loss for PFIs: to encourage PFIs to reach out to women led MSMEs, MSMEs located outside the capital

First loss to be shared between EBRD / co-investors and PFIs: credit risk mitigation without funding

Foreign currency risk cover



Funding

Contributor	Funds (€ million)
Financing EBRD and co-investors	150.0
Financing PFIs' own resources	60.0
EU NIF contribution: risk share	25.0
EU NIF contribution: TA & policy dialogue incl. visibility & communication	2.0
Total	263.7
Expected investment leverage ratio	4.8x



Expected Results and Cross Sector Indicators

Total number of MSMEs served	3,000 MSMEs are expected to benefit from the Program through increased access to Finance
Employment sustainability	The facility will contribute to sustaining 15,000 jobs in the SEMED region
Financial Inclusion of underserved segments	20% of the Program amount will be used to finance women led businesses 25% of the Program amount will be used to finance SMEs located outside of the capital of each country



MENA SME Guarantee Facility

EIB

The Facility

Objectives:

to facilitate access to finance for SMEs through local partner institutions and innovative instruments (guarantees schemes) in the following countries of operations: Jordan, Lebanon, Egypt, Tunisia, Morocco

Partners:

Lead Financial Institution :

EIB

Partners:

AFD, IFC, OFID

Participating Financial Institutions: selected local banks of the countries of operation of the Facility

SMEs:

small and medium size businesses located in the same country of the PFI and financing investments located in such country

Financing structure

	Financiers financing	Local financing	Total SME lending
EIB	EUR 120M		
AFD	EUR 40M		
IFC	EUR 120M		
OFID	EUR 40M		
Total	EUR 320M	EUR 320M	EUR 640M
	First losses coverage		EUR 48M
NIF	EUR 24M		
Others	EUR 24M		



Thank you!

**For more information on the EU
Financial Inclusion you may contact**

NEAR-B2@ec.europa.eu