

Summary Notes on the Roundtable Discussion Entitled:
**“Finance & Distressed Assets: SME Chronic Problems”
What’s New?”**

Wednesday March 7, 2018, from 9:00 am to 3:00 pm

Session 1: Non-bank financial instruments to finance small and medium enterprises

Speakers:

- Ola Jadallah, Chairperson of the Export Credit Guarantee Company of Egypt
- Tarek Fahmy, Chief Executive Officer and Managing Director of Al Tawfiq Leasing Company
- Hani Tawfiq, Secretary General and Vice Chairman of the Egyptian Private Equity Association

Moderator:

- Aladdin Sabaa, Founding Partner, BPE Partners, and Board Member of the Egyptian Center for Economic Studies (ECES)

Main points addressed during this RTD:

Export Credit Guarantee:

- The Export Credit Guarantee Company of Egypt was established in 1992.
- Export credit guarantee activity includes short- and medium- term protection for large construction projects that last for two or three years.
- Short-term protection includes collecting information about importers and their financial solvency and creditworthiness. Accordingly, the company insures the exporter’s exports against political and economic risks, and undertakes to pay up to 90 percent of the exports revenues to the exporter in the event of importer insolvency.
- Thus, the company removes the burden of collecting receivables, limiting the exporter’s focus to the production process and opening up new markets.

Factoring Activity:

- According to this activity, the exporter receives the necessary protection and financing required for his export receipts. The factoring activity is limited to export operations based on the open account basis and does not extend to export operations undertaken in accordance with enhanced documentary credits.
- In accordance with the factoring activity, the company studies the importer's solvency and his credit viability. Accordingly, upon completion of the necessary documents, the company pays the importer 90 percent of the export proceeds within 24 hours from the date of exporting the shipment. The company collects the export proceeds from the importer after the expiry of the agreed payment period.
- There is also domestic factoring and the same mechanism may apply.
- Small and medium enterprises can benefit from these activities, as the company's assessment covers only the status of the importer and not that of the exporter. The exporter can also obtain a loan from the banking sector using the export credit guarantee document obtained from the company as collateral.

Financial leasing:

- The number of active companies in the Egyptian market reached 32 companies compared to 6 companies at the most in 2006. The volume of contracts reached LE 28 billion compared to LE 3 billion during the same period.
- The financial leasing system depends on the presence of a lessor, the leasing company, and the lessee, the client. Both the lessor and the lessee write a financial leasing contract to finance a specific capital asset. The company pays the asset value to the supplier, owns the asset, and leases it to the lessee who is entitled to own the asset after paying all the installments.
- This system improves the financial statements, especially the rate of return on assets, and leads to tax savings.
- The Central Bank initiative encouraged banks and financial leasing companies to finance small and medium enterprises, but at the same time these companies must follow disciplined credit practices and be eligible for receiving financing.

Investment funds:

- Decision-making in small enterprises is concentrated in the hands of only one person, financial and technical management lacks efficiency, banks are barely dealt with, and legal titles to productive assets are lacking.
- The role of the Investment Fund in small and medium enterprises is to develop them by addressing all these problems by following a set of procedures including: First, separation of ownership from management. Second, detailing the financial plan to suit each company, and re-creating the financial statements, and assigning a finance manager to follow up on the set targets and address any potential imbalances.

The main points discussed during this session:

- The investment fund should include opening up new markets, not merely solving the bureaucratic problems that face these companies. The judicial procedures for resolving any dispute between the Fund and the company should be accelerated.
- The cost of providing the export credit guarantee service is calculated according to the extent of the risk borne by the company on behalf of the exporter on the one hand, and on the basis of the credit facility duration on the other. In all cases, the cost does not exceed one percent of the export proceeds. For factoring, the cost is calculated based on the Bank's prevailing interest rate in addition to service provision charges.
- For financial leasing, the financial burden borne by the lessee is the banks' interest rate either inside or outside the central bank initiative, in addition to a profit margin determined according to the risks associated with the financing process.
- Most of the SMEs applying to banks to obtain funding under the initiative of the Central Bank are not disciplined in terms of credit.
- The need to expand the scope of these companies to include branches in the governorates and not only in Cairo.
- High interest rates on mortgage finance place a burden on small enterprises and limit their benefit from this initiative.
- The main differences between small and medium enterprises from the perspective of financiers is that small enterprises depend in its management on one person only, while medium enterprises depend on more than one administrative person as well as a larger number of employees. In general, medium enterprises suffer from the same problems as small enterprises.
- There are no obstacles to the reliance of factoring and financial leasing companies and investment funds on financing from the equity market instead of banks, but it is a matter of time.
- The volume of Alexandria Businessmen Association's small and micro loans project has reached LE 1.25 billion, distributed over 450,000 clients in 8 governorates with a 99 percent repayment rate. This success is due to the continuous follow-up and guidance of borrowers. It is a pioneering experience that must be benefited from, and entities that specialize in following up and guiding beneficiaries should be continuously established.