EU Initiative for Financial Inclusion

DG for Neighbourhood and Enlargement Negotiations
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

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

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

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**

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

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

Donors / Investors
International Financial Institutions
Private Investors

Capacity Building

Debt Investments
Equity Investments

Commercial Banks
Partner Institutions
Microfinance Institutions
Other Institutions

Financial Services

Micro, Small and Medium Enterprises
Key achievements / additionality

- **Specialized fund structure provides**
  - risk buffer necessary for investments in partners in unstable 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**

**Output - Portfolio (USD m)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Approved portfolio</th>
<th>Outstanding/committed portfolio</th>
<th>Number of partner institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>3</td>
<td>5</td>
<td>19</td>
</tr>
<tr>
<td>2012</td>
<td>6</td>
<td>19</td>
<td>34</td>
</tr>
<tr>
<td>2013</td>
<td>40</td>
<td>34</td>
<td>82</td>
</tr>
<tr>
<td>2014</td>
<td>57</td>
<td>82</td>
<td>110</td>
</tr>
<tr>
<td>2015 ytd</td>
<td>43</td>
<td>110</td>
<td>189</td>
</tr>
<tr>
<td>2017e</td>
<td>27</td>
<td>27</td>
<td>189</td>
</tr>
</tbody>
</table>

Catalysed by EU funding
Impact

Volume of sub-loans since inception
Catalysed by EU funding

USD 92m USD 290m

- 30.5%
- 20.0%
- 6.1%
- 37.4%

2014 2017e

Number of sub-loans since inception
Catalysed by EU funding

- 91,609

- 97%
- 1.2%
- 1.2%
- 0.6%

2014 2017e
Impact

Job creation

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated number of jobs created</th>
<th>Estimated number of jobs sustained</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>9,381</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>34,816</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>109,388</td>
<td>29,475</td>
</tr>
</tbody>
</table>

Increase in income

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated number of MSMEs with sustained income</th>
<th>Estimated number of MSMEs with increased income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>13,501</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>22,502</td>
<td>27,483</td>
</tr>
<tr>
<td>2017</td>
<td>45,805</td>
<td></td>
</tr>
</tbody>
</table>
Risk Capital Facility for the Southern Neighbourhood Countries

EIB

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

EC  
EIB (Manager)  
3rd party investors

Technical Assistance (EUR 5m)

Facility (EUR 142.5-285m)$^1$

Equity/Debt

PE  VC  MFI  Banks (MSMEs)  Innovative products

$^1$ 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

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


### Post-investment support
### Impact

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Funding from EU NIF*</td>
<td>€ 5.0 million</td>
<td>€ 20.6 million</td>
</tr>
<tr>
<td>Funding from other sources*</td>
<td>€ 9.2 million</td>
<td>€ 5.0 million</td>
</tr>
<tr>
<td>Countries</td>
<td>Egypt, Morocco, Tunisia</td>
<td>Egypt, Morocco, Tunisia, Jordan</td>
</tr>
<tr>
<td>Duration</td>
<td>1 year for projects by international advisors (EGP)</td>
<td>2 years for projects by local consultants (BAS)</td>
</tr>
<tr>
<td>Project target</td>
<td>530 projects (380 projects)</td>
<td>1,314 projects</td>
</tr>
<tr>
<td>(of which under EU NIF)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project started to date</td>
<td>498 projects (333 projects)</td>
<td>-</td>
</tr>
<tr>
<td>(of which under EU NIF)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*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

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

<table>
<thead>
<tr>
<th>Contributor</th>
<th>Funds (€ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing EBRD and co-investors</td>
<td>150.0</td>
</tr>
<tr>
<td>Financing PFIs’ own resources</td>
<td>60.0</td>
</tr>
<tr>
<td>EU NIF contribution: risk share</td>
<td>25.0</td>
</tr>
<tr>
<td>EU NIF contribution: TA &amp; policy dialogue incl. visibility &amp; communication</td>
<td>2.0</td>
</tr>
<tr>
<td>Total</td>
<td>263.7</td>
</tr>
<tr>
<td>Expected investment leverage ratio</td>
<td>4.8x</td>
</tr>
</tbody>
</table>
### Expected Results and Cross Sector Indicators

<table>
<thead>
<tr>
<th>Total number of MSMEs served</th>
<th>3,000 MSMEs are expected to benefit from the Program through increased access to Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment sustainability</td>
<td>The facility will contribute to sustaining 15,000 jobs in the SEMED region</td>
</tr>
</tbody>
</table>
| 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

<table>
<thead>
<tr>
<th></th>
<th>Financiers financing</th>
<th>Local financing</th>
<th>Total SME lending</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EIB</strong></td>
<td>EUR 120M</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>AFD</strong></td>
<td>EUR 40M</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>IFC</strong></td>
<td>EUR 120M</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>OFID</strong></td>
<td>EUR 40M</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>EUR 320M</td>
<td>EUR 320M</td>
<td>EUR 640M</td>
</tr>
<tr>
<td><strong>First losses</strong></td>
<td>coverage</td>
<td></td>
<td>EUR 48M</td>
</tr>
<tr>
<td><strong>NIF</strong></td>
<td>EUR 24M</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td>EUR 24M</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Thank you!

For more information on the EU Financial Inclusion you may contact NEAR-B2@ec.europa.eu