KALAFAT sal Guarantees for Small and Medium Enterprises and the guarantee schemes in the MENA región”


Ankara, Turkey
Yerevan,
Athens, Greece
Algiers, Algeria
Tunis, Tunisia
Rabat, Morocco
Tripoli, Libya
Beirut, Lebanon
Damascus, Syria
Palestinian territories
Amman, Jordan
Cairo, Egypt
Riyadh, Saudi Arabia

OVERVIEW OF ECONOMIES IN THE MENA VS LEBANON

- MENA private sector as a whole is far from homogeneous, with entrepreneurs across the region facing wide differences, economies have very different population sizes, ranging from just under 5 million (Lebanon) to 81 million (Egypt).

-In the MENA countries' most investment funding is provided through the public sector. Hence, the problem is not in the lack of funding but rather on efficiently directing funds to the private sector.

-The MENA economies also have different levels of development: at the extremes, Lebanon's GDP per capita in 2012 was 10 times that of Yemen (as per WB report)

-The MENA region as a whole has low loan-to-deposit ratio.

-But despite the low loan-to-deposit ratios, private credit to GDP for the MENA is well above the average for Jordan, Lebanon, Morocco and Tunisia

OVERVIEW OF ECONOMIES IN THE MENA VS LEBANON

- Like in all the MENA and Arab world, the rural sector is neglected, but there is a room for improvement and proper introduction of the Knowledge economy.

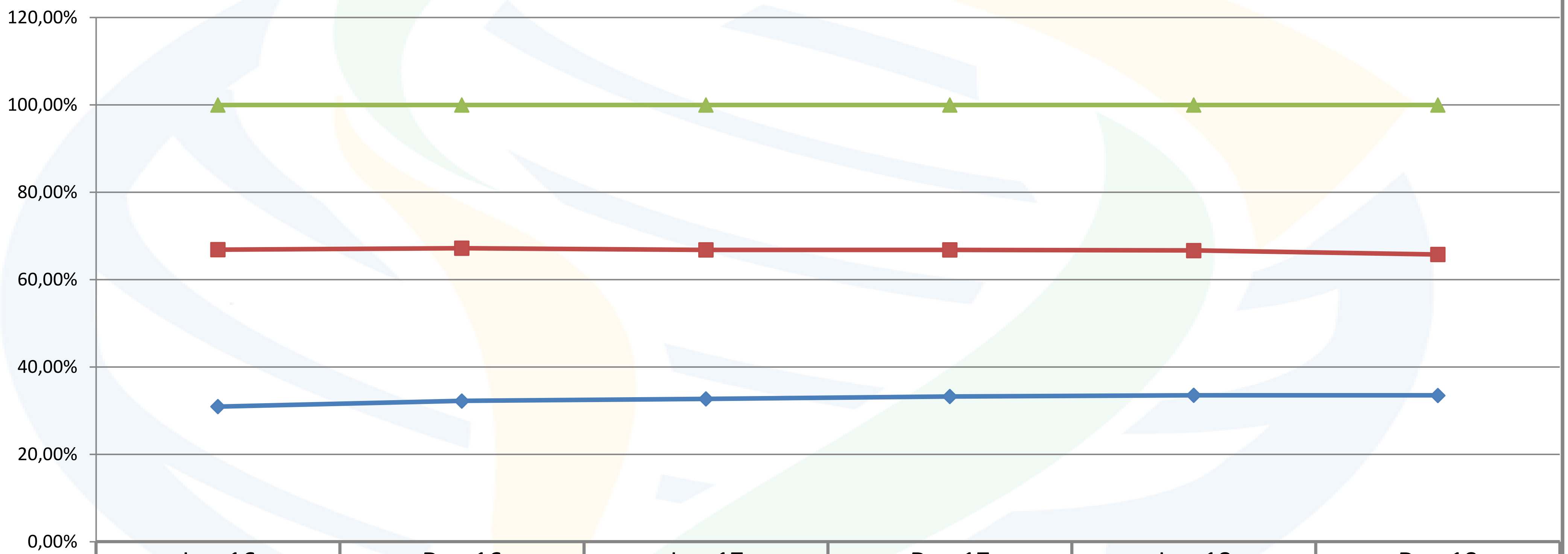
-The share of bank´s finance to SME ranges from 32% in Lebanon to 2% in Egypt

-Lebanon now ranks better than MENA countries in terms of access to finance and inclusion (there is 1500 bank branches serving 4.4millio population).

-Thanks to its code of money and credit that was adopted in 1963, which is quite modern in today's terminology as it provides the Central Bank of Lebanon with almost full independence.

- Moreover, the mandate of the central bank is not only about stable inflation or stable currency but also about having an efficient economic cycle and reduced unemployment.

Lebanese Loan Portfolio as at April/2019



	Jun-16	Dec-16	Jun-17	Dec-17	Jun-18	Dec-18
Corporate	33,13%	32,78%	33,16%	33,18%	33,32%	34,21%
SME	35,92%	34,98%	34,12%	33,57%	33,15%	32,29%
Retail	30,95%	32,24%	32,71%	33,25%	33,53%	33,50%

OVERVIEW OF BANKING SECTOR IN LEBANON

-The CB tried to close the gap of SME lending through providing many incentives to banks to extend loans to the private sector through reducing the statutory reserve requirements for the banks that provide loans to SMEs, construction energy, and education, that sometimes ranges from 60 % to 500% of the loan amount.

-The CB of Lebanon, also introduced a new circular in 2014 permitting banks to invest up to 4% of their capital in startups, support entities (like accelerators, incubators), VC funds or directly into startups. While CB guarantees 75% of the investment, de-risking it by mitigating the potential losses and reducing them to a mere 25%

KAFALAT

- After the war ended , banks favoured very short term lending for certain sectors because of the risks of long term, lending under highly changing circumstances, therefore credit was restricted to merchants, traders and direct services who had the ability to repay loans quickly

-Over and above, regions away from the capital were considered of higher risk and hence there was a sort of concentration of lending to projects established in the center on the expense of the peripheries

-Kafalat was founded to cover a fundamental inefficiency in the financing market for commercial banks, this inefficiency were related to the notion of risk over the war and turbulence period that Lebanon went through over 15 years.

- This represented in a high guarantee for longer periods to cover intermediate and long terms loans to the sectors that seem to be mostly affected: agriculture, industry, tourism, traditional crafts, and high technology.

KAFALAT

-Kafalat was established in 1999 as a private financial company with a limited liability company (SAL), The shareholders included the National Institute for the Guarantee of Deposits and all the banks operating in Lebanon

-Kafalat is a financial company, hence subject to the supervision and regulations of the Central bank as well as the BCC (Banking control Commission)

-Kafalat started with an equity capital of USD13.3million in 1999, and grew its equity to USD90 million (of which $14mio Provision for Business risk) in 2015.

-Today, going through different types of crises (i.e., economic instabilities, refugees from neighbouring Syria and the sustained political turmoil in the MENA although equity increased to USD 92million but with $28 million are provisions for Business Risk

-The current continuous economic crises is expected to cause similar shift in equity structure

KAFALAT

- Kafalat started setting the coverage at 75% to the mentioned sectors with loans up to seven years with a grace period minimum 6 months and up to 1year. The sealing for guarantee was about USD200K.
- Banks which provide loans to SMEs under Kafalat programme benefited from the use 60 percent of the liquidity from the statutory reserves (banks at that time had to deposit 13% of their deposits in Lebanese Liras at the Central Bank at 0 interest accounts)
- Then, the government through the CB provided 7% subsidy to the interest rate, that was later reduced to 4.5% percent. That made the cost of the loan to the borrower lower than any commercial debt

KAFALAT

Later to solve other imperfections in the market, Kafalat created with the help of EU 4 other programmes;

Programme	**% of coverage**	**Loan Ceiling USD**	**Conditions**	**Sector**
Plus	85%	400,000	30% equity + 20% down pay	Agriculture, industry, IT, tourism, Handy craft
Innovation	90%	200,000	10% equity Startups	
Energy	75%	820,000	Up to 15% for sustainable energy	
Trees	75%	340,000	Up to 10 years (including 3 yrs grace)	Agriculture

EQUITY AND SEED CAPITAL THROUGH KAFALAT

- In 2013, Kafalat with the help of the World bank conceived a new porgramme with USD 30million to address the financing gap when it comes to investments in early stage startups that still struggle to secure backing.

-An independent board of experts appointed by Kafalat volunteered to evaluate the applications and approve the investments, with independent and binding decision.

- The iSME programme is divided into Co-investment fund and Grant fund . Whereby, an early stage, co-funds can provide 50% of the financing needs and the iSME fund, will be able to contribute 50% , while at an intermediate stage, the iSME contributes up to 40% and 30% at the growth stage.

As of August/2019 the iSME programme committed USD12.34M in the form of equity Co-investment and grants .

	Facility Size	Committed	Number	Follow on funding	Average ticket
Co-equity	$25M	$9.88M	18	$820K	$548K
Grants	$2.5M	$2.46m	174	$14.2M*	$15K

The iSME fund indirectly invested $1.3M through seed funds operating in the country to have wider outreach with a smaller ticket reaching $150K

OVERVIEW OF THE MENA CGS

- Despite governments' effort in the MENA intervening in the credit market to assist SME, credit guarantee schemes in the region prove to be comparatively less efficient than their EU counterparts, in terms of outreach and sustainability.

- 1st MENA CGS have more limited resources and do not benefit from advanced risk sharing mechanisms such as counter-guarantee funds.

- 2nd, most of the region's schemes are partially tied to public administrations, and are mandated by their governments to alleviate constraints in access to finance

- There is no clear unified definition for SMEs n the MENA region.

OVERVIEW OF THE MENA CGS

- The majority of MENA CGS are a mix between public and private partnership, sometimes with unclear ownership and governance structures. More than half of these guarantee schemes are majority state-owned (Morocco, Tunisia, Jordan, Syria, Saudi Arabia, UAE), thus reflects in inefficacy fund direction

-The oldest guarantee fund in MENA was established in Morocco in 1949, while the youngest one in Syria starts operation in 2010.

-The average equity is US$50 million, ranging from US$10 million in Syria, to US$75 million in Morocco.

- Some are donors funded (Palestine, Yemen)

Country	Name	Date of establishments	Shareholders (%)	
			Government	Banks +others
Morocco	Caisse Centrale de Garantie	1949	100	
Egypt	Credit Guarantee Company	1991	10	90
Iraq	Iraqi Company For Bank Guarantees	2007		100
Jordan	Jordanian Loan Guarantee Corp	1994	60	40
Lebanon	Kafalat	1999	37.5	62.5
Tunisia	Sotugar	2003	100	
Algeria	CGCI Algérie	2004	60	40
Palestine	European-Palestinian Credit Guarantee	2005		Donors
Saudi	Saudi Industrial Development Fund	2005	50	50
Syria	Loan Guarantee Institution of Syria	2010	94	6
Qatar	Qatar Development Bank (QDB)	2010	100	
UAE	Khalifa Fund	2010	90	10
Yemen		2017		Donors

SME IN THE MENA

- SMEs in the MENA are the backbone of economic activity, they account for a substantial share of value added (although unreported) and employ the bulk of the region’s workforce.

- SMEs in some of the MENA countries are subject to acute difficulties in access to finance preventing them to grow, innovate, and fully reach the international market.

-Their contribution to the economy doesn’t exceed 1% of GDP in some countries (ex. Kuwait due to structural impediments to SME policy)

-There is no unified definition for SME in the MENA region, and every country adopts its own definition

PERFORMANCE OF CGS IN THE MENA

- CGS in the MENA countries are well established and they are trying to increase their shares in SME lending and investing.
- In some cases, there is some evidence that credit guarantee schemes have contributed to more SME lending in the MENA region
- Most guarantee schemes in the MENA target SMEs in a broad sense and generally do not restrict sectors, size of SME or types of loans expect for some countries restricting agriculture sectors (like Qatar and Algeria)

PERFORMANCE OF CGS IN THE MENA

-Unlike the EU, CGS in the MENA are becoming multilayered in their outreach and functionality, such as supporting export activities (Jordan, Morocco, Kuwait), fostering entrepreneurial spirit (Lebanon, UAE), improving the financial sector's skill base (Iraq), Co-invest in innovation and startups (Lebanon, Jordan, Morocco)

- All CGS in the MENA extend their guarantees to start-ups except for the Palestine, but there are significant differences regarding firm size eligibility, due to lack of SME definition, such as Morocco and Tunisia do not set any ceilings, while Jordan, Saudi and Syria set their ceilings at 250 employees.

- By contrast, Egypt, Lebanon and the Palestine restrict the use of guarantees to smaller firms (respectively 50, 40 and 20 employees

Eligibility Criteria and types of coverage provided in the MENA

	Start-ups	Eligibility Criteria Firm size	Sectors	% of coverage	Type of guarantee
Algeria	Yes	T/O <$16mio	All except trade and agriculture	60%-80%	Individual Guarantee
Morocco	Yes	NA	All including housing and student loans	50% to 60%	Guarantee and Co finance
Egypt	Yes	Max 50 employees	All	50% to 80%	Portfolio and individual
Palestine	No	Max 20 employees	All	60%	Individual Guarantee
Qatar	yes	T/O< $8M	All except agriculture, fishing, livestock	Up to 85%	Individual Guarantee
Saudi Arabia	Yes	Max 250 employees T/O<5M	All (including oil production)	70% to 90%	Individual Guarantee
Jordan	Yes	Max 250 employees	All including Housing	70%-80%	Guarantee and Co finance
Iraq	Yes	Max 50 employees	All	80%	Individual Guarantee
Syria	N/A	Max 250 employees	All	50%	Individual Guarantee
Lebanon	Yes	Max 40 employees	Agriculture, Industry, Tourism, IT, Handy Crafts	70% to 90%	Individual Guarantee
Tunisia	Yes	NA	Manufacturing, some services	50%-60%	Individual Guarantee

PERFORMANCE OF CGS IN THE MENA

- In most cases, the limits imposed on loan size are probably the most binding ones, and here the ranking changes significantly.

-Some schemes seem to look more generous than international standards, in that case, Qatari scheme appears to be on the high side average ticket with an average loan of USD 830K , since oil mining is covered by their guarantees)

-Despite the large amount of the outstanding guarantees, the number of firms benefited from the guarantees is still small (table below)

The below table reflects significant differences regarding the average loan size

Country/Region	Volume of new guarantees issued in 2018	Total Outstanding Volume of Gtees at the end of 2018 USD	Total Credit covered by the Outstanding gtees in USD 2018	Number of SME/Enterprises as of end of 2018	Avg loan amount in USD
Algeria	*179,601,034*	*515,598,158*	*811,959,255*	*87,800*	*9,248*
Morocco	1,125,682,249	*1,986,129,761*	*3,700,633,056*	*28,608*	*129,357*
Egypt	*626,823,529*	*839,385,235*	*1,458,176,471*	*90,000*	*16,202*
Palestine	*41,356,801*	*34,751,036*	*49,855,863*	*2,167*	*23,007*
Qatar	*21,130,000*	*217,858,000*	*258,225,000*	*311*	*830,305*
Saudi Arabia	799,103,733	1,032,437,067	*1,733,777,067*	*6,291*	*275,596*
Jordan	104,213,394	120,485,623	*158,667,183*	*1,860*	*85,305*
Turkey	*13,754,289,260*	*36,606,581,758*	*41,101,153,537*	*428,094*	*96,010*
Yemen	*557,908*	*408,604*	*695,422*	*297*	*2,341*
Lebanon	*40,507,789*	*300,796,475*	*660,324,605*	5,114	129,121
Tunisia	*70,016,000*	*1,096,434,000*	*1,742,832,000*	1,021,375	1,706

PERFORMANCE OF CGS IN THE MENA

- Recovery rate is still on the low side in some Countries in the MENA.

-There seem to be very limited understanding of secured transactions from both public and private sector stakeholders.

- The existing legal framework in the MENA countries is not conducive to the development of this form of finance

- There are no specific regulations for loan recovery that would assist banks due to lengthy and slow judiciary court procedure

- CGS in the MENA are not not reaching their full multiplier and their leverage are not exceeding 3.3 times, ranging from 0.4times in Palestine to 6 times for Lebanon (2012)

Thank you