

" SMEs access to Credit –Egypt Experience"

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Currently, Egypt work toward the idea that SMEs are a primary engine for growth and major source of employment and income generation as well as poverty reduction. More attention is given to gender aspects since it is important in the context of poverty reduction strategies.

The growth of this sector is severely curtailed by a lack of access to finance. The availability of credit has been identified in many business surveys as the most important factor determining whether SMEs survive and prosper.

There are several reasons for the SME financing deficit in Egypt like other developing countries. From the perspective of banks and other financial intermediaries, the main barriers to SME lending are high risk perception , lack of collateral and high administration costs, as well as asymmetric information.

The Egyptian credit market remains immature-tailored funding available only through the Social Fund for Development`s Small Enterprise Development Organization and the National Bank of Egypt. As a result of significant efforts at the reform of the Egyptian financial sector, a number of credit options have been made available which, it is believed will, to a great extent, meet market demand.(1)

CGSs in Egypt-General Overview

As the vulnerability of the agricultural sector and entrepreneurs of different type of business frequently results in gaps : communication, institutional, technical between entities, rural SMEs and the potential creditors in Egypt.

Thus, there was a clear need for an intermediary, such as guarantee schemes, between these sides.

Establishing credit guarantee system in Egypt were found to be a functional financial policy instrument to resolve some of the problems faced by entrepreneurs that apply for loans without a credit history and face poor rating by banks. The establishment of Credit Guarantee Associations in Egypt is relatively new. Currently, there are three main associations working in this area in Egypt:

1.The Credit Guarantee Company for small and Medium Scale Enterprises, which was established in 1989 and began it`s full operation in1991. It was the initiative of USAID and Ministry of International cooperation in Egypt. The shareholders of this company are nine Egyptian banks and one insurance company.

The company operates by placing interest-bearing deposits with commercial banks, these then serve as a collateral fund that potentially covers CGC issued guarantees of SMEs. (more details are presented in para ()???)

2-Cooperative Insurance Society for Small and medium Enterprises(CIS) ,which had been established in 1999 as a non-profit organization offering it services only for its and operating under the insurance law, and consequently supervised by the Egyptian Insurance Supervisory Authority. CIs had been established by the social fund for development to serve as a credit guarantee for loans disbursed under its resources .

3- Export Credit Guarantee Company (ECGC), which was set up in 1992, as a subsidiary of the Export Development Bank. As a shareholding company,93% owned by public sector banks and national insurance, (Export Development Bank of Egypt, Bank of Alexandria, Al Ahly Bank control seventy five percent of the shares), the remaining 7% distributed amongst Al Mohandess Insurance(private sector), and various businesses. **ECGC** guarantees commercial and non-commercial risks on Egyptian exports (it does not cover foreign exchange risks .