



# Venture Capital and Leasing Industries in Egypt

Financing Opportunities for SMEs in Egypt  
Conference

July 15, 2007

## Background

### The Small and Medium Enterprises Policy Development Project (SMEPoL) & The SME Unit:

The overall impact of the project is to have an improved gender-sensitive M/SME policy environment resulting in reduced financial and non-financial constraints and increased opportunities for M/SME development. SMEPoL supports MoF to develop specific policies and legislations for implementation by the Ministry and others through the SME Unit in the Office of the Minister.

## SME Unit & SMEPol Project

Policy Component

Research Component

Capacity Building  
Component

Networking Component

### *Impact*

*An improved policy environment resulting in reduced financial, & non-financial constraints & increased opportunities for MSME development*

## Background

### Access to Finance

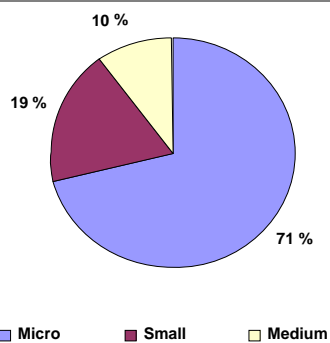
Identified as one of the constraints facing SMEs in Egypt, in both the Priority policy areas of the Project, and in the Policy General Framework. New tools were studied: Credit, Credit Guarantee, Credit Bureaus and Scoring, Leasing, and Venture Capital

# Background

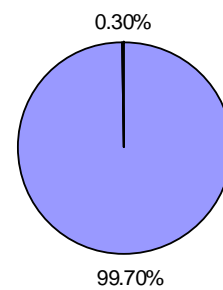
## Studies and roundtables on Leasing and VC

In response to the need for new sources of finance, the issue of VC and Leasing were studied to identify constraints and opportunities for expansion in the Egyptian Market.

# SMEs in Egypt

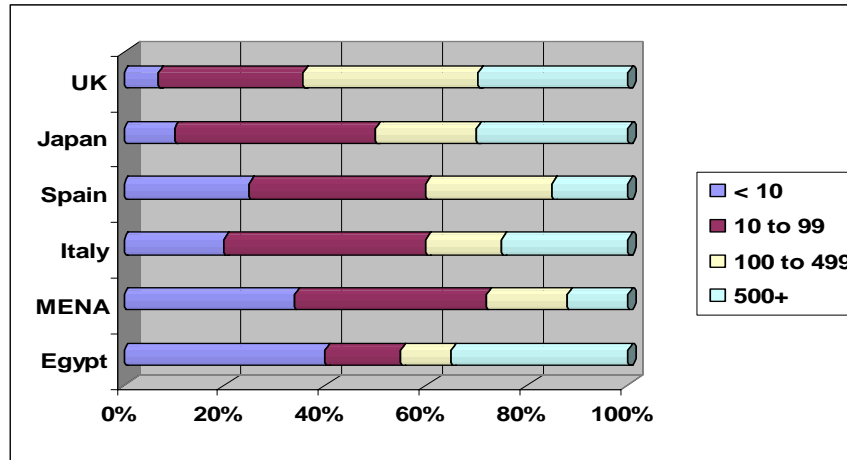


**Figure 1: Distribution of Employment of SMEs in Private Non-Agriculture Economic Activities**



**Figure 2: Distribution of Non-Agricultural Economic Activities Between SMEs and Large Enterprises**

## SMEs in Egypt



## Why SMEs?

“ Although a handful of Egyptian and Arab Corporations have grown in recent years to be classified as multinationals, they alone won't drive economic growth in the decades to come. As any economic theorist-and every Italian businessman- knows, it's better to have 25,000 small and medium-sized enterprises powering your economy than it is to have one dominated by 25 Orascom Construction Industries. Without a new crop of entrepreneurs in the still-struggling Egyptian SME sector, sustaining growth rates at today's 6%-plus will be virtually impossible”

## Growth Vs. Survival

The approach of assisting this segment should start by identifying their problems and try to provide suitable solutions for these problems. Problems of this segment could be clustered in two groups:

- *Financial problems*; basically reflects the limited access of this segment to finance due to the fact that they lack collaterals and/or have no track record.
- *Non-financial problems*; mainly represented in management, marketing, accounting, and other business aspects of operation.

## Why Leasing and SMEs?

- Conventional methods of finance through bank loans focus on both ability to generate cash and secondary source of security through the collaterals. In Contrast, leasing focuses on the ability of the lessee to generate cash from the leased asset. This would make leasing well suited to SME activities where they rarely possess credit history or formal financial statements to present to the banks. **The key impact of leasing in developing countries is to increase source of capital from an external source and leave the SME own sources to be consumed in other productive use<sup>[1]</sup>s.**
- <sup>[1]</sup> IFC and the leasing sector

## Why VC and SMEs?

Financial

- Equity Finance
- No/Less collateral
- Dividends and interest costs (tailored to suit the business cash flow)

- Management
- Product
- Marketing
- Accounting

BDS

## Constraints Facing the Leasing Industry

### **Legal and Regulatory**

- Taxation/Interest
  - Sales taxes
  - Sale and lease back associated sales taxes
  - Debit interest
- Leasing Law and limitations within the law
  - Inability to practice operating lease
  - Inability to Transfer a Lease Contract to an entity that is not registered as a lessor
- Procedures associated with registration of a leasing contract
- Legal procedures associated with repossession of leased asset in case of lessee default

### **Technical and Operational**

- Extending leases to companies with incomplete financial reporting and insufficient credit information.
- Need for activation of Egyptian Leasing Companies Association
- Raising SME awareness to leasing as a financial tool

## Constraints Facing the VC Industry

### ***Legal and regulatory environment***

- Enforcement of Intellectual Property Rights (IPR),
- Structuring of VC funds,
- Shareholder rights and other deal terms

### ***Technical and Operational***

- Human Capital
- Encouraging entrepreneurship is critical to growing the VC industry.
- Nurture/encourage VCs Associations
- Difficulty to exit from small cap companies
- Raising SME awareness

## The Objective

- Update on current government efforts
- Soliciting input from stakeholders
- Identifying remaining gaps
- Prioritizing next steps