Agreement
between

THE GOVERNMENT OF THE ITALIAN REPUBLIC
AND
THE GOVERNMENT OF THE ARAB REPUBLIC OF EGYPT

on a soft loan awarding for the project "Support to Private Sector Development in Egypt"

THE GOVERNMENT OF THE ITALIAN REPUBLIC (hereinafter referred to as "Italy"), represented by the Ministry of Foreign Affairs and International Cooperation – Directorate General for Development Cooperation (hereinafter referred to as "MAECI-DGCS") and THE GOVERNMENT OF THE ARAB REPUBLIC OF EGYPT (hereinafter referred to as "Egypt"), represented by the Ministry of Investment and International Cooperation (hereinafter referred to as "MIIC") *both jointly referred to as "the Parties" and separately as a "Party":*

WHEREAS the Parties fully agree on the need to sustain the socio-economic development of Egypt, through the provision of supplies and capacity building to enhance the living conditions of the Egyptian people.

DESIRING to strengthen their relationship and wishing to continue their partnership, by assisting Egyptian Authorities in poverty alleviation for the most vulnerable people, and especially women and young entrepreneurs.

TAKING COGNIZANCE that the Government of Egypt has indicated private sector development as a national priority, with particular reference to Small and Medium Enterprises (SMEs), as one of the means to target poverty issues and services provision at local level.

WHEREAS the letter dated September 15th, 2015 has been addressed from the Egyptian Ministry of Investment and International Cooperation to the Italian Embassy in Cairo asking to allocate the approved soft loan amount of 45.000.000,00 EUR foreseen to the support to private sector development.

WHEREAS the letter has been sent on September 1st, 2015 by the Egyptian Ministry of Trade and Industry (MTI) to the Ministry of Investment and International Cooperation (MIIC), indicating the willingness of implementing the annexed project proposal "Support to Private Sector Development in Egypt" (Annex I), as the project meets the requirements of MTI with regards to providing the necessary financial support mechanisms to SMEs to improve their competitiveness.

TAKING into account that the MAECI-DGCS has agreed to provide such assistance, as approved by the Steering Committee of MAECI - DGCS with Decision n. 23 dated November 19th 2015.

CONSIDERING the present agreement will be implemented, as far as the Italian part is concerned, in full respect with the obligations ensuing from its membership of the European Union.

HEREBY AGREE as follows:

CLAUSE 1
PURPOSE OF THE AGREEMENT

1.1 Under this Agreement Italy shall provide Egypt with a soft loan not exceeding the sum of 45.000.000,00 EUR (forty-five million EUR) for the "Support to Private Sector Development in Egypt" project, hereinafter refer to as the "project".

1.2 The mentioned amount of 45.000.000,00 EUR represents the ceiling of the agreement that cannot be overcome.

1.3 This Agreement establishes the mutual obligations of the Parties concerning the financing and the implementation of the project.

1.4 In this context, it defines modalities and procedures for management, crediting, disbursement, procurement, monitoring, evaluation and reporting related to the project.

1.5 The soft loan shall be utilized by the Ministry of Trade & Industry and to implement the activities of the project as detailed in Annex 1.

1.5.1 The conditions for the repayment of the Soft Loan, equal to Euro 45.000.000,00, are set as follows:

- Interest rate: 0.00% (zero point zero per cent) per annum,
- Duration: 30 years of which 20 years of grace period, beginning from the date of disbursement of the first tranche of the soft loan.

CLAUSE 2
PARTS AND DEFINITIONS

2.1 This Agreement consists of fifteen clauses and of the following Annex:

Annex 1: Project Document.

2.2 The above-mentioned annex shall be considered an essential and substantial part of the Agreement.

2.3 The words and acronyms mentioned below in the text have the following meaning:

Agreement	The present Agreement, the preamble and the annex hereto forming an integral part thereof.
Cassa Depositi e Prestiti (CDP)	The Italian Financial Institution appointed by the Government of the Italian Republic to sign the Financial Agreement with the Central Bank of Egypt.
Audited Financial Report	The intermediate and final financial reports issued by the Auditing Company.
Auditing Company	The local branch of an International auditing company selected by the Ministry of Trade and Industry of the Arab Republic of Egypt to audit the administrative documents related to the soft loan.
Borrower	The Egyptian Government.
CBE	Central Bank of Egypt.
Financial Convention	Agreement between Cassa Depositi e Prestiti, Italian financial institution, acting as the lender's Agent, and the Central Bank of Egypt, Egyptian Financial Institution, acting as the Borrower's Agent, with a purpose of implementation of this Agreement.

GRACE PERIOD	The period, lasting twenty [20] years, beginning on the date on which the first disbursement of the Soft Loan is credited on the dedicated Account.
ITALIAN EMBASSY/DEVELOPMENT COOPERATION OFFICE	The Embassy of the Italian Republic in the Arab Republic of Egypt/ AICS local Office.
ITALIAN COMPETENT AUTHORITIES	The Ministry of Foreign Affairs and International Cooperation of the Italian Republic through DGCS is the Italian Competent Authority for the implementation of this Agreement, supported by any other competent entity of the Government of the Italian Republic, nominated for the purpose of this Agreement.
LOCAL EGYPTIAN COMPETENT AUTHORITIES	The Ministry of Investment and International Cooperation is the Egyptian Competent Authority for the implementation of this Agreement, supported by any other competent entity of the Government of the Arab Republic of Egypt, nominated for the purpose of this Agreement, such as the Central Bank of Egypt and the MTI.
LENDER	The Government of Italy.
LOAN	The Soft Loan granted by the MAECI-DGCS to the Ministry of Investment and International Cooperation of the Arab Republic of Egypt (MIIC).
MAECI-DGCS	The Ministry of Foreign Affairs and International Cooperation of the Italian Republic – Directorate General for Development Cooperation.
ITALIAN AGENCY FOR DEVELOPMENT COOPERATION (AICS)	Italian Public Institution funded in 2014 and operational from 1 January 2016 to carry out development cooperation initiatives activities under the political guidance of the Italian Ministry of Foreign Affairs and International Cooperation (MAECI).
MTI	The Ministry of Trade and Industry of the Arab Republic of Egypt.
MIIC	The Ministry of Investment and International Cooperation of the Egyptian Government of the Arab Republic of Egypt.

SOFT LOAN	The funds that Cassa Depositi e Prestiti, in compliance with the authorization issued by the Ministry of Economy and Finance of the Italian Republic and upon the proposal of the Ministry of Foreign Affairs and International Cooperation of the Italian Republic, will grant on the terms and the conditions provided for in Clause 8 of this Agreement.

CLAUSE 3
PROJECT DESCRIPTION

3.1 The project aims to contribute to the creation of an enabling environment for the private sector, that will be able to ensure a sustainable development and an inclusive growth for the Egyptian private sector.

The programme will support the Egyptian private sector both in the form of provision of training and technical assistance to SMEs and entrepreneurs, and through the financing of different components. In order to achieve the main objectives of the project, the assistance will also be extended to the Egyptian institutions involved in the programme, at the apex as well as at the intermediate and local level.

The tools to achieve the goals will be in the form of non-financial services and financial services. The non-financial services will focus on capacity building and human resources development; while the financial services will focus on stimulating the competitiveness of local SMEs by easing access to credit conditions (including the informal sector) and technology upgrade.

CLAUSE 4
INSTITUTIONS AND BODIES INVOLVED IN THE IMPLEMENTATION OF THE PROJECT

4.1 The "MIIC" and the "AICS", shall be the competent authorities of the Parties in the matters pertaining to the implementation of this Agreement.

4.2 Beside the MIIC and the AICS, the other Institutions and Bodies involved in the implementation of the project are:

4.2.1 For the Government of the Arab Republic of Egypt:

- Central Bank of Egypt, acting as the Borrower's Agent and signatory for the Egyptian side of the Financial Convention, designated by the Government of the Arab Republic of Egypt to provide and manage the soft loan, including disbursements and collection of repayments;

- The Ministry of Trade and Industry (MTI) as Coordinating National Institution for implementation;

4.2.2 For the Government of the Italian Republic:

- The AICS local office acting on behalf of AICS;

- Cassa Depositi e Prestiti, acting as the Lender and signatory for the Italian side of the Financial Convention, designated by the Government of the Italian Republic to provide and manage the soft loan, including disbursements and collection of repayments.

4.2.3 Steering Committee:

"A joint Committee will be formulated named the "Steering Committee" which includes representatives from both Parties and MTI, will be in charge of general supervision for the project's implementation, the committee can seek the assistance of whom it deems from experts and specialists and setting rules for their work.

- Role

The steering committee will cover the role of ensuring project control and coherent approach aiming in particular to:

- Supervision of the progress of the project and the correct deployment of the activities according to its objectives and results;
- Evaluation and approval of the Operational overall work Plan prepared by MTI.
- Evaluation and approval of annual Work Plans as well as of intermediate and final technical and financial project reports prepared by the Technical Support Unit;
- Approve budget re-allocations;

- Composition

  The Steering Committee will be chaired by a representative of the Egyptian Ministry of Trade and Industry.

- 1 representative of AICS;
- 1 representative of MAECI;
- 1 representative of Egyptian MTI;
- 1 representative of MIIC

  shall compose the Steering Committee.

- Decision modalities

The SC will be called twice a year, or whenever necessary. SC members will be able to invite ad hoc participants. To the SC will be admitted to participate –with no voting right – according to specific competences and direct or indirect involvement in the project implementation, also representative of Egyptian/Italian institutions.

Each decision taken by the Steering Committee will be enforced through an exchange of notes.

- Secretariat

The Technical Support Unit shall act as the Secretary of the Steering Committee and facilitate the following items:

1. Set the agenda for each meeting in consultation with the Chairperson of the Steering Committee;
2. Ensure that agendas and supporting materials are delivered to members in preparation for the meetings;
3. Prepare the minutes of the meetings and communicate them to the Steering Committee;
4. Review and follow up on progress of decisions made by the Steering Committee.

CLAUSE 5
OBLIGATIONS OF THE ITALIAN GOVERNMENT

5.1. On behalf of Italy the MAECI-DGCS engages itself in making available 45,000,000.00 EUR as a Soft Loan as per Clause 1 of this Agreement.

5.1.1 Within the above-cited amount, the contribution will be distributed as follows:

- 3.566.000,00 EUR will be utilized to finance technical assistance and support services provided through a Technical Support Unit;
- 36.434.000,00 EUR will be utilized to finance a Credit Line through the local banking system;
- 5.000.000,00 EUR will be utilized to finance a Venture Capital Facility in the form of a "Fund of Funds".

CLAUSE 6
OBLIGATIONS OF THE EGYPTIAN GOVERNMENT

6.1 The MIIC of the Arab Republic of Egypt engages itself in fulfilling all the obligations deriving from the present Agreement, in particular:

6.1.1 Ensuring the implementation of the project according to the provisions of the present Agreement, being responsible for the use of the soft loan,

6.1.2 Undertaking, through the MIIC and the Central Bank of Egypt, the on-lending of the soft loan amount to an Agent Bank, and in turn, to the final beneficiaries.

6.2 The Auditing Company shall be selected by MTI – through the Technical Support Unit through a competitive bidding following its applicable internal regulations rules and administrative instructions. The concerned costs will be born with the resources indicated in the budget pertaining the Technical Support Unit. For this purpose, prior to publication, MTI shall submit the "invitation to bid" and the "auditing contract" to AICS which shall issue its non-objection. The resources for the auditing services are allocated with the formula "up-to", and any saving arising from the competitive bidding procedures shall be allocated in favor of other potential technical and support services activities and/or other components of the project.

6.2.1 The selected Auditing Company will produce Audited Financial Reports in accordance with the provision detailed in art. 8.2.

CLAUSE 7
GOVERNANCE AND IMPLEMENTATION OF THE PROJECT

7.1 Upon signature of this Agreement and completion of the internal procedures, the Central Bank of Egypt and Cassa Depositi e Prestiti will sign the Financial Convention related to the whole amount to be financed under the Italian soft loan for the goods and services of the Project. The Financial Convention will provide the legal framework between the Lender's Agent and the Borrower's Agent, and will include the provisions of the present Agreement specifying the procedure for the disbursement and repayment.

7.2 The MTI will setup a Technical Support Unit to ensure the efficient implementation of the Project and an optimal coordination of the operational/administrative tasks.

7.3 A joint final evaluation shall be carried out by AICS and the MTI after project completion.

CLAUSE 8
SOFT LOAN TERMS, CONDITIONS AND CREDITING PROCEDURES

8.1 The soft loan shall have a level of concessionality equal to 50%.The financial conditions corresponding to such level of concessionality are set as follows:

- interest rate: **0%** per year;
- repayment: **30** years of which **20** of grace period, in equal, consecutive and deferred installments.
- Goods and services supplied through the Soft Loan shall be of Italian origin. However, a maximum amount of 40% (forty percent) of the Soft Loan may be utilized to finance contracts from different origin (local and other OECD countries). Contracts must be denominated in Euro or in local currency in case contracts regard local costs.

8.2 The Soft Loan shall be disbursed in three installments as follows:

- The first tranche for a maximal amount of Euro 10,000,000.00 shall be credited after coming into effect of the Financial Convention and after the approval by the Steering Committee of the Overall Work Plan prepared by the Ministry of Trade and Industry (Technical Support Unit).

- The second tranche for the maximal amount of Euro 15,000,000.00 will be disbursed after the AICS and CDP 'no objection' on the first Audited Financial Report. Such Report shall cover commitments of at least the 50 % of the first tranche. (Concerning Credit Line component, the commitment refers to loan agreements signed between the intermediary hanks and local companies; Concerning the other two components, the commitment refers to contracts signed with beneficiaries).
- The third tranche for the maximal amount of Euro 20,000,000.00 will be disbursed after the AICS and CDP 'no objection' on the second Audited Financial Report. Such Report shall cover commitments of at least the 50% of the second tranche and the remaining of the first tranche not covered by the first audited report.
- Within 24 months from the disbursement of the third tranche, the Auditing Company shall produce a Final Audited Financial Report. Such Report shall cover the entire committed amount related to the second and third tranches, as well as the complete disbursements of the tranches. AICS and CDP shall issue the 'no objection' of such Audited Financial Final Report.
- The Borrower's Agent undertakes the reimbursement to CDP of the amounts not approved by AICS and by CDP. In case the amount of the Soft Loan shall be not completely utilized at the end of 24 months from the disbursement of the third tranche, the Parties can agree to extend such period, in order to allow the disbursement to the final beneficiaries and, if the case, approve new allocations.

  Such period cannot exceed the grace period of the Soft Loan. In case of extension of such period, the Auditing Company shall successively confirm the complete disbursement of the Soft Loan, issuing a new Final Audited Financial Report.

8.2.1 After the signature of the present Agreement, an Agent Bank will be selected by the MTI through a competitive bidding and an ad-hoc Implementation Agreement will be signed between the Central Bank of Egypt and the concerned Agent Bank. The abovementioned Implementation Agreement will detail the terms and conditions concerning the allocation of funds to be utilized within the three different components (Technical Support Unit, Credit Line facility and Venture Capital Facility). Such Implementation Agreement between the Central Bank of Egypt and the Agent Bank shall be approved by the Steering Committee of the project.

CLAUSE 9
OWNERSHIP OF ASSETS

9.1 Any assets acquired by the programme due to the implementation of this agreement, such as those used by the Technical Support Unit and/or the Venture Capital Fund, will be the ownership of MTI, after the completion of the initiative.

CLAUSE 10
MONITORING DURING IMPLEMENTATION

10.1 AICS reserves the right to monitor the implementation of the project and the transparent, effective, and efficient use of the funds. AICS monitoring activities may be carried out both in Italy and locally through: (i) AICS experts during specific missions; (ii) personnel of the AICS local office.

10.2 Control activities on disbursement are assigned to Cassa Depositi e Prestiti.

10.3 To facilitate AICS monitoring under sub clause 9.1, MTI shall produce annual technical and financial reports concerning the progress of the project.

CLAUSE 11
SUSPENSION OF THE AGREEMENT

11.1 In case of impediments to the implementation of the project due to causes of force majeure recognized by both Parties according to practice (such as wars, floods, fires, typhoons, earthquakes, labour conflicts and strikes, unexpected transportation difficulties), the following provisions shall apply:

11.1.1In case the duration of the impediment to the implementation of the project is less than 12 months, the project activities shall be suspended. The residual funds shall be maintained until the impediment finishes and Italy, through the MAECI-DGCS, authorizes resumption of the project activities;

11.1.2In case the duration of the impediment to the implementation of the Program is greater than 12 months, the Parties shall agree on the destination of the residual funds.

CLAUSE 12
SETTLEMENT OF DISPUTES

12.1 Any dispute between the Parties arising out of the interpretation and/or the implementation of this Agreement shall be settled amicably by consultations or negotiations between the Parties through diplomatic channels.

12.2 In case of any discrepancy between the project document in Annex 1 and the present Agreement, the latter will prevail.

CLAUSE 13
AMENDMENTS TO THE AGREEMENT

13.1 The Parties may modify this Agreement at any time. Any modification must be set out in written form through exchange of Verbal Notes that shall come into force upon the completion of the internal procedures.

13.2 The modification to the Annexes can be set out through exchange of letters at the technical level.

CLAUSE 14
TERMINATION OF THE AGREEMENT

13.1 Both Parties reserve the right to terminate this Agreement after mutual consultation in case of evident, unmotivated and prolonged delays in implementation of the project.

CLAUSE 15

ENTRY INTO FORCE AND DURATION

15.1 This Agreement shall entry into force on the date of receipt of the last notification by which the Parties will inform each other on the completion of their respective internal procedures, necessary for the adoption of this agreement.

15.2 This Agreement shall have the same duration of the Soft Loan.

15.3 In the event the Parties terminate this Agreement, it is agreed that Italy, through the MAECI-DGCS, could ask for reimbursement of any unspent money.

IN WITNESS WHEREOF, the undersigned, being duly authorized by their respective Governments, have signed the present Loan Agreement.

Done in Sharm El Sheikh on the 8th, of December, 2018 in three originals in the English language, all texts being equally authentic.

For the Government of the Republic of Italy	For the Government of the Arab Republic of Egypt
Giampaolo Cantini **Ambassador of Italy in Egypt**	**Dr. Sahar Nasr** **Minister of Investment and International Cooperation**

[Traduzione non ufficiale]

Accordo

tra

IL GOVERNO DELLA REPUBBLICA ITALIANA

E

IL GOVERNO DELLA REPUBBLICA ARABA D'EGITTO

Su un credito d'aiuto per il progetto "Supporto allo Sviluppo del Settore Privato in Egitto"

IL GOVERNO DELLA REPUBBLICA ITALIANA (in seguito "Italia"), rappresentato dal Ministero degli Affari Esteri e della Cooperazione Internazionale - Direzione Generale per la Cooperazione allo Sviluppo (in seguito "MAECI-DGCS") e IL GOVERNO DELLA REPUBBLICA ARABA D'EGITTO (in seguito "Egitto"), rappresentato dal Ministero degli Investimenti e della Cooperazione Internazionale (in seguito "MIIC") a cui si fa riferimento come "le Parti" o singolarmente "Parte":

CONSIDERANDO che le Parti sono in pieno accordo riguardo il bisogno di sostenere lo sviluppo socioeconomico dell'Egitto, tramite la dotazione di forniture e opportunità di formazione per il miglioramento delle condizioni di vita del popolo egiziano.

AUSPICANDO il rafforzamento delle relazioni tra le Parti e il continuamento della cooperazione, tramite l'assistenza alle autorità egiziane nel campo della riduzione della povertà per i settori più vulnerabili della popolazione, e in particolar modo le donne e i giovani imprenditori.

PRENDENDO ATTO che il Governo egiziano ha indicato lo sviluppo del settore privato quale priorità nazionale, con particolare riferimento alle piccole e medie imprese (PMI), in quanto uno dei mezzi per combattere la povertà e alla fornitura di servizi a livello locale.

CONSIDERANDO la lettera datata 15 settembre 2015 inviata dal Ministero egiziano per gli Investimenti e la Cooperazione internazionale all'Ambasciata d'Italia a Il Cairo chiedendo di allocare il credito di aiuto approvato di EUR 45.000.000 per il supporto allo sviluppo del settore privato.

CONSIDERANDO che la lettera inviata il 1° settembre 2015 dal Ministero egiziano per l'Industria e il Commercio (MTI) al Ministero degli Investimenti e della Cooperazione Internazionale (MIIC), indica la volontà di implementare il progetto in allegato "Supporto allo Sviluppo del Settore Privato in Egitto" (Allegato I), considerato che il progetto è in linea con i requisiti del MTI riguardo la messa a disposizione di meccanismi finanziari di supporto alle PMI per migliorarne la competitività.

PRENDENDO ATTO che il MAECI-DGCS ha accordato di offrire tale assistenza, come approvato nel Comitato Direzionale del MAECI-DGCS con la Delibera n. 23 del 19 novembre 2015.

CONSIDERATO che il presente accordo sarà realizzato, per quanto riguarda la Parte italiana, nel pieno rispetto delle obbligazioni derivanti dal suo stato di Paese Membro dell'Unione Europea.

PERTANTO CONCORDANO come segue:

CLAUSOLA 1

Scopo dell'Accordo

1.1 Sotto questo Accordo, l'Italia dovrà provvedere a disborsare all'Egitto un credito d'aiuto non eccedente la somma di EUR 45.000.000 (quarantacinque milioni di Euro) per il progetto "Supporto allo Sviluppo del Settore Privato in Egitto", in seguito denominato il "progetto".
1.2 L'ammontare sopra menzionato di EUR 45.000.000 rappresenta il tetto massimo dell'accordo che non può essere superato.
1.3 Questo accordo stabilisce gli obblighi reciproci delle Parti riguardo il finanziamento e l'implementazione del progetto.
1.4 In questo contesto, definisce modalità e procedure per la gestione, accredito, pagamento, appalti, monitoraggio, valutazione e reportistica relative al progetto.
1.5 Il credito di aiuto dovrà essere utilizzato dal Ministero del Commercio e dell'Industria e per realizzare le attività del progetto come delineate nell'Allegato I.
   1.5.1 Le condizioni per la restituzione del credito di aiuto, uguale a Euro 45.000.000, sono stabilite come di seguito:
   - Tasso d'interesse: 0,00% (zero virgola zero percento) annuo,
   - Durata: 30 anni, di cui 20 di periodo di grazia, con inizio dalla data di trasferimento della prima tranche del credito di aiuto.

CLAUSOLA 2

Parti e Definizioni

2.1 Questo Accordo consiste di 15 clausole ed il seguente Allegato:
Allegato I: Documento di Progetto
2.2 Il sopracitato allegato costituisce parte integrante ed essenziale dell'Accordo.
2.3 Le parole e acronimi menzionati sotto nel testo hanno il seguente significato:

Accordo	Il presente Accordo, il preambolo e l'allegato ne formano parte integrale.
Cassa Depositi e Prestiti (CDP)	L'istituzione finanziaria italiana designata del Governo della Repubblica d'Italia a firmare la Convenzione Finanziaria con la Banca Centrale d'Egitto.
Rapporto Finanziario di Auditing	I rapporti di metà e fine rapporto preparati dalla compagnia di auditing.
Compagnia di Auditing	La filiale locale della compagnia di auditing internazionale selezionata dal Ministero del Commercio e dell'Industria della Repubblica Araba d'Egitto per la verifica dei documenti amministrativi relativi al credito di aiuto.
Mutuatario	Il Governo egiziano.
CBE	Banca Centrale d'Egitto
Convenzione Finanziaria	Accordo tra Cassa Depositi e Prestiti, istituzione finanziaria italiana, agente per conto del prestatore, e la Banca Centrale d'Egitto, istituzione finanziaria

	egiziana, agente per conto del mutuatario, con lo scopo di implementare questo Accordo.
Periodo di grazia	Il periodo, della durata di venti (20) anni, con inizio nella data in cui la prima tranche del credito di aiuto è trasferita nel conto in banca dedicato.
Ambasciata Italiana/Ufficio di cooperazione allo sviluppo	L'Ambasciata della Repubblica d'Italia nella Repubblica Araba d'Egitto / Sede AICS in loco.
Autorità italiane competenti	Il Ministero degli Affari Esteri e della Cooperazione Internazionale della Repubblica italiana tramite la DGCS è l'autorità italiana competente per la realizzazione di questo Accordo, sostenuto da altre autorità competenti del Governo della Repubblica Italiana designati per lo scopo di questo Accordo.
Autorità locali egiziane competenti	Il Ministero degli Investimenti e della Cooperazione Internazionale è l'autorità egiziana competente per l'implementazione di questo Accordo, sostenuto da altre entità competenti del Governo della Repubblica Araba d'Egitto, nominate allo scopo di tale Accordo, quali la Banca Centrale d'Egitto ed il MTI.
Prestatore	Il Governo italiano
Prestito	Il credito di aiuto rilasciato dal MAECI-DGCS al Ministero degli Investimenti e della Cooperazione Internazionale della Repubblica Araba d'Egitto (MIIC).
MAECI-DGCS	Il Ministero degli Affari Esteri e della Cooperazione Internazionale della Repubblica Italiana – Direzione Generale per la Cooperazione allo Sviluppo.
Agenzia Italiana per la Cooperazione allo Sviluppo (AICS)	Istituzione pubblica italiana fondata nel 2014 e operativa dal 1 gennaio 2016, con lo scopo di portare avanti iniziative di cooperazione allo sviluppo sotto la guida politica del Ministero italiano degli Affari Esteri e della Cooperazione Internazionale (MAECI).
MTI	Il Ministero del Commercio e dell'Industria della Repubblica Araba d'Egitto.
MIIC	Il Ministero degli Investimenti e della Cooperazione Internazionale del Governo egiziano della Repubblica Araba d'Egitto.
Credito di aiuto	I fondi che Cassa Depositi e Prestiti, in conformità con le autorizzazioni rilasciate dal Ministero dell'Economia e delle Finanze della Repubblica Italiana e su proposta del Ministero degli Affari Esteri e della Cooperazione Internazionale della Repubblica Italiana, rilascerà con i termini e le condizioni fornite nella Clausola 8 di questo Accordo.

CLAUSOLA 3

Descrizione del Progetto

3.1 Il progetto mira a contribuire alla creazione delle condizioni propizie per il settore privato, che garantiranno uno sviluppo sostenibile e una crescita inclusiva per il settore privato egiziano.

Il programma supporterà il settore privato egiziano sia tramite l'offerta di corsi di formazione e assistenza tecnica a PMI e imprenditori, sia tramite il finanziamento di diverse componenti. Per raggiungere l'obiettivo del progetto, l'assistenza sarà anche estesa alle istituzioni egiziane coinvolte nel programma, sia all'apice che ai livelli intermedi e locali.

I mezzi per ottenere gli obiettivi saranno nella forma di servizi finanziari e servizi non finanziari. I servizi non finanziari si concentreranno sulla formazione e lo sviluppo delle risorse umane, mentre i servizi finanziari si concentreranno ad incentivare la competitività delle PMI locali facilitando l'accesso alle condizioni di credito (includendo il settore informale) e l'upgrade tecnologico.

CLAUSOLA 4

Istituzioni e Entità Coinvolte nella realizzazione del Progetto

4.1 Il "MIIC" e l' "AICS" saranno le autorità competenti per le Parti nelle questioni riguardanti la realizzazione di questo Accordo.

4.2 A parte il MIIC e l'AICS, gli altri enti e istituzioni coinvolte nella realizzazione del progetto sono:

4.2.1 Per il Governo della Repubblica Araba d'Egitto:

- La Banca Centrale d'Egitto, che opera quale agente del mutuatario e firmatario per la Parte egiziana della Convenzione Finanziaria, designata dal Governo della Repubblica Araba d'Egitto per amministrare il credito di aiuto, inclusi i trasferimenti di fondi e la raccolta delle restituzioni;
- Il Ministero del Commercio e dell'Industria (MTI) quale istituzione coordinatrice nazionale per l'implementazione.

4.2.2 Per il Governo della Repubblica Italiana:

- La sede locale AICS, che agisce per conto dell'AICS;
- Cassa Depositi e Prestiti, che opera quale prestatore e firmatario per la Parte italiana della Convenzione Finanziaria, designata dal Governo della Repubblica Italiana a offrire e amministrare il credito di aiuto, inclusi i trasferimenti di fondi e la raccolta delle restituzioni;

4.2.3 Comitato di Pilotaggio:

"Un comitato congiunto sarà formato con il nome di 'Comitato di Pilotaggio' che include rappresentanti di entrambe le Parti e del MRI, e sarà responsabile per la supervisione generale dell'implementazione del progetto, il Comitato può richiedere assistenza di esperti e specialisti e stabilire i loro termini di riferimento.

- <u>Ruolo</u>
  Il Comitato di Pilotaggio coprirà il ruolo di assicurare il controllo del progetto e un approccio coerente mirando in particolare a:
    - Supervisionare il progresso del progetto e la corretta attuazione delle attività in accordo con i suoi obiettivi e risultati;
    - Valutazione e approvazioni dei piani di lavoro annuali, e dei rapporti di avanzamento e finali sia tecnici che finanziari preparati dall'Unità di Supporto Tecnico;
    - Approvazione delle riallocazioni del budget;
- <u>Formazione</u>
  Il Comitato di Pilotaggio sarà presieduto da un rappresentante del Ministero egiziano del Commercio e dell'Industria.

- 1 rappresentante AICS;
- 1 rappresentante del MAECI;
- 1 rappresentante del MTI egiziano;
- 1 rappresentante del MIIC;

faranno parte del Comitato di Pilotaggio.

- Modalità decisionali

  Il Comitato di Pilotaggio sarà convocato due volte all'anno, o quando necessario. I membri del Comitato potranno invitare partecipanti ad hoc. Al Comitato di Pilotaggio è ammessa la partecipazione – senza diritto di voto – in base a competenze specifiche e coinvolgimento diretto o indiretto nella realizzazione del progetto, anche a rappresentanti di istituzioni italiane e egiziane.

  Ogni decisione presa dal Comitato di Pilotaggio sarà applicata tramite scambio di note.

- Segretariato

  L'Unità di Supporto Tecnico agirà da segretario del Comitato di Pilotaggio e faciliterà i seguenti punti:

  1. Fissare l'agenda per ogni riunione in consultazione con il presidente del Comitato di Pilotaggio;
  2. Assicurare che i punti del giorno e i materiali di supporto sono stati divulgati ai membri del Comitato in preparazione alle riunioni;
  3. Preparare le minute delle riunioni e condividerle con il Comitato di Gestione;
  4. Rivedere e fare il punto della situazione riguardo il processo decisionale del Comitato di Pilotaggio.

CLAUSOLA 5

Obbligazioni del Governo Italiano

5.1 Per conto dell'Italia, il MAECI-DGCS si occupa di mettere Euro 45.000.000 a disposizione come credito di aiuto come da Clausola 1 di questo Accordo.

5.1.1 Nei limiti dell'ammontare sopra citato, il contributo sarà articolato come segue:

- Euro 3.566.000 saranno utilizzati per finanziare l'assistenza tecnica e i servizi di supporto forniti tramite l'Unità di Supporto Tecnico;
- Euro 36.434.000 saranno utilizzati per finanziare una linea di credito tramite il sistema bancario locale;
- Euro 5.000.000 saranno utilizzati per finanziare una Venture Capital Facility nella forma di "fondo di fondi".

CLAUSOLA 6

Obbligazioni del Governo Egiziano

6.1 Il MIIC della Repubblica Araba d'Egitto si impegna ad adempiere alle obbligazioni derivanti dal presente Accordo, in particolare:

6.1.1 Assicurare la realizzazione del progetto d'accordo con quanto stabilito nel presente Accordo, essendo responsabile del credito di aiuto,

6.1.2 Facendosi carico, tramite il MIIC e la Banca Centrale d'Egitto, di affidare le attività di erogazione del credito di aiuto ad una Banca Agente, che estenderà le attività di credito ai beneficiari finali.

6.2 La compagnia di auditing sarà selezionata dal MTI – attraverso l'Unità di Supporto Tecnico tramite un bando che segua le sue regole interne e istruzioni amministrative. I costi corrispondenti saranno coperti dalle risorse indicate nel budget dell'Unità di Supporto Tecnico. A tale scopo, prima della pubblicazione, il MTI dovrà sottoporre il bando e il contratto di auditing all'AICS, che dovrà dare il suo nullaosta. Le risorse per i servizi di auditing sono allocate con la formula "fino a", e qualora ci fossero dei risparmi risultanti dalle offerte ricevute saranno allocati in favore di altri potenziali servizi tecnici e di supporto e/o altre componenti del progetto.

6.2.1 La compagnia di auditing selezionata produrrà i rapporti finanziari di auditing secondo quanto previsto dall'articolo 8.2.

CLAUSOLA 7

Governance e Realizzazione del Progetto

7.1 Dopo la firma di questo Accordo e a completamento delle procedure interne, la Banca Centrale d'Egitto e la Cassa Depositi e Prestiti firmeranno la Convenzione Finanziaria relativa alla somma totale da finanziarsi nell'ambito del credito di aiuto italiano per beni e servizi del progetto. La Convenzione Finanziaria fornirà il quadro amministrativo tra l'agente del mutuatario e l'agente del prestatore, e includerà i principi del presente Accordo specificando le procedure per il trasferimento delle tranche di finanziamento e per la restituzione.

7.2 Il MTI creerà un'Unità di Supporto Tecnico per assicurare l'efficiente implementazione del progetto, e un ottimale coordinazione dei task amministrativi e operativi.

7.3 Una valutazione finale congiunta verrà sviluppata dall'AICS e il MTI una volta concluso il progetto.

CLAUSOLA 8

Termini, Condizioni e Procedure di Credito del Credito di aiuto

8.1 Il credito di aiuto avrà un livello di agevolazione del 50%. Le condizioni finanziarie che corrispondono a tale livello di agevolazione sono fissate come segue:

- Tasso d'interesse: 0% annuo.
- Ripagamento: 30 anni di cui 20 di periodo di grazia, in rate uguali, consecutive e dilazionate.

- Beni e servizi acquistati tramite il credito di aiuto dovranno essere di origine italiana. Tuttavia, un massimo del 40% (quaranta percento) del credito di aiuto potrà essere utilizzato per finanziare contratti di origine diversa (locale o altri paesi OCSE). I Contratti devono essere espressi in Euro o in valuta locale nel caso le spese siano locali.

8.2 Il credito di aiuto sarà trasferito in tre tranche come segue:

- La prima tranche per un ammontare massimo di Euro 10.000.000 sarà trasferita dopo l'entrata in vigore della Convenzione Finanziaria e dopo l'approvazione da parte del Comitato di Pilotaggio del piano di lavoro preparato dal Ministero del Commercio e dell'Industria (Unità di Supporto Tecnico).
- La seconda tranche per un ammontare massimo di euro 15.000.000 sarà trasferita quando l'AICS e CDP esprimeranno il loro nullaosta riguardo al primo rapporto finanziario di auditing. Tale rapporto dovrà coprire l'impegno di almeno il 50% della prima tranche. (Per quanto riguarda la componente della linea di credito, l'impegno si riferisce ai contratti di crediti firmati tra le banche intermediarie e le aziende locali; riguardo le altre due componenti, l'impegno si riferisce ai contratti firmati con i beneficiari).
- La terza tranche per un ammontare massimo di Euro 20.000.000 sarà trasferita quando l'AICS e CDP esprimeranno il loro nullaosta riguardo al secondo rapporto finanziario di auditing. Tale rapporto dovrà coprire l'impegno di almeno il 50% della seconda tranche, e l'ammontare della prima tranche non coperto dal primo rapporto di auditing.
- Nell'arco dei 24 mesi dal trasferimento della terza tranche, la compagnia di auditing dovrà preparare un rapporto finanziario di auditing finale. Tale rapporto dovrà coprire l'intero ammontare impegnato della seconda e della terza tranche, nonché l'intero ammontare dei trasferimenti delle tranche. AICS e CDP dovranno esprimere il loro nullaosta su tale rapporto finanziario di auditing finale.
- L'agente del mutuatario si impegna a rimborsare a CDP le somme non approvate da AICS e CDP. Nel caso in cui l'ammontare del credito di aiuto non sia stato utilizzato interamente alla fine dei 24 mesi dal trasferimento della terza tranche, le Parti possono di comune accordo estendere tale periodo, per permettere il trasferimento dei fondi ai beneficiari e, qualora fosse il caso, approvare nuovi trasferimenti.

  Tale periodo non può superare il periodo di grazia del credito di aiuto. Nel caso si estenda tale periodo, la compagnia di auditing dovrà successivamente confermare il completo utilizzo del prestito, preparando un nuovo rapporto finanziario finale di auditing.

8.2.1 Dopo la firma del presente Accordo, una Banca Agente sarà selezionata dal MTI tramite un tender, e un Accordo Esecutivo ad hoc sarà firmato tra la Banca Centrale d'Egitto e la Banca Agente. Tale Accordo Esecutivo elencherà i termini e le condizioni riguardanti l'allocazione dei fondi da utilizzarsi per le tre componenti (Unità di Supporto Tecnico, Linea di Credito, e Venture Capital Facility). Tale accordo tra la Banca Centrale d'Egitto e la Banca Agente dovrà essere approvato dal Comitato di Pilotaggio del progetto.

CLAUSOLA 9

Proprietà dei Beni

9.1 Qualsiasi bene acquisito dal programma per l'implementazione di questo accordo, quali quelli utilizzati dall'Unità di Supporto Tecnico e/o il Venture Capital Fund, saranno di proprietà del MTI, dopo la chiusura dell'iniziativa.

CLAUSOLA 10

Monitoraggio durante l'Implementazione

10.1 AICS si riserva il diritto di monitorare l'implementazione del progetto e il trasparente, efficace e efficiente uso dei fondi. Il monitoraggio AICS delle attività può avvenire sia in Italia che in loco tramite: (I) esperti AICS in missioni brevi speciali, (II) personale della sede locale dell'AICS).

10.2 Le attività di controllo sui trasferimenti dei fondi sono assegnate a Cassa Depositi e Prestiti.

10.3 Per facilitare il monitoraggio AICS come da sotto clausola 9.1, il MTI dovrà produrre rapporti tecnici e finanziari annuali sul progresso del progetto.

CLAUSOLA 11

Sospensione dell'Accordo

12.1 In caso di impedimenti alla realizzazione del progetto per cause di forza maggiore riconosciute da entrambe le Parti (quali guerre, inondazioni, incendi, tifoni, terremoti, conflitti di lavoro e scioperi, difficoltà di trasporto impreviste), saranno applicate le clausole che seguono:

11.1.1 Nel caso in cui la durata dell'impedimento alla realizzazione sia inferiore ai 12 mesi, le attività del progetto saranno sospese. I fondi residui dovranno essere tenuti fino alla fine degli impedimenti e l'Italia, tramite il MAECI-DGCS, autorizzerà la ripresa delle attività.

11.1.2 Nel caso in cui la durata dell'impedimento alla realizzazione sia superiore a 12 mesi, le Parti dovranno accordarsi su come destinare i fondi rimanenti.

CLAUSOLA 12

Risoluzione delle Controversie

12.1 Qualsiasi controversia tra le Parti derivante dall'interpretazione e/o l'attuazione del presente Accordo sarà risolta amichevolmente tramite consultazioni o negoziati tra le parti via canali diplomatici.

12.2 In caso di discrepanze tra il documento di progetto in allegato I e il presente Accordo, quest'ultimo prevale.

CLAUSOLA 13

Emendamento all'Accordo

13.1 Le Parti possono modificare il presente Accordo in qualsiasi momento. Qualsiasi modifica deve essere presentata in forma scritta mediante scambio di note verbali, che entrerà in vigore al completamento delle procedure interne.

13.2 Le modifiche agli allegati possono essere effettuate tramite scambio di lettere al livello tecnico.

CLAUSOLA 14

Risoluzione dell'Accordo

15.1 Entrambe le Parti si riservano il diritto di risoluzione dell'Accordo previa consultazioni reciproche in caso di ritardi evidenti, non motivati, e prolungati della realizzazione del progetto.

CLAUSOLA 15

Entrata in Vigore e Durata

15.1 Il presente Accordo entrerà in vigore alla data della ricezione dell'ultima notifica con la quale le Parti si informeranno del completamento delle rispettive procedure interne, necessarie per l'adozione di questo Accordo.

15.2 Questo Accordo dovrà avere la stessa durata del credito di aiuto.

15.3 Qualora le Parti richiedano la risoluzione dell'Accordo, è accordato che l'Italia, tramite il MAECI-DGCS, possa chiedere il rimborso dei fondi non spesi.

In fede di che, i sottoscritti, debitamente autorizzati dai rispettivi Governi, hanno qui firmato il presente Accordo di credito di aiuto.

Fatto a Sharm el Sheik l'8 dicembre 2018, in tre copie originali in lingua inglese, tutti i testi essendo ugualmente identici.

Per il Governo della Repubblica Italiana	Per il Governo della Repubblica Araba d'Egitto
Giampaolo Cantini Ambasciatore d'Italia in Egitto	Dott.ssa Sahar Nasr Ministro per gli Investimenti e la Cooperazione Internazionale

MINISTRY OF INDUSTRY, TRADE AND SMALL AND MEDIUM ENTERPRISES
EGYPT

"SUPPORT TO PRIVATE SECTOR DEVELOPMENT IN EGYPT"

PROJECT PROPOSAL

SOFT LOAN

Cairo, August 2015

Synthetic Project Fiche

COUNTRY	**EGYPT**
SECTOR	Private Sector Development
SUBJECT	The programme aims at addressing credit market imperfections and bring about sustained improvements in the quantity and quality of financing for SMEs, drawing on best practice from SME financing initiatives world-wide. The focus of these efforts would be on SME access to credit and business development services as well as information and market linkages
AMOUNT	Euros 45,000,000,00 of which: - Euro 3,566,000 for the Capacity and Institutional Development (including management and co-ordination of the activities, institutional capacity building, cluster development, advisory services, procurement and technical assistance services) - Euro 36,434,000 for the credit line for selected sectors - Euro 5,000,000 for the creation of a Venture Capital Facility -
DONOR	Italian Ministry of Foreign Affairs- DGCS
CONTRIBUTION	SOFT LOAN
EXECUTING AGENCIES/BODIES	Ministry of Industry, Trade and SMEs
IMPLEMENTING AGENCIES/BODIES	
OVERALL OBJECTIVE	Support to the Egyptian Government to develop the private sector through the support to local SMEs
SPECIFIC OBJECTIVE	The programme objective consists of supporting the creation of an enabling environment, able to guarantee the sustainable development and private sector inclusive growth and in particular of SMEs.
DURATION	5 years

DESCRIPTION	The project aims to contribute to the creation of an enabling environment for the private sector, able to guarantee private sector sustainable development and private sector inclusive growth. The programme will support the private sector either in form of provision of training and technical assistance to the entrepreneurs and their employees, either through the sensibilization towards a sustainable approach to environmental protection and efficient and sustainable input/raw material management, waste management and recyclingIn order to achieve this, the assistance will also be extended to the Egyptian institutions involved into the programme, at the apex as well as at the intermediate and local level. On other hand, also the associations of entrepreneurs and Business Development Service centres will be assisted. The tools to achieve the goals will be in the form of non financial services and financial services. The non-financial services will focus on capacity building and human resources development; while the financial services will focus on stimulating the competitiveness of local SMEs by easing access to credit conditions (including the informal sector) and technology upgrade.

LIST OF ACRONIMS

AP	Action Plan
DGCS	General Direction for Cooperation and Development
EGP	Egyptian Pounds
EU	European Union
GDP	Gross Domestic Product
MAECIC	Italian Ministry of Foreign Affairs and International Co-operation
M.D.	Ministerial Decree
MIT	Ministry of Industry, Trade and SMEs
MIC	Ministry of International Cooperation
SC	Steering Committee
UTL	Local Technical Unit – Italian Cooperation Office
VC	Venture Capital
VCF	Venture Capital Facility
WP	Work Plan

1 BACKGROUND

According to empirical evidence, small and young firms are the main creators of new job opportunities in Egypt. According to official data SMEs that account for more than 98 percent of enterprises, generate more than 85 percent of employment in non-agriculture private sectors, and 40 percent of total employment

Despite this crucial role that SMEs play, they face numerous challenges. Limited access to finance is one of the main obstacles facing entrepreneurs. A recent Investment Climate Rapid Assessment Survey (2012), reveals that only 23 percent of SMEs have received a bank loan, while only 2.5 percent tap on non-bank financial institutions. More than 70 percent of the surveyed firms raised concerns regarding the surge in the cost of finance post revolution. Most SMEs resort to alternative sources of finance, relying on personal savings (79 percent) or inheritance (15 percent) to raise capital, and only four percent access the formal market

Although sectoral analysis shows that there is no liquidity crisis in the banking sector, SMEs have limited access to finance.

The increased banking sector risk version, is evidenced by the low banking intermediation, reflected in the decline of private sector credit-to-GDP from 36.1 percent in June 2009 to 28.6 percent in June 2013. In addition, the opportunity cost of capital for any equity Financing (through private equity and venture capital companies) increased significantly as a reflection of the high interest rates on government papers, which escalated due to the high budget deficit witnessed during the past fiscal year.

In addition SMEs are offered limited financial products. Only 11.1 percent of micro firms, and 17.4 percent of small firms have bank loans, as opposed to 38 percent for large firms. On the supply side, banks are reluctant to lend to SMEs, especially young and new ones, due to the perceived associated risk. Furthermore, banks continue to lend based on collateral as opposed to cash-flow, narrowing the opportunities for SMEs that often do not have sufficient collateral. The value of collateral needed for a loan compared to the total loan size is 88 percent for small firms. Collateral requirements, such as these, significantly hamper the ability of small firms to have access to bank loans. Effectively, banks in Egypt are serving large well established firms.

These micro and small firms also face problems obtaining finance from other capital market vehicles. Venture capital and angel investors have a limited, yet growing presence in the Egyptian market. Their operations are not easily tracked in terms of magnitude, due to lack of a comprehensive regulatory and reporting framework governing their operations.

Gender disparities are also prevalent, with women entrepreneurs facing more challenges in accessing finance than men

On the demand side, the weak financial intermediation of SMEs is attributed to various institutional factors. One of the main challenges is enterprises' lack of transparency, their inability to hold regular bookkeeping records, and their inadequate capacity to issue audited financial statements.

Financial institutions are unwilling to lend to firms that do not have audited financial statements or concrete well-prepared business plans. Moreover, smaller firms often do not have sufficient collateral, which is required by banks. There is often lack of physical access in poor villages, as it is not cost-effective for financial institutions to establish branches in areas where the client base in small villages or towns.

In this context, the government announced an ambitious program that primarily targets sustainable growth and social equity, with an emphasis on the development and support of smaller firms. In a ten-pillar program announced on the July 17, 2013 by the Prime Minister, a key pillar is micro, small, and medium enterprises (MSMEs) development, to enhance their role in creating jobs, with a focus on youth.

In response to these challenges, efforts have been made to improve the enabling environment for financial intermediation and to strengthen the financial infrastructure. The first private credit bureau was established, improving significantly the information on clients' credit worthiness. The payments system was modernized, in terms of operations, policies, and regulations, creating a more supportive institutional framework. Moreover, the Central Bank of Egypt (CBE) issued the Code of Corporate Governance, enhancing transparency and governance of the banking sector. All these efforts to strengthen the financial infrastructure have led to the promotion of a more enabling business environment, making it more conducive to SME lending.

In this context the program targets the development of SMEs, especially fast-growing ones, which empirical evidence has shown to be the most significant employment generators. This entails improving their access to finance through leveraging financial innovation and technical assistance services. The Italian Co-operation Office aims at supporting this sector, focusing on access to finance, which is a key factor of the private sector growth, in order to stimulate their potential and create new job opportunities.

1.1 The supply of finance for SMEs in Egypt

In the following paragraphs the main actors involved in funding SMEs in Egypt will be analyzed. In particular, the structure of financing institutions sector will be concisely described i.e. the banks, the Social Fund for Development (SFD), MFIs, Venture & Risk Capital (VRC) and Angel Investors. Each sub-section will illustrate the main actors, available data on performance indicators, and the importance for MSMEs credit.

1.1.1 Banks

The period 2004-2010 saw a process of consolidation in the commercial banking sector: in 2010 there were 15 banks less than in 2004. At the same time, banks' access points increased considerably, both in terms of their number of branches (b) and ATMs (c), representing a growth of 41% and 274%, respectively. This growth in absolute numbers is reflected in the density of branches and ATMs, both from a geographical and demographic perspective.

The total number of deposits grew by 7.6% between 2006 and 2010, while household deposit accounts grew by 7.9%. Therefore, not only did financial inclusion increase, but considering the banks' base of clients, households grew in importance: 97.4% of the outstanding deposits belonged to households in 2006, while in 2010 that figure was 97.7%. However, growth in the number of household deposits was not accompanied by a similar increase in the volume in these deposits. Of the 568,841 million Egyptian pounds (EGP) held in bank deposits in 2006, 66.8% belonged to households.12 Despite growing to 574,717 million EGP in 2010, household deposits as a share of total deposits remained relatively unchanged at 64.4%
The number of deposit accounts at commercial banks per 1,000 people grew from 2006 until 2008, decreasing thereafter. Relative to the population, of all deposit accounts in 2006, 97.3% belonged to households while in 2010 that figure was 97.8%. The volume per deposit account rose from 29,963 to 43,673 EGP, entailing a growth of 45.7%. Considering households only, the volume per deposit account rose from 20,552 to 28,775 EGP, which yields a growth rate of 40%. This difference implies that the volume per deposit account held by actors other than households, i.e. organisations (which accounted for 2.2% of all accounts in 2010) grew 139%.

Despite the growth in total and average volumes of deposit accounts (for all types of holders), the weight of the deposits relative to the Egyptian economy decreased considerably, both in general and for households only, which means that the economy must have grown more than deposit volumes, i.e. the ability of commercial banks to collect savings decreased relative to the economy.

The number of borrowers increased very considerably between 2005 and 2010, both considering all clients and households only which yields growth rates of 125% and 131%, respectively. The overall volume of outstanding loans rose from 324,041 million EGP to 465,990 million EGP in only five years, representing a growth of 43.8%, while for households only the volume of outstanding loans grew 74.5%. In 2006, 94.1% of all loans belonged to households although the volume of those household loans represented only 16.4% of the total. By 2010, the number of household loans rose to 96.5% of all loans, accounting for 19.9% of the total. This pattern led to lower average loans: the outstanding loans' volume per borrower in 2010 was 107,074 EGP, down from 167,626 EGP in 2006, entailing a decrease of 36.1%. Similarly, outstanding loan per household borrower decreased from 29,285 EGP in 2006 to 22,082 EGP in 2010, which shows a decrease of 24.6%.
Relative to the population, the overall number of borrowers roughly doubled between 2006 and 2010, while households saw slightly higher growth at 111%. Finally, relative to Egypt's GDP, overall banking credit decreased considerably from 52% to 39%, although for households it remained relatively stable. We can see once again that, since outstanding loans and clients grew very substantially, GDP must have grown even higher (which could have been facilitated e.g. by credit from other suppliers).

To summarize, between 2005 and 2010 Egypt's banking system saw a significant increase in deposits and loans. While deposits per account increased, however, loan volumes per borrower decreased. This pattern seems explained by a very large expansion in the borrowers' base, i.e. many more loans were granted, but of smaller volume. Indeed, while banking deposits were driven mainly by institutions, banking credit disproportionately favoured households (who borrow smaller amounts) over institutions. The year 2008 seems to have marked an inflexion point, as from there onwards some key variables decreased (e.g. deposit accounts per 1,000 adults) or began to grow at a slower pace (e.g. borrowers per 1,000 adults). These two facts may indicate that the global financial crisis undermined firms' investment projects.

Looking at the evolution between 2006 and 2010 it appears that banks became much more liquid: the loan-to-deposit ratios increased consistently: from 17.8% to 40% (all clients) and from 71% to 125% (households). Hence, despite Egyptian banks having loan-to-deposit ratios in 2006 that were not high relative to other credit markets, banks followed a constant deleveraging strategy that increased their liquidity further. Supporting this, Egypt's index of banking sector risk decreased from 53 to 48 between 2005 and 2010 (though it went back up and reached 59 in 2011 and 2012).
It may be argued that this rising aversion in lending was due to lower quality of banks' loan portfolios (i.e. higher probability of default) as a result of the global financial crisis. However, the trend started in 2006 (before the crisis) and Egypt's growth seems to have been immune to the crisis: between 2006 and 2010 the country's GDP grew an average 6.2% annually.

With regards to banks' services, the array of products offered is quite comprehensive, although standardized (and therefore not tailored to MSMEs – even though some banks – namely National Bank of Egypt and AlexBank - have introduced some tailored made products for SMEs in the last months and designed a new approach in dealing with the SMEs). At least 75% of the banks'MSME clients are simple clients in the sense that they only use one to three products offered by the bank.
Banks see MSMEs as carrying extra risk: although banks understand the importance of MSMEs in terms of profitability, they lack a clear understanding of the nature of the sector, particularly with regards to MSMEs' needs.

Bankers justify this perception not only by MSME internal factors (such as inefficient management practices or lack of proper financial statements r business plans), but also on factors external to MSMEs (such as the 'banks' MSME-lending technology or banks' regulations).Furthermore, banks make their financing decisions based on basic present documents rather than on SME growth potential . The main requirements for granting credit to MSMEs are usually basic documents, such as registration or license, as well as financial performance of the businesses. Bankers' perception is reflected in a disconnection with their clients. during the credit-granting process, the loan application rejection rate reported by SMEs was 20%, whereas that reported by banks was 66%

1.1.2 Social Fund for Development (SFD)

The SFD is a quasi-governmental organization mandated by the government to create jobs by providing institutional, financial and technical support to MSMEs. It was established in 1991 as part of Egypt's Economic Reform and Structural Adjustment Programme. Since the beginning of its operations, the SFD has become a key institutional vehicle for channeling government and donor resources to MSMEs in Egypt.

The SFD mobilises national and international resources and then lends them to eligible microfinance NGOs and banks, which in turn lend them to MSMEs. The main sources of funds include: the Egyptian government, European Union (EU – among the others, SFD is implementing a credit line for SMEs made available by the Italian Ministry of Foreign Affairs worth some 12 M Euro), IDA, Arab Fund, Kuwait Fund, German Development Bank (KfW) and UNDP. Financing activities are operated mainly by two arms: the Small Enterprise Development Organization (SEDO) manages the provision of loans and other pre-loan financial services to MSMEs, while the Human Community Development group (HCDG) provides microcredit and other basic human services (e.g. health, education) to address the needs of the poor.

The SFD lending policy is in line with international best practices, and incorporates social and human development dimensions that favour outreach to marginalized groups. For instance, MSMEs located in marginalised geographic areas and run by specific social groups are favoured, and there is a quota whereby at least 25% of beneficiaries have to be women.

Successive government and multi-donor reviews of SFD programs carried out in 1994, 2000 and 2004 have noted the effectiveness of the SFD, reflected in its quick, flexible, and transparent disbursement mechanism. In line with efforts to engage banks as intermediaries in loan disbursement to MSMEs, the SFD established the Cooperative Insurance Society (CIS) for MSMEs. The CIS provides credit guarantee services to enterprises borrowing SFD funds, whereby CIS covers 80% of the loan, SEDO an additional 10%, and the financial intermediary the remaining 10%. Some other key indicators of the SFD are the following:

• Until 2008, the SFD disbursed a total of USD 2.5 billion.
• By the end of 2008, 767,000 permanent jobs and 230,000 temporary jobs in MSMEs were created, in addition to 675,000 jobs in micro enterprises.38
• The loan repayment rate from intermediaries was 100%.

1.1.3 Guarantee Schemes

The Egyptian Credit Guarantee Company (CGC) was established in 1989, by nine Egyptian banks and one insurance company, with the assistance of USAID. Operating since 1991, it is supposed to guarantee loans offered by banks to small businesses that lack sufficient collateral. After only four years of operation, the scheme had reached a loan guarantees portfolio of USD 85 million113. As of 2009, the agency has five branches in Egypt and operates out of

headquarters in Cairo. The shareholding partners have been reduced to eight banks and one insurance company. The CGC administers a number of funds with precisely defined purposes, such as financing SMEs or supporting health care providers.
With managed funds of approximately USD 100 million and 33 partner banks (2005 numbers), the CGC has at least formally reached the critical size to achieve an impact on lending practices to SMEs in Egypt. For example, in 2003, the company extended over 20,000 guarantees to secure USD 95 million of loans. Assuming this number did not evolve significantly in the meantime, it represents a small fraction of total loans to SMEs. Coverage in percentage of total SME population stays limited as well, at approximately 3%.

Today, and with regard to the previously outlined assessment criteria, the following picture emerges: First, there is contradictory evidence on additionality. On one hand, the most active of the participating banks stated that without CGC guarantees, lending to SMEs would collapse to half or less of the current amounts. This implies strong additionality and would indicate that the scheme'seffectiveness is outstanding, since the literature on the subject estimates that properly designed andimplemented schemes usually increase lending to target sectors by 30-35%. Yet, banks might be exaggerating: Only 1.43% of guarantees issued had to be written down as losses since the schemes inception, which is an extraordinarily low loss rate. This indicates that the loans extended are granted to rather strong borrowers, who may not normally be denied access to credit either. The risk of missing out on additionality is increased by the fact that potential borrowers cannot deal with the CGC directly and need to be confirmed by a lending institution first. Banks' conservative practices therefore eliminate most projects before they can even be assessed by the guarantor.
Second, regarding the strategic targeting of credit guarantees, the CGC offers loan guarantee programs in six categories, two of which are related to enterprise size (start-ups and SMEs), two to functional purposes (poverty reduction related enterprise and industry modernization) and two to sectors of the economy (health and energy). Funds are provided by the Egyptian government or foreign aid agencies, most prominently USAID. Each fund is managed separately and sometimes in cooperation with NGOs or other partners.
Third, most guarantees cover only 50% of loan value, which might be too low to induce banks' participation as far as weak borrowers are concerned. This might explain why the scheme's loss rates are so low, since 50% may be too low to induce lending to clients with higher risk profiles. The CGC guarantees nonetheless seem relatively attractive to banks because the corresponding funds are deposited in the participating lending institutions. Participation therefore is relatively elevated. 34 of 40 Egyptian banks reportedly collaborate with the CGC. Yet, closer examination reveals that most of this participation in the general framework does not translate into lending. As of 2005, the top five users of CGC guarantee services were government owned banks. These account for 93% by number and 90% by value of total cumulative guarantees issued.
Apparently, incentives are too weak to induce lending to SMEs by commercially motivated bankers. Another problem with regard to incentive structures is the scheme's indifference towards banks' practices on collateral, which can produce moral hazard: if banks decide not to ask for more security than guaranteed by the CGC, borrowers might default more readily because none of their own assets are at stake.
Fourth, regarding the independence of loan screening: the CGC is run by banks and finance professionals tasked with the allocation of guarantees. Although international donors and the government can influence benchmark setting and fund-evaluation criteria, they are not operationally involved in loan approvals. Instead, it is reported that CGC operations benefit from training and assistance of an affiliate company (CGC Consult), in order to ensure professional loan screening and allocation. However, private bank participation in CGC appears to be mostly symbolic, leaving public banks, which are also the main CGC shareholders, with considerable influence. Such heavy reliance on public sector financial institutions can cast doubts on the independence of loan allocation.
In conclusion, while Egypt disposes of a proper framework for providing critically underserved

sectors of the economy with privileged access to banking finance through credit guarantees, the CGC has had limited impact on the target sectors (SMEs) and provides very limited coverage.

1.1.4 Venture Capital and Angel Investors

This section refers to Venture Capital (VC), broadly understood as those early-stage investments in innovative start-ups whereby the investor provides finance to MSMEs and owns a share of the MSME (thereby sharing the business or project risk). Similar concepts such as Angel Investors (highlighted due to their recent rise), Risk Capital or Private Equity are also comprised in this category.

In 2012 the number of venture capital (VC) companies in Egypt was 16, of which nine were listed in the stock market. In some cases these companies are securities companies that included venture capital among their activities to obtain tax advantages. Although the total investment increased from 2002 to 2008, it seems to have stagnated and even decreased thereafter. By the end of 2008 the total amount invested by VC companies was EGP 386.5 million.

The Egyptian VC sector is relatively small, although potentially very important for MSMEs. Research has shown that the majority of Egyptian MSMEs are willing to consider VC to finance their operations, which is associated with the size of the company: the smaller the enterprise, the more likely it is to be open to VC. The availability of VC is perceived as incommensurate with the needs of new and growing firms especially given the difficulties these businesses face when approaching conventional funding institutions. Also, the lack of a healthy venture capitalist community is considered a severe limitation to entrepreneurial innovation.

There are several reasons why Egypt does not have a strong VC market. It is contended that government involvement in organizational and managerial matters is undermining the efficient operation of VC companies. Another reason is the lack of expertise to identify and select initiatives in which it is worth investing. More awareness of the VC sector would also help, as would the dissemination of stories where VC played an instrumental role in initiating and developing successful MSMEs.

1.1.4.1 Main Actors

Some of the companies identified in the VC sector are the Cairo National Co for Investment and Securities, International Trade Company for Investment, Al Ahli for Development and Investment, National Youth Company for Investment and Development, Misr Exterior, Gulf Company for Financial Investments or the American-Saudi Company for Financial Investments. Some of the key companies and their business models based on a listing from Wamda.com are herewith described.

Founded in January 2011 by Ahmed Alfi and Hany Sonbaty, **Sawari Ventures** is perceived as the foundation for Egypt's new investment community specializing in technology. Sawari launched the Flat6 entrepreneurship lab at the American University in Cairo, which provides specialized services including seed funding and mentorship. If companies manage to survive and reach more developed stages, they become eligible for further funding from Sawari, typical investments ranging from $250,000 to $2 million.

Ideavelopers is a VC firm responsible for the management of the Technology Development Fund (TDF). TDF is the only government-backed fund with a total value of 50 USD million to support Egyptian innovation and entrepreneurship, and focuses on early-stage ICT companies.

Over half of the total allocated amount has been invested in 17 companies operating inside and outside Egypt. The company pools VC from several investors to fund selected start-ups. Support is complemented by another company that provides strategic services at the preinvestment stage

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through strategic planning, business models, financial structure, and human resources, sales and marketing. On average, each company receives about EGP 4 million in funding and investors are expected to recover their investments in 3 to 5 years.

Founded in 2010, **Innoventures** is one of the most recent companies established to support creative start-ups in becoming businesses eligible for VC. Innoventures focuses on clean technology, ICT, electronics, media, market intelligence and inclusive businesses fields.The efforts of the company consist of a six-month duration incubation program which includes seed funding, customized business training and access to partner networks. In exchange for its services, Innoventures imposes a minority equity stake in the incubated ventures. The Innoventures business model "innovation venture management" differs from traditional VC models in that it provides more support to creative ideas with no business expertise than traditional VC companies.

Aside from VC companies, some investors present themselves as "Angel Investors". One of them is Cairo Angels, a network that invests in start-ups and early-stage companies using a high-risk, high-return matrix. Since its inception in early 2012 Cairo Angels has invested EGP 1.1 million in 4 companies, and made binding offers of EGP 1 million to two more companies.
Cairo Angels is made up of around 50 individual members, almost all Egyptian, of whom 20% are women and more than half are founders of highly recognized brands. The network does not include companies, institutions or funds. angels invest their personal money and leverage their experience and network to benefit the business in return for an equity stake in the business. Targeted companies are those with the potential to return 3 to 5 times the investment in a timeframe of 3 to 5 years
Although most of its investments to date have been in the technological domain, Cairo Angels' aim is to invest across all sectors with a particular appetite for export oriented products and services. Thus, Cairo Angels are especially interested in businesses from the agricultural, logistics and energy sectors, and encourage women entrepreneurs' applications. Cairo Angels are open to regional start-ups applying for funding as well.
Finally, private sector companies can also access financing in the form of equity through the Egyptian exchange market (Nilex), where companies can access long term capital at a low cost for the expansion of their businesses. Since the Nilex is usually focused on larger size companies.

1.2. The Demand for Finance by SMEs in Egypt

This section describes the demand for finance in Egypt within the SME sector, some of its main features being, most SMEs are geographically concentrated in only three governorates (out of Egypt's 27), SMEs are mainly operating in manufacturing and trade, very few of them export and very few deal with banks.
The ideal scenario would require an assessment of those loan applications submitted by Egyptian MSMEs. Since those idea data are not available, data on the SMEs' characteristics are used as a proxy.
Three specific aspects are of interest: i) basic indicators of entrepreneurship (e.g the motives that led the entrepreneur to start a business), ii) the characteristics of SMEs' operations (e.g informality), and iii) the financial characteristics of SMEs (e.g. having a bank account). These features are complemented with firms' opinions on the main obstacles they face when doing business.
Available data allow for a comparison of Egypt's private sector with the overall MENA region, but evolution over time can only be traced between 2007 and 2008 (the latest year with data available). Most data disaggregate by size (Small, Medium and Large), which permits an insightful cross-sectional picture of how private sector features would evolve as firms increase

in size. The main inconveniences are that data do not include micro enterprises, and the time series component is only two years.

1.1.1 Entrepreneurship

In 2009 Egypt saw the birth of 6,308 new limited liability companies and the country's new business density was 0.13, which represents the 3rd lowest figure compared to available data for the Middle East and North Africa region.

Entrepreneurship is socially well regarded in Egypt (although between 2008 and 2012 the fear of failure grew considerably), and most people believe they have the required skills to start a business. Usually MSMEs have ambitious ideas for expanding, despite their low average profit margins (from 8% to 2%) 104 The perception of business opportunities grew from 2008 onwards, despite the fact that customers from other countries decreased dramatically between 2008 and 2012 (the number of foreign tourists dropped drastically in recent years).

Overall it is clear that entrepreneurial activity decreased: between 2008 and 2012 the percentage of entrepreneurs in business for less than 3 months, from 3 to 42 months and for more than 42 months all decreased or were stable. It is noteworthy that the biggest decreases occurred in the first two years: between 2008 and 2010 many long-established entrepreneurs (>42 months) went out of business, while the percentage of nascent entrepreneurs (<3 months) shrank to a third of the initial level. Similarly, the percentage of entrepreneurs that are in business because they did not have any other options grew from 19 to 53 between 2008 and 2010. From then on, however, some indicators improved somewhat: the share of forced entrepreneurs declined to 34 in 2012, and by 2012 the rates of nascent entrepreneurs had started to grow again.

1.1.2 Basic characteristics

According to the Central Agency for Public Mobilisation and Statistics (CAPMAS), in 2006 there were 2.5 million SMEs in Egypt, of which 92% were microenterprises with 1-4 employees. SMEs represent nearly 99 percent of total private enterprises and about 80 percent of total employment, with average assets valued at EGP 30,000 (some $5,000) and an average of 2.2 employees.

SMEs are on average about 22 years old. Although the emphasis of this analysis is not a comparison between Egypt and the rest of the region, it is remarkable that Egyptian private sector companies in general (including SMEs) are considerably older than others in the region. SMEs are mostly owned by private domestic stakeholders.

However, as the size of firms goes up, the openness to ownership by foreigners and public authorities increases, and the ownership of companies is less concentrated. In terms of legal status, small companies rely mostly on "sole proprietorship", a pattern that increased between 2007 and 2008. On the other hand, large companies are more likely to be publicly listed companies, a legal status form that grew between 2007 and 2008 at the expense of Limited Liability Company (LLC), sole proprietorship and partnership. Medium enterprises are clearly less likely to be an LLC, and have a roughly similar probability of being publicly listed, a sole proprietorship, a partnership or a limited partnership.

Although half of all firms consider the workforce to be inadequately educated, larger firms are more likely to train their employees. Labour regulations are seen as a stronger constraint by smaller companies, who are less likely to have female participation both in their ownership and workforce.

While quality certifications are very rare among small (4.3%) and medium (14.3%) enterprises, they are very common among large companies (50%). The pattern is similar when it comes to using technology licensed from foreign countries, although the differences are not so large. Similarly, SMEs are less likely to have their own website and are less likely to use email for their interaction with clients and suppliers. It is remarkable, however, that across the size range a majority of enterprises have annual financial statements reviewed by financial auditors. This counters one of the typical claims of banks, that SMEs don't have proper financial accounts.

1.1.3 Financial Characteristics

For the majority of SMEs, the main purpose of accessing finance is to strengthen their working capital. MSMEs have very little financial leverage through debt financing and hence, it is not surprising that they reinvest their business profits, as well as savings, back into their businesses. Egypt's private sector companies are considerably more likely to have a checking or savings account than those in the rest of the Arab region. Approximately 50% of small companies have at least one of those two types of accounts. And as firms increase in size, so does the probability of having such accounts. However, even when companies are large it is not guaranteed that they will have an account: about 5% of all large companies in Egypt did not have one in 2008, which is surprising.

In terms of financing, Egyptian enterprises are three times more likely to have access to credit than companies in the region, but within the country there is great inequality in regard to firms' size. Approximately 5% of small companies had access to credit in 2008, while 13.8% and 36.1% of medium and large companies did. Such figures show positive growth between 2007 and 2008 for all three categories.

In order to access credit, 100% of the loans granted to small companies in 2008 required collateral, a percentage that decreases as the size of the enterprises goes up. The reason for this pattern is that credit-granting institutions consider smaller companies as riskier. Beyond having to provide collateral, the value of the collateral is vital. Smaller companies are required higher collaterals than larger ones, a gap that decreased substantially between 2007 and 2008. In 2008, small companies had to provide collateral for 87.6% of the value loan, while medium-sized enterprises had to guarantee 81.5% of their loans. This relation is not linear with firms' size, however, as large companies were required to provide collateral for a higher percentage than medium-size companies: 86%. The large discrepancy between Egypt's average value of collateral required as percentage of a loan (85.5%) and average values of collateral required in the MENA region (200.8%) is striking. Indeed, Egyptian MSMEs that do not apply for bank loans argue that the conditions are not satisfactory and that dealing with banks is difficult. Between 3-4% of SMEs used banks to finance their investments in 2008, a percentage that was much higher for large companies. However, a large decrease was experienced between 2007 and 2008 with medium and large firms taking the biggest reductions. This pattern translated into a convergence in the rates of firms accessing banking credit to finance their investments. The financial crisis, to which bigger companies would be more exposed in terms of volume of credit, would have contributed to this phenomenon.

Not only did banks finance less firm investments in 2008, but they also financed a lower share of those investments. Indeed, in 2008 banks financed just 1.5% and 2.7% of the value invested by small and medium enterprises, respectively, compared to 3.3% and 10% a year before. In response, firms were more likely to finance their investments internally in 2008 than in 2007. Overall, the main source of funds to finance investments by SMEs was internal financing, followed by equity sales (2.3% to 2.5%), banks financing (1.5% to 2.7%) and supplier credit (0.2%.)

In terms of financing working capital, only 2% of small enterprises and 6.5% of mediumsize ones accessed banking credit, which is in sharp contrast to large firms' 15.4%. Furthermore, banks financed very low shares of that working capital: 0.8%, 2.9% and 5.6% for small,

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medium and large enterprises, respectively. It is interesting that, while banks in Egypt are less likely to finance working capital than in the rest of the MENA region (0.4% vs. 8.3%), the value of working capital financed is much higher than in the region (2.5% vs. 0.6%). This suggests that Egyptian banks may be more wary of adverse selection. By way of stricter screening of loan applications, banks raise the cost of financing working capital and exclude potential borrowers from the market. Once they have been screened, however, banks are more willing to trust them.

Despite the low involvement of banks in financing working capital they are still the main source of finance in this regard, as supplier credit is an even smaller source of financing.

During the course of a survey undertaken by the Egyptian Banking Institute, interviewed MSMEs declared their preference for finance in the form of venture capital, although trade finance, lines of credit and overdrafts, leasing, working capital loans and letters of credit were also appreciated. Other financial products that SMEs are interested in are property insurance and collection of receivables, credit insurance, wages and supplier payment, internet banking, and payment of taxes.

With regards to credit, MSMEs are interested in lower interest rates, less demanding guarantee requirements and simpler procedures for granting loans. The average loan amount desired by MSMEs is a little more than 1.5 M EGP, with MSMEs preferring to pay off their debts rapidly (although the average desired payback term is 3 years.)

According to the above mentioned report, access to finance has always been considered a major constraints. In 2007, almost a quarter of all small firms considered it a concern. This percentage nearly doubled in 2008 with almost half of all small firms identifying access to finance as a major constraint, a perception that decreases as firms gain size. This would be consistent with the fact that, as the financial crisis kicked in, credit-granting institutions became more risk-averse and preferred to concentrate on larger firms. Other research has shown that access to finance is more likely to be identified as a major obstacle for SMEs operating in services or trade, and less so for those operating in manufacturing or construction.

1.3. Regulatory Framework

This paragraph outlines the key legal, regulatory and institutional mandates, activities and structures that impact the access to credit by MSMEs. The existence of an enabling policy and regulatory framework should have two goals: first, to enable the transformation of the MSME sector from low added-value to high added-value activities. And second, to minimize negative effects such as moral hazard and adverse selection, thereby make the financial system more efficient.

The Egyptian Government has previously made policy and regulatory statements regarding the importance of MSMEs to the country's development. Its 2004 Poverty Reduction Strategy reinforced the importance of job creation along with its commitment to MSME development.

This commitment was translated into key policy initiatives such as the passage of the SME law 141 and the development of the National SME Strategy.

The 2004 SME Law was the first law in the country's history to specifically target the MSMEs sector. It defines (i) micro and small enterprises, (ii) the role of the Social Development Fund, and (iii) facilities granted to SMEs.

In addition to the laws outlined in Box 1, Egypt's Ministry of Finance (MoF) established an SME Development Unit in 2004 to develop "an appropriate fiscal policy environment that enables SMEs to work and grow under the umbrella of the formal sector".

The MoF undertakes a dual approach of short term policy development and longer-term capacity building to support a policy development process conducive to MSMEs' development. A key contribution to policy development of SMEs was provided through the Small and Medium Enterprises Policy Development Project (SMEPOL), an initiative jointly implemented

by the MoF and the Canadian International Development Agency (CIDA) between 2004 and 2008. A significant output of SMEPOL was the "Enhancing Competitiveness for SMEs in Egypt – General Framework and Action Plan" (2004). The objective of this policy framework was to identify, address and remove the main constraints SMEs face, obstacles that hinder their engagement within the formal sector. The Action Plan included a set of tasks related to improving the operation of financial services to ensure that they were better able to offer the necessary capital and services to SMEs. Examples of such tasks include setting principles for bank lending to SMEs, increasing the profitability of banks' lending to SMEs and the privileges they receive, amending Law 95/1995 on leasing to provide incentives to leasing companies so that SMEs can be better served, streamlining mortgage procedures and reducing their steps by establishing an assets registry for land and buildings, establishing new credit guarantee companies and enhancing credit provision procedures through the establishment of specialized information agencies. Furthermore, actions and reforms were proposed for the improvement of SME products' quality in order to meet wider government goals on export and marketing capabilities, raising SME contributions to GDP, increasing foreign currency yields and correcting the deficit in the trade balance. An independent evaluation of SMEPOL found that it achieved its primary objectives of policy development but also highlighted limitations, including policy influence being mostly achieved at the Ministerial level and not across the government, as well as little change in the actual operation environment for SMEs.
Also at an institutional level, the Central Bank of Egypt (CBE) has attempted to stimulate access to finance by SMEs by waiving its 14 percent reserve requirement on loans to SMEs, in favour of an amount equal to the SME lending of each bank.

1.1.4 Financial Sector

Banks in Egypt operate under the supervision of the CBE and are regulated and supervised by the CBE's Law No. 88 'The Banking Sector and Money' (2003). There is no explicit legal requirement to obtain permission to lend. However, only banks are permitted to collect savings and mobilize deposits via deposit accounts as defined by Law No. 88. The CBE regulates banks and regulates and licenses private sector credit bureaus according to Regulations of the Credit Bureaus and Information and Data Sharing Systems. In contrast, NGO-MFIs are regulated by the Ministry of Social Solidarity (MSS).
Operating under the auspices of the CBE since 1991, the Egyptian Banking Institute (EBI) is a non-profit organization that works to enhance the country's financial sector through the provision of financial education, research and entrepreneurs awareness.
The Egyptian Financial Services Authority (EFSA) was created in 2009 under the Law of Regulation of Non-Banking Financial Markets and Instruments (the Single Rule Law) and regulates securities markets and non-bank financial institutions. The EFSA is responsible for, and has the authority to issue rules to oversee the efficiency of the non-banking financial sector, as well as to apply necessary consumer protection rules to ensure transparency and limit market manipulation and fraud.

With regards to VC, the Egyptian regulatory framework starts with the issuance of the money market law no. 95 in the year 1992, which organizes the activity of companies working in the field. That legislation is complemented by the ministerial decree no. 935 in 1996, which adds investment funds to the activity field of venture capital.
Egypt does not currently have an institutional infrastructure that enables a sound and efficient financial system, but efforts have been exerted to improve the infrastructure and institutional environment for efficient intermediation. These include improving and strengthening the legal, regulatory and supervisory framework, information infrastructure, financial reporting, the payments system, and entry and existing policies. The complexity and multiplicity of the legal framework has resulted in a slow and cumbersome loan recovery process that can drag on for years. In addition, and with important relevance to credit information, Law No. 88 required all

banks, real estate finance companies, financial lease companies and inquiry and credit rating companies to preserve the secrecy of their clients' information and to disclose to their clients the true and complete interest rates and service fees

Major constraints to accessing finance in Egypt for MSMEs include:
• Complexity of laws on secured transactions, the enforcement of which are time consuming (notification, attachment, and sale by public auction), and the inability for private sale and strict foreclosure under the law;
• A court system (Civil and Commercial Courts) that suffers from the lack of specialized courts for financial institutions and a lack of specialized judges with adequate knowledge of financial market risks;
• Complex bankruptcy laws (more than 200 Articles) that are multi-layered and timeconsuming;
• The inability of MSMEs to use land assets as collateral (to gain access to credit) due to difficulties in property rights registration / titling.

The Doing Business 2013 Report of World Bank highlights the lack of sufficient legal provisions for the rights of borrowers and lenders with regards to collateral and bankruptcy laws. The consequence is that, without sufficient legal guarantees for the recovery of their loans in case of default or insolvency, lenders are not empowered to lend Potential lenders face difficulties when making loaning decisions due to lack of information about the creditworthiness of the borrower (MSMEs), and the result is inhibited credit granting. Insufficient credit information can be rooted in two issues: the 'shallowness' of the data (relating to its depth) and the very lack of information (relating to its coverage).

2 PROBLEMS AND STRATEGIES

Problem Analysis

The private sector should be primarily supported through the development of inclusive markets by working in the areas of improving policy frameworks, developing value chains, improving access to affordable goods and services, supporting entrepreneurship development, ease the access to credit and stimulate the corporate social responsibility.

In this connection it is crucial to address barriers to inclusive market development at micro, meso and macro levels. Such barriers include, e.g. lack of appropriate policies, limited access to finance and markets, weak value chain linkages, capacity constraints, huge presence of informal sector and lack of infrastructure. Thus, various interventions at different levels might be needed.

Among the main hindrances limiting the development of the Egyptian SMEs are the difficulties in competitively securing the financial resources needed to support the investments, the lack of access to information regarding technology and markets, the lack of appropriate level of operations management and skilled manpower, and the lack of international exposure.

Supporting emerging entrepreneurship and start-up enterprises and providing them with an environment conducive to growth and inclusivity has become a priority.
Given the contribution of the small and medium scale sector for employment generation and foreign exchange earnings, many measures have been taken to strengthen the small and medium units to face the challenges of the market Competitiveness in terms of better quality and lower cost remains the only way for survival.
Hence there is need to provide assistance to the SMEs and emerging entrepreneurs to improve their technology profile and cost competitiveness, ease their access to credit through initiatives

of financial inclusiveness as well as to focus on environmental protection and adequate resource management.
Therefore the activities with the private sector should aim at inclusive market development. Inclusive markets are markets that extend choices and opportunities to the poor (and other excluded groups) as producers, consumers and wage earners. Inclusive markets thus create jobs and affordable goods and services needed and inclusive businesses are those that profitably integrate low-income producers and consumers into their business operations and value chains. In so doing they make a positive contribution to the development of the company as well as the local population.

The insufficient access to finance is still one f the main constraints for Fyptian SMEs. The structure of financial sector has significantly changed after the revolution. In particular the excess of liquidity has been now absorbed by the public debt. The Central Bank has intervened a number of times in order to ensure a sufficient supply of liquidity to the inter-bank market. In addition, there is an increasing gap in terms of foreign exchange and this may turn to squeeze the lending activities in favour of private sector. However, despite the macroeconomic poor performance, the banking system has not been destabilised even in front of the increase of the sovereign risk.
The demand of private sector has declined since the beginning of 2011 as the economy slowed down and as a consequence of the increased demand of the public sector has increased. The confidence in banking sector remains good even though the ratio loan to deposit fell below 50%. This gives an indication of the constraints faced by the banking sector and the reduced opportunities to expand their lending activities to private sector.

Egypt stands at rank 86th out of 189 economies, according to IFC (year 2014). In 2013, the rank was 82 i.e. there has been an improvement of the general conditions associated to the lending and borrowing, while the overall ranking of the Country, as reported by Doing Business 2014, is in the position 128 (while the previous year, the rank was standing at 127, with a change in the rank equal to -1).

The comparison with the regional average and the OECD countries average is shown in the following table.

Summary of scoring for the access to credit indicators in Egypt	EGYPT	MIDDLE EAST AND NORTH AFRICA AVERGAE	OECD HIGH INCOME AVERAGE
Strength of legal rights index (0-10)	3	3	7
Depth of credit information index (0-6)	6	4	5
Public registry coverage (% of adults)	5.3	11.9	42.9
Private bureau overage (% of adults)	19.6	28.4	73.9

Source: Doing Business, IFC

Credit to the private sector was around 40-42% of GDP in the first half of 2010. This level is below the average of OECD countries (130%) but it is in line with the performance of many countries at the same stage of development. However, the deposits available are some 100% of GDP but are not transformed into loans to the productive sectors. The loan-to-deposit-ratio in 2010, for instance, was about 52%. At the same time, the percentage of credit lent to the private sector is declining over the years. While before the financial crisis (mid-2008) the loans to private business were around 50%, afterwards the ratio declined to some 40-42% (year 2010.) During the same period, loans to public sector increased significantly.

According to World Bank observers, the increase in lending to the government tends to reflect "banks inefficiency in identifying profitable projects and their cautious investment policies. The lending practice is conservative, the regulations are quite inconsistent and this impacts heavily on private sector apart from diverting the banking system capacities to fund the public deficit. Another reason is that, historically, the government funds the budget deficit via domestic borrowing. Currently, some 80% of the government debt is held of domestic banks and this situation crowds out the private sector.

Second, as regards to the distribution of private sector loans, a closer look reveals that the private sector is not only generally underserved, but that it also suffers from an extremely skewed loan distribution. According to Central Bank figures (excluding loans below EGP 30,000, USD 5 360), 0.2% of lending clients in Egypt represent half of total loan value for commercial banks. Even after including loans below the reporting threshold at the Central Bank, average loan size probably exceeds EGP 150,000, which translates into a de facto dichotomy between the corporate sector with large loans and SMEs suffering from credit rationing. Large corporate loans represent up to 70% of total loans for banks, which limits diversification and raises risks. Similarly, banks tend to lend more to traditional sectors, where relations, collateral and repayment patterns are well-established, which slows down the shifting of resources to new economic sectors and the emergence of dynamic enterprises.
The main problems identified with regard to loan appraisals, and credit policies more generally have to do with staffing and training issues as well as internal procedures and screening rules.
Relationship-based lending and poor internal standards, as well as lacking credit risk evaluation skills and shortcomings in remuneration or incentives policies lead to the previously outlined loan concentration and credit rationing for small business and households.
In sum, the Egyptian banking systems appears to exhibit an almost systematic bias against financing the private sector and more particularly new and small businesses. This arises in no small part from the fact that the budget deficit tends to be financed through domestic banks, which crowds out lending to the private sector. The resulting credit rationing for most entrepreneurs and potential borrowers indicates a BCDS Score no higher than 3.

High risk perception of MSMEs is one reason behind such low financial intermediation in Jordan. To mitigate the risk associated with MSMEs lending, banks rely primarily on collateral-based lending rather than creditworthiness, leaving creditworthy SMEs unfinanced. Most loans require collateral, equal to about 23% more than the loan value. Smaller enterprises do not have sufficient collaterals, and when they do, they are not registered, making foreclosure difficult if not impossible, representing a significant disincentive when lending to MSMEs. Incentivizing banks to lend on cash-flow bases rather than collateral-bases, and to venture into relatively more risky financing to MSMEs could be addressed by strengthening credit guarantee schemes

The credit guarantee schemes in Egyptian are underdeveloped. In fact, Egyptian is lagging behind many countries. The Credit Guarantee Company contribution to SME lending is currently low. Many countries in the region have used state-owned banks, and partial credit guarantee schemes to increase lending to MSMEs, to tackle the weaknesses of the financial infrastructure. Countries with larger credit guarantee schemes have larger shares of loans to SMEs in total loans, and larger shares of investment lending to SMEs.1 It is critical to strengthen the number and the size of credit guarantee schemes in order to play a more instrumental role in enhancing access to finance.

Enhancing access to financial information to MSMEs and protecting their financial rights to avoid being exploited are essential pillars in ameliorating MSMEs' access to finance. In order to ensure transparency and better informed decisions by MSMEs, banks and financial intermediaries should provide them with timely and accurate information about fees, and effective cost of borrowing. Improving flow of information is essential to foster competition in the sector in addition to decreasing the direct and indirect costs of borrowing for MSMEs (as well as consumers who acquire facilities for non-business purposes.) A key aspect of financial inclusion entails protecting consumers and enhancing their knowledge about financial products and services.

Young enterprises are five times more likely to be 'gazelles' and are estimated to be 3.5 times more likely to grow (measured by employment) than other enterprises. Yet, Egypt has a very low business entry rate. Weak governance, privileged lending, lack of a level playing field, and unequal access to markets, contributed to limited economic opportunities and jobs, as well as an underdeveloped SME sector, hence, ensuring equal access to markets and restoring citizens' confidence and are prerequisites for generating equal opportunities and creating productive jobs

Selected Strategy

Against this background, the programme aims at supporting the creation of an enabling environment, able to guarantee the sustainable development and private sector inclusive growth addressing credit market imperfections and creating more favourable conditions for the competitiveness upgrade of Egyptian SMEs.

The programme will support the private sector either in form of provision of training and technical assistance to the entrepreneurs and their employees, either through the sensibilization towards a sustainable approach to environmental protection and efficient and sustainable input/raw material management, waste management and recycling
In order to achieve this, the assistance will also be extended to the Egyptian institutions involved into the programme, at the apex as well as at the intermediate and local level. On other hand, also the associations of entrepreneurs and Business Development Service centres will be assisted.
The tools to achieve the goals will be in the form of **non-financial services** and **financial** services. The non-financial services will focus on capacity building and human resources development; while the financial services will focus on stimulating the competitiveness of local SMEs by easing access to credit conditions (including the informal sector) and technology upgrade.

As far as the **non-financial services** are concerned, they will focus on assistance and development of human resources. In particular, a Programme Management Unit within the Ministry of Industry will be established in order to ensure the adequate level and quality of operations and to involve in the capacity building activities all the main Egyptian and Italian stakeholders, while the main portion of funds will be utilized for the external services required (such as provision of training and service and innovation centres, sectoral studies, twinning between the Italian and Egyptian industrial clusters, assistance to the creation of guarantee funds and venture capital funds, support to enterprise development, business plan development, provision of assistance to institutions such as financial entities, chambers of commerce and category associations.)
In addition, with reference to the capacity building and institutional development activities, a special attention will be devoted to the support to the industrial clusters active in the Country whose development is considered a priority by the Government. The support to be provided will have to form of training to be imparted and support to service centres.
In particular, the furniture cluster of Damietta has been identified as a priority. In this connection it is worth mentioning that the Italian Co-operation Office in the context of the Commodity Aid Programme, has already funded in 2014 the acquisition of equipment and machinery for a Professional Training Centre for furniture based in Damietta. The value of the Commodity Aid contract was Euro 300,000.

The assistance may be extended to other clusters to be identified.

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A far as the **financial services** are concerned, the main goal consists of improving the competitiveness of local SMEs, in order to ensure their sustainable and inclusive growth as well as a progressive graduation in terms of 'formalization' of those SMEs operating in the informal sector, with a special attention to the resource management and environmental protection. In the light of the above, three main areas of intervention have been identified i.e.

- Technology upgrading and industrial modernization
- Access to credit with a particular focus on the problem of collaterals required by the banks in order to sanction a loan and the inclusion into the formal financial market of the not-yet-bankable but profitable companies
- Access to credit for the growing start-up segment.

The three components are structured into two broad areas: **Technology upgrading** on one side, and **Credit Guarantee Scheme** and **Venture Capital Facility** on the other.

The **Technology upgrading** component is addressing established entrepreneurs so as to enable them to take advantage of the opportunities offered by the globalisation process and increase their local and international competitiveness through acquisition of foreign technology and investment. While giving special attention to Italy as a source of contacts, expertise and investment, activities will generally aim at opening the global market to Egyptian SMEs. The technology upgrading will be coupled with intervention concerning the optimization of utilization of resources, environmental protection and waste management.

The support to the creation of a **Credit Guarantee Scheme** has the objective to provide a new means to grow to those entrepreneurs who, in spite of having potential for growth and sound ideas, might experience serious difficulties in mobilising the financial resources to implement their projects and could therefore be otherwise condemned to stagnate or fold their projects. This area of activities addresses therefore entrepreneurs who are trying to consolidate and strengthen their operations, so as to grow out of an infant industrial status or exit the informal sector or structure themselves so as to embark in a growth process.

The creation of **Venture Capital Facility** investing in the development of the VCs active in the market, has the objective of expanding the capacity of the above mentioned VCs and therefore increase their operational leverage in terms of start-ups assisted/funded.
Though the volume of investments mobilized through this financial mechanism is relatively small in comparison to other financial tools, the VC Funds are ideal to target the start-ups. Those companies in fact, have usually little or no access to the banking system as they are considered too risky and PE/VC funds are among the only investors willing to provide cash to medium sized companies to burn while they develop into profitability.
Creating a public venture capital fund targeting innovative initiatives is risky, costly, and time-consuming. Few professionals with the right skills have the appetite to do it. Unfortunately, a shortage of good fund managers slows the rate at which the entire market can develop.
However, the public sector can help to overcome the barriers holding back the PE/VC market. Instead of creating a public venture capital fund the public sector may invest on the development of the VCs active in the market, by expanding their capacity and leveraging on the expanded basis of SMEs funded.

With reference to the financial services mentioned above, it should be underlined that a particular emphasis will be given to the support to young and women entrepreneurs, and Egyptian nationals living abroad and willing to invest in their homecountry.

3 IMPLEMENTATION

General and development objective

The project aims to support the Egyptian Government to develop the private sector through the support to local SMEs.

The long-term objective of the programme will be reached through environmentally sustainable industrial development activities, the eased access to credit conditions, the inclusion of young and women entrepreneurs and the inclusion into the formal financial and economic market of these SMEs currently operating in the informal sector but highly profitable and ready to enter the formal one

3.1 Specific Objective, Results, Activities

Specific objective, expected results and indicators as well as preliminary identified activities are described below.

3.1.1 Specific objective

The program specific objective consists of supporting the creation of an enabling environment, able to guarantee the sustainable development and private sector inclusive growth and in particular of SMEs

3.1.2 Expected results and Indicators

If the project is successful, the principal outcomes for the primary target group will be as follows:

- More SMEs have access of credit
- More young and women entrepreneurs have access to credit
- More companies enter the formal sector from the informal one
- More companies technologically upgraded
- More managers and manpower have increased their skills and competences
- More companies understand environmental protection issue and adopt resource utilization methodologies
- More companies are funded
- More start-ups are funded
- SMEs access new markets and produce higher added value products
- Clusters of SMEs are organized and business linkages among companies established

3.2 Activities

3.2.1 Policy and Institutional Development

As already stated the programme will focus on assistance and development of human resources In particular, a Programme Management Unit (see paragraph 7 for its organization an activities) within the Ministry of Industry will be established in order to ensure the adequate level and quality of operations and to involve in the capacity building activities all the main Egyptian and Italian stakeholders; while the main portion of funds will be utilized for the external services required.

The component would be a cornerstone of the proposed project, and would cover the following

1. Capacity building/Business Development Services for SMEs

a) Building capacity of existing and potential business service providers (including industry associations) and financial institutions to serve the SME market more effectively.

b) Facilitating networking between SME business associations across Egypt and similar associations in other countries.

c) Organize clusters of SMEs in order to facilitate quality upgrading, access to new markets, higher value addition activities

d) Facilitating networking between Egyptian and Italian industrial clusters

e) Developing linkage programs between large corporations and SMEs, working through the major SME business associations.

f) Developing high quality, affordable management training for local SMEs.

g) Entrepreneurship training programs to support new entrepreneurs.

h) Training programmes on resource management and energy efficiency

i) Providing SMEs with better access to technology, for example, through technology transfer agents/supporting dedicated institutions to facilitate dissemination of information on technology transfer and match-making

2. Capacity Building for Credit Guarantee Fund

a) Sustain development of human resources for Fund management

b) Support policy definition on issuance of guarantees

c) Definition of leagal aspects concerning amount of the guarantee to be disbursed, percentage of coverage, modality of disbursement, loss recovery etc.)

d) Definition of supervisory goals and model

e) Definition of the target group/sector/companies and related eligible criteria

f) Support dialogue with banks on Guarantee Fund operations

g) Promote institutional linkages between the Egyptian Credit Guarantee Fund and apex mutual credit guarantee funds in Italy

h) Marketing the mutual guarantee concept among the target community of the small-sized enterprises, particularly at cluster level

i) Foster dialogue between banks and enterprises

j) Identify and suggest measures to: strengthen the legal framework for the enforcement/implementation of collateral and loan recovery, and improve the bankruptcy framework and its enforcement to facilitate the easy exit of small firms, given their relatively high mortality rate.

3. *Support the establishment of a Venture Capital Facility*

a) Identify the VCs to be involved into the programme

b) Monitoring

c) Identify and suggest measures to improve the performance of the facility

d) Identify and suggest measures to: create a supportive financial environment that can offer the full range of financial products to SMEs, including both equity financing (improving SME access to equity financing is an important challenge in Egypt) and debt products. This would involve identifying regulatory changes to revive public equity markets and facilitate M& A activity, which is essential to stimulate venture capital.

3.2.2 Technology Upgrading

The *Technology upgrading* component activities are aimed at increasing international competitiveness of Egyptian SMEs, through innovative technology and investments.
In this connection an ad hoc credit line amounting to a total of Euro 36.5 million, to be on-lent to eligible firms for investment projects, will be made available.
The funds will support enterprises willing to acquire innovative technology and are financially sound.

Priority criteria

- Employment generation
- Technology upgrading
- Technology innovation
- Clean production and pollution control

Sectors
The credit line will have a sectoral focus i.e. furniture, textile, agro-food industry, marble and granite, packaging. The credit line will also have thematic priorities, namely: renewable energy investments, energy efficiency and waste management. In addition, special conditions will also be granted to the investments made by non-resident Egyptians.

General on-lending Terms
The funds will be on-lent by the financial intermediaries to industrial and industry-related firms. The amount allocated to each financial intermediary reflects the demand from its clients and its performance in investment lending in the past. Bank funds are expected to be committed over a five years period.

The credit line shall finance the purchase of equipment, technology and relatd technical training and technical assistance, industrial license and industrial patents.

Good and services supplies through the credit line shall be of Italian origin, however, an amont to be defined by the Implementation Protocol of each supply contract may be utilized to cover local costs and/or import of goods having a different origin.

On-lending interest rates will be significantly below the domestic market rates and will be significantly positive in real terms. The interest rate should not exceed a threshold to be calculated on the basis of the inter-governmental Soft Loan terms of repayment, the exchange risk based on historical series and the intermediary margin normally applied by the Egyptian Bank (currently between 3 and 4%, according to World Bank report "Financial Development and Inclusive Growth", 2014), to cover the loan management activities and the commercial risk. The criteria for calculation of interest rate and other terms of repayment concerning the loans to SMEs will be detailed in the implementation proptocol to be signed by both Governments. The main objective is to ease the access to technology through credit to SMEs. As the banking system is not the final beneficiary of the programme any unjustified additional gain should be avoided.

The foreign exchange and interest rate risks will be covered directly by the participating banks, against payment of premia by the final borrowers. The repayment terms of investment loans will reflect the economic life of the sub-projects, they should include a maximum maturity as well as a grace period.

The conditions of the credit line (sectors, eligibility criteria, mechanism of funding, terms and conditions and implementation procedure) will be determined by the Steering Committee and indicated in an *ad hoc* Implementation Protocol between the two Parties. In addition, an apex bank will be identified in order to implement the action.
The above mentioned apex bank may involve other banks (participating banks) in order to increase the SMEs basis to be served as well as to promote the scheme in all the governorates of Egypt.

Activities

A.1 Analysis

A.1.1 Review existing and, where necessary, carry out additional analysis of Egypt's recent industrial development and competitiveness, with a view to identifying and portraying priority sectors for subsequent technological and business upgrading and investment promotion.

A.2 Information Dissemination

A.2.1 Organize the participation of Egyption entrepreneurs and concerned officials in investment promotion meetings/fora and/or study tours in key foreign target markets.

A.2.2 Organize general awareness creation as well as sector-specific matchmaking events (investor seminars, workshops and/or symposia) for one-on-one business discussions between local and foreign companies on specific investment opportunities.

A.2.3 Organize cluster to cluster activities to promote business linkages and know-how transfer

A.3 Investment and Technology Promotion

A.3.1 Maintain an up-to-date databank of Egyptian enterprises interested in acquiring technology and in expanding/diversifying their operations

A.3.2 Maintain an up-to-date databank of the resulting project proposals and industrial opportunities from Egypt to be promoted among and distributed to foreign entrepreneurs.

A.3.3 Through interaction with private sector enterprises (SMEs), assist in the formulation, validation/appraisal and preparation for promotion of portfolios of industrial investment opportunities, proposed by the Egyptian business community and requiring technology, know-how, access to markets, capital and equipment.

Immediate objective:
To enhance the performance of Egyptian SMEs through the acquisition of innovative technology, business linkages, market access, innovative skills and related technical training.

Outputs:

Output 1: Local industrial SMEs upgraded in technological, managerial, innovation and market aspects.

Output 2: Increased awareness on the part of foreign investors, technology suppliers and/or buyers/trade agents of business conditions and specific investment opportunities in selected priority sub sectors.

Indicators:

Number/frequency of sector analyses undertaken
Number of SME clusters assisted
Number of business developing services provided
Number of Egyptian companies registered in the databank
Number of SMEs advised.
Number of tutorial exchanges brokered between foreign and Egyptian companies.
Number of projects identified.
Number of projects funded.
Number of seminars.

3.2.3 Credit Guarantee Fund Capacity Building

The credit guarantee scheme is an instrument to expand the access to credit of small and medium enterprises. For SMEs, particularly new small firms which can offer little collateral, the mechanism helps access to low cost credit that is essential for their survival and growth. reluctance of most commercial banks to extend credit to the SMEs.
The main reasons for the poor attitude of banks can be summarised in: i) the hardly valuable risks related to the instability of the SME's business course, ii) the frequently informal management of the financial reporting and iii) to the lack of adequate collateral, associated with transactional costs which can be high if compared to the loans' volume. Above all, asymmetric information and the poor collateralisation of credit (limited assets, limited capitals) determine the banks' reluctance to lend to SME.

One of the most typical reactions to the credit rationing is the creation of special entities aimed at extending and integrating the collateral guarantees offered by small and medium enterprises –

and by green-field projects - to the credit institutions. Guarantees help building linkages between small "unbankable" borrowers and formal financial institutions. Guarantee schemes seek to create additionality of lending, i.e. to induce banks to lend to clients who otherwise would not be eligible for bank credit. The familiarisation of the bank with the client should eventually lead to the "graduation" of the borrower.

Credit Guarantee Fund – Technical Assistance

In this connection, the Central Bank of Egypt has sanctioned the creation of a Credit Guarantee Fund (the paid-in capital is 5 Bln EGP) dedicated to local SMEs in order to ease their access to credit. As only a small portion of the Egyptian SMEs is able to access the formal market (some 38% of the total, according to World Bank), the CBE has launched this new initiative in order to support a crucial sector of the Egyptian economy.

The programme will provide technical assistance to the new scheme, in particular on the identification and development of the adequate (by taking into consideration the local market conditions) model of guarantee scheme to be implemented as well as in three main thematic areas:

- Legal aspects concerning the establishment of the fund
- Supervisory structure and operations
- Target/customers to be addressed

The Credit Guarantee will be designed to ensure: (i) maximum simplicity and flexibility to achieve its objective to kick-start financing to SMEs by the banking sector, in the face of credit market imperfections; (ii) that it complements and strengthens existing facilities and does not undercut them in any way; (iii) that all costs related to the facility are offset by fee income and investments and that the ultimate fiscal burden to Government of Egypt is minimized; and (iv) that reporting requirements enable a regular monitoring of the use of the credit component by banks so as to track aspects such as the quantum of finance being extended to different sectors/regions and also map the size and profile of SMEs being financed by participating institutions.

In parallel to the assistance provided to the central Credit Guarantee scheme created by the Central Bank, the most suitable form of guarantee fund to be implemented at local level will also be identified.

The intention is that through implementation of the TA component, banks would, over time, be able to graduate to the credit guarantee fund. The objective of the Credit Guarantee Fund is to expand bank lending to SMEs while ensuring low Non Performing Loans.

It is also important that the criteria under which loans are approved for guarantee, the ongoing monitoring requirements, the basis on which a claim would be paid and the process for recovering impaired credits are clearly determined a priori. In terms of the structuring of the facility the guiding principles have been the need to avoid moral hazard (i.e. the risk that through providing credit support the quality of lending actually deteriorates) and adverse selection (the risk that banks pass the risk through to the guarantee for poorer quality loans and keep the better loans for their own account).

Immediate objective:
To facilitate collateral-free third-party guaranteed loans by credit institutions to small and medium scale Industries as well as the inclusion of non bankable but profitable companies into the formal financial system.

Outputs:
A Credit Guarantee Scheme established and fully functional in Egypt, the functioning of such a scheme, with issuance of guarantees for selected industrial projects.

Activities

A 1 Analysis and preparation of operations guidelines

A.1.1 Assessment of existing legal and institutional framework and feasibility of the initiative
A.1.3 Preparation of the guidelines for the operations of the Fund (including supervisory aspect, target prioritization and guarantee products)
A.1.4 Sustain development of human resources for Fund management
A. 1.5 Support policy definition on issuance of guarantees
A. 1.6 Promote project risk assessment among banks

A 2 Support to the establishment of a scheme

A.2.1 Support dialogue with banks on Guarantee Fund operation
A.2.2 Forge partnership between the CGF and apex Italian Guarantee Funds
A.2.3 Marketing the mutual guarantee concept among the target community of the small-sized enterprises
A.2.4 Foster dialogue between banks and enterprises

Indicators:
Definition of legal framework
Definition of operational guidelines
Number of staff trained
Response of potential target communities
Response of banks involved in Programme

3.2.4 Venture Capital Facility (VCF)

Access to risk finance is important to the development of SMEs, but early stage financing is often less attractive to commercial investors for a number of reasons. For example, a bank may be unwilling to provide finance to an SME because of a lack of a track record, inadequate security, breach of a standard threshold limit, or a credit rating outside an acceptable range. In addition, as the size of investments falls, so the costs of administering investments become relatively more significant. There is therefore a potential failure of the market to provide for the financing needs of SMEs at an early stage.

Objectives of fund

The objective of the Fund is to increase the amount of equity based risk finance available to growing SMEs in Egypt to enable them to realise their full potential, while improving the business building skills of early stage companies and their support network.

The Project will commit Euro 5 million to VCF (including arrangement & nominal management fees). However, the structure of the VCF may foresee the possibility for other Donors and financial institutions (national and international) to contribute to the fund in order to elarge the financial basis and subsequently the size of operations.
It is anticipated that the SCF will have the following outcomes:

- Increase the amount of equity based risk finance available to growing SMEs in Egypt to enable them to realise their full potential
- Ensure Egypt-wide access for SMEs to viable venture capital funding, making equity based investments in smaller amounts
- Demonstrate to potential investors that commercial returns can be made by funds investing in the SME "equity gap" thus promoting the private sector venture capital industry
- Increase the supply of quality Fund Managers operating in the "equity gap"
- Attract new investors into the market that have not previously invested in this sector of the venture capital market.

Eligibility

All Industry sectors are eligible

Geographical coverage

Any venture capital company with its head office resident in Egypt or which conducts a material part of its business in Egypt may apply for equity finance to VCF.

Venture capital Facility main features

In order to support early stage venture firms, the VCF co-invests with private-sector venture capital funds specialised in early-stage investments and SMEs.
The VCF is a policy-oriented investment fund established by the government and commercially managed, whose primary goal is to channel private-sector capital into the entrepreneurial finance market by supporting the development of private venture capital firms.

There are three prominent features of the VCF:

1. The VCF has no specific economic/monetary objectives other than their stated policy objectives. The government will only ask for a minimum return to cover the cost of capital.

2. The VCF must not directly invest in entrepreneurial firms, i.e. public funds can only participate as LPs.

3. The VCF co-invest with private funds in commercially viable ways, which means they will not subsidise private VC firms in the form of grants, deduction, downside protection and so on.

The VCF operates with private investors using a Fund of Funds structure (FoF), where the Government provides part of a pool of finance with other private investors. This public and private finance is subsequently allocated by a FoF manager to a number of independent VC funds.

The core policy objective of the VCF is to increase the supply of venture capital finance to early-stage enterprises suffered from market failure by using the leveraging effect of public funds. The primary investment focus of the co-invested VC funds is seed and start-up firms. The sources of public funds may include dedicated grants to support VC firms and the VC industry, as well as individual, corporate or institutional commitments.

There are two major channels through which the VCF invests in a joint public private VC fund.

The first and the most frequently utilised co-investment mode is equity participation (as a FoF). These funds are typical 'hybrid' VC funds in nature, where the government participates as a special VC whilst the responsibility for daily operation and investment of the fund are undertaken exclusively by professional investment managers who work on a purely commercial basis. The sources of income for the VCF will be/is presumed to be sourced from the capital gains arising from successful investments. The public and private funds will share any profit (i.e. net capital gain) based on pre-determined contractual terms.

The second means of co-investment is a loan guarantee (equivalent to the VC debentures). In this mode, the government contributes to the capital pool in the form of loans and the return to the public exchequer is the interest income from the loan plus the eventual repayment of the loan.

Government funds participating as loans will effectively create a leverage effect on the returns of successful private investor. However, leverage also means that poor fund performance will also increase the total losses to private investors.
Besides a selection preference on targeted sectors (i.e. high-tech and new knowledge-based) and investment stages (i.e. seed, start-up and early stages), other criteria may apply when VCF choose private VC funds in which to invest. Generally, those criteria fall into the following categories:

- Fund size: minimum paid-in capital (Euro 2 to 5 million);
- Management team: minimum size, investment experience, track record, international experience, etc.,
- Prior fund performance: above industry average or certain threshold (for instance: 20% annual IRR);
- Investment horizon of the fund: 10-15 years

The level of public fund participation varies but generally the percentage of public finance should not exceed 30% of total fund raised.
In fact, VFC must not be in a controlling position in the joint investment fund. The life of a co-invested VC fund is normally 5 to 10 years, after which the public fund will seek to exit or liquidate its position usually through the sale of its holdings or via share buy-back.
The distribution of profit between public and private investors depends on the proportion of public funding and the form of public participation. After paying back the subscribed capital to both public and private investors, the government will receive a return either in the form of interest payment if it participates as loan guarantee, or a share of the profit (pari passu) in case of equity participation.
Occasionally, other forms of profit distribution are used, such as 'share buy-back' options.
As a prerequisite for public participation, a matching private contribution must be made to the co-invested fund and the ratio of private to public capital must be 3:2 or higher.

The operational features of the Venture Capital Facility will be detailed after the preliminary phase concerning the feasibility of the initiatives and the fine tuning of the technical and operational aspects, to be adapted to the local market conditions and the existing regulatory framework

Immediate objective:
To facilitate operations of venture capital companies investing in the initiatives of small and medium scale companies.

Outputs:
A pilot Venture Capital Facility established and fully functional in Egypt, and the fine-tuning of such a scheme.

Activities:

A.1 Analysis and preparation of operations guidelines

A.1.1 Assessment of existing legal and institutional framework and subsequent feasibility of the initiative
A.1.2 Identification of the legal form of the Venture Capital Facility
A.1.3 Prepare the guidelines for the operations of the Fund (including eligibility criteria, criteria for evaluation of the proposals, limits of the commitments, cash transfer and refunds, principal and profit sharing, venture capital funds and co-investment funds, investment areas, duration of funds, fixed costs, performance fee, supervision and auditing etc.)
A.1.4 Sustain development of human resources for Fund management

A.2 Support to the establishment of a pilot scheme

A.2.1 Support the operations by involving an international financial institution as an advisor
A.2.2 Establish partnership between the VCF and apex foreign VC companies
A.2.3 Marketing among the target community of the Venture Capital companies
A.2.4 Marketing among financial institutions and other donors

Indicators:

Definition of legal framework
Definition of operational guidelines
Response of VC companies involved in Programme
Response of potential target communities

Achievement Indicator:

Establishment of a pilot scheme

With reference to the above activities, it is worth mentioning that in case the preliminary assessment of the legal and institutional framework indicates that there are no or insufficient conditions to establish an effective venture capital facility or fund of funds in Egypt, the Steering Committee will re-allocate the funds of this facility either on the credit line component or on the credit guarantee component or the capacity and institutional development.

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4 BENEFICIARIES

The project will target direct and indirect beneficiaries. The main Direct beneficiaries of are individual, groups and clusters of Egyptian SMEs, either directly through the technical assistance and credit line either indirectly (i.e. through the expansion of the credit access capacity and the graduation of the SMEs assisted through the programme) through the serviced offered by the credit guarantee fund and the venture capital facility

With reference to SMEs, a particular focus will be on young and women entrepreneurs, as well as the Egyptian nationals based abroad. in particular, those two categories will benefit of the capacity building activities (in terms of provision of training on management, operations and resource management as well as eased access to credit) In addition, with reference to the credit line, more favourable repayment terms and conditions will be designed for these categories. The other direct beneficiaries of the programme will be the SMEs operating in the informal sector that thanks to the support provided by the programme will be able to enter the formal sector and therefore the formal financial market, with the possibility to graduate their activities and operations and improving the performance. In addition to SMEs, the main direct beneficiaries of the programme will be the whole financial system and the officials of each involved institutions.

Indirect beneficiaries will be:

- The families of the workers in the companies directly targeted by the project
- The private sector suppliers of technical assistance, training, machines and equipment

5 LOGICAL FRAMEWORK

Logic of Intervention	Description	Expected outcomes	Source of Verification	Assumptions
General Objective	The project aims to support the Egyptian Government to develop the private sector through the support to local SMEs		Long term studies and impact analyses.	Institutional Policies for private sector and local economic development are operational.
Specific Objective	The program specific objective consists of supporting the creation of an enabling environment, able to guarantee the sustainable development and private sector inclusive growth and in particular of SMEs.	• More SMEs have access to credit • More young and women entrepreneurs have access to credit • More companies enter the formal sector from the informal one • More companies technologically upgraded • More managers and manpower have increased their skills and competences • More companies understand environmental protection issue and adopt resource utilization methodologies • More companies are funded • More start-ups are funded • SMEs access new markets and produce higher added value products • Clusters of SMEs are organized and business linkages among companies established	PMU reports Official Statistics	Institutional actors and financial system available to collaborate and co operate to achieve project results. Statistics available and updated.

Logic of Intervention	Description	Objective Verifiable Indicators	Source of Verification	Condizioni esterne
Expected Results	**R1 SMEs competitiveness increase**	Number of training for young and women entrepreneurs Number of training for managers of SMEs (management, marketing, operations) Number of training for employees (operations) Number of companies accessing the formal sector from the informal one Number of companies adopting resource optimization procedures Number of companies adopting environmental protection measures Number of products with value added content produced and marketed by the served companies and clusters Number of new markets accessed by served companies and clusters	PMU reports Databank	Institutional actors and financial system available to collaborate and to coordinate for project successful implementation
	R 2 local industrial SMEs technology's upgrade	Number/frequency of sector analyses undertaken Number of SME clusters assisted Number of business developing services provided Number of Eyptian companies registered in the databank. Number of SMEs advised Number of projects identified Number of projects funded	Activity report PMU Reports Minutes of meeting	Institutional actors and financial system available to collaborate and to coordinate for project successful implementation
	R3 To facilitate collateral-free third-party guaranteed loans by credit institutions to SMEs.	Legal framework analysis Operations guidelines Number of staff trained Pilot Programme established Response of banks involved in Programme Response of potential target SMEs Number of SMEs advised. Number of projects identified. Number of projects funded	Expert reports PMU reports and questionnaires (to the banks and SMEs)	Institutional actors and financial system available to collaborate and to coordinate for project successful implementation Conducive legal framework

	R4 To facilitate operations of venture capital companies investing in the initiatives of SMEs.	Legal framework analysis Operation guidelines prepared Establishment of a pilot scheme Response of VC companies involved in Programme Response of potential target SMEs Number of projects identified Number of projects funded	Expert reports PMU reports and questionnaires (to the VC and SMEs)	Institutional actors and financial system available to collaborate and to coordinate for project successful implementation Conducive legal framework

Activities

Description – Techcnical Assistance and Credit Line	Means	Costs	Assumptions
A.1.1 Review existing and, where necessary, carry out additional analyses of Egypt's recent industrial development and competitiveness, with a view to identifying and portraying priority sectors and clusters for subsequent technological and business upgrading and investment promotion.	**Human Resources:** PMU personnel Consultants/experts Personnel at MTI **Physical Means** Project car PMU Office in Cairo Office furniture/Computers, Mobile phones, fax, internet Visibility material	See detailed budget	Official nomination of experts and staff within timeline. Logistic operational Report format coherent with the formulation report. Personnel of PMU motivated to learn and to update their knowledge.
A.2.1 Organize the participation of Egyptian enterprises and concerned officials in investment promotion, business, market scoping meetings/fora and/or study tours in key foreign target markets			
A.2.2 Organize general awareness creation as well as sector-specific matchmaking events (investor seminars, workshops and/or symposia) for one-on-one business discussions between local and foreign companies on specific investment opportunities			
A.2.3 Organize cluster development activities and cluster-to-cluster initiatives with Italian clusters to promote business linkages and know-how transfer			

A.3.1 Maintain an up-to-date databank of Egyptian enterprises interested in acquiring technology and in expanding/diversifying their operations.			
A.3.2 Maintain an up-to-date databank of the resulting project proposals and industrial opportunities from Egypt to be promoted among and distributed to foreign entrepreneurs.			
A.3.3 Through interaction with private sector enterprises (SMEs), assist in the formulation, validation/appraisal and preparation for promotion of portfolios of industrial investment opportunities, proposed by the Egyptian business community and requiring technology, know-how, access to markets, capital and equipment.			

Pre conditions: Financial convention signed, social and political stability

Description – Credit Guarantee Fund	Means	Costs	Assumptions
A.1.1 Assessment of existing legal and institutional framework	**Human Resources:** PMU personnel Personnel at MTI Consultants/experts	See detailed budget	Official nomination of experts and staff within timeline. Logistic operational
A.1.2 Prepare the guidelines for the operations of the Fund	**Physical Means** Project car PMU Office in Cairo		Report format coherent with the formulation report. Personnel of PMU motivated to learn and to update their knowledge.
A.1.3 Sustain development of human resources for Fund management			

A.1.4 Support policy definition on issuance of guarantees	Office furniture/Computers, Mobile phones, fax, internet Visibility material		Personnel of banks motivated to cooperate
A.1.5 Promote project risk assessment among banks			
A.2.1 Support dialogue with banks on Guarantee Fund operation			
A.2.2 Forge partnership between the CGF and apex foreign Guarantee Funds			
A.2.3 Marketing the mutual guarantee among the target community of the small-sized enterprises			
A.2.4 Foster dialogue between banks and enterprises			
Description – Venture Capital Facility	**Means**	**Costs**	**Assumptions**
A.1.1 Assessment of existing legal and institutional framework	Human Resources: PMU personnel Consultants/experts Personnel at MIT Personnel at Italian Cooperation Office Physical Means Project car PMU Office in Cairo Office furniture/Computers, Mobile phones, fax, internet Visibility material	See detailed budget	Official nomination of experts and staff within timeline Logistic operational Report format coherent with the formulation report. Personnel of PMU motivated to learn and to update their knowledge. Personnel of VC companies motivated to cooperate
A.1.2 Identification of the legal form of the Venture Capital Facility			
A.1.3 Prepare the guidelines for the operations of the Fund (including eligibility criteria, criteria for evaluation of the proposals, limits commitments, cash transfer and refunds, and profit sharing, venture capital funds investment funds, investment areas, duration of funds, fixed costs, performance fee, supervision and auditing			

A.1 Sustain development of human resources for Fund management			
A.2.1 Support the operations by involving an international financial institution as an advisor			
A.2.2 Establish partnership between the VCF and apex foreign VC companies			
A.2.3 Marketing among the target community of the Venture Capital companies			

6 LOCATION AND DURATION

Location

The Project Management Unit will be based in Cairo. The priority areas/governorates will be detailed in the Overall and Annual Work Plans.

Duration

The project will have a duration of 5 years. A tentative timeline has been envisaged taking into consideration the peculiarity of the components 2 and 3 of the project. Since these two components envisage a higher degree of innovation respect to the credit line/business and technology upgrading component, it is estimated a longer period to become operational. In addition, since the preliminary phase of the components 2 and 3 envisages the assessment of current situation (legal, institutional) and the feasibility of the initiatives, it may turn out that in case of negative response, the resources allocated for these two components will be re-allocated as additional funds to the credit line.
Exact duration of various activities will be specified in the Overall and Annual Work Plans.

TIMEFRAME

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Preliminary activities, personnel selection																				
Overall Work Plan																				
Policy and institutional development																				
Services to SMEs																				
Services to Credit guarantee scheme																				
Service to Venture Capital Facility																				
Technology Upgrade																				
Analysis																				
Dissemination of information																				
Investment promotion																				
Credit guarantee fund																				
Analysis																				
Support to the establishment of the scheme																				
Venture capital facility																				
Analysis																				
Support to the establishment of the scheme																				
Audit																				
Monitoring and reporting																				

7 MANAGEMENT AND ORGANIZATION

Following the signature of the bilateral inter-governamental Agreement, the following phases are envisaged

1. Signature of the financial convention
2. Entry into force of the above cited agreement by first installment accreditation;
3. Designation of the PMU and of Steering Committee members;
4. Inception Phase;
5. Operational overall and annual work plans preparation and its approval by SC;

Funds accreditation modalities will be described in the Financial Convention.

The efficient implementation of the Project will be guaranteed by a multi-level organisational structure. The first level is strategic and aims at coordinating the activities, monitoring the project's progress and its impact on the effectiveness of the Beneficiary's activities. The second level is operational, overseeing all activities of the Project.

Strategic decisions will be made by the **Project Steering Committee (PSC)**, which consists of the Egyptian Representatives of Ministry of Trade, Industry and Small and Medium Enterprises, and Ministry of International Co-operation and their Italian Counterparts i.e. the representatives of the Ministry of Foreign Affairs and International Co-operation and the local Emabssy/UTL (Development Co-operation Office.) It will monitor the progress of the Project and achievement of mandatory results, discuss actions to be undertaken and approve Quarterly Reports. The SC will be called twice a year, or whenever necessary. SC members will be able to invite ad hoc participants. To the SC will be admitted to participate - with no voting right according to specific competences and direct or indirect implication/involvement in the project implementation, also representative of Egyptian/Italian institutions

The programme will start after the approval by the Steering Committee of the Overall WorkPlan prepared by the Ministry of Industry, Trade and SMEs. In the occasion fo the first Steering Committee, the Overall Plan will be approved and subsequently the first tranche of the soft loan will be transferred to the designated apex bank.

A **Project Management Unit** will be set-up, under the responsibility of Ministry of Industry, Trade and SMEs, in order to ensure the efficient implementation of the Project and an optimal coordination of the operational/administrative tasks.

8. 1 Steering committee

In order to ensure a necessary responsibility and coherence of approach and control in operations and strategies, the project foresees the constitution of a Steering Committee composed as follows:

- 1 representative of Italian Embassy / UTL;
- 1 representative of Italian MAECI-DGCS
- 1 representative of Egyptian MIT-SMEs;
- 1 representative of MIC

The steering committee will cover the role of ensuring project control and coherent approach aiming in particular to:

- Supervision of the progress of the project and the correct deployement of the activities according to its objectives and results;
- Evaluation and approval of the Operational overall work Plan prepared by MITSMEs,
- Evalution and approval ofannual Work Plans as well as of intermediate and final technical and financial project reports prepared by PMU;

- Approve budget re-allocations,

The SC will be called twice a year, or whenever necessary. SC members will be able to invite ad hoc participants. To the SC will be admitted to participate -with no voting right – according to specific competences and direct or indirect implication/involvement in the project implementation, also representative of Egyptian/Italian institutions.

Each decision taken by the Steering Committee will be enforced through an exchange of notes.

8.2 Project Management Unit

The Ministry of Industry, Trade and SMEs will be supported by the Project Management Unit which will have the task to coordinate all activities of capacity and institutional development, and the technical assistance, as well as to act as a technical secretariat for the Steering Committee.

The PMU will make available the human resources and physical means to carry out project activities (office facilities, car, etc.) and will be responsible for the execution of the technical support services, including administrative activities for tendering and will manage the related funds according to its rules and regulations.

In particular, the PMU will have the following tasks and responsibilities:
- Preparation of the Annual Work plans for each component of the programme;
- Preparation of annual technical and financial reports;
- Follow up of preliminary survey, implementation, monitoring, evaluation phases
- Establish and maintain synergic contacts with all involved stakeholders/experts and ensuring their involvement and coordination;
- Deploy all field activities and ensure technical and financial support/control/supervision to all project activities
- Proposing to SC necessary modification to the project both at technical and financial level whereas necessary and justified;
- Provide support and prepare logistic for short term experts in Egypt
- Prepare necessary administrative support for Egyptian civil servants travelling to Italy for Study /Training purposes within project activities
- Follow up training and tendering activities;
- Follow up contractors
- Organizing visibility events and managing related logistic

In this context, the PMU will present to the SC a six-months technical and financial report that will include the statement of the project account (in/out).

The technical report should:

- Work out in detail the activities carried out and the results achieved
- Work out in detail all modifications agreed with the beneficiary institutions
- Review difficulties met during the implementation of the project and measures that were undertaken for their removal
- Provide all findings obtained in the meanwhile and preliminary conclusions

At the end of the project's activities, the PMU shall submit a Final Report containing the following:

- Complete review of all activities carried out during the implementation of the project,

- Achieved progress concerning each activity
- Summary of all project results
- Estimation of the project impact compared with the project aims and measures of the achieved progress
- Identification of all important problems met during the implementation of the activities and solutions that have been applied,
- Lessons drawn from the project, and
- Recommendations for further steps in future projects

The PMU will be based in Cairo at Ministry of Industry premises. An international Agency (to be indentified) could be in charge of the operations associated with the PMU.

7.1.1 Project Team

The Project Management Unit (PMU) will be coordinated by the national Project coordinator (Egyptian side) and supported by an Italian Expert

In particular, the PMU will be tentatively composed by:

- 1 national coordinator, whom will be responsible of the project management, start up and maintain contacts with the technical team and liaise with similar interventions in the same geographical area. He/she will have more than 10 years experience in project management;

- 1 Italian expert, selected on the basis a public call, whom will support the national coordinator in all the managerial activities and will act as a liaison officer with the Italian institutional counterparts and will ensure an effective and efficient relationship with the Italian and international private sector counterparts (credit line) and experts to be involved in the advisory/training activities;

- 1 national technical team composed by 2 experts with different specialization and selected among the central staff in Cairo, who will be responsible of the technical aspects and follow up related to all project activities.

- One financial officer

- One procurement and administrative officer for tender and contractual activities

- One secretary

- One driver

- One security officer

During the inception phase a detailed operations plan will be pepared and it will include the criteria concerning the personnel selection.

Furthermore, short term experts will be selected and hired by PMU according to its rules and regulations. Such experts shall be mobilized in Egypt to deliver

- advisory services to the SMEs (business plan, technology needs assessment, energy efficiency etc.) as well as several type of training activities
- advisory services and training courses to the staff of the credit guarantee scheme
- Advisory services concerning the establishment of a venture capital facility or fund of funds.

The establishment of the PMU should be considered as an investment on policy and institutional development of the program. It would be a cornerstone of the proposed project - beacause of its complexity the establishment, support and efficiency of PMU are crucial to reach the targets of the programme. This would turn out to be an investment in knowledge and capacity building, due to the peculiarity of the components of the programme.
In particular, the activities to be carried out would improve the knowledge in the following thematic areas:

1. Capacity building/Business Development Services for SMEs
2. Capacity Building for Credit Guarantee Fund
3. Capacity building in establishing and operating of a Venture Capital Fund Support Facility
4. Capacity building in the policy/legal framework and enforcement/implementation issues

In this respect, the knowledge gained through the programme, especially in the case of the two more "experimental" components of it, would turn out to be the basis for future activities for the development of the Egyptian private sector.

8 SUSTAINABILITY

a. Institutional Sustainability

The institutional sustainability is ensured by the involvement of the MIT through the PMU based in tis premises. Furthermore, in the frame of the project, interactions and synergies will be developed involving also local authorities (governorates) in order to make them aware them about the action. The project is also coherent with national strategies and other initiatives promoted by international dooors in the same area.
Reforms in the area of SME financing currently under way have begun to create a more enabling environment for SME access to finance, and the measures implemented so far are unlikely to be reversed. The project would support these policy-based reforms, and the capacity building of participating banks and SMEs, to ensure sustainable improvements in SME access to finance. Furthermore, it should help demonstrate to the banking sector as a whole that it is possible to expand SME financing while improving the quality of loans (reducing NPLs).
The project would also support the private sector inclusive development, the environmental protection, the competitiveness of SMEs through training and technology and innovation upgrade as well as through the implementation of resource efficiency methodologies and environmental impact mitigation measures.

b. Technology

Nowdays proposed technology for industrial modernization is huge, quite complex and well diversified. The proposed technologies will be fitting to users, compatible with the productive environment and will put in conditions all beneficiaries to valorize their knowledge backgrounds and actual capacities. Finally, provided technology shall respect clear origin.

9 MONITORING AND EVALUATION

9.1 Monitoring

A continuous monitoring will be ensured in order to collect and diffuse the good practices developed. The above cited monitoring will be operated at two main levels:

A) The Ministry of Industry, Trade and SMEs through the PMU, according commonly accepted monitoring procedures and through field visits, consultation with international auditors, workshop, focus groups, etc at any moment and if considered necessary.

B) By MAEIC-DGCS according to rules and regulation applicable for soft loan funds

The results of the above described monitoring activities will be submitted to the Steering Committee throught the six-months technical and financial reports

9.2 Evaluation

The final evaluation of the project will be implemented in a participatory approach, by involving all the bodies and organizations who have contributed to the project implementation as well as the same beneficiaries. A final closure workshop will be organized to show results, achievements, learned lessons

As for the monitoring, the evaluation will be done at two different levels

A) At the project closure, PMU will prepare a first technical and financial evaluation by comparing expected results/ achieved results as they have been formulated in the project document.
B) The above cited analyse will be submitted to the Steering Committee in form of Final Report of the Project to be revised and approved

10 FINANCIAL PLAN and AUDIT, BUDGET BREAKDOWN

The project will be carried out through a soft loan of Euros 45.000.000 of which Euro 3,566,000 for Policy implementation and Institutions development, including services (technical backstopping, technical and scientific support in Egypt, logistic support in Egypt to carry out services on site, specialized training courses, technical specialists, workshop organization in Egypt, procurement management support, project implementation support, project visibility, overheads, steering committees and opening/closing workshop seminars) managed by PMU according to the included ToR (see annex.)
The remaining amount of Euro 41,434,000 will be covering supplies ensured through the credit line (Euro 36,434,000) and and venture capital facility (Euro 5,000,000.)

The soft loan disbursing procedures both to MIT and SMEs, PMU and to SMEs shall be detailed in the Financial Convention.

All the procedures for managing the fund will be described in the agreement which will be signed by the Egyptian and Italian government as well as in the financial convention . All the above cited documents will annex this project document as reference

Financial Audit

An external private auditing company will be pre selected by PMU and through a local tender. The audits will be carried when the threshold of 70% of credit line implementation (fund allocation) is reached, for each tranche of disbursement.

Project budget breakdown

The overall project budget breakdown for the project duration (5 years) as well as tentative yearly budget and detail for PMU are detailed in the tables below:

Table A. Outline of tentative budget

Private Sector Development Project - PMU Budget								
N. Item	Personal, mobil, equipment	Costs	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1	Programme Supervisor	2,500	30,000	30,000	30,000	30,000	30,000	150,000
2	Technical Advisor (international)	17,000	204,000	204,000	204,000			612,000
3	Procurement & Financial Officer	1,500	18,000	18,000	18,000	18,000	18,000	90,000
4	Project Officer (2 National)	1,500	36,000	36,000	36,000	36,000	36,000	180,000
6	Accountant/Administrator (national)	1,200	14,400	14,400	14,400	14,400	14,400	72,000
7	Secretary (National)	900	10,800	10,800	10,800	10,800	10,800	54,000
8	Driver N.1	800	9600	9600	9600	9600	9600	48,000
9	Office boy + security (National)	500	6000	6000	6000	6000	6000	30,000
	Sub total		326,800	326,800	326,800	124,800	124,800	1,230,000
10	Office running costs (rents, fuel, cars operation costs, consumables, etc.)	5,000	60000	60000	60000	60000	60000	300,000
11	National Missions (Per diem)	30,000	10,000	10,000	10,000	10,000	10,000	50,000
12	Procurement 1 city car	20,000	20,000					20,000
13	Office furnitures and IT equipment	50,000	50,000					50,000
14	Communication/visibility	50,000	10,000	10,000	10,000	10,000	10,000	50,000
15	Audit Company	10,000		10,000		10,000	10,000	30,000
16	Short Term Consultancies/external services							
	Local Consultancies/services	10,000	30,000	40,000	40,000	30,000	20,000	160,000
	Foreign consultancies/services	20,000	320,000	560,000	560,000	180,000	180,000	1,800,000
	Sub total		500,000	710,000	680,000	290,000	270,000	2,330,000
	Grand Total		842,800	1,038,800	1,006,800	414,800	394,800	3,565,000

Private Sector Development Project - Credit Line Allocation							
		Year 1	Year 2	Year 3	Year 4	Year 5	Total
Fund Amount	36,434,000						36,434,000

Private Sector Development Project - Venture Capital Budget								
N. Item	Personel, rental, equipment	Costs	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1	Senior expert on Fund Management	1,800	21,600	21,600	21,600	21,600	21,600	108,000
2	Assistant for FMF	900	10,800	10,800	10,800	10,800	10,800	54,000
3	National Expert	1,300	15,600	15,600	15,600	15,600	15,600	78,000
4	Travel		10,000	10,000	10,000	10,000	10,000	50,000
5	Office Rent and Utilities		10,000	10,000	10,000	10,000	10,000	50,000
6	Local Procurement		10,000	10,000	10,000	10,000	10,000	50,000
7	Communications		10,000	10,000	10,000	10,000	10,000	50,000
8	Adm. expenditures		5,000	5,000	5,000	5,000	5,000	25,000
9	Promotional Activities		10,000	10,000	10,000	10,000	10,000	50,000
VC	Fund Allocation							
				2,242,500	2,242,500			4,485,000
	Sub total		103,000	2,345,500	2,345,500	103,000	103,000	5,000,000

Private Sector Development Project - Grand TOTAL								
								Total
Total	Fund Amount							45,000,000