Egypt: Trade Finance Reform for Small Business Development

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PREFACE

This report is based on a study conducted by the Development Economic Policy Reform Analysis (DEPRA) Project, under contract to the United States Agency for International Development, Office of Economic Policy and Analysis, Cairo, Egypt (USAID/Egypt) (Contract No. 263-C-00-96-00001-00, Task Order 16).

The DEPRA project is intended to encourage and support macroeconomic reform in Egypt through the provision of technical assistance and services to the Ministry of Economy, with particular focus on international trade and investment liberalization, deregulation and financial sector strengthening.

The study was conducted, and this report was authored by, a team of consultants comprised of Dr. Mayada M. Baydas, Team Leader and Microfinance Specialist, Mr. John M. Porges, Senior Banking Specialist, and Mr. Stephen P. Wade, Banking Specialist; and Dr. James L. Walker, Senior Economist and the DEPRA coordinator for the study. The team would like to express their special appreciation to Dr. Omar Salman, Helwan University, who provided instrumental support in interviewing managers of financial institutions and other establishments. The team would also like to express their gratitude and special thanks to SPAAC, Dr. Sarah Loza and her team members, who were extremely efficient and cooperative in conducting the survey of micro, small, and medium scale enterprises. The assistance of Drs. Alia Almahdi, Hoda El-Sharkawi, Khairy El-Giziry, and Salah Zein El-Din is well appreciated.

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I. Executive Summary

Egypt's financial sector has undergone extensive liberalization since 1991. Credit controls have been eliminated, interest rate and foreign exchange regimes have been liberalized, modern banking regulations and treasury bill auctions have been introduced and the stock market has been revitalized. However, the financial sector continues to be dominated by under performing government institutions which allocate an excessive portion of private saving to finance public sector debt. In addition, the bulk of formal sector credit is directed to large firms. Small and medium-scale enterprises (SMEs), including informal microenterprises, which generate most of the nation's value added and employment, are generally perceived to be excluded from formal financial institution financing, including trade finance, and rely largely on informal and self financing. Donor-subsidized SME credit programs cover a fraction of the financial demand of these enterprises, and have focused little on financing international trade. Because this perceived shortfall in credit availability to the more dynamic section of Egypt's economy runs counter to the Government's priority of increasing the economy's growth rate, expanding exports and providing enlarging employment, the Ministry of Economy (MOE) requested that this trade finance reform study be conducted to focus on making credit more readily available to SMEs.

The objective of this study is to determine the main constraints to greater availability of trade finance to micro, small, and medium scale enterprises (SMEs) and to provide policy recommendations for increasing the availability of such credit. While emphasis is placed on small and medium scale enterprises that export or possess the potential to export, frequent reference is made to a complementary DEPRA study entitled *"Financial Reform for Small Business Development* in *Egypt"* which also assesses the financing situation of informal sector microenterprises with growth potential and the experience of and constraints facing banks and non-bank financial institutions regarding microfinancing, including special donor and the Government of Egypt (GOE) sponsored programs. Various financial products of actual or potential significance to SME financing are explored, including leasing, loan guarantees and bankers acceptances. These analyses provide the basis for recommendations regarding policy, legal and regulatory reforms, and special programs which would improve the availability of trade credit to the SME segment of the Egyptian economy.

The study primarily involved an examination of the supply of and demand for financial services in the SME sector in Egypt. This entailed, on the one hand, interviews with private and public sector financial institution managers that supply credit to SMEs. These interviews took place in Cairo, Alexandria, Port Said, Damietta, 6th October City, 10th of Ramadan City, and Fayoum, and included the Central Bank of Egypt, eleven commercial banks, three business and investment banks, two specialized banks and five non-bank financial institutions. On the other hand, the demand investigation involved interviews with 173 SME owners/managers to estimate their demand for credit. A sub-group of 29 exporters and 35 potential exporters were randomly selected among the manufacturing enterprises in the survey. These two sub-groups constitute the sub-sample that is used in our analysis of exporters' and potential exporters' demand for trade finance services. These interviews took place in Greater Cairo, including the 6th October and 10th of Ramadan Cities, Alexandria, and Fayoum. The exporters and potential exporters survey focused primarily on some of the more dynamic sub-sectors in the manufacturing sector. These are textile-garment manufacturing, furniture-wood processing, shoe making, artisanal craft production, and carpet weaving.

Supply of Financial Services to the SME Sector

The results of this study indicate that despite the overwhelming prevalence (over 98%) of micro, small and medium enterprises in the Egyptian economy, commercial banks are lending relatively small percentages of their loans to these enterprises. Very rough estimates of the volumes of such lending by the sample group of banks indicates that the total SME lending by the banking sector is estimated to be between 5-6%, with trade finance representing less than one percent. All of the banks interviewed offer trade finance services, but usage is limited because of the low volume Egyptian exports and diversity. SME exports represent a very small share of total exports.

In general, the banking system is not sufficiently competitive because the majority of financial resources of the nation are controlled by five large government-owned banks. This appears to be true with respect to export finance, where these banks and a handful of private and joint venture banks conduct most of the business. This concentration of power reduces competition as evidenced by the limited use of more modern technology, particularly computerized internal reporting systems in branches outside of Cairo, and the limited range and use of certain financial products and services (e.g. factoring, forfaiting and bankers acceptances).

Egyptian commercial bankers view SME lending, including export financing, as more risky, more expensive and less remunerative than larger loans. Most banks do not have the branch networks, special systems and techniques, and trained personnel necessary to profitably service SMEs. Bankers view SME entrepreneurs as generally being incapable of preparing the information (e.g. financial statements, market studies, etc.) which would make them bankable.

Lending to microenterprises for export appears to be virtually non-existent. Almost all microenterprise lending by commercial banks is politically motivated, with the primary impetus for it coming from the Social Fund for Development (SFD) initiative of government. With the exception of the National Bank for Development (NBD), banks eschew microenterprise lending for the reasons cited above.

Current government policies toward small business lending for exporters, implemented largely through special subsidized lines of credit for exporters, and more generally through the SFD, is counter productive because these programs:

- deprive lenders of economic incentives to lend;
- do not enhance the financial institutions' capacity to understand SMEs or to adopt the special techniques and management information systems necessary to profitably serve this market.
- result in unsustainable default rates and decapitalization of credit programs because they are viewed by many as giveaway programs in which *lenders* do not have to be repaid.

Bank collateral policies, which vary considerably among the sample banks with requirements ranging from 110% to 200% of loan value, can be considered excessive. All sample banks reported making uncollateralized loans, but few indicated that they did a great deal of pre-shipment export finance based solely on the backing of letters of credit. Traditional types of collateral, including real estate, inventories, accounts receivable, marketable securities, cash, equipment, contract and lease assignments, and bank and personal guarantees, are usually required in addition to the letter of credit. Smaller borrowers have more difficulty providing collateral either because they don't have it or because registering it is too expensive.

The Egyptian court system is slow, cumbersome, inefficient and prone to rent seeking behavior. Improvements in the accuracy, ease and cost of registering/perfecting collateral, in the allowable collateral types, and in the degree of freedom of lenders to seize property would enhance the availability of credit, including trade finance.

The Export Development Bank of Egypt, the Export Credit Guarantee Company of Egypt, and five special financial models studied under the complementary DEPRA report entitled *Financial Reform for Small Business Development in Egypt* which were not specifically related to trade finance, can be summarized as follows:

- The NGO model, as exemplified by the Alexandria Business Association (ABA), appears to be a viable model in Egypt. Given its fairly widespread application, and the operational maturity of international best practices in microfinance, there appears to be merit in encouraging the development of a microfinance industry around this model. Formalizing the model as an industry through innovative, flexible legislation would enable practitioners like ABA to access funding from commercial sources and result in additional credit to SMEs, including trade credit. An expansion of the number of institutions employing the NGO model, as well as cautious moves up market by the stronger of these institutions, would be beneficial to the availability of credit to SMEs, including finance for direct and indirect export finance.

- Special programs for micro and small enterprise lending within banks also appear to be viable. The National Bank for Development has expanded its micro lending program rapidly and achieved profitability in a reasonably short period. This has been achieved through efficient operations, controlled loan losses, close performance monitoring ratio and a high effective interest rate. The program is reaching a significant number of borrowers, and has been successful enough to warrant a decision to implement it throughout the bank's branch network.

- The credit guarantee model, as exemplified by the Credit Guarantee Corporation and the Export Credit Guarantee Company, also offers certain benefits. Both programs appear to have been responsible for increasing bank credit to the SME sector, but both have remained small with limited clientele, and both require subsidies to cover the cost of their operations. A Government of Egypt Small Business Administration (SBA) is not a viable alternative.

- As mentioned earlier, the Social Fund for Development is a well-intentioned government program, but its activities distort credit markets with subsidized interest rates and sub-standard repayment records. SFD should not be expected to become a viable model for achieving a self-sustaining expansion of credit to microenterprises without a considerable shift in emphasis towards enhancing the financial incentives to, and the institutional capacity of, banks and non-bank financial institutions with regard to SME lending, including lending for direct and indirect export.

- Egypt's nascent leasing industry probably offers one of the most important models for expansion of SME financing in the future. With flexible instruments which can supply nearly 100% of equipment financing requirements and can match payments to specific cash flows, leasing offers a potentially significant alternative source of SME financing in Egypt, where small entrepreneurs have limited access to term borrowing.

- The Export Development Bank of Egypt, originated as the national export bank, has not been a high performer. It offers basic international trade credit and other services, primarily to exporters. It has a limited branch network, and does not have a high concentration of small and medium borrowers. It is expected that the recent privatization of the EDBE will result in improved operating performance and growth in its branch network thus making more resources available to exporters, including small and medium exporters.

The fast growing nations of the world derive a great deal of their growth, including their export growth, from high levels of foreign direct investment, and receive significant side benefits in the form of technology, skills and market access in the process. Egypt appears to be underachieving in this regard. Significant enhancement to the investment climate appear to be necessary to enable it to achieve its full potential as a regional site for investment. Egypt's lackluster export performance is deeply rooted in the low level of export preparedness seen at both the macro and firm level, and increased foreign direct investment, with its attendant side benefits, could be very beneficial in improving the country's exports.

Export financing, both pre-shipment and post-export, and export credit guarantee schemes are in wide use in both the developed and developing world. Egypt has such programs in place, but these programs appear to be less comprehensive and more collateral-oriented than their counterparts in more successful exporting countries. The limited use of export financing, guarantees and insurance, also appears to be due to Egypt's low and declining export base and the limited range of its exports, and to limited competition in the financial markets. The Central Bank of Egypt does not support comprehensive, export finance products based on market-driven pricing.

Demand for Financial Services in the SME Sector

The survey of SMEs generated a number of findings regarding their demand for trade finance:

- the primary source of financing used by most entrepreneurs in the sample was retained earnings;
- trade credit in the form of supplier credit and customer advances was the second significant source used by both exporters and potential exporters;
- exporters sold on average one third of their finished products in foreign markets. While only a few exporters used letters of credit in their export transaction, the majority collected their payments on export sales through the open account mechanism;
- formal loans were used by over half of the entrepreneurs in the sample;

- half of the exporters who used formal loans over the past year indicated that they used these loans for their export;
- informal loans were used by less than one fifth of the exporters and potential exporters;
- loan quantity rationing was found not to be the problem or bottleneck, contradicting popular belief of discrimination against small businesses, exporters and others. The observation of entrepreneurs often self-selecting themselves out of the formal credit markets was reported to be largely based on the availability of other sources and religious beliefs ;
- Almost all the exporters, and about two thirds of the potential exporters, held at least one savings account with a commercial bank. In contrast, "Gam'iyat" or RoSCAs, while the second most widely used saving channel, were used by about a third of the potential exporters but only one tenth of the exporters surveyed.

Finance was listed as the most serious problem by relatively few exporters and potential exporters. Significant non-financial constraints reported included weak marketing, weak demand, taxes, labor problems, raw materials, and competition. These findings serve to highlight the point that finance is not necessarily the bottleneck as widely perceived by many small business advocates, including governments and donors.

Supply of and Demand for Financial Services in the SME Sector

Findings of the study provide valuable insights into the supply of and demand for international trade financial services in the SME sector in Egypt. While commercial banks indicated that SME trade financing represents a very small share of their overall portfolio, analyses of the entrepreneurs' demand for formal financial services indicated that over half of the exporters and potential exporters draw on loans from banks. The disparity is largely a result of the bankers' perception that SME lending is typically microlending. The small and medium enterprises' demand for formal financial services is clearly different from that of microenterprises. Small and medium exporters were found to draw on significant amounts of formal loans, much higher than typically perceived by bankers. As expected, commercial banks did not typically engage in microlending for exports, except through special programs and lines of credit, however, small and medium scale enterprises did not seem to have a binding constraint when accessing bank financing. Half of the exporters who used formal loans used these working capital loans to service their export businesses. The typical payment for export sales, however, was through the open account mechanism. This is in line with the world trend which suggests that exporters using the open account payment mechanism are more competitive.

Recommendations

Improving the overall performance of the financial sector would benefit all enterprises, including micro, small, and medium businesses. Overall performance could be improved through implementation of the following recommendations:

- Revise the current Central Bank position against approving the entry of additional foreign banks. The window allowing entry by purchasing the public share holdings in joint venture banks is positive, but insufficient. Many foreign banks will only enter the market if they can own 100 percent of the operating entity. In other markets, such as the rapidly advancing markets in Asia, free market entry has resulted in more modern banking practices, increased competition leading to cheaper and more readily available credit, and stronger financial institutions. Egypt is not over-banked.

- Eliminate government influence on the banking industry calling for lower interest rates on SME lending. Below-market interest rates reduce incentives for bankers to provide SME loans.

- Continue and accelerate privatization of the banking system to increase the level of competition and the services provided to the SME sector.

- Privatization should be complemented by an effort to reduce the dominance of these institutions by breaking them into smaller entities to encourage competition and innovation.

- Reduce the cost of funds to financial institutions by lowering reserve requirements to prudentially required levels. Coupled with an enhanced competitive banking environment and increased banking efficiency, this would result in lower current market interest rates. Potential money supply expansion could be controlled by open market operations of the central bank.

- Fully implement the new government regulations to require full disclosure in bank financial reporting via detailed audited annual reports and semiannual reports according to international standards. In the free and private banking market envisioned in Egypt's future, better information will draw more resources to the better performing banks, and improve the overall availability of credit.

- Improve supervision of banks to reinforce prudence and competition in lending. Enforcement of rules for provisioning and capital adequacy will allow banks that actively find and develop good borrowers to expand faster than banks with non-performing loans.

- Continue and accelerate the process of court reform, particularly the creation of special commercial courts.

- Modify current legislation to enable more flexible, secure, and inexpensive loan collateralization.

- Reform the SFD program to use its resources to stimulate a free market in the provision of financial services to small businesses by providing financial, rather than political, reasons for banks and other institutions to participate in this market.

- Draft new, modern legislation governing NGO financial institutions such as ABA. To attract wholesale funding from commercial banks, the legislation should allow these NGO financial institutions to obtain a legal status similar to that of a joint stock company while retaining their non-profit status.

- Donors and the Government should encourage the establishment of special units within banks to stimulate both wholesale and retail SME lending through the provision of subsidies to cover start-up costs.

- Donors and the Government should encourage the expansion of the private sector Credit Guarantee Corporation and the Export Credit Guarantee Company of Egypt rather than dilute their focus or compete with them through the establishment of a government Small Business Administration (SBA) program or similar programs.

- Trade liberalization policies should be accelerated to provide increased opportunities to the SME sector by, increasing competition among wholesalers of raw materials supplying many entrepreneurs operating micro, small, and medium scale enterprises.

- Provide incentives to marketing and/or trading companies which would assist in marketing the finished products for SMEs in both domestic and foreign markets.

- Provide incentives for investment in improved export preparedness of Egyptian exporters and potential exporters, particularly improvements production quality, quality, scheduling and pricing.

- Consider creation of an internal market for rediscounting trade bills, including the creation of bankers acceptances, by enabling the Central Bank of Egypt to act as "discounter of last resort" based on a market-driven interest rate structure which allows commercial banks to rediscount at a profit.

- Increase the frequency and variety of training courses related to international trade finance through the Bankers' Association and the Bank Training Institute at the American University of Cairo. Courses should be added which not only enhance the understanding of the special situation of SMEs, but also focus particularly on the additional hurdles they face in exporting, and the increased risk involved.

- Enact new legislation and regulations clearly permitting foreign-owned companies to export all Egyptian products regardless of who produces them and to import products for resale regardless of who the ultimate buyer will be.

- Focus primarily on providing financial and non-financial services to small and medium scale enterprises with growth potential. Findings of the study support that small and medium scale enterprises are the growth engines of the economy rather than microenterprises which are the typical income generation vehicles.

- Also focus on providing financial and non-financial services to young enterprises with growth potential. Young enterprises are typically those in their early stages of growth, in contrast to start-up enterprises which have a high degree of failure.

- Relax the non-financial constraints that limit enterprise growth. Tax laws, labor laws, marketing, and government bureaucratic procedures and red tape, were all suggested by entrepreneurs to present significant problems limiting their operations and growth. Improved access to input and output markets, more efficient government procedures, amended labor and tax laws that foster SME growth, would provide a more conducive environment for business development in general.

II. Study Overview

A. Objective of the Study

The objective of this study is to determine how to improve credit access for SMEs that export or have a potential to export. The study determines the main constraints to SME international trade and investment credit. While emphasis is placed on small and medium enterprises which could capture economies of scale, adopt modern technologies, and expand into export markets with improved access to financial sector services, the study will also include informal micro enterprises with export potential. In addition, the study will focus on the experience of and constraints facing financial institutions with SME financing, including special donor and the Government of Egypt (GOE) sponsored activities such as the Export Development Bank of Egypt (EDBE) and the Commodity Import Program (CIP). Various financial products of actual or potential significance to SME trade finance are explored, including pre-shipment and post-shipment trade finance, factoring, export credit guarantees, and bankers acceptances. These analyses provide the basis for recommendations regarding policy, legal and regulatory reforms, and special programs, which would improve the availability of international trade credit to the SME segment of the Egyptian economy.

B. Micro *vs* Small *vs* Medium Business - Size Definition

A wide variety of definitions segmenting micro, small and medium business by size were considered. The following breakdown was used in the interviews with managers of banks and non-bank financial institutions and in the survey of SMEs in an assessment of the demand for credit:

Medium	= 50-100 employees	and/or loan size of LE	100,000 to LE	250,000
Small	= 10- 49 employees	and/or loan size of LE	20,000 to LE	99,000
Micro	= 1- 9 employees	and/or loan size of LE	500 to LE	19,000

C. Methodology

This study focuses on international trade finance and complements a broader DEPRA report on financial reform entitled *Financial Reform for Small Business Development in Egypt*. The methodology employed was similar for both studies and included the following:

- reviews of relevant literature;

- interviews with officials from the Government of Egypt and donor agencies, private and public sector financial institutions and associations for background information. These background interviews took place largely in Cairo;

- interviews with private and public sector financial institution managers that supply credit to SMEs in Cairo, Alexandria, Port Said, Damietta, 6th October City, 10th of Ramadan City, and Fayoum, and included the Central Bank of Egypt, eleven commercial banks, three business and investment banks, two specialized banks and six non-bank financial institutions, including one specifically supporting export trade;

- interviews with 173 SME owners/managers, including a sub-sample of 29 exporters and 35 potential exporters to estimate the demand for trade credit. These interviews took place in greater Cairo, Alexandria and Fayoum. While the overall sample included firms involved in manufacturing, general services, hotel/restaurant and wholesale/retail trade, the trade finance sub-sample focused only on the following manufacturing subsectors with export potential: shoemaking, furniture/wood processing, textiles/garments, artisanal craft production and carpet weaving.

III. Globalization, Linkages and Egyptian Export Preparedness

A. Globalization.[1]

The economic integration of nations through trade and international productive resource flows has increasingly become a significant factor in accelerating economic development. Key to participation in the globalization trend is international competitiveness which has recently been defined as:

> *"..the ability of a country to produce goods and services that meet the test of international markets and simultaneously to maintain and expand the real income its citizens on a per capita basis."*

While Egypt has made laudable progress on the macroeconomic front since 1991, stabilizing its macroeconomy and launching a recovery from the damaging effects of socialism, it has been surpassed by many more outward-oriented, market-led nations, which by virtue of greater efficiency and dynamism, have proven more adept at attracting and allocating productive resources in the global market.

Foreign Direct Investment

(Average Annual Growth Rate, % p a)

	FDI 1990-95	GNP/Capita 1990-95
Egypt	- 4	3 3
Chile	24	13 9
Mexico	22	4 8
China	59	8 1
Indonesia	32	9 6
Philippines	23	7 2
Tunisia	28	4 9

Source Inaugural Yearbook 1997, DEPRA

Those nations joined global networks of production and distribution, mostly operated by multinational corporations, which have become major promoters of efficient specialization in production and trade. Instrumental in this linkage has been foreign direct investment (FDI), with its spillover effects of productivity, technology transfer, and market entry. FDI is now seen as export-promoting, especially in countries with open, stable economies with minimal foreign exchange controls and legal systems respecting private property rights. FDI in Egypt was estimated at US$598 million in 1996, 3.5 times that of 1991, but about half the level attained in 1994. FDI as a percentage of GDP in Egypt remains well below the rapid growth economies of Asia and Latin America.

Egypt has many hurdles to overcome to attract the greater levels of foreign direct investment that have proven to be significant in the development, particularly export development, of the East Asian

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[1] "Inaugural Yearbook 1997," Draft, DEPRA, 1997

economies. A recently completed study[2], which thoroughly reviewed Egypt's position vis-a-vis four other countries in the Middle East-North Africa region, provided a comprehensive list of recommendations for improving Egypt's macroeconomic environment further and for enhancing its ability to attract foreign direct investment. Implementation of these recommendations could be reasonably expected to have a positive impact on SMEs and the level of their exports.

Moreover, enhancing investment climates should not be one-time events, but a series of adjustments designed to keep continually improve a nation's competitive position in the ever-changing international marketplace. While the laws and regulations governing investment in Egypt have dramatically improved in recent years, further enhancements in completeness, clarity, integration and the use of incentives are possible. These changes would have a positive impact on SMEs and the level of their exports.

B. Improving the Foundation for Exports

An open, dynamic and competitive macroeconomic setting is vital to export success. Egypt has made great progress since 1991 in developing such an environment, but the following factors still inhibit exports[3]:

- High import tariffs (average 30% compared with 11% for Chile, for example);
- Anchored foreign exchange rate which is looking increasingly overvalued;
- Continued high level of public ownership in the economy inhibiting competition and innovation, particularly in state trading monopolies, in key export services such as port operations, and in the financial sector;
- Underdeveloped social and physical infrastructure inhibiting productivity;
- Overly bureaucratic and time consuming administrative formalities with the public sector causing high transaction costs at all levels of the economy.

Unless the above factors are vigorously addressed, improvements in the volume and variety of exports will come slowly, and have little effect on Egypt's competitive position, its ability to attract foreign direct investment and its integration into the world economy.

C. Egypt's Small, Narrowly Diversified Export Base

As mentioned earlier, Egypt's economy is in a recovery phase, one which began only six years ago. Decades of socialism stripped the nation of many of the advantages it formerly enjoyed and caused it to forfeit a not-insignificant position in global trade. This decline left the country poorly prepared to compete in the global economy as it entered the 90s.

Egypt: Merchandise Exports
($US Millions)

	1996	%
Total	4.6	
Petroleum	2.2	49
Other Traditional	.4	9
Non-traditional	1.2	27
Unclassified	.7	16

2 "Egypt: A Comparative Study of Foreign Direct Investment Climates," Development Economic Policy Reform Analysis Project, Nathan Associates Inc., 1997.

3 "Inaugural Yearbook 1997," Draft, DEPRA, 1997

It's pool of export entrepreneurs had dwindled to a small level[4], and most were poorly equipped to meet the sharpened price/quality demands of the international marketplace. The export base remained small and undiversified.

As will be noted in the subsequent section covering bank interview findings, export finance is not a major part of the financing picture of most banks in Egypt. This fact is a direct result of the low and declining portion of the economic activity in exporting and of the small base of exporters. While banks do not appear to be supplying a great deal of export finance, this is to some degree in response to the demand. Until the number of exporting firms rises and the level of exports grows, supply will remain small.

Egypt: Merchandise Exports % of Total, 1988-96

Year	Primary Goods Total	Manufactured Goods Total
1988	74	27
1989	69	31
1990	66	35
1991	70	30
1992	64	36
1993	78	23
1994	73	27
1995	55	45
1996	50	50

Source DE PRA, Inaugural Yearbook 1997

While the macroeconomic environment has improved dramatically in recent years, beginning to lay some of the foundation necessary to export-led growth, it is important to note that it takes time for changes at the firm level to catch up.[5] Although Egypt's economic recovery and structural adjustment program (ERSAP) commenced in 1991, many of the changes important to export competitiveness are more recent. If the experience in Korea is any indicator, it will be some years before many SME's begin to play an important role in exporting. Yet they can play a important role as illustrated in the box to the left, and could make a strong contribution over time towards halting and reversing the general decline in Egypt's terms of trade and "openness"[6].

SME Share of Total Exports: Non OECD Asia

1996	GDP $ US millions	Exports as % of GDP	Share of SMEs in total Exports
PRC	435,000	21	50*
Korea	285,000	27	40
Indonesia	128,000	23	11
Taiwan	210,000	44	56
Thailand	108,000	29	10
Malaysia	60,000	72	15
Singapore	46,000	138	16
Vietnam	14,000	7	20
weighted		11	35

Note * indicate estimate only Exports are direct exports by SMEs which understates the total contribution

D. Building Firm-level Export Preparedness.

4 The list of members of the Egyptian Exporters Association totals 61 and the Ministry of Trade's Egyptian Export Promotion Center lists 198 registered exporters. A World Bank report in 1995 estimated the number of exporters in Egypt to be about 400. The Export Credit Guarantee Company of Egypt also estimates the number to be 400.

5 Kim andNugent in their 1994 study entitled "The Republic of Korea's Small and Medium-Size Enterprises and Their Support Systems" indicated that, in Korea, the average number of years from a firm's start up to its first export, which usually occurred indirectly via another firm, was 6.3 years, and it took another 1.9 years to realize their firms direct export, a total of more than eight years.

6 Ibid. Openness is defined as a declining ratio of foreign trade/GDP: 74% in 1991 to 48% in 1996; declining share of world exports (.2% in 1985 to .07% in 1995) and imports (.5% in 1985 to .2% in 1995)

Export finance is important to success in exporting, but many other elements may be more critical. The most influential factors involve market knowledge:

- Market contacts with, and the confidence of, foreign purchasing managers;
- Understanding of the demands of the export markets regarding quality, quantity, price and delivery times.

Egypt's pool of exporters are weak with respect to market knowledge.

Equally important are the productive means at the firm level to meet these demands, particularly:

- Skilled management and labor;
- Competitively priced inputs;
- Modern equipment;
- Adequate capital.

Egyptian exporters and potential exporters are also vulnerable in many of these categories.

These firm-level weaknesses must be aggressively dealt with through accelerated training programs for enhancing the export preparedness of greater numbers of Egyptian companies. In the absence of an energetic campaign to prepare Egyptian businesses for the global marketplace, even the most innovative and inexpensive financial packages will have only limited effect on Egypt's competitive position, export growth, and further integration into the international economy.

E. Linkages with Transnational and Trading Companies

1. **The Benefits of Linkage**. Japan and Korea offer excellent examples of the benefits to SMEs and exports of linkage with large industrial and trading firms. In Japan, two distinct kinds of SME have evolved, those operating independent of large firms, and subcontractors closely tied to a single "parent" company. The latter are more numerous and vitally important suppliers to manufacturers and export trading companies. In Japan, SMEs account for 99% of all workplaces and employ 79% of the workforce. In manufacturing, the figures are 99.5% and 74%, respectively. With less than half the population of the USA, Japan has more than twice as many manufacturing establishments.[7]

	GDP US$ millions	Exports as % of GDP	% of SMEs in Exports
Japan	3,337,191	12	14
Korea	285,000	27	40

[7] Evans, David Ferguson, "Japanese Small and Medium-Sized Enterprises in Japan and East Asia," 1995. In Japan, the definition of SME, in terms of employment, depends on their sector: manufacturing, < 300 employees; retailing and services, < 50 employees; wholesaling, < 100 employees. In comparison, the American SBA considers a "small business" to be an entity with < 500 employees, about 99% of U.S. manufacturers, and the European Commission categories SMEs as follows: small- 20 to 49 workers, small/medium - 50 to 99 workers, and large/medium - 100 to 500 workers. In Germany, firms with < 500 comprise 99.8% of all businesses

The pattern has been the same in Korea where 2.6 million enterprises have no more than 300 employees. Eighty-seven thousand of these have more than 5 but less than 300 employees. SMEs account for about 99% of the manufacturing establishments, 69% of the employment, 48% of production, 50% of the total value added and 43% of exports.[8] Again the relationship between SMEs and larger manufacturing and trading houses is well established.

The march of Japanese and Korean manufacturing overseas, which brought benefits to local suppliers in Southeast Asia, China, South Asia and elsewhere, can be seen as an extension and refinement of what began at home. Demands in those foreign production bases for more local content triggered the transfer of technology, training, management skills and financial relationships.[9] Japanese, Korean and other multinationals manufacturing in other East Asian countries have become increasingly inclined to use local suppliers.

Not surprisingly, the benefits of these relationships, whether in the internal markets of Japan and Korea or in their production sites abroad, have been bi-directional with the large manufacturers benefiting from the lower costs and flexibility offered by SMEs, and SMEs "importing" technology, training, capital and market access, both domestically and internationally, in return. In almost all cases, these affiliations have brought SMEs:

- "imported" technology which has
  - increased productivity;
  - brought better product quality, customer satisfaction and production processes;
  - improved inventory control;
  - improved packaging;
  - more innovative marketing;
- "imported" management
  - increased training, raised skill levels and generally improved working conditions;
  - diversified products and markets;
  - improved integration with suppliers and customers;
  - improved financial and market information;
- for an overall contribution of:
  - higher revenues and profits;
  - greater availability of foreign exchange where the firms compete internationally;
  - less business violability;
  - improved resource management and flexibility through planning.

The move towards greater use of local suppliers has also been true of the large Japanese trading companies who increasingly seek "two-way flows." Japanese trading companies such as Mistui, C. Itoh and Marubeni are generally part of industrial groups with worldwide reach and global appetites for raw materials and other tradable goods. They, and to a lesser extent their

[8] Korean Small & Medium Business Administration, 1997

[9] Evans.

counterparts from Korea, with international market intelligence networks of unparalleled scale, are well positioned to provide the above-mentioned benefits as well.

2. **Linkages in Egypt**.[10] A 1993 report by IFC and the Foreign Investment Advisory Service of the World Bank concluded the following about linkages between Egyptian and foreign firms:

- present in all sectors;
- of seventy-eight companies surveyed with linkages , 73% were private, 18% public and 9% joint venture;

The benefits of these linkages included:

- revenues, often in foreign exchange, have increased because of higher sales to foreign firms in Egypt and abroad;
- in all cases productivity increased dramatically due to sharper focus on better product quality, customer satisfaction and better production processes;
- improved inventory control practices;
- better packaging;
- greater attention to marketing;
- better office technology;
- greater attention to human resource development;
- increased market diversification;
- improvements have filtered down to suppliers, which tend to be SMEs, who were required to mirror the quality and delivery requirements of the exporters to the European buyers.

However, the study concluded that, though such linkages existed, they were relatively rare for the following reasons:

- **government policies**. The major impediment to linkage development, which according to the study, should be removed as soon as possible, is the weakness of the market economy. More specific policy impediments relate to local content requirements, locational controls, and establishment and operations licensing.

- **business practices**. Parochial mentality among many civil servants and many businessmen. There was a lack of familiarity by many Egyptian businessmen, and government bureaucrats involved with economic management, with the international market place and how it functions.

The process of obtaining partners or suppliers in Egypt for foreign companies was described as cumbersome and lengthy, and the results are often incomplete. Many companies who are potential linkage partners are not part of an accessible linkage network because of the lack of information.

[10] "Linkages Between Egyptian and Foreign Firms," 1993, IFC and FIAS

The report indicated that foreign companies wishing to establish production facilities go through bureaucratic, lengthy procedures, vague regulations, and inconsistent interpretations of regulations by government employees. Foreign firms contacted abroad about their applications for the industrial free zones in Alexandria and Cairo indicated that they were misinformed about regulations governing foreign investment. Their overall impression was that they were being discouraged from investing in Egypt.

There has recently been an increase in interest on the part of Egyptian businessmen in forming joint venture import/export trading companies with their contacts abroad. Discussions are apparently afoot with contacts in South Africa, China, Russia, Germany and Saudi Arabia. The rationale for these companies appears to be based more on personal relationships and knowledge of specific bi-directional trade opportunities between these countries and Egypt. While individual cases may involve trading partners with strong financial positions, or beneficial banking connections in their respective countries, these nascent efforts at developing trading companies do not appear to be based on any special trade finance mechanisms or resulting from perceived shortcomings of trade finance instruments available in Egypt. None of these efforts appears to date to have gotten to the stage of a legal operating company, however, these efforts represent proactive efforts to build better linkages and should be continued.

Egypt has made great strides in putting its macro-economy in order. However, it will not achieve the growth rates necessary to the welfare of its future populations without accelerating its integration into the global economy. In order to achieve this, it must rapidly and dramatically improve the environment for foreign investment, and must aggressively seek transnational partners in manufacturing and international distribution (export trading companies). While unilateral, company-to-company links will benefit Egyptian trade, they are unlikely to develop rapidly enough in numbers of trading relationships or trade volume to impact export growth to the extent that a comprehensive effort to attract foreign direct investment would.

3. **Legislation Related to Linkages**. There are indications that Egypt could go further in attracting the trading companies that have played a significant role in the development of SMEs in other parts of the world.

A May, 1995, World Bank report[11] concluded, after a review of seven pieces of relevant legislation and implementing regulations[12], that foreign-owned companies doing business in Egypt could not operate as import and export trading companies, that is companies buying goods locally from third parties for export and/or importing goods for sale to third parties.

[11] "Arab Republic of Egypt: Economic Policies for Private Sector Development," Volumes 1 & 2, 1995, World Bank, p. A50.

[12] Article 4 of the Import and Export Law (Law 18 of 1975), Article 63 of the Ministry of Economy and Foreign Trade's Resolution No. 275 of 1991 implementing Law 118 of 1991, Article 2 of Law 34 of 1976, promulgating the Commercial Registry Law, Law 230 of 1989, Law 159 of 1981, Decree 120 of 1982, and Decree 121 of 1982.

Legal research[13] by the DEPRA Project undertaken in December, 1996, concluded that although Article 4 of Law 98 of 1996 amended the Commercial Register Law (No. 34 of 1976) to allow foreigners to export, it remains unclear whether this amendment enables them to export for the accounts of others, that is, act as an export trading company. It appears to limit foreigners to exporting for their own account.

Furthermore, a recent review of:

- Law No. 8 of 1997, known as the Investment Guarantees and Incentives Law,
- Prime Minister's Decree No. 2108 of 1997 promulgating the Executive Statutes of Law No. 8 of 1997, and
- A preliminary contract and Articles of Association of a joint stock company organized according to Law No. 8 of 1997,

found nothing in this new investment law or its regulations which would allow a foreign-owned company organized under that law to operate as an import and export trading company. On the contrary, the wording appears to limit foreign-owned companies to import and export trading only for their own account.

Another decree, reported to have been issued recently by the office of the Prime Minister, apparently contains wording which allows foreign-owned companies in Egypt to operate as export trading companies, that is, exporting products produced by others. If this is the case, it is a step in the right direction. However, this decree reportedly only addressed exports, and if so, the law continues to prohibit foreign-owned companies from importing goods for the account of others.

One might conclude at least two things from the above legal analyses:

- that foreign trading companies, of significant potential importance to Egypt's small and medium enterprises in the transfer of technology, skills, capital and market information, appear to still be precluded from conducting full international trading operations for the accounts of other in Egypt; and

- that, by virtue of the fact that so many laws and implementing regulations had to be consulted in order to come to the previous, still indefinite conclusion, further enhancements to the Egyptian laws and regulations governing foreign investment might be made.

[13] DEPRA memo dated December 11, 1996 entitled "Status of SPR Policy Measures: Foreign Owned Trading and Import-Export Services Companies."

IV. The Supply of International Trade Finance for Small Business in Egypt

A. Overview of the Financial Sector

While debt capital is available to a limited extent from insurance companies and relatively few bonds placed privately and through the Cairo Stock Exchange, the Egyptian banking sector provides the great majority of credit in Egypt. The banking sector consists of the Central Bank of Egypt, 28 commercial banks, 29 business and investment banks and 6 specialized banks.

At the end of 1996[14], the system had assets of LE391 billion distributed as follows:

The Egyptian Banking Sector

	Assets	Deposits	Credit
Commercial Banks	53%	88%	77%
Business and Investment Banks	10%	9%	13%
Specialized Banks	4%	3%	10%

Commercial banks, both private and public, control the majority of the financial assets in Egypt, hold nearly ninety percent of the deposits, and provide more than three-quarters of the credit available in the country.

Credit Facilities by Beneficiary Sector

	6/95	3/96	6/96	2/97
Government & public business sectors	39%	38%	36%	35%
Private business sector	47%	49%	50%	51%
Households & foreign sector	14%	13%	14%	13%

For most of the past thirty-five years, the government and government-owned banks and enterprises have dominated the credit markets. However, primarily due to improvements made under the ERSAP, private business borrowing accounted for more than fifty percent of the credit extended in 1996[15], as indicated above. Credit to private business grew at a rate two to three times that of government borrowing in 1996. Commercial credit tended to be largely short term, with nearly seventy percent having a maturity of less than one year.[16]

B. The Egyptian Banking System

Prior to 1961, Egypt's banking system was largely private, but in that year, twenty-seven commercial and specialized banks were nationalized. By 1964, the number of banking institutions had been reduced to four government-owned banks. In the early 1970s, a series of laws began a general

[14] Central Bank of Egypt, Annual Report, 1995/96. The remaining 33% of the banking system's assets are held by the Central Bank of Egypt.

[15] Ibid.

[16] El-Rafaie, Faika, 1997, "Financia Intermediation: Efficiency of the Egyptian Banking System," The Egyptian Center for Economic Studies

economic liberalization which affected the banking industry. Banking Law 97 of 1996 allowed foreign banks to own more than 49% of the issued capital of any bank.

As part of the Economic Reform and Structural Adjustment Program (ERSAP) that began in 1991, the Government of Egypt has initiated a set of financial reforms which include the following elements:

- Elimination of interest rate controls;
- Elimination of foreign exchange controls;
- Abolition of credit ceilings;
- Elimination of non-commercial, directed credit to public enterprises;
- Foreign banks and their branches were permitted to deal in local currency;
- Enhanced prudential regulations and bank supervision.

In general, these moves served to strengthen the banking sector. Combined with initiatives to privatize state-owned enterprises, revitalize the stock exchange, and provide better liquidity management, these elements have made greater volumes of credit available to the private sector, including small and medium enterprises. The overall macro economic environment, particularly freer markets and lower inflation, have generally benefited all enterprises.

C. Concentration of Financial Power in State-owned Commercial Banks

Despite the progress stimulated by the ERSAP, an analysis of the financial information available from the commercial banks and the Central Bank for fiscal years 1995 and 1996 indicates the following situation:

- The overwhelming majority of commercial bank assets, loans and deposits continue under the control of government institutions. Four government-owned commercial banks, National Bank of Egypt, Banque du Caire, Banque Misr and Bank of Alexandria, dominate the financial sector with more than half of all loans and advances outstanding. When one adds to this figure the Principal Bank for Development & Agricultural Credit (PBDAC), a government-owned specialized bank, the percentage jumps to more than sixty percent. These five banks control 89% of the bank branch outlets in Egypt and 69% of the bank deposits in the country. Preliminary figures indicated that dominance of the government-owned commercial banks has not significantly dropped in 1997. However, government participation in banking sector has been reduced through the privatization of the joint venture banks.

- These government institutions continue to lag significantly behind their private sector counterparts in almost all areas of performance:

1995 Profitability Measures

	5 State Banks	Private Banks		5 State Banks	Private Banks
Return on assets	3%	1 7%	Loans/branch	LE42,000	LE133,000
Return on equity	4 2%	23 2%	Loans/employee	LE1,095	LE2,073
Deposits/branch	LE73,000	LE164,000	Profit/branch	LE200	LE4,400
Deposits/employee	LE1,925	LE2,851	Profit/employee	LE41	LE731

LE figures are in 1,000s

In general, the public commercial banks do not appear to be progressive in offering modern services. They practice anti-competitive practices such as offering subsidized interest rate loans, and generally do not price their loans consistent with risk. Their dominance does not foster an environment of competition essential for improved customer services.

- In addition, a very large portion of the non-performing assets of the financial sector appears to be concentrated in the state-owned commercial banks, and these institutions do not appear to be taking aggressive steps to purge their balance sheets of these bad loans.

Privatization of the state bank ownership positions in joint venture banks, which account for about a quarter of the commercial branches in the country (excluding the PBDAC network) is a positive move, but is not yet complete. The government has announced plans to privatize the state banks themselves, but progress in this has been minimal.

Despite indications that the number of bank branches per thousand people appears to be below regional standards[17] and the world average[18], the Central Bank of Egypt is apparently not allowing additional foreign banks entry into the local market. Instead, the Central Bank favors further branching by existing banks. A number of bankers interviewed indicated that the Central Bank is far less likely to approve new branch applications from private banks as compared with state banks, or is likely to take an inordinately longer time in approving such applications. Because most of the lending to small and medium business appears to occur at the branch level, this appears to limit the credit available to small and medium business.

In short, the availability of credit to all sizes of Egyptian enterprise appears to be constrained by the fact that most of the financial assets of the nation are under performing. This appears to be the result of:

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17 Baydas, 1996. Baydas indicates that the comparable figure for Lebanon is 5,664 persons per branch. Internet research indicates that Jordan has approximately 9,800 persons per branch, and The Philippines, 12,500 per branch.

18 El-Rafaie, Faika, 1997, "Financia Intermediation: Efficiency of the Egyptian Banking System," The Egyptian Center for Economic Studies. El-Rafaie's figures indicate that in Egypt there are 26,567 persons per branch, and even the major population centers, where most of the branches are located, are under banked (for example, Cairo is about 18,205 persons per branch. The world average appears to be below 5,000 persons per branch.

- their over-concentration in a limited number of state-owned financial institutions;
- the lack of modern managerial practice in the state-owned financial institutions and in some private institutions. For example, in none of our discussions in state-owned banks did managers refer to the output records of computerized financial reporting systems. Several mentioned that such reports were not available to them and/or their operations were not computerized;
- loan write off policies which are inconsistent with the loan performance. Some state banks appear to be rolling over delinquent loans to government business entities rather than writing them off. This practice is not uncommon in government-owned financial institutions world wide;
- the lack of competition in the financial sector. Egyptian government banks appear to offering a limited range of traditional products to their customers. A highly competitive banking system would be offering a wider range of service. In addition, many of the government bankers we spoke to did not appear to have any targeted or aggressive marketing programs for their SME lending;
- limited and inconsistent financial reporting. Information stimulates competition. The financial reports of government-owned banks do not disclose much information making meaningful analysis and comparison difficult. In addition, detailed information is important for investment decisions. Variations in the lof disclosure, and inconsistency in presentation, will ultimately affect investment decisions, particularly when state banks are privatized. Full disclosure would encourage investment and broaden the supply of funds to the banking sector.

D. Banking Legislation. The Egyptian banking system is guided by the following legislation[19]:

- Law No. 120 of 1975 regarding the Central Bank of Egypt and the Banking System,
- Presidential Decree No. 59 of 1993 issuing the Statutes of the Central Bank of Egypt,
- Presidential Decree No. 187 of 1993 issuing the Executive Regulations of the Banks and Credit Law,
- Presidential Decree No. 205 concerning the Law of Confidentiality of Bank Accounts,
- Law No. 97 of 1996 amending some provisions of the Banks and Credit Law issued in Law No. 163 of 1957 and Law No. 120 of 1975 regarding the Central Bank of Egypt and the Banking System.

A review of this banking legislation may be found DEPRA's complementary report entitled, *Financial Reform for Small Business Development* in *Egypt*.

E. Interview Findings

1. General Findings

a. Sample Size. The interview sample consisted of seven government-owned banks, four of which are large commercial banks, two are specialized banks and one is classified as a business and investment bank. Interviews at these banks included senior managers in the head offices and, in the case of the commercial banks, the managers of branches in outlying areas such as 6th of October City, 10th of Ramadan City, Damietta, Port Said, Alexandria and Fayoum. The sample also included ten private and/or joint venture banks located in Cairo and Alexandria, of which seven are commercial

19 "Banking Legislation," The Central Bank of Egypt, December, 1994 and subsequent updates

banks and three are business and investment banks. Collectively these banks represent 74% of the assets, 82% of the deposits, 87% of the loans and 86% of the branches in Egypt, most of course controlled by the public banks.

b. Definitions. During the course of the interviews with bank managers, it became apparent that each of the banks had its own definition of how to classify credit business by size. The definition of micro, small and medium businesses was different with each bank, and could differ even within the same bank depending on which manager was interviewed. For example, the definitions used by senior management at the headquarters of one state-owned bank differed with that of the branch managers of the same bank outside of Cairo.

In addition, few bank managers classified businesses by employee size. Typically, they classified them by the size of loans given, but even this definition was imprecise because the same borrower might have had several loans of vastly different sizes. It could be concluded that the best classification criterion might be the relationship size, that is, the size of the total credit relationship with a customer. For example, a large customer is likely to have many loans, some of which may be significantly smaller than others. Conversely, a small business, may have one or more large loans more associated with medium scale business, depending on the nature of his industry. Unfortunately, the data systems of the banks interviewed did not seem to desegregate loans outstanding in this format.

Most bank managers interviewed resorted to describing the breakdown of their loan portfolios by size of loan. The estimates of total volume of credit available to each of the three size categories, micro, small and medium, provided in subsequent sections, are based on these estimated breakdowns.

c. Data Quality. With one exception, at a private bank, none of the bank managers interviewed referred to any form of computer printout when estimating the breakdown of their loan portfolios by loan size. Therefore, the estimates of total volume of credit available to each of the three size categories can be viewed as very rough estimates. Despite the wide variation in the quality of loan data, the interviewees provided very useful information regarding their:

- attitudes toward micro and small business,
- approaches to handling it,
- views on collateral,
- constraints to making additional credit available to these firms, and
- suggestions for making additional credit available to these firms.

There was a surprising level of consistency among interviewees on many of these issues.

2. Findings: Commercial Banks

a. Supply of Export Trade Finance to SMEs. The complementary report entitled *Financial Reform for Small Business Development in Egypt* provides a more thorough discussion of the findings related to the domestic lending of commercial banks. That report estimates that the sample group of banks had approximately LE5.9 billion, 6.4% of their collective portfolios, outstanding to the SME segment of the economy at the end of 1996 distributed as follows:

	LE billions					Egyptian	-----------Total Sample Group----------			
	SME	Medium	Small	Micro		Credit	SME	Medium	Small	Micro
Public banks	4 3	2 5	1 2	60		66%	81%	81%	78%	94%
Private banks	1 6	1 0	5	04		34%	19%	19%	22%	6%
Totals	5 9	3 5	1 7	64	% of collective portfolio		6 4%	3 8%	1 9%	7%

Based on the relative size of credit available from public and private institutions in the banking system, it estimates that SME credit was approximately 5-6% of all credit extended by banks in 1996. That report also discusses more general, non-trade findings with regard to the sample banks, many of which also have relevance to SME trade finance. For example, bank attitudes toward SME lending, many of which are negative, and bank collateral policies, also apply to lending to SMEs to finance imports and exports.

According to the Central Bank, it keeps no statistics on trade finance or on the volumes of letters of credits, either export or import.[20] Export Credit Guarantee Company of Egypt estimates that 85% of Egypt's exports, excluding petroleum exports, are done under letters of credit. The remaining 15% are done on open account or documentary collections. Of the 85% covered by letters of credit, 80% are done with pubic sector banks and companies. In 1995, the figures were 90% and 10%, respectively, perhaps indicating some slight improvement in the trading relationships of Egyptian exporters.

It has been estimated that Egyptian exporters would need pre-shipment and short-term post-shipment export finance of approximately $2 billion equivalent annually assuming that non-petroleum exports rise to $3 billion annually.[21] In 1996, they were $2.4 billion.

In 1996, exports were 3.6% of total credit outstanding and 5.2% of short term credit outstanding, respectively.[22] On the assumption that trade credit is distributed among medium, small and micro enterprises in the same proportion as overall credit, a straight application of the latter figure (5.2%) to the estimates of overall credit available to the SME sector yields the estimates presented in the box at the right. Since there was no mention by the banks, by National Bank for Development (NBD) in particular, or by the Social Fund for Development of any meaningful

[20] This was corroborated in discussions with ECGE.

[21] Rhee, Yung Whee, "Key Role for Trade Finance in Transition and Developing Economies," World Bank, FPD Note No. 26, 1994.

[22] Only three banks for which annual reports were available reported export letters of credit separately. On average, over the two to three years for which these figures were available at these banks, export letters of credit averaged about 7% of credit outstanding at year end.

amount of financing for microenterprises involved in exporting, the figures for micro business may be overstated.

Estimated SME Trade Credit: 1996

LE millions

	SME	Medium	Small	Micro
Public banks	249	148	69	31
Private banks	57	35	20	2
Totals	306	183	90	33
% of portfolio	3%	2%	1%	04%

It is estimated that the total volume of trade finance to SME borrowers is an insignificant .3% of total credit outstanding. This is consistent with an extremely small number of exporters, and a narrow base of export industries, with still fewer industries in which SMEs would be active. It is also consistent with the reality that few SMEs have the market contacts and technical knowledge to produce the quality, quantities and delivery schedules necessary for success in exporting.

b. Bank Survey Findings Directly Related to Trade Finance. All banks in the sample reported offering basic trade finance services to their borrowers as follows:

- Import Letter of Credit Services - advisement, confirmation and payment services;
- Export Letter of Credit Services - issuance and collection services;
- Pre-shipment trade finance - short term facilities, usually up to 180 days and usually extended via overdraft lines, to finance working capital requirements of the exporting entity. Normally extended in multiple stages against a letter of credit in percentages ranging from 10% to 100% of the value of the letter of credit depending on stage of production. Few banks indicated extending credit solely on the basis of LC backing, however. Most required the collateral in addition to the letter of credit;
- Post-export finance - available for terms of up to seven years;
- Foreign exchange trading.

Almost all of the banks indicated that small and medium businesses use their international services, but none could quantify the volume of usage. In particular, there were no figures readily available for the volume of pre-export and post-shipment financing being conducted. Many bankers report that they did not know the ultimate purpose to which the proceeds of their loan were being put as their export clients frequently produced for the domestic market as well.

The pricing on pre-shipment financing was generally the same as that for short-term financing, that is 12%-15%, and was usually 90-180 (in one case 360 days was mentioned) credit provided against a letter of credit. It was typically done on an overdraft line basis backed by other collateral in addition to the LC. Advances against letters of credit usually amounted to 50-70% of the value of the export, but the range was 10%-100%, depending on the stage of export production being financed. There was wide variation in the fees quoted for services. For example, fees on negotiations of import letters of credit ranged from .2% to 2.3%. At the upper end of this range, these quoted fees are high by international standards.

Most bankers stated that there was no difference in the terms and conditions offered to small business for export financing. Only one bank, the National Bank of Egypt, mentioned specialized products like factoring and forfaiting, but even here, this type of business did not seem to be frequently used. Two-thirds of banks indicated that international services were available at all of their branches. In practice, the branches often deal with international business by referring clients to more centralized operations in regions or the head office where trade expertise is resident. These aspects of Egyptian banking do not seem unusual by developing world standards.

Almost all banks felt that one of the solutions to increasing the supply of credit to exporters is to make subsidized credit available to them through the Central Bank or some other conduit. The Central Bank of Egypt indicated that the LE 50 million subsidized loan to finance exporters is available to commercial banks from the National Investment Bank. The level of usage of this line of credit was not determined, however, a number of banks expressed a desire to access this line, indicating that it may be exhausted. The Export Development Bank, which was among this group, also indicated that it was using a subsidized loan from the Central Bank of Egypt. This loan facility, which was primarily to be used to provide longer term credit to exporters, is no longer available for new projects.

The addition of new products such as bankers acceptance (BA) financing could be useful to stimulate lending to small business, so the banks interviewed were asked about this product. Almost half of the banks either did not know about bankers acceptance financing or stated that this method of financing was not available. The lack of activity in this product area may reflect low trade volume at these banks rather than the lack availability of BA credit lines from foreign banks. The remaining bankers indicated that they had BA lines from their correspondent banks, but only used them when the rates were favorable or when they needed dollar or British pound liquidity. They indicated that since liquidity has not been a problem for most Egyptian banks for sometime, they were not active in BA refinancing.

Of the banks interviewed, National Bank of Egypt, Misr Bank, Banqu du Caire, Bank of Alexandria, Misr International Bank (MIB) and Export Development Bank appeared to be the most active as suppliers of export financing. In addition, Commercial International Bank (CIB) and Misr Iran Development Bank were seen by competitors as being active. CIB was cited as being particularly aggressive, which is consistent with its extraordinary performance.[23] Most of Misr Iran Development Bank's business is said to be tied to Egypt-Iranian trade.

c. The Export Development Bank of Egypt (EDBE). The Export Development Bank of Egypt is a joint stock company founded in 1985 under Law 95/1983. Originally owned by five government banks, the National Investment Bank (40%), the National Bank of Egypt, Bank Misr and Banque du Caire , each with 15%, and Bank of Alexandria (13.2%), EDBE's public bank ownership had been reduced to 44.5% by June, 1997.[24]

[23] CIB's 1995 profit of LE218 million was more than twice its nearest rival (MIB), and equal to the combined earnings of the four state-owned commercial banks (excluding PBDAC). This was not an aberration since in 1996 profits rose to LE241milliion, three times that of NBE and five times that of Bank of Alexandria. This, and MIB's performance, next most profitable, is consistent with an active international trade bank which earns considerable fee income from international trade services.

[24] Egypt: Country Profile and Capital Market Update, CIIC, August, 1997

EDBE is subject to the Banking and Credit Law 163/1957, to Law 120/1975 regarding the Central Bank and the banking sector, and to Law 159/1981 governing joint stock companies, limited partnerships and limited liability companies. Its mission is the promotion and development of Egyptian exports. To accomplish this it engages in export project and export trade financing, export promotion and export information dissemination.

EDBE, then still majority government-owned, received support from the World Bank (WB) at its inception in 1983. To help strengthen EDBE and promote export-oriented enterprises, the WB made a US$125 million loan available to EDBE in 1984. The project was initially designed on the premise that EDBE would play the role of an apex institution channeling the funds through four participating banks. Due to lengthy negotiations regarding who would assume the foreign exchange risk and the limited demand for the loan funds, three of four participating banks were not able to disburse any loans and withdrew from the project and EDBE and Banque Misr assumed the roles of the retail institutions disbursing the loans to the final borrowers. By the end of the project date in 1994, only US$47 million was disbursed. The reasons limiting the demand for the WB loan funds included other cheaper sources of funds available to the participating banks which created a widespread distortion of interest rates, the foreign exchange risk that would have to be assumed by the borrowers if they took their loans in foreign currency, and the overall sluggish investment environment.[25]

Export Development Bank

	as of 6/30/96	1995[a] Rank
Assets	LE 1,942 million	14
Deposits	LE 1,396 million	19
Loans	LE 1,343 million	11
Equity	LE 189 million	12
Profit	LE 37 million	17
Branches[b]	3	24

[a] Among the top 25 banks in the 1995 ranking by the American Chamber of Commerce of Egypt, as modified The 1996 ranking is not yet available

[b] Cairo, Alexandria, 10th Ramadan City; October City opening end of 1997

In 1995, its 11th year of operation, EDBE's balance sheet showed the profile presented in the box at the left. Since EDBE's total assets were slightly lower in 1996, it might be concluded that the bank lost ground against other banks in that year. Financing export trade remains EDBE's most important function as indicated by the figures in the box to the right. Normally, a heavy concentration in international trade would afford opportunities for fee income which could yield higher profitability. EDBE's lackluster performance, in contrast to CIB and MIB, is probably due in part to its limited branch network. However, it may also be due to residual management styles held over from the period of government control.

Export Development Bank
Loans outstanding by trade type

	6/96	%
Export LC	655	49
Import LC	423	32
Non-LC Exports	151	11
Other Loans	114	8
Total Loans	1,343	

Generally, EDBE advances 80-90% of the value of letters of credit to finance the pre-export demand of its clients. Seventy-five percent of its lending is for periods of less than one year. Credit facilities, which represent about 73% of EDBE's loans, are structured as lines of credit with overdraft sub-lines. However, overdraft borrowing is minimal. Drawings under these lines are for 6 to 18 months, and are priced 1-3% over the cost of funds (estimated to be 10%). These lines are used for financing the pre-export and post-shipment requests of the clients.

25 "Implementation Completion Report: Export Industry Development Project," 1995, World Bank

Export Development Bank
Distribution of Medium Term Credit

45%	spinning/weaving (8%[a] of 1996 Egypt's exports)
32%	tourism
9%	engineering (3% of 1996 exports)
8%	chemical (3% of 1996 exports)
7%	food (3% of 1996 exports)

[a] cotton yarn, cotton textiles & ready-made clothes

Medium term loans, which represent 24% of total loans, are typically to medium and large businesses for up to 7 years with up to 3 years grace, and are also priced at 1-3% above cost with an additional 1% commitment fee on unused balances. These loans typically finance the fixed asset portion of local export projects. Approximately LE49 million of this business is still outstanding loans financed through the aforementioned Central Bank of Egypt subsidized loan facility to support exports. EDBE identified two other sources of credit which it described as "subsidized": the European Investment Bank, an untied Egyptian pound line at 9.8%, and Arab Export Fund, a line for exports to Arab countries denominated in US$ and priced at LIBOR + .25.

EDBE estimates that 70% of its borrowers are large firms with more than 100 employees, and most have more than 200 employees. The average loan size is estimated to be LE500,000. EDBE's minimum loan size is generally LE50,000, through it has made exceptions. It does no SFD funded lending, and does no other microfinance business.

EDBE indicated that USAID had previously extended a facility on which they charged a 2-4% spread, but it has expired. New lines of credit from African Development Bank and the Ministry of Agriculture, targeted for agriculture and fishing, are expected soon.

EDBE made several suggestions regarding reducing the cost of export finance. They indicated that they did not have any short term export rediscount line of credit from the Central Bank of Egypt, but that they would use such a line if it were available and priced attractively. They also indicated that the MOE has promised a LE150 million line from public sector banks, presumably at subsidized rates, but this has never materialized. They would like to seek another LE250 million via the CBE rediscount window and from NIB via a subsidized-rate term loan. Finally, they would also like to raise additional financing by issuing export development bonds through the Ministry of Economy. These bonds would be guaranteed by EDBE, an approach which would allow them to raise this money without affecting their debt-to-equity ratio since the liability would be contingent.

Interestingly, EDBE indicated that it had encountered increased competition in the market for export credit from Commercial International Bank (CIB), which was pricing its loans very aggressively. They felt that CIB was able to do this by issuing low cost equity (at the end of 1996 CIB's equity was roughly six times that of EDBE), yet their strategy for raising funds, as mentioned in the previous paragraph, did not include the equity option.

Other interests of EDBE include:

- Export Credit Guarantee Corporation (ECGE), 98% of which is owned by EDBE, and which provides export credit guarantees and insurance; and

- Export Development Trading Company (EXPOD), which is an export trading company jointly owned by EDBE and a group of local businessmen.

According to EDBE, Egypt's major constraint in exporting is not the lack of export credit but rather its weakness in export production, particularly in quality, volumes and delivery scheduling.

Assessment. Originated as the national export bank, EDBE has not been a high performing bank. It offers basic international trade credit and other services, primarily to exporters. It has a limited branch network, and does not have a high concentration of small and medium borrowers. It is expected that the recent privatization of the EDBE will result in improved operating performance and growth in its branch network thus making more resources available to exporters, including small and medium exporters.

d. **Commodity Import Program**. USAID sponsors the Commodity Import Program (CIP) which provides approximately US$200 million to support Egyptian imports from the United States. This program is administered through the commercial banks. This line is very active, and usage of the CIP facility is concentrated in progressive banks such as Commercial International Bank (29% of the total) and six other banks.[26] It is not targeted in any way to support the imports of Egyptian exporters.

3. Findings: Non-Bank Financial Institutions and Specialized Programs

a. **Programs not related to Exporting Per Se**. The following non-bank financial institutions and specialized programs were included in the interview program for study as alternative models for increasing the supply of credit to small enterprises. The findings with regard to these models are more generally discussed in the complementary DEPRA report entitled *Financial Reform for Small Business Development in Egypt*:

- NGO Model: Alexandria Business Association
- Bank Microfinance Unit Model: National Bank for Development
- Credit Guarantee Model: Credit Guarantee Corporation
- Government Subsidized Interest Model: Social Fund for Development
- Leasing Model: Orix Leasing Ltd.

With respect to trade credit for SMEs, only the Alexandria Business Association indicated any involvement with exporting and this was minimal. Its primary involvement included acting as a facilitator for introducing some of its borrowers to exporters as potential production groups. This role was primarily with regard to garment production. ABA could not quantify how much of its lending was for export activities, but suggested that the amount was very small. The National Bank for Development does some lending for export trade but this is not conducted through its

[26] USAID/Cairo. Seven banks (CIB, NBE, Banque du Caire, MIB, Banque du Caire Barclays International, Bank of Alexandria, and EDBE) accounted for 78% of the usage during the 12 month period ending May 31, 1997.

microfinance units. The Credit Guarantee Corporation has been considering entering the export credit guarantee business, but has not done this type of business to date. SFD reported no significant borrowing related to exporting, however, as indicated in the demand section of this report, some SFD borrower used their loans for export purposes. Orix Leasing Ltd. is only just beginning its operations, but there is certainly nothing in principal which would preclude leasing from being an important source of finance for SME export businesses.

b. **Export Credit Guarantee Company of Egypt (ECGE)**. Established in 1992 as a joint stock company with a life of fifty-years under special Law 21, the Export Credit Guarantee Company is 98% owned by the Export Development Bank and other government enterprises, including the National Investment Bank, Misr Insurance Company, Al Chark Insurance Company, and the Ahlia Insurance Company. The other 2% is in private hands. Ownership is limited to Egyptians or legal entities wholly owned by Egyptians. The company has an authorized capital of LE50 million and a fully subscribed, issued capital of LE10 million. ECGE may also issue export guarantee bonds, the first issue of which raised LE50 million in 1992 at an interest rate of 5%. The National Investment Bank was obligated by Law 21 to buy this issue which is redeemable only after the expiration of ECGE.[27]

ECGE's purpose is to encourage and promote Egyptian exports through guaranteeing[28] the export of national commodities and services against commercial and non-commercial risks by indemnifying the exporter for losses incurred as a result of the occurrence of any of the following risks:

- *Commercial risks* - ECGE guarantees the Exporter against the foreign Buyer's refusal to receive the exported merchandise, his failure or inability to pay for the goods upon receipt, or his bankruptcy, insolvency, or delay in payment;

- *Non-Commercial or Political risks* - ECGE guarantees the Exporter against risks that arise through no fault of the or the Buyer, but rather are the result of a political situation or a war that prevents the Exporter from receiving the proceeds of the sale, including a general moratorium by the government of the importing country against payment of foreign obligations, including the unavailability of foreign exchange. ECGE has covered the risk in 90 countries.

Coverage is to support Egyptian exports, therefore criteria is related to the origin of the product, not the origin of the exporter. Non-Egyptian-owned firms may get coverage.

27 ECGE's charter gives it a 50-year life.

28 The rationale for export guarantee programs is that they stimulate exports by providing the exporter with additional ways to a) protect against risks beyond his/her control which would otherwise deter him/her from exporting, b) extend financing to buyers where the absence of such credit would adversely affect the sale, c) provide payment terms to the buyer other than immediate or advance payment or letters of credit which flexibility may be critical to making the sale; and d) to work with clients with whom he/she has no prior experience.

ECGE offers two policies to cover the above risks as follows:

- *Basic Policy* - provides comprehensive coverage on all of the export operations of an exporter in all markets, with all buyers and for both commercial and political risk. Its features include:

  - covers short-term facilities granted to the buyer by the exporter on agreed upon terms for export of finished goods. This effectively allows the exporter to grant credit to the buyer if credit is an important aspect of the sale;

  - commences on date of shipment and runs until date payment is received by the exporter;

  - ECGE establishes a revolving line of credit, based on financial and other assessments of each buyer;

  - Policy may be based on an overall export operations plan, which may be modified, covering all markets and all buyers;

  - Premiums are set based on the overall export operations plan, not on a more expensive, contract by contract basis.

- *Single Operation Policy* - covers pre-shipment risks related to a specific export order, but not cancellation of the export order unless the buyer is a public buyer. This policy covers all of the above mentioned risks and *also* any action by the government of Egypt which prevents the exporter from meeting the export order.

Neither policy covers non-performance on the part of the exporter. Policies usually carry a 180 days term.

ECGE provides these guarantees through insurance policies that specify the covered risks as well as the premiums that the Exporter has to pay and the limits and specifications of the compensation due to the exporter in case of the occurrence of a risk covered by the policy. The insurance policies are assignable to banks and anyone else, including finance companies and foundations, as long as they have a financial interest in the exporter’s operations.

According to ECGE, one of the mechanisms used by Egyptian companies is to set up a company in the foreign market and then export to that entity because it understands the market, the buyer and the risk. Initially, ECGE guarantees only the political risk on exports to such an affiliate, however, when the affiliate *on-sells* the product, ECGE guarantees the commercial risk.

ECGE is a member of the “Credit Alliance,” an international credit insurance network composed of COFACE, CNA Continental Credit Insurance, Die Allgemeine Kredit and seventeen other firms who share information via a common credit bureau and 2400 specialists in 93 cities around the globe. They also cooperate in debt collection services and reinsurance. As allowed by its charter, ECGE routinely diversifies its risks through reinsurance. ECGE also provides advisory services to exporters, and their banks, on how to protect against loss such as using bills of exchange. According to ECGE, most Egyptian companies don't have credit managers and therefore they don't know anything about credit, so ECGE acts as their credit manager for export sales. The Credit Alliance affiliation provides "real time" global computer access with the twenty-two other insurance companies who can furnish credit information on approximately five million buyer instantly. In Egypt, ECGE is the only institution, other than banks, with access to the credit background information maintained at the Central Bank of Egypt.

In addition to the insurance policies, ECGE also has an arrangement with the Export Development Bank for Egypt for the provision of *post-export finance* to exporters. Under this arrangement, the Bank discounts the export bills against a guarantee from ECGE. The ECGE has contracts with 7-8 banks (both public and private, including NBE, Cairo Bank, EDBE and CIB, among others) for the post-shipment finance arrangement, but only EDBE is using it to any degree because:

- EDBE has a prior relationship with most exporters and can rely on the exporters past performance or its international licensing contracts with reputable foreign buyers;

- Collateral requirements are high;

- Most export finance is pre-export finance not post-export finance.

- Most of the banks in the country do not target export business which is in any case a small part of the economy.

As mentioned above, ECGE policies do not cover non-performance on the part of the exporter. Non-performance can mean many things, but usually refers to the following:

- Exporter fails to produce the produce or service at all;
- Exporter fails to produce the produce or service for delivery dates specified in the export contract;
- Exporter fails to produce the produce or service to the quality specifications of the export contract.

ECGE guarantees exports under unconfirmed letters of credit and exports which are not covered by a letter of credit. The latter category is estimated by ECGE to be about 15% of trade.

ECGE has only thirty-four customers which are described as "the cream of the private sector." Usually those firms who hire international professionals in marketing and marketing management.[29] Most of ECGE's customers produce for both local and export market. Their larger customers,

[29] This is an indirect confirmation of assertions in the literature of the importance of market knowledge to export success.

about 30% of the total, may be doing US$60-70 million per year in exports. Another 10-15% are small, exporting US$100,000 to US$300,000 per year, but the bulk of their customers (55%-60%) are medium sized, exporting between US$300,000 to US$10 million per year. Its customer base is limited due to the limited number of successful exporters in Egypt and it fluctuates from year to year primarily for a two reasons:

- changes in international markets, and in Egypt relative to these markets, vary the degree of competitiveness and profitability firms find in exporting which ultimately impacts the volume of business they do.
- over time, exporters become more comfortable with certain customers and with certain countries and forego the use of insurance to limit their risk.

Other reasons cited by ECGE are more broadly related to the low level of exporters in Egypt in general. These include:

- Poor understanding of foreign market needs with respect to quality, quantities and delivery times in general and with respect to specific products and services;
- Limited contacts with buyers in foreign markets. Specifically, they often do not know the buyers, and do not develop the contacts because the lack the financial resources to participate in foreign promotional events or to maintain contact frequently once buyers have been met;
- Limited management skills related to the intricacies and risk inherent with exporting;
- Limited resources, financial and management skills, necessary to plan, supply and produce for an export order.

In addition, ECGE personnel stated that they frequently turn down good export customers who can't get financing for their operations. These firms, which potentially represent 10-15% of ECGE's business, often do not get financing because their banks cannot assess the risk inherent in the export contract - the performance risk of the exporter, the payment risk of the buyer, sovereign risks, etc. ECGE has expertise in this area and keeps it current by participating in foreign and domestic trade shows, using pre-export inspectors, market intelligence and foreign experts. ECGE's personnel suggested that USAID should consider guaranteeing the credit risk of exporters, but they did not indicate any collaboration with CGC in this regard. However, they are studying the incidence of export credit guarantee corporations elsewhere becoming involved in general credit insurance.

ECGE's unaudited balance sheet is presented at the right. Significant is its absence of the aggregate amount of guarantees outstanding at the date of the balance sheet. ECGE would not provide that information for competitive reasons. It is therefore not possible to assess the adequacy of the capitalization of the company. Given the nature of the long term debt, fifty year funds at a fixed 5% p.a. and guaranteed by the National

ECGE
Balance Sheet at June 30, 1996

Assets		Liabilities + Equity	
Cash & Deposits	70,430	Current Liabilities	11,794
Other Current Assets	714	Long term debt	50,000
Fixed Assets (net)	129		
Other Assets	572	Equity	10 051
Total	71,845	Total	71,845

Investment Bank, this could be considered quasi-equity. Depending on the level of guarantees outstanding, an increase in the equity and quasi-equity of ECGE might be warranted. By way of rough comparison, in Malaysia, which exports roughly ten times more than Egypt, the Malaysian Export Credit Insurance company has a paid up capital roughly seven times the total equity of ECGE.

Though ECGE indicates a slight profit for 1996, its credit insurance business is not profitable. According to ECGE, only major trading nations such as the USA, Japan, England, France, Germany and Italy make money on export insurance because they have the trade volumes. Samuel Montegu Ltd., which did the original feasibility study for ECGE, estimated that it would take a minimum of seven years to break even on the insurance business. ECGE covers its costs through other services and through its investment income.

ECGE charges .7% to 1.5% of the value of the guarantee depending on the product classification and the importing country. General product classifications, such as garments, carry higher premiums and specialized classifications, such as pharmaceuticals, carry lower premiums. ECGE generally follows the country risk classifications of the Credit Alliance. Covering exports to riskier countries such as Sudan and Nigeria has been a growing portion of ECGE business. These charges appear to be in line with international standards.

ECGE policies have stimulated a small market in commercial paper because investors in such paper can be assured of payment. The size of this market is not known.

Assessment. The programs of the ECGE appear to be in line with the services offered by similar agencies in other parts of the world (see Appendix C), though they do not offer quite the same range of services as the Malaysian, Mexican and Brazilian counterparts. Export credit guarantees and insurance are very specialized products requiring solid information about foreign markets and buyers. It is not possible to assess the viability of ECGE based on the financial data provided, however, ECGE indicates that it does not make money on its insurance and guarantee business, nor was it expected to at this stage of its existence. Indeed, most programs of this type outside of large trading nations rarely are profitable on this business. Generally, export credit and guarantee businesses are put in place by governments to stimulate exports, and making money at it has usually not been a priority.

The question arises whether ECGE and its service package are enough for Egypt at the present time and into the foreseeable future, or whether others ought to be encouraged to enter the market to broaden the supply of such services. While more competition is generally beneficial to supply and pricing, the level of demand for credit guarantee and insurance services appears to be low. New entrants are unlikely to find profits in this business for sometime as Egypt's export volume does not appear to be large or growing rapidly, and the number of clients, particularly good clients with quality products and strong international commercial relations, is limited. Though ECGE is in a monopolistic position, this is not unusual nor is it reflected in the pricing ECGE quotes. In addition, given the complex nature of the export credit and guarantee business, new entrants are likely to face a steep learning curve unless they are starting with a staff of individuals with considerable training in this field. It is not a simple matter to conclude that a firm currently engaged in, for example, domestic credit guarantees, such as the Credit Guarantee Corporation, could easily and cost effectively master the intricacies of international credit guarantees and insurance. For these reasons, encouraging new entrants is unlikely to have a major impact on the availability of financing for Egyptian exports, and is not recommended at this time.

Though it has not been possible, due to lack of information, to estimate the capital requirements of ECGE in relation to the amount of guarantee business it is doing, it may be necessary to increase the company's equity and quasi-equity accounts to handle additional business.

V. Lessons from Other Nations

Several other emerging economies provide lessons which may be valuable in formulating new legislation and financial and non-financial programs to support growth in Egypt's international trade.

A. Lessons Related to FDI.[30] While this report focuses on trade finance, credit is but one part of the export equation, insignificant by comparison to the overall environment for exporting. Malaysia built its enviable record (5.75% annual average GDP growth in constant dollars since 1956) on the influence of progressive government policy on foreign direct investment and economic linkages, and their impact on exports. Malaysia's course, which diverges from those of the East Asian NICs, is more closely comparable to that of Singapore, particular with respect to foreign direct investment oriented policy. Yet in its social and cultural dynamics, Malaysia is more similar to many developing countries, and being Islamic, may provide useful lessons for Egypt.

In 1993, the World Bank attributed 87% of Malaysian growth to the accumulation of physical and human capital, initial income levels and population growth. The two most important factors were primary school enrollment and investment, explaining 73% and 47% of the growth respectively. Linkages between transnational corporations (TNCs) and domestic small and medium enterprises (SMEs) encouraged "best-practice" production in quality and efficiency, provided resources to a broader base of firms with greater opportunities for re-investment, fostered external market contact and, perhaps most importantly, provided opportunities for direct or indirect diffusion of managerial and technical knowledge.

SMEs and TNCs dominate the Malaysian economy. In 1996, SME's represented 97.6% of business establishments, 54.2% of employment and 50.5% of the value added of some 20,430 businesses, while TNCs represented 74% of electrical and electronic components, 59% of textiles, 31% of food and 70% of beverages and tobacco in terms of equity participation with 60% of manufactured exports. Since 1986, Malaysia's economic success has rested on a coherent strategy of attracting TNCs with a pro-investment macroeconomic environment, competitive transaction costs, and dynamic outward looking government policy combined with the promotion of linkages, with supportive training, between TNCs and SMEs. This approach , together with incentives to promote exports, has had a significant impact of SME exports, both direct and indirect.

The last decade of development in Malaysia has produced other lessons. At the firm level, the most successful strategies tended to be those using incentives to increase the absorptive capabilities of SMEs to make them more attractive to TNCs and to encourage them to export. For example, classifying component sales to firms in free zones as exports promoted SME investment in technologies complementary to such firms. Also, financial incentives, including those for exports, were based on unregulated interest rate regimes which induced lending through financial incentives rather than subsidized interest rates to end users. Similarly, laws regarding ownership and employment which discriminated on the basis of national origin were modified. The most ineffectual programs were those that distorted domestic transaction costs and markets, and those that favored government intervention

[30] Eischen, Kyle, "The State and Economic Development: Malaysian Government Policy and the Creation of Domestic Production Linkages," 1996

over private sector involvement, a track that led to inconsistency, poor communication, low accountability and over-regulation of SMEs.

In fostering FDI driven development, the overall "investment climate", that is, political stability, macroeconomic policy, trade regime, clarity and stability of government policy, proved more important than specific policies, however. Recently Egypt government policy has begun to focus more on the importance of foreign direct investment. However, in order to accelerate growth more rapidly, its efforts in the area of FDI promotion, trade and industrial liberalization and stability, lowering transaction costs and accelerating supply-side factor development, including infrastructure, human resources, science and technology, and local suppliers, should all be stepped up. The Malaysian investment incentives which have proven attractive to TNCs are attached as Appendix D. The include export incentives as an integral part of a comprehensive, pro-investment national growth strategy, an approach which may be useful in Egypt.

B. Export Credit Programs

1. Malaysia's Export Credit Refinancing Program. Malaysia offers a wide range export incentives in its investment code. These include tax incentives to exporters, including double deduction of expenses for overseas advertising and travel, supply of free samples abroad, export promotion, overseas sales offices, and research on export markets.[31] Malaysia provides export credit through the Export Credit Refinancing Scheme (ECR) which provides pre-shipment and post-shipment export credits at low interest. The ECR scheme may be accessed through any commercial bank. See Appendix C for more details.

Malaysia also offers a comprehensive export credit guarantee scheme through the Malaysia Export Credit Insurance Berhad (MECIB)[32]. The objective of MECIB is to promote and develop Malaysia export industry by providing appropriate export credit insurance coverage and financing guarantees to Malaysian exporters. To support the growth of local businesses, MECIB also provides domestic credit insurance coverage. See Appendix C for more details.

2. Mexico.[33] Mexico implements its export credit programs through the Banco Nacional De Comercio Exterior which offers a wide range of services including pre-export and post-shipment finance and guarantees, equipment acquisition finance, foreign investment project financing, and other trade services. Through the Compania Mexicana de Seguros de Credito S.A. (COMESEC), a BNCE affiliate, insurance policies cover the various kinds of political and commercial risks associated with exporting. See Appendix C for more details.

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31 U.S. Department of State, Country Economic Report, 1996

32 Malaysia Export Credit Insurance Berhad, 1997

33 Banco Nacional De Comercio Exterior, 1997

3. Brazil.[34] Brazil implements its export credit programs through the Banco do Brasil which offers various standard trade services, pre-export and post-shipment finance, export project financing, interest rate equalization services, exchange contract advance and forfaiting. See Appendix C for more details.

Egypt's trade finance programs and its non-financial programs supporting exporters are not as comprehensive as those cited above. Enhancements to the range of incentives and services related to exporting and export finance, as illustrated in the Malaysian, Mexican and Brazilian programs would be valuable to Egyptian exporters.

C. On Subsidies. Interviews with Egyptian exporters, as well as most banks, on the subject of what measures would help improve exports uniformly turned to low cost, "subsidized" interest rates as the panacea. This response is not unusual around the world, and a number of programs exist which subsidize rates, as is illustrated below. However, subsidized credit is distortionary, and there is little empirical evidence indicating that it contributes to export success. On the contrary, as mentioned earlier, other factors such as macroeconomic stability, a robust investment climate and investment in education are far more important. In the long run, subsidized credit will not improve a nation's competitive position.

- **Malaysia**. Since 1986, Malaysia has based its development finance programs, including those related to export development, on unregulated interest rate regimes which give banks financial incentives to lend rather than to subsidize rates to end users.

- **Mexico**. The export credit programs of Banco Nacional Commercio de Exterior described in Appendix C no longer carry subsidized rates.[35]

- **Brazil**. The export credit programs of Banco do Brazil appear to be priced competitively, but it is unclear whether the rates are subsidized.[36]

- **Netherlands**. Under the Export Matching Facility[37], the Dutch Government provides interest subsidies for Dutch export contracts competing with government-subsidized export transactions in third countries. These subsidies bridge the interest cost gap between a Dutch and foreign export contract which has benefited from foreign interest subsidies.

[34] Banco do Brasil, 1997

[35] Bank of Boston, Miami

[36] Bank of Boston, Miami

[37] 1996 Country Reports On Economic Policy and Trade Practices, U.S. Department of State, January 1997.

D. Other Trade Finance Products

Several trade finance products which are frequently employed elsewhere in the world are not widely used in the financial system in Egypt. In particular, bankers' acceptances, factoring and forfaiting have been mentioned. The following sections deal with these types of transactions.

1. Bankers Acceptances. Bankers acceptance (BA) financing is widely used all over the globe. The secondary markets for it in the United States, which account for the bulk of international funding via bankers' acceptances, run into the billions of dollars. Egypt does not have a secondary market for BA financing, but the development of such a market could result in additional funding for international trade as well as possibly lower funding costs.

BA financing is typically used to refinance short term trade, usually commodities such as cereals, oil, and ores, but it can be used for any trade item. Acceptances can cover both documentary (letter of credit or collection) and open account transactions, and can be used to finance imports, exports, and domestic (storage of staples and aggregation of shipments) transactions. They are generally competitively priced[38] since banks are not required to provide reserves for financing such transactions. Repayment periods are usually for 180 days or less, but can be as long as 360 days.[39]

BA transactions are based on drafts which have been accepted, that is, guaranteed, by a bank. A bank "accepts" the draft by stamping it so and applying the necessary signatures.

The following three examples[40] illustrate the versatility of bankers' acceptance financing:

a. **BA Financing of an Export L/C**. ABC Inc. recently shipped a large export sale to Brazil, and granted its customer 120-day payment terms. The confirmed letter of credit issued by the buyer's bank included those terms. So, four months from the presentation of conforming documents, ABC Inc. will be paid. At the time of the export, the extended payment terms seemed a minor inconvenience, however, in the meantime, a valued customer asked ABC Inc. to deliver double its standing order and in double-quick time. ABC Inc. does not have the raw materials on hand and its cash is tied up in the Brazilian deal, and that minor inconvenience has turned into a major problem. Of course, ABC Inc. could go to its bank and draw on its line of

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38 Money market rates in South Africa on Friday, 12/12/97, are indicative of the cost effectiveness of bankers' acceptances: three-month negotiable certificates of deposit were quoted in at 15.6%, while rates on similarly dated commercial paper were at 15.2% and three-month BA rate were at 15.1%. (Sapa-I-Net, 12/12/97)

39 In the U.S., BA financing or refinancing must be underpinned by a current (less than one year old) trade transaction.

40 Spear, Lorraine and Caggia, Bob, "Bankers' Acceptances: A Low-Cost Financing Alternative," Chase Manhattan Bank, 1997.

credit, or it could ask its suppliers for terms. But it could also take advantage of bankers' acceptance financing.

By selling under a time letter of credit, ABC Inc. has a built-in financing option which won't have an impact on its bank credit line. Under the time L/C, a draft was created and "accepted" by the importing bank. This guarantees payment at maturity. ABC Inc. can wait out the time period specified in the LC or it can ask its bank to "discount" the draft. The bank pays the discounted proceeds into ABC Inc.'s account immediately rather than when the draft comes due, and ABC Inc. can use the proceeds to fund its working capital needs for its longtime customer's double-quick, double order.

b. **BA Financing of an Import L/C**. KLM Inc. is purchasing spices from Sri Lanka under a sight letter of credit. This time of year its cash flow is usually tigand it anticipates that it will need financing to meet the required payment under the L/C. Again, BA financing can apply.

   When complying documents are received, KLM Inc.'s bank pays the supplier. Normally this is done by a debit to KLM Inc.'s account. However, in this case, KLM Inc. can take advantage of bankers' acceptance financing by drawing a time draft on its bank, with the repayment period coinciding with the time it will take for KLM Inc. to take possession of and sell the spices. Its bank accepts the draft (creating a bankers' acceptance) and applies the discounted proceeds toward the payment of the seller's sight draft under the letter of credit. At maturity, KLM Inc.'s account will be debited, thus reimbursing the bank for the financing it extended.

c. **BA Financing of an Open Account Transaction**. XYZ Inc. usually gets 60-day open account terms from a long-time Taiwanese supplier who now informs the company that due to cash constraints, it needs to be paid at sight. However, XYZ Inc. can only turn the goods around for payment after 60 days. XYZ Inc. can bridge that gap using acceptance financing to obtain favorable rates.

   This form of acceptance financing is created outside a letter of credit. The company and its bank exchange agreements: the bank agrees to accept drafts for the company and the company agrees to repay any drafts the bank accepts. Given an eligible transaction the company can draw a time draft on the bank. The bank accepts the draft and discounts it: i.e., the bank gives the company cash for the draft. The company then uses the cash to pay his supplier. At maturity, the bank seeks reimbursement from its customer who then repays the bank the face amount of the BA. This type of acceptance can be used to finance both import and export transactions.

In all three of these examples each company's bank (the accepting bank) can resell the bankers' acceptances created in the open market at a profit. The accepting bank will or will not resell the BA in the open market depending on rate movements and its liquidity needs. Because the accepting bank is liable for the amount of the BA even after it has sold it, BA's are usually carried on the balance sheet of the bank as contingent liabilities ("Contra Accounts" in Egypt) like any other guarantee issued by that institution. Some large importers and exporters around the globe are sufficiently credit worthy to generate BA financing directly by creating and accepting drafts themselves, and reselling these in the open markets.

In the U.S., the dealer market for bankers' acceptances involves about 15 to 20 large firms. Most of these firms operate nationwide and also engage in buying and selling U.S. Government securities. In addition to the dealers, there are domestic and foreign accepting banks, Edge Act corporations, other financial and non-financial institutions, governmental units, individuals and central banks, including the Federal Reserve, participating in this over-the-counter market.[41]

In Egypt, BA financing is typically accomplished using bankers acceptance credit lines from correspondent banks abroad. Roughly half of the Egyptian banks interviewed had such lines from their correspondents. Very few were actively using these lines for two reasons. The primary reason was that they did not have the liquidity need that would have prompted usage. In addition, they saw no current interest rate advantage in doing so.

Egypt could create its own internal market in the rediscounting of trade bills, including the creation of bankers acceptances. To promote this, the Central Bank of Egypt would probably need to take the position that the Federal Reserve banks in the United States did in 1955 when they authorized the purchase and sale of acceptances for their own account. This added liquidity and depth to the market enabling the evolution of acceptance financing as a significant alternative means of financing international and domestic U.S. trade transactions, and was sufficiently successful that the Federal Reserve banks were able to discontinue their role in 1984.[42] Equally if not more important, however, would be an expansion of the willingness of commercial bankers to extend preshipment financing solely on the basis of the letter of credit as collateral.

2. Forfaiting.[43] Developed by West European exporters and their banks to finance equipment sales to Eastern Europe in the 1950 - 1960 period, forfaiting has been less used in the USA and developing countries though it has found prominence in some Latin American countries where it use dates back to the 1950s. Typically, forfaiting's use is associated with capital equipment exports, and is usually a form of medium term finance, but it has also been used for commodity finance for periods of less than one year.

In a forfaiting transaction, the foreign buyer signs a promissory note or time draft drawn on him by the exporter and guaranteed by an acceptable financial institution in the buyer's country. The draft is usually drawn under a letter of credit, bill of exchange and the draft contains the interest rate, maturity of the draft and repayment schedule. The buyer's bank sends the guaranteed draft to the exporter's bank who has agreed to buy it. The latter, or possibly an intermediary forfaiting specialist arranged by the latter, then buys the draft and pays the exporter the face value of the draft deducting its charges and whatever advance it may have made to exporter under the letter of credit. The letter of credit is assigned to the exporter's bank, or the forfaiting specialist, as it will collect the payments from the importer as per the repayment schedule. Payments are usually semi-annual,

41 Federal Reserve Bank of New York

42 Ibid.

43 Townsend, Keeci, "Trade Finance Techniques: Forfaiting in the NIS," BISNIS Bulletin, June, 1997.

but could be for any period. The exporter's bank, or the forfaiting specialist, may either hold the draft until maturity or sell it in international debt markets specializing in this type of paper. The transaction is usually done without recourse to the exporter.

The terms of financing under the forfaiting system are usually 5 to 7 years, or even 10 years for big ticket items such as turbines, and the credit rating of the importer's bank and the importer's country influence both the term of the draft and the interest rate of the transaction. The chief advantage of forfaiting is cost. Because of the specialized international market which has developed for this type of "paper," the applicable interest rates may be lower than those available to the buyer in his own country.

In Egypt, only the National Bank of Egypt mentioned using forfaiting. As Egypt's exports are neither heavily weighted toward capital goods nor typically covered by medium term financing, this is not surprising.

3. Factoring.[44] Factoring began in the 17th century to facilitate trade between the European countries and North America . Since distances were long and the only communication, by ship, was slow, exporters had to appoint agents abroad to handle their sales . These agents were known as "factors," and had various responsibilities which included holding stocks of goods, usually clothing, for account of the seller. They sold the goods as agent of the seller, and were allowed to sell on credit and issue invoices as they knew the local market and assumed the credit risk. The factor thus provided finance to cover the term sale and other charges such as import duties and so on.

Today, even with rapid transportation and instant telecommunications, factors are still important. Because of the highly competitive nature of global markets, knowledge of local market and buyers is essential to exporters. Factors provide finance against accounts receivable, assume the credit risk, maintains sales ledgers and collects outstanding invoices.

Today, factoring is done both domestically and internationally, with the chief differences being that the latter:

- may involve more than one currency,
- involves the use of both export factoring and import factoring companies,
- involves the laws of at least two countries,
- the import factor is responsible for collection.

In international factoring, the exporter ships merchandise to his foreign buyer, and assigns his receivable, the obligation of the importer to pay usually evidence by an invoice, through the export factor to the import factor who assumes the credit risk. The export factor advances funds to the exporter equivalent to 80-90% of the value of the merchandise after deducting charges for the finance and for other services. The import factor takes care of collecting the accounts receivable,

[44] "Introduction to International Factoring," Factor Chain International , 1995

and then makes payment to the export factor who remits the payment less the advance to the seller. International factoring has grown because importers and exporters wish to avoid costly bank charges under letters of credit. They can arrange open account terms of payment depending on the credit knowledge of the import factor. An international organization, Factors Chain International (FCI), based in the Netherlands has developed the FCI Code to promote the growth of factoring based on mutual confidence and understanding between import and export factors.

Egyptian exporters have used factoring in international trade, but the volume of this business is not known. The incidence of its use will grow as Egypt becomes an larger participant in international trade and its exporters become more comfortable with the factoring process.

VI. Demand for Trade Finance Services Among SME Exporters and Potential Exporters

A. Introduction

1. Purpose of the Survey

This chapter reports on the small enterprise sector in Egypt. The main focus of our analysis is to examine the financial services that exporters and potential exporters draw upon to finance their enterprises. In addition to the services offered by formal financial institutions, banks and non-banks, exporters and potential exporters draw upon a complex set of informal contracts with various economic agents. These contracts are used for both savings and loan purposes. An assessment of the role and performance of formal financial institutions and special microfinance programs is not sufficient to evaluate the entrepreneurs' demand for financial services. The puzzling question is, what are the preferred sources of finance that entrepreneurs use to fund their operations? Is the popular belief of formal financial markets discriminating against small scale enterprises true or is it a misconception? This belief, often based on reported responses of entrepreneurs that finance is the main constraint they face, will be discussed in this study. This chapter analyzes exporters and potential exporters' choice of the sources of funding new investments and operations of micro, small, and medium scale enterprises (SMEs) in Egypt.

This chapter deals primarily with a survey of small enterprises in the manufacturing, sector in Greater Cairo, Alexandria, and Fayoum.[45] The introduction presents an overview of small enterprises in Egypt and the environment for business. The following section reports on the enterprise survey outlining, first, various economic characteristics of the enterprises and entrepreneurs, second, highlighting the significance of the existing financial channels exporters and potential exporters use in financing their operations, and third, summarizing their problems and constraints.

2. Small Enterprises in Egypt

The limited role of small enterprises in many African countries implies a persistent need to examine the real constraints affecting their growth. In Egypt, similar to other countries in Africa, population growth is high. World Bank projections indicate that, with an average annual growth rate of 2 percent, the 58 million Egyptians in 1995 will be competing for resources and employment with an additional 6 million Egyptians by the year 2000 and another 30 million by the year 2025.[46] The spread of small enterprise employment probably exceeds official estimates. Employment figures in Egypt indicate that the 721 thousand individuals operating non-agricultural micro and small scale enterprises in 1976 increased to 1.1 million in 1986 (World Bank, 1994). The 1994 World Bank study estimates that there exist some 2 million micro and small scale enterprises representing about

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45 The sample used in this chapter represents the sub-sample of exporters and potential exporters in the small enterprise survey discussed in details in chapter three of report I: Financial Reforms for Small Business Development in Egypt.

46 World Development Report, 1997.

98 percent of Egypt's private non-agricultural establishments. Field assessments of the rural small scale enterprise sector conducted in 1990 conservatively estimate that there are about 906,000 small scale enterprises in the secondary and rural towns of Egypt (Gardner and Proctor, 1990). Moreover, a study of artisanal enterprises suggests that there are 150,000 artisans employing about 300,000 individuals in the non-service informal sector (Jones, 1988). Although small business activities are reported to include commerce, restaurants, hotels, personal services, manufacturing, transport, mining, construction, and repairs among others, there is a continued ignorance about the size of the various sub-sectors of the enterprise sector.

The performance of the various sectors of the Egyptian economy has varied over the past decade. While services, which comprised 59 percent of GDP in 1995, grew at a rapid rate in the 1980s, it had a slow growth rate in the 1990s (World Development Report, 1997). Agriculture, which comprised 20 percent of GDP in 1995, has been growing at a modest rate at best in the 1990s. Industry, which contributed to roughly 21 percent of GDP in 1995, however, has been stagnant since the early 1990s. Manufacturing, which contributed to about 12 percent of industry in 1980, has grown very slowly to contribute 15 percent in 1995. While Egypt's largely traditional exports have declined from about 14 percent of GDP in 1980 to about 7 percent of GDP in 1995, non-traditional exports (NTEs) or manufactures have grown from 11 percent to 33 percent of total exports in 1995.[47] Although non-traditional exports contribute to only a modest share of total exports, many of these products comprise value added manufactured goods.

We focus primarily on some of the more dynamic sub-sectors in the manufacturing sector in our field survey in Egypt. These are textile-garment manufacturing, furniture-wood processing, shoe making, artisanal craft production, and carpet weaving. These sub-sectors capture two important factors that affect the operations and growth of businesses in the export enterprise sector. First, the consideration of these sub-sectors allows us to cut across the various size categories of enterprises, micro, small, and medium scale enterprises.[48] Second, input materials used by these enterprises are obtained from both national and foreign suppliers, and products are sold to both national and foreign customers. This implies that entrepreneurs have contracts with the domestic and offshore suppliers and buyers through import and export arrangements. These relations will allow us to examine the growth potential for non-traditional exports produced by these types of enterprises.

3. The Environment for Business

The positive and stable economic conditions supported by ERSAP policy reforms have generated an improved environment and many business incentives for entrepreneurs. The trade

[47] Traditional exports are mainly petroleum and cotton, while non-traditional exports (NTEs) include ready-made garments, processed wood products, processed aluminum products, leather products, and horticultural crops, etc.

[48] The classification of the size of enterprises is based on the number of employees. Enterprises with: 1-9 employees aremicroenterprises; enterprises with 10-49 employees are classified as small scale enterprises; and enterprises with 50-100 employees are classified as medium scale enterprises.

liberalization policies have had a positive effect on the SME sector because of the abundance of imported raw materials and the competitive environment among suppliers. In addition to liberalized trade policies, some of the factors affecting the environment for business at the micro level are the regulatory framework, tax policies and the role of support institutions.

The regulatory framework governing business operations and expansion has established rules which entrepreneurs generally try to avoid. Entrepreneurs seem to have found means of expansion that minimize control by government regulation. The size of the enterprise, measured by the number of employees, is affected by regulations on business expansion and evolution. SMEs in Egypt are mostly sole proprietorships. Owners typically manage their enterprises and hire workers to help run their operations. Many SMEs use apprentices who seek training and learn by working on the job. This phenomenon offers an escape for many SMEs which do not wish to register their employees with the Social Security System and pay monthly contributions towards their pension funds, or comply with other labor laws.[49] Occasional or temporary workers are also used to avoid social security. Social security taxes are an incentive for enterprises not to expand their formal employment but to expand their operations and output with informal labor.

Other regulatory constraints, that hinder business growth, include the large start-up costs firms have to pay in order to comply with business registration laws (World Bank, 1994). Businesses are supposed to go through six layers of approval, which involve licensing, incorporation, commercial registration, location registration, local-level licensing, and tax application, before they can commence their business activities. Operating in the informal sector, therefore, is a less expensive alternative for many micro and small scale enterprises. As a part of the ERSAP, new legislation provides some incentives for the private sector development and introduce improvements to the regulatory system (World Bank, 1995).

In general, taxes, which reportedly reach up to 40 percent on commercial profits and personal income, seem to stifle enterprise activity and growth in Egypt (World Bank, 1994). Interestingly, even microenterprises are subject to tax liabilities, based on estimates made by tax officers, which they pay regularly. In order to encourage investments in value added manufactured goods and non-traditional exports firms in the new industrial cities, such as the 10th of Ramadan and 6th of October, are given an income tax exemption for a period of 10 years.

The government of Egypt and the donors have established a number of business support institutions to assist and develop small scale industries in the country. The Export Credit Guarantee Company of Egypt (ECGC) provides guarantees for national exports against commercial and non-commercial risks. The Export Development Bank of Egypt (EDBE) is a specialized bank that provides financial services to exporters. The Social Fund for Development (SFD) is a government

[49] Under the labor law, for example, businesses with 50 or more employees which fail to establish internal labor relations and industrial safety committees, are penalized even if the company provides a more effective working environment. This could result in costly and time consuming disputes with government officials. Moreover, employee dismissal is virtually impossible, thus, hampering the development of many labor-intensive ventures (World Bank, 1994).

supported agency which focuses on the development of micro and small scale enterprises by providing loans at subsidized interest rates.[50]

B. Characteristics of the Enterprise Survey. Characteristics of the Enterprise Survey

1. Overview of The Survey

To examine demand for financial services by the small enterprise sector in Egypt a survey of 173 micro, small, and medium scale enterprises was carried out in October of 1997.[51] A sub-group of 29 exporters and 35 potential exporters were randomly selected among the manufacturing enterprises in the survey. These two sub-groups constitute the sub-sample that is used in our analysis of exporters' and potential exporters' demand for financial services. The surveyed enterprises were located in the Greater Cairo region, which included the cities of 6th of October and 10th or Ramadan, as well as in Alexandria and Fayoum. These urban and peri-urban areas were chosen because they host a large and diverse number of enterprises across various sub-sectors and size categories that could provide information about the financing and performance of these export-oriented enterprises.

a. Characteristics of the Enterprises. The export-oriented enterprise survey covered the manufacturing sector, with particular focus on the more dynamic sub-sectors. As mentioned earlier, these consisted of textile-garment manufacturing, furniture-wood processing, shoe making, artisanal craft production, and carpet weaving. Table 1 provides the breakdown of the share of enterprises in each size category in the sample. The distribution indicates, on the one hand, that over half of the exporters fall in the small scale category, roughly one third in the medium scale category, and one fifth in the microenterprise category. Potential exporters, on the other hand, were largely small scale enterprises, while one third were medium scale enterprises. Data in Table 1 also show the distribution across the geographic areas in the country, where about two thirds of the exporters were located in Cairo, one fourth in Alexandria, and a few in the 6th of October. Potential exporters, however, were distributed more evenly over all the regions under study. This distribution allowed us to interview businesses with potential for export across the size categories, in the various sub-sectors under consideration, and in Cairo, as well as in the city of Alexandria in the Delta, and the town of Fayoum in Upper Egypt.

The majority of the exporters and potential exporters in the survey were equally divided between proprietorships and partnerships. Few businesses were simple commandite or had other ownership structures, such as de-facto partnerships, limited liability, or joint stock. This pattern is consistent with the overall ownership structure for non-agricultural private establishments in the country where almost 90 percent of businesses are reported as proprietorships, while the other forms include five percent partnerships.[52]

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50 The function and role of SFD, selected NGOs and donor programs are reviewed in chapter 2 of this report.

51 For further details on the characteristics of the overall survey and the financial sources that exist in the small enterprise sector in Egypt refer to chapter three in Report I.

52 Data based on CAPMAS statistics as of 1986.

The vast majority of the businesses, both exporters and potential exporters, were registered businesses which operated with licenses and possessed tax cards. The majority of the exporters also paid social security for all their employees. About one third of the potential exporters, however, paid social security only for some of their workers. The primary reasons reported by business owners for not complying fully with the social security system were that the procedures were difficult, lengthy, and costly. This, on the one hand, resulted in about one third of the potential exporters being classified as semi-formal businesses (31 percent), with only a few informal (6 percent), and about two thirds fully formalized businesses (63 percent).[53] Exporters, on the other hand, were almost all formal businesses (93 percent), with the exception of a case classified as semi-formal enterprise (3 percent) and another informal enterprise (3 percent).

Formalization of Businesses

	Exporters	Potential Exporters
Formal	93%	63%
Semi-Formal	3%	31%
Informal	3%	6%

The average enterprise, in the sample, has been in operation for about 13 years with the entrepreneurs/managers running these businesses for an average of 13 years (Table 2). The average value of physical assets, excluding land and building, which averaged about LE one million (with a median closer to LE quarter-million), did not differ between exporters and potential exporters.[54] On average, exporters started with 13 workers (and a median of 6 workers) and currently employ an average of 32 workers (with a median of 19 employees), while potential exporters started with an average of 16 employees (with a median of 29 workers) and currently employ 43 (with a median of 29 workers). These figures imply that most businesses in the sample have experienced significant growth.[55]
The average annual growth rate, based on the change in the number of employees over the life of the business, consistently reflects that exporters and potential exporters have been growing at an average of 51 percent and 34 percent, respectively (with medians of 11 percent and 12 percent, respectively). Average

Employment Profile of Businesses

	Exporters	Potential. Exporters
# of Start-up Empl.	13	16
# of Current Empl.	38	44
Growth Rate	51%	35%

[53] Businesses were classified as formal enterprises if they fulfilled all four requirements including registration, licensing, possessing a tax card, and making social security payments for all their employees; semi-formal if they fulfilled registration, licensing, possessing a tax card, and making social security payments for at least some of their employees; and informal if they did not satisfy at least one of the four requirements.

[54] The exchange rate at the time of the survey was US$ 1 = LE 3.4

[55] Exporters grew from mostly microenterprise to small scale enterprises while potential exporters grew from being small scale enterprises to almost medium scale enterprises.

growth rates in production over the past year are in line with the average annual growth rate figures. Exporters, however, indicated a higher average growth rate in production over the past year compared to potential exporters.

b. Characteristics of the Entrepreneur. Small scale enterprises frequently have been characterized as consisting of many otherwise unemployed workers who operate mostly in the informal sector. In our sample, however, the majority of the entrepreneurs had registered businesses. This is not surprising given that over half of the entrepreneurs had finished at least high school level of education or higher (Table 3). The typical 45 years old male entrepreneurs, moreover, operated their enterprises as full time businesses. The majority did not hold any other employment.

2. Significance of the Existing Financial Channels

The sources of funding and the savings channels entrepreneurs draw upon are various. They fall into informal and formal networks. The informal channels that prevail in Egypt include family and friends; suppliers credit and customer advances (i.e., trade credit); "Gam'iyat" (Rotating Credit and Savings Associations, or RoSCAs); and informal collectors. Although the formal financial sector in Egypt is expanding, formal channels reported by the exporters and potential exporters were mostly commercial banks.

a. Investment Capital. For most entrepreneurs in this survey, personal savings accounted for the majority of the investment capital (Table 4).[56] Interestingly, even more exporters have relied on personal savings as a source of investment capital (83 percent), than have potential exporters (60 percent). The second most often used source of investment capital by both exporters and potential exporters was bank loans (17 percent and 34 percent, respectively). Only a couple of potential exporters reported taking informal loans from family or friends for investment capital, or used a supplier loan for their investment purposes. These findings are similar to enterprise behavior in most developing countries. Entrepreneurs typically rely on savings to finance new business ventures or expansions, particularly in less developed capital markets where bank and or non-bank financing sources, such as venture capital, scarcely represent the primary sources of business start-up or expansion financing.

Sources of Investment Capital

	Exporters	Potential Exporters
Savings	83%	60%
Family & Friends	0%	3%
Bank Loan	17%	34%
NGO Loan	0%	0%
Supplier Loan	0%	3%

b. Contractual Relations with Suppliers and Customers. Sectoral and sub-sectoral variations imply differences in the linkages and contracts in the distribution or production of goods among the different entrepreneurs, suppliers, and customers. These variations are mainly manifested in the

56 Investment capital refers to the latest major investment, either for expansion or start-up purposes, that the entrepreneur has undertaken.

existing contracts between entrepreneurs and their suppliers and customers across different sub-sectors. Entrepreneurs purchasing inputs on credit and/or selling products after receiving advance payments are engaged in trade credit contracts. Trade credit is one of the sources of financing working capital for many enterprises in both developing and developed capital markets. The linkages between input suppliers and entrepreneurs as well as the linkages between entrepreneurs and their customers in the enterprise sector in Egypt present a complex variety of contracts.

i. Relations with Suppliers. The majority of the entrepreneurs in the sample purchased inputs in the domestic market from private national suppliers (Table 5). Some exporters and potential exporters import materials directly from off-shore suppliers (21 percent and 17 percent, respectively). The relationship between suppliers and entrepreneurs typically influences the nature of the sales contract between these economic agents. Entrepreneurs who purchase inputs on credit typically buy from one or two suppliers. This reduces transaction costs and helps resolve part of the asymmetric information problem that is often encountered between the principal-lender and the agent-borrower in credit contracts.[57]

Most exporters and potential exporters in the sample purchased their major inputs with cash (83 percent and 80 percent, respectively). Over half of the entrepreneurs in both groups bought inputs on credit (55 percent and 60 percent, respectively). In addition, some exporters and potential exporters (24 percent and 29 percent, respectively) provided their suppliers with advance payments to secure the procurement of their input materials. Lastly, only one exporter reported purchasing input materials on consignment (3 percent).

Form of Payment to Suppliers

	Exporters	Potential Exporters
Retained Earnings	83%	80%
Credit	55%	60%
Advance Payment	24%	29%
Consignment	3%	0%

The terms and conditions of the supplier trade credit contracts varied to some extent between the exporter and potential exporter groups (Table 6). Exporters used smaller amounts of supplier credit than potential exporters. On average, the value of the credit reached LE 30 thousand per transaction, representing a small share of the total value of the transaction for exporters. Potential exporters used, on average, LE 128 thousand per supplier credit transaction, which represented the bulk of the overall transaction.[58] The frequency of using supplier credit varied between the two groups as well. While exporters used supplier credit as

[57] Asymmetric information problems refer to the adverse selection and moral hazard behavior that the principal-lender encounters as a result of the agent-borrower's undetermined type, i.e. good or bad borrower, and unpredictable action, i.e. repayment performance. For further details see the literature addressing asymmetric information, e.g, Stiglitz and Weiss (1981) and Gale (1990, 1991) among others.

[58] It should be noted that the medians for the supplier credit transaction, for both exporters and potential exporters, vary significantly from the means. When comparing the medians for both groups, there seems to be less difference between the amounts of supplier credit used by the two groups.

often as 79 times per year on average, potential exporters used supplier credit only 10 times per year on average.

Form of Sales to Clients

	Exporters	Potential Exporters
Cash	86%	80%
Credit	52%	74%
Advance Payment	24%	34%
Consignment	7%	14%

Most of the supplier credit was typically extended for an average of 3 months. Moreover, two thirds of exporters and potential exporters (73 percent and 67 percent, respectively) reported getting goods on credit free of interest charge.[59] Some suppliers charged interest which averaged about 17 percent for exporters and 9 percent for potential exporters, over the 3 months average term of the credit contract. In any case, the majority of the potential exporters reported providing their suppliers with security in the form of a signed promissory note to pay at the end of the term. The use of security was more frequent for potential exporters than exporters. This is probably due to the fact that potential exporters had larger amounts of supplier credit per contract.

The supply of trade credit by suppliers of inputs is dependent on the type of commodity and the degree of competition among suppliers in the market. The higher the degree of competition, the more incentive there is for traders to offer trade credit as a marketing tool to sell their commodities. Moreover, the more perishable the commodity is, the more incentive there is for traders to offer trade credit to reduce storage period and potential damage.

ii. Relations with Customers. Products manufactured by the exporters in the sample were largely sold in both domestic and foreign markets (Table 7). Some exporters reported that they sold in the domestic market and an agent effectively exported their products (14 percent). Only very few exporters reported selling solely to foreign customers (10 percent).

With respect to the terms and conditions of the sale of output, most exporters and potential exporters sold in cash (86 percent and 80 percent, respectively). About two thirds of the potential exporters offered credit to their domestic customers (74 percent), while only half of the exporters reported selling on credit (52 percent). This again is a result of the different marketing structures across the various sub-sectors in the study, where entrepreneurs facing more competition
offer credit as a marketing tool to trust-worthy customers. Not surprisingly, only a few of the exporters and potential exporters sold finished goods on consignment. Over a third of the potential exporters accepted advance payments from their customers (34 percent), and about a fourth of the exporters sold their goods after receiving advance payments (24 percent).

The terms and conditions of the customer advance contracts varied significantly between exporters and potential exporters (Table 8). Potential exporters took larger amounts of

59 Interest charge on supplier credit was measured by considering the difference between the price of goods when sold on credit and the price of goods when sold in cash. The mark-up traders usually attach to the credit price, compared to the cash price, represents the implicit interest charge.

customer advances, which reached on average LE 33 thousand per transaction (with LE 14 thousand median), representing about one third of the total value of the transaction. Exporters took on average LE 10 thousand per customer advance (with LE one thousand median), which represented about half of the total value of the transaction. The frequency of using customer advances averaged five times per year for both groups. Most of the customer advances were typically extended for periods of three to five weeks. In addition, most of the entrepreneurs reported providing their customers with security in the form of a signed promissory note for the promise to deliver the product at the end of the term. The nature of the product and its value directly affect the method of payment. Many manufactured products, and particularly the custom-made orders, require advance payment as a guarantee and deposit to allow the entrepreneur to purchase input materials.

Exporters reported selling on average one third of their finished products in foreign markets (Table 9). Only few exporters reported using letters of credit to collect on their export sales (14 percent), and even fewer exporters sold on consignment in the export markets (10 percent). About one fourth of the exporters collected their payments in cash, either through an agent, or through receiving checks in the mail, or directly from importers who visited Egypt to conduct their business. The majority of the payments on export sales were collected through using the open account mechanism.[60] The value of the export contract averaged about LE 100 thousand (LE 44 thousand median), of which roughly LE 88 thousand (LE 30 thousand median) was received in about two months after the delivery of the goods. Exporters received payments using the open account system on average six times per year. The majority of the exporters (68 percent), however, had some security in the form of signed letters or orders from their importers promising to complete payment upon delivery of the goods.

Form of Sales in Export Markets

	Exporters
Cash	24%
Consignment	10%
Letter of Credit	14%
Open Account	52%

iii. The Demand for Informal Loans. The demand for informal loans by exporters and potential exporters in the sample was not very significant (Table 10). Only about one fourth of the entrepreneurs in the sample had requested an informal loan at one time, and yet less than one fifth of both exporters and potential exporters reported taking an informal loan during the past year. Loan quantity rationing, i.e. loan requests being rejected, was not reported by any of the entrepreneurs in the sample.

The source of informal loans over the past year was largely from family and friends. Informal loans were typically given in a matter of days for periods of 12 months to exporters and 6 months to potential exporters. Potential exporters took smaller amounts of informal loans (LE 4 thousand) than exporters (LE 32 thousand) on average. This implies that exporters have

60 Open account refers to the process where the importer sends a wire transfer of the payment, after the exporter had shipped the goods, to the exporters’ bank account.

a larger demand for informal loans than potential exporters. Most informal loans were unsecured and provided free of interest charge except in a few cases. This is typical for informal loans as it is socially and religiously unacceptable to charge interest on these types of loans or hold collateral. Personal relations allow lenders to make judgements about the creditworthiness of their borrowers and induce borrowers to fulfill the repayment promise.

iv. The Demand for Formal Loans. The demand for formal loans did not seem to differ between exporters and potential exporters (Table 11). Only about one third of the entrepreneurs in the sample never requested formal loans. The primary reasons provided by exporters and potential exporters for never requesting a formal loan were that they had other available sources (45 percent and 21 percent, respectively) or due to religious reasons (18 percent and 36 percent, respectively). A few exporters, in addition, indicated that the interest rates (18 percent) were high or they did not have sufficient collateral (18 percent). A few potential exporters, also, reported that interest rates were high (14 percent), banking procedures were difficult (7 percent), or they had no banking experience (7 percent). Interestingly, among the entrepreneurs who had requested a formal loan in the past, very few exporters (10 percent) or potential exporters (3 percent) were rejected, i.e. loan quantity rationed. The reasons a few entrepreneurs were rejected were because they did not have sufficient collateral or banking experience. Only a fifth of the exporters, however, indicated that they used banking services for their export business. Those exporters who do not use the banking services for their export business indicated that the primary reasons included availability of other sources (14 percent), difficult banking procedures (7 percent), insufficient collateral (4 percent), and high interest rates (4 percent).

Consistent with the information reported on the request for loans, and the infrequent occurrence of complete loan rejection, the majority of the entrepreneurs reported using formal credit at one point in time (Table 12). Not surprisingly, most of the exporters (62 percent) and, almost half of the potential exporters (49 percent) indicated using a loan during the past year. These findings are similar to the results reported in the 1994 World Bank survey, where almost two thirds of the medium scale enterprises interviewed had received loans from banks, and over one third of the small scale enterprises and less than a fifth of the microenterprises reported receiving loans from banks (World Bank, 1994).[61]

Exporters reported using four loans on average, while potential exporters used two loans on average over the past year. Public sector banks were the primary source for the majority of the loans obtained by exporters and potential exporters. Interestingly, however, about one fourth

[61] The definition adopted in the World Bank study refers to businesses employing 1 to 4 workers as microenterprises, those with 5 to 9 workers as small scale enterprises, and those with 10 to 100 workers as medium scale enterprises.

of the loans used by exporters were associated with a special program, largely the Social Fund for Development, while only one of the potential exporters had such linkages.[62]

Most of the loans reported by both exporters and potential exporters were working capital loans, however some were fixed assets loans. A few exporters, in addition, reported using domestic and foreign letters of credit, and in a couple of cases entrepreneurs even used discounts of drafts. Half of the exporters who took loans last year indicated that those loans were used for export purposes. While very few entrepreneurs reported being loan quantity rationed, a few did report being loan size rationed, i.e. receiving loan amounts smaller than what they had demanded. Loan size rationing was experienced more by exporters than by potential exporters. Loan approvals and disbursements, moreover, were reported to take two months for exporters and one month for potential exporters. These findings suggest that the loans received by entrepreneurs were not granted and disbursed very efficiently.

Average loan amounts differed between the exporters and potential exporters. Exporters reported receiving an average loan amount of LE 484 thousand, while potential exporters reported receiving an average loan amount of LE 650 thousand. Loans received by exporters were generally granted for an average period of two years at interest rates averaging 12 percent.[63] Potential exporters, on the other hand, received loans for about 2 years but at an average interest rate of 16 percent. The reason interest rates charged to exporters were lower on average than the market rates was because, as mentioned earlier, a number of exporters received loans through the Social Fund for Development which provided loans at subsidized interest rates. Most notably, however, all loans given to exporters and potential exporters were secured by collateral with values averaging over 100 percent of the loan amount. The average value of the collateral was higher for potential exporters, reaching 187 percent on average, than for exporters which reached 114 percent.[64] Typically more than one collateral was used to cover the total value of the security.

v. Significance of the Existing Current Sources of Financing the Business. In summary, the alternative sources of financing current operations of the business did not seem to differ significantly between exporters and potential exporters (Tables 13). First, the primary source of financing used by most entrepreneurs in the sample was retained earnings. Second, trade credit in the form of supplier credit and customer advances was the second significant source used by both exporters and potential exporters. Third, formal loans were used by over half of the entrepreneurs in the sample. Finally, informal loans were used by less than one fifth of the exporters and potential exporters. Loan quantity rationing was found not to be the problem or

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62 It should be noted that a number of exporters participating in the export promotion trade fair in October 1997, who were participants in an export promotion program established by the Social Fund for Development, were interviewed in our survey.

63 Interest rate charges reported by entrepreneurs include fees. Entrepreneurs generally did not know how much was the interest rate and how much were the fees.

64 Again, the number of loans granted by the SFD influenced this outcome.

bottle neck, contradictory to popular belief of discrimination against small businesses, exporters and others. The observation of entrepreneurs often self-selecting themselves out of the formal credit markets was reported to be largely based on the availability of other sources and religious beliefs.

The sources of finance may be characterized in a ranking order starting with the most to the least utilized. First is retained earnings as the overwhelming source; second are customer advances and supplier credit; third comes formal loans from commercial banks; and fourth, are loans from family and friends or formal loans.

vi. Significance of the Existing Saving Channels. Entrepreneurs in the sample were found to participate in various savings channels. Formal channels consisted of accounts in commercial banks. The informal channels were represented by the "gam'iyat" or RoSCAs and the informal collectors. Table 14 presents the share of entrepreneurs saving with formal institutions, informal groups and informal collectors by size of the enterprise.

Among the most common savings channels were the commercial banks. On the one hand, almost all the exporters held at least one account with one of the commercial banks in the country. On the other hand, about two thirds of the potential exporters held one account on average with one of the commercial banks. "Gam'iyat" or RoSCAs were the second most widely used saving channel among the entrepreneurs in the sample. Participation in RoSCAs differed between the two groups. About a third of the potential exporters participated in these groups while only one tenth of the exporters were members of these groups. The amounts contributed to these groups ranged from LE four thousand, as reported by exporters, to about LE 12 thousand, as reported by potential exporters, per year per member. Finally, very few entrepreneurs reported saving money with informal collectors. The few potential exporters who did, reported that they held some funds with a family member. This is probably due to the reason that the sample enterprises were largely concentrated in urban and peri-urban areas where this phenomenon is less practiced than in rural areas.

In summary, the array of saving channels and the different concentrations of entrepreneurs among these channels indicates very important findings. Monetary savings are very important to entrepreneurs. Almost every entrepreneur has used at least one savings channel to keep her/his deposits as a means to manage liquidity of the enterprise. Moreover, entrepreneurs draw upon formal channels, commercial banks in general, as well as on informal channels, such as RoSCAs, to deposit their savings.

3. Problems and Constraints

Entrepreneurs are typically perceived to face problems and constraints limiting their growth and expansion. These problems are often attributed to lack of finance. Problems outside financial markets, however, represent important barriers to entrepreneurs in many environments. In our sample, first, the most significant problem reported by exporters was weak marketing, followed by weak demand, taxes, and labor problems (Table 15).[65] Second, potential exporters reported that taxes, marketing and labor problems were their most significant problems. Interestingly, finance was not presented to be the most serious problem except by a few entrepreneurs in each group. When asked about their second most significant problem exporters reported raw materials, marketing, costly finance, and domestic competition, and potential exporters reported raw materials, marketing, insufficient sources of finance, and labor problems. Again, finance was reported as a second most serious problem by only a few entrepreneurs. These evaluations, although subjective and based on the entrepreneurs' initial responses, serve to highlight the point that finance is not necessarily the bottle neck as widely perceived by many small business advocates, including governments and donors.

Entrepreneurs were also asked to evaluate their growth in production over the past year. Those who did not experience any growth were asked to list the three most significant constraints limiting their growth. Exporters largely reported weak demand, marketing, and costly finance as their primary constraints, while potential exporters suggested weak demand, marketing, labor problems, and insufficient sources of finance as their principal constraints (Table 16). The second reason provided by the entrepreneurs as to why they did not experience growth over the past year was either domestic competition or taxes. Again, contrary to popular belief, finance was not reported to be the primary major obstacle. Only a few exporters and potential exporters, suggested that bank financing is costly and that sources of financing were insufficient.

Exporters were also asked to indicate the three major constraints facing them in their export business (Table 17). Foreign competition was suggested to be the most significant constraint for many exporters, followed by weak demand, marketing, costly financing, and insufficient sources of financing. The second most significant constraints were marketing and customs. Potential exporters, on the other hand, were asked to indicate the most significant constraint impeding them from exporting. Not surprisingly, many entrepreneurs suggested that lack of access to an agent abroad was the primary constraint, some others implied that foreign competition was strong, while a few others viewed insufficient sources of financing as their most binding constraint.

Lastly, the entrepreneurs were asked to rank a set of constraints, suggested by the interviewers, among three classes representing whether they have no problem with the particular issue addressed, or they have some problems, or they have a severe problem.[66] This exercise allows us to get an overall estimate through normalizing the answers of the severity of each problem to the enterprise

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65 Entrepreneurs were asked to list their three most significant problems in a descending order, with no suggestions offered by the interviewers.

66 Interviewers probed entrepreneurs for a response concerning each particular constraint suggested to the entrepreneur.

sector.[67] The responses for each group of enterprises were analyzed separately. With respect to exporters, the most severe constraints were costly bank financing, taxes, costly raw materials, and insufficient information, followed by a few other constraints including inflation, strong competition, weak demand, costly equipment, lack of financing from banks, lack of technical labor, and lengthy banking procedures (Table 18). With respect to potential exporters a similar pattern of problems was found (Table 19). The most severe constraints were producing quality products for foreign markets, costly bank financing, tax laws, inflation, weak demand, government procedures, and lack of technical labor.

Interestingly, the constraints ranked most severe by exporters place emphasis on the same issues concerning potential exporters. In addition, the majority of these constraints fall outside the financial markets except for the view that bank financing, at current market rates, is costly. These findings, again, are consistent with the results of the 1994 World Bank survey, where the level of interest rate was the most severe problems reported by all micro, small, medium, and large scale enterprises (World Bank, 1994). This is not surprising, and is the typical rhetorical response for entrepreneurs in many environments. As discussed earlier, though, many exporters and potential exporters have an effective demand for bank financing, at current market rates.

[67] Normalization of the entrepreneurs' responses involved estimating the weighted average of the degree of severity, with no problem 0, some problem 1, and severe problem 2, where the weights were given by the percentage of respondents for each degree. The weighted average was then normalized by 0.02. The normalization rates range from 0 to 100, where 0 represents no constraint.

VII. Conclusions and Recommendations[68]

The supply leading approach to the development of financial markets favoring small farmers, microentrepreneurs, women, and special , such as small exporters, largely prevalent in the 1970s and early 1980s, has left researchers wary of the consequences of targeted credit and special programs. Fungibility of credit presents a critical issue in the study of the impact of loan services provided by development programs to the targeted groups[69]. The demand leading approach to the development of financial markets, which has developed since the late 1980s, has placed emphasis on the development of viable and sustainable microfinance institutions to serve the poor in general and small scale enterprises in particular. The investigation of the nature of export-oriented enterprises' demand for alternative financial services, on the one hand, yields important insights into the operations and growth of exporters and potential exporters. The investigation of the nature of the supply of financial services to the export sector, on the other hand, yields significant insights into the nature of the financial markets and international trade instruments. Based on an understanding of supply and demand, appropriate intervention schemes and adequate policy reforms can be proposed to assist in the development of international trade financial markets.

A. Conclusions Regarding the Supply of Trade Finance Services to the SME Sector

1. Commercial Banks

a. Despite the overwhelming prevalence (over 98%) of micro, small and medium enterprises in the Egyptian economy, commercial banks are lending relatively small percentages of their loans to these enterprises. Very rough estimates of the volumes of such lending by the sample group of banks indicates the following:

% of Bank Loan Portfolios	
Medium	3 - 4 %
Small	1 - 2 %
Micro	0 - 1%
SME Aggregate	5 - 6%

The total SME lending by the whole banking sector is estimated to be between 5-6%. It is estimated that the total volume of international trade finance to SME borrowers is an insignificant

[68] Conclusions and recommendations relating to finance in general are taken from a complementary DEPRA study entitled *Financial Reform for Small Business Development in Egypt*. Generally those conclusions and recommendations also apply to trade finance. Additions and clarifications specific to trade finance are included as necessary.

[69] See Adams and Von Pischke (1991) and Von Pischke and Adams (1983) for detailed views on the difficulty of assessing the impact of agricultural loans because of fungibility.

0.3% of total credit outstanding. While all of the banks interviewed possessed trade finance services, and used them, the volumes appear to be small. The main suppliers of export financing are nonetheless the large public sector banks, including NBE, EDBE, etc.

b.   The reasons cited by commercial bankers for the relatively low level of SME lending, including export financing, are as follows:

- SME lending represents higher than average risk and lower than average returns for most bankers;

- SME loans are administratively more expensive than larger loans, particularly costs related to marketing and follow-up;

- Banks need a large branch network to reach SME customers effectively. Most of the banks in the country do not have such networks, particularly the private banks other than NBD;

- SME entrepreneurs are frequently incapable of preparing the information which would make them bankable. They often do not maintain the accounting records necessary to produce the financial reports on which bankers would base a cash flow analyses, and they often do not have the managerial skills and experience to develop other data necessary to support cash flow analyses (e.g. market studies);

- Small businesses often do not have the collateral normally required by banks. Their businesses may be too small or too young to have accumulated substantial collateral, or even if they have it, they have not taken the formal steps to register it, as is necessary in the case of real estate, or they are not inclined to risk losing these assets by pledging them to a bank;

- Excessive collateral requirements deter small borrowers even when they are inclined to pledge collateral. The cost of registering collateral is also high (e.g., 5% for mortgages);

- A socialist mentality among many bankers as evidenced by the often cited solution to making more credit available to SMEs - “the government needs to fund such programs at below market interest rates to enable the banks to provide low cost credit to the poor.”

- SME exports represent a very small share of total exports.

c.   Lending to microenterprises for export appears to be virtually non-existent. Almost all microenterprise lending by commercial banks is politically motivated, with the primary impetus for it coming from the SFD initiative of government. With the exception of the National Bank for Development, banks eschew microenterprise lending for the reasons cited above.

d. Current government policy toward small business lending for exporters, implemented largely through SFD and a special line of credit for exporters, is counter productive because:

- Subsidized credit does not resolve the problem of financial institutions' lack of active provision of financial services to the targeted exporters. This is due to the fact that subsidized credit does not enhance the capacity of the involved institutions in developing the borrower-lender relationship, or adopting the appropriate financial technologies, and management information systems, among others, that would allow these institutions to serve this clientele after the special lines of credit are consumed.

- Government subsidized credit programs deprive lenders of economic incentives to lend in sectors they perceive as having above average risk, result in unsustainable default rates and decapitalization of credit programs, and are viewed by many as a giveaway program in which *lenders* do not have to be repaid.

- Fungibility issues are a major intricacy in the face of targeted credit. Exporters and potential exporters are engaged in the production and sales of goods to the domestic markets. Subsidized credit favoring exports is likely to be used for a number of productive and consumption purposes other than exports.

- The below market interest rates passed on to SME borrowers discourage participation of commercial banks. Bankers say that they are losing money on these loans, primarily because of the high loan loss rates and higher than normal expenses related to this type of lending. But for the political force exerted, and some residual socialist thinking among bank managers, they would not do this type of business.

- In addition, the poor loan recovery rates appear to have given SME lending a bad name among commercial bankers inhibiting the credibility among them of well run microfinance programs.

- The focus on recent graduates' start-up businesses greatly increases the risk of default and the cost of SFD lending by the banks.

- The high loan loss experience associated with the SFD business reinforces the negative attitudes (high risk, low or no return) of bankers toward SME finance.

- Informal government pressure on government banks to lend to small business exporters at lower than market interest rates discourages private banks from entering this segment. Since this type of business is more expensive to conduct, particularly since exporting, especially for SMEs, is generally riskier than domestic business, the pricing ought to be higher to reflect the greater cost. The fact that this is not the case discourages private bank lenders.

e. The banking system is not sufficiently competitive because the majority of financial resources of the nation are controlled by five large government-owned banks. This appears to be true with respect to export finance, where most of the business is conducted with state-owned banks. This concentration of power reduces competition. The limited use of more modern technology, particularly computerized internal reporting systems in branches outside of Cairo, and the limited range and use of certain financial products and services (e.g. factoring, forfaiting and bankers acceptances) supports this assertion.

f. Collateral policies varied considerably among the sample banks with requirements ranging from 110% to 200% of loan value. Collateral included real estate, inventories, accounts receivable, marketable securities, cash, equipment, contract and lease assignments, and bank and personal guarantees. All sample banks make uncollateralized loans. While some banks didn't think their collateral policies were more or less harsh with regard to smaller borrowers, however, most banks indicated that the smaller the borrower, the more difficult it is for them to provide necessary collateral either because they don't have it or registering it is too expensive. Collateral policies do not differ materially with regard to export financing, although exporting affords the banks one additional source of comfort, that is, letters of credit. However, LCs are of value only if the exporter performs. There was no indication that many banks were routinely extending credit solely on the basis of letters of credit backing. In addition, there is a growing trend in Egypt's trade mix away from LCs.

g. All banks indicated that the court system was slow, cumbersome, inefficient and prone to rent seeking behavior. These responses, and responses cited in other studies, indicate that commercial court system upgrading and legal reforms with regard to collateral would have a positive effect in banks' propensity to lend. Improvements in the accuracy, ease and cost of registering/perfecting collateral, in the allowable collateral types, and in the degree of freedom of lenders to seize property were suggested. Inefficiency in the court system has the same negative effects with respect to trade finance.

2. Specialized Financial Institution Models and Other Programs

a. **Programs not related to Exporting Per Se**. Five non-bank financial institutions and specialized programs were analyzed in the study as alternative models for increasing the supply of credit to small enterprises. The conclusions with regard to the five models, which were not specifically related to trade, are discussed in the complementary DEPRA report entitled *Financial Reform for Small Business Development in Egypt*, however some additional comments related to export finance are merited.

With respect to trade credit for SMEs, the Alexandria Business Association indicated minimal involvement with exporting. In this regard, ABA acted as a facilitator introducing its borrowers to exporters, primarily in the garment industry. The National Bank for Development does some lending for export trade but this is not conducted through its microfinance units whose clients are generally not involved with exports. The Credit Guarantee Corporation has been considering entering the export credit guarantee business, but has not done this type of business to date. SFD reported no significant borrowing related to exporting, but some of its borrowers do some exporting.[70] Orix Leasing Ltd. is only just beginning its operations, but there is certainly nothing in principal which would preclude leasing from being an important source of finance for SME export businesses. Leasing offers a significant, relatively new instrument (in Egypt) for increased financing for export-oriented SMEs. Implementation of recommendations in the above mentioned DEPRA report with regard to these programs should positively impact financing for exports though it seems likely that much of this financing would probably be for exporters' suppliers rather than direct exporters.

b. **Export Development Bank of Egypt**. EDBE offers basic international trade credit and other services to exporters. It has a small branch network and a very limited small and medium-scale clientele, and it has not been a high performing bank. The recent privatization of the EDBE is likely to improve operating performance, expand the branch network and make more trade finance available to exporters, including small and medium exporters.

c. **Export Credit Guarantee Company of Egypt (ECGE)**. ECGE services are more basic than the services offered by similar agencies in other parts of the world, but the differences appear to be marginal, and may not be significant at this stage of Egypt's export history. ECGE does not appear to be making money in its core business, and this is consistent with the limited magnitude of Egyptian non-traditional exports. ECGE is in a monopolistic position, but this is not unusual nor does ECGE appear to be offering predatory pricing. It may be necessary, however, to increase the company's equity and quasi-equity accounts to enable it to handle additional business.

Export credit guarantees and insurance are a complex, challenging businesses requiring considerable training and experience. New entrants will face a steep learning curve, high costs and weak demand in Egypt for the foreseeable future.

B. Conclusions Regarding FDI and Export Financing

The fast growing nations of the world are achieving a great deal of that growth through FDI and expanding exports, and receiving significant side benefits in the form of technology, skills and market access. Egypt appears to be underachieving in this regard. Significant changes in the investment climate in the country appear to be necessary to enable it to achieve its full potential as a regional site for investment.

Export financing, both pre-export and post-shipment, and export credit guarantee schemes are in wide use in both the developed and developing world. Egypt has such programs in place, but these programs appear to be less comprehensive than their counterparts in other countries. This and the limited use of export financing, guarantees and insurance, may be due to Egypt's low and declining export base and the limited range of its exports.

The fact that certain financial instruments, such as bankers acceptances, factoring and forfaiting, are not as widely used in Egypt as in other parts of the world appears to have to do with Egypt's low

[70] See Table 12 annexed hereto, and related text in Section VI on the demand for trade finance services.

export base, its narrow range of export items and the relatively low level of experience in recent years on the part of its bankers and exporters with the international marketplace and financing techniques. The nation's banks have a reasonable range of correspondent bank relationships, and in many cases have the lines of credit in place to do these types of transactions. For example, most banks interviewed had bankers acceptance lines. If Egypt continues to improve its macroeconomic situation, and particularly if it adopts a more pro-foreign direct investment posture, it is likely that the range of support from the foreign correspondent banks will increase, that the export base will expand in volume and diversity, and that the above mentioned products will find more usage as the situations to which they apply arise more frequently. Egypt's lackluster export performance is deeply rooted in the low level of export preparedness seen at both the macro and firm level. Export incentives do not appear to be integrated into a comprehensive, pro-investment national growth strategy.

C. Conclusions Regarding the Demand for Trade Finance Services in the SME Sector

The analysis of exporters' and potential exporters' demand for financial services entailed examining the SME sector in the urban and peri-urban regions of Egypt. The main focus of our analysis was to examine the alternative financial services that export-oriented firms draw upon to finance their enterprises. In addition to the services offered by formal financial institutions, i.e. bank and non-bank intermediaries, entrepreneurs draw upon a complex set of informal contracts with various economic agents. These contracts are used for both savings and loan purposes

A survey of 173 micro, small, and medium scale manufacturing enterprises was carried out in October of 1997. A sub-group of 29 exporters and 35 potential exporters were randomly selected among the manufacturing enterprises in the survey. These two sub-groups constitute the sub-sample that is used in our analysis of exporters' and potential exporters' demand for financial services. The surveyed enterprises were located in the Greater Cairo region, which included the cities of 6th of October and 10th or Ramadan, as well as in Alexandria and Fayoum. These urban and peri-urban areas were chosen because they host a large and diverse number of enterprises across various sub-sectors and size categories that could provide information about the financing and performance of these export-oriented enterprises. The exporters and potential exporters survey focused primarily on some of the more dynamic sub-sectors in the manufacturing sector. These are textile-garment manufacturing, furniture-wood processing, shoe making, artisanal craft production, and carpet weaving.

The majority of both exporter and potential export enterprises in the sample were proprietorships operated by middle aged male entrepreneurs. The predominance of formal enterprises in the sample, among all micro, small, and medium scale enterprises, was rather surprising and contrary to the perception that these enterprises are largely informal.

Sources of finance for current operations included both informal and formal channels. First, the primary source of financing used by most entrepreneurs in the sample was retained earnings. Second, trade credit in the form of supplier credit and customer advances was the second significant source used by both exporters and potential exporters. Exporters sold on average one third of their finished products in foreign markets. While only a few exporters used letters of credit in their export transaction, the majority collected their payments on export sales through the open account mechanism. Third, formal loans were used by over half of the entrepreneurs in the sample. In addition, half of the exporters who used formal loans over the past year indicated that they used these loans for their export purposes. Finally, informal loans were used by less than one fifth of the exporters and potential exporters. Loan quantity rationing was found not to be the problem or bottleneck, contradicting popular belief of discrimination against small businesses, exporters and others. The observation of entrepreneurs often self-selecting themselves out of the formal credit markets was reported to be largely based on the availability of other sources and religious beliefs.

Entrepreneurs in the sample were found to participate in different savings channels. Formal channels consisted of accounts in commercial banks. The informal channels were represented by "gam'iyat" or RoSCAs and informal collectors. Among the most common savings channels were the commercial banks. On the one hand, almost all the exporters held at least one account with one of the commercial banks in the country. On the other hand, about two thirds of the potential exporters held one account on average with one of the commercial banks. "Gam'iyat" or RoSCAs were the second most widely used saving channel among the entrepreneurs in the sample. Participation in RoSCAs differed between the two groups. About a third of the potential exporters participated in these groups while only one tenth of the exporters were members of these groups. Finally, very few entrepreneurs reported saving money with informal collectors. The few potential exporters who did, reported that they held some funds with a family member.

Entrepreneurs are typically perceived to face problems and constraints limiting their growth and expansion. These problems are often attributed to lack of finance. Problems outside financial markets, however, represent important barriers to entrepreneurs in many environments. In our sample, first, the most significant problem reported by exporters was weak marketing, followed by weak demand, taxes, and labor problems. Second, potential exporters reported that taxes, marketing and labor problems were their most significant problems. Interestingly, finance was not presented to be the most serious problem except by a few entrepreneurs in each group. When asked about their second most significant problem exporters reported raw materials, marketing, costly finance, and domestic competition, and potential exporters reported raw materials, marketing, insufficient sources of finance, and labor problems. Again, finance was reported as a second most serious problem by only a few entrepreneurs. These evaluations, although subjective and based on the entrepreneurs' initial responses, serve to highlight the point that finance is not necessarily the bottleneck as widely perceived by many small business advocates, including governments and donors.

Exporters were also asked to indicate the three major constraints facing them in their export business. Foreign competition was suggested to be the most significant constraint for many exporters, followed by weak demand, marketing, costly financing, and insufficient sources of financing. The second most significant constraints were marketing and customs. Potential exporters, on the other hand, were asked to indicate the most significant constraint impeding them from exporting. Not surprisingly, many entrepreneurs suggested that lack of access to an agent abroad was the primary constraint, some others implied that foreign competition was strong, while a few others viewed insufficient sources of financing as their most binding constraint.

D. Supply of and Demand for Financial Services in the SME Sector

Findings of the study provide valuable insights into the supply of and demand for international trade financial services in the SME sector in Egypt. While commercial banks indicated that SME trade financing represents a very small share of their overall portfolio, analyses of the entrepreneurs' demand for formal financial services indicated that over half of the exporters and potential exporters draw on loans from banks. The disparity is largely a result of the bankers' perception that SME lending is typically microlending. The small and medium enterprises' demand for formal financial services is clearly different from that of microenterprises. Small and medium exporters were found to draw on significant amounts of formal loans, much higher than typically perceived by bankers. As expected, commercial banks did not typically engage in microlending for exports, except through special programs and lines of credit, however, small and medium scale enterprises did not seem to have a binding constraint when accessing bank financing. Half of the exporters who used formal loans used these working capital loans to service their export businesses. The typical payment for export sales, however, was through the open account mechanism. This is in line with the world trend which suggests that exporters using the open account payment mechanism are more competitive.

E. Recommendations

Despite numerous projects and policies initiated to assist micro, small and medium scale enterprises in low income countries, little is known about the impact of these efforts on enterprise operations and evolution in these countries. The persistent question, that is often debated, is to what extent do financial services and credit programs, be they domestic or export oriented, assist the operations and evolution of SMEs? The financial supply leading approach to the development of SMEs has recorded many more failures than successes. Intervention programs focusing on distributing cheap loans are as short lived as the life of the operation that is required to allocate the funds. NGO financial institutions that do not also engage in deposit-saving mobilization incur greater moral hazard because there is limited constituency in the institutions concerned with responsible loan evaluation practices and effective recovery problems. Successful microfinance programs, whether deposit taking or not, have to adopt appropriate organizational designs, financial technologies, management information systems, and incentive structures for their employees, among others, to achieve viability and sustainability. Furthermore, savings, whether informal or formal, are an important component of the entrepreneurs' portfolios. Programs that plan to channel financial services to entrepreneurs should attempt to mobilize their funds. However, mobilizing deposits should be subject to regulation and these institutions should be monitored by the regulatory authorities in order to ensure the safety of depositors. Perhaps some programs could choose to work with commercial banks to reach more entrepreneur savers and borrowers.

Commercial banks, also, have a role in the provision of services to the SME sector. There needs to be a strong incentive for any banking institution, however, to agree to work with an enterprise development program. Given that the financial markets in Egypt are not competitive enough, no commercial bank is forced to look for new customers at the time that it is enjoying a large share of the market. Hence, there is more incentive for the government to induce competition in financial markets by implementing policies that would increase the number of the financial institutions that would reach different classes of customers and leave the existing banks no room for exercising monopoly power. It is vital for the government, therefore, to adopt liberalization policies that enhance privatization which will lead to increased competition in the domestic markets across different sectors of the economy.

Many of the recommendations proposed in the following sections apply to increasing the general supply of credit to SMEs rather than international trade finance alone. They flow from more general findings discussed in greater detail in the complementary DEPRA report entitled *Financial Reform for Small Business Development* in *Egypt.* Implementation of those recommendations would improve the availability of credit in general and would positively impact the availability of credit for export in the process. In addition, the recommendations related to international trade focus on improving the export readiness of Egypt because non-financial constraints appear to be far more important than the availability of international trade finance.

1. **With Respect to Banking**. Improving the overall performance of the financial sector would benefit all enterprises, including micro, small, and medium businesses. Overall performance could be improved as follows:

a. Revise the current Central Bank position making entry of foreign banks difficult. The window allowing foreign bank entry by purchasing the pubic shareholdings of joint venture banks is positive, but insufficient. Many banks will only enter the market if they can fully control their operations. In other markets, such as the rapidly advancing markets in Asia, free market entry has resulted in more modern banking practices, increased competition leading to cheaper and more readily available credit, and stronger financial institutions.[71] Egypt does not appear to be over-banked.

b. Eliminate government and donor influence on the banking industry calling for lower interest rates on SME lending in general and specifically with respect to the Social Fund for Development. Regarding international trade finance in particular, avoid creation of any new subsidized-interest programs.

c. Continue and accelerate privatization of the banking system to increase the level of competition and the services provided to the SME sector. Increased competition will force banks to seek more business at the lower end of the firm-size continuum.

d. Privatization should be complemented by an effort to reduce the dominance of these institutions by breaking them into smaller entities to encourage competition and innovation.

e. Reduce the cost of funds to financial institutions by lowering reserve requirements to prudentially required levels. Coupled with an enhanced competitive banking environment and increased banking efficiency, this would result in lower current market interest rates. Potential money supply expansion could be controlled by open market operations of the central bank.

[71] USAID's MABS Activity in the Philippines has been designed to assist rural banks adjust to just such competitive pressures by moving further down market to microenterprises.

f. Continue with the government reform supported by the IMF to require full disclosure in bank financial reporting via detail audited annual reports and semiannual reports according to international standards. In the free and private banking market envisioned in Egypt's future, better information will generally draw more resources to the better performing banks, and this will ultimately improve the overall availability of credit at all levels.

g. Improve supervision and regulation of banks to encourage prudent competitive performance through loan classification, provisioning for losses, and capital adequacy requirements. Banks that seek out and service good borrowers will be allowed to expand faster than banks with non-performing loans.

h. Egypt should consider creation of its own internal market for rediscounting trade bills, including the creation of bankers acceptances. To promote this, the Central Bank of Egypt would have to be prepared to rediscount acceptances. Equally if not more important, however, would be an expansion of the willingness of commercial bankers to extend preshipment financing solely on the basis of the letter of credit as collateral. Again, the CBE could encouraging this by positioning itself as "discounter of last resort." In playing this role, the CBE should ensure a market-based interest rate structure which enables commercial banks to rediscount at a profit.

i. The current situation in Egypt is that there is no excess demand for international trade credit. However, in the medium-term, as Egyptian government efforts to improve the macroeconomic environment bear fruit, and as private, firm-level efforts result in increased exports, the relationship between supply and demand can reasonably be expected to change, and could lead to periodic shortages in the supply of export finance. The Central Bank of Egypt should be prepared to manage such liquidity shortages with a facility for rediscounting the export trade paper of all commercial banks. The rediscount rate should be pegged at some margin slightly below the interbank rate prevailing in the market. This rediscount window should be open only in response to liquidity shortages.

j. Increase the frequency and variety of training courses related to international trade finance through the Bankers' Association and the Bank Training Institute at the American University of Cairo. Courses should be added which not only enhance the understanding of the special situation of SMEs, but also focus particularly on the additional hurdles they face in exporting, and the increased risk involved.

2. **With Respect to the Legislative Change**. Progress toward a more modern, pro-investment environment and an efficient legal system in which commercial disputes can be settled quickly will be of positive benefit to smaller businesses, whether they produce for domestic or international markets, because it will bring increased opportunity and reduce the overall cost of conducting business. To support such progress, the following is recommended:

a. Continue and accelerate legislative reforms, related to investment, that will improve Egypt's global competitive position. In particular, the following constraints to greater FDI and export growth should to be tackled with appropriate policy, legislative and regulatory change:

- High import tariffs,
- An anchored foreign exchange rate which is looking increasingly overvalued;
- High transaction costs; that is, high cost of engaging in exchange, especially in exchange with the public sector, at all levels of the economy;
- Continued high level of public ownership in the economy, including state trading monopolies;
- Inefficient public operations at key international trade points such as seaports and airports;
- Overly bureaucratic, expensive and time consuming administrative formalities for imports and exports, including port and customs clearance procedures and standards testing.

b. Continue and accelerate legislative reforms that provide tax and other incentives to invest in export promotion and export preparedness. Specifically, incentives should be enacted which encourage firms to invest in export-related training programs, expanded market knowledge and contacts, and production improvements enhancing export quality, volume, efficiency and scheduling. New legislation should also include incentives for banks to increase staff training to improve their understanding of exporting, of SMEs, and the need for competitive responses to the demand of exporters.

c. Continue and accelerate the process of court reform, particularly the creation of special commercial courts.

d. Egyptian legislation relating to collateral should be modified as follows[72]:

- Non-possessory pledges of moveable should be made possible;
- A central computerized registry of liens should be created. This would enable lenders to identify assets which are subject to prior claims, and would protect the secured creditor against third parties claims by prioritizing the order of claim.
- Lenders should be allowed to seize and sell collateral without court approval unless the borrowers or other creditors legally contest the seizer;
- Fees for registering collateral should be reduced to a reasonable flat charge.
- Secured creditors should rank ahead of all other claims in the event of debtor insolvency;
- All creditors, not just banks authorized by the CBE, should be allowed to single out specific assets for collateralization.

The above reforms could be accomplished by an amendment to the civil code.

e. Enact new legislation and regulations clearly permitting foreign-owned companies to export all Egyptian products regardless of who produces them and to import products for resale regardless of who the ultimate buyer will be.

f. Enact new legislation and regulations for transforming "foundations" into an industry of SME finance companies as outlined in *Financial Reform for Small Business Development* in *Egypt.*

[72] Based in part on reforms suggested in "Report on Collateral-based Credit in Egypt," *IRIS, 1997*

3. **With Respect to Special Programs**. The following recommendations are geared to encourage "organic," rather than "directed," stimulation of credit supply to the smaller borrowers. The application of market pricing, innovative services and technologies, efficient operations, and prudent banking practices, generally known as "best practices" in the microfinance industry internationally, can lead to the development of an new segment of the financial industry, populated by both banks and non-bank financial institutions, which compete to provide services to small businesses for financial reasons.

a. **SFD Program Reforms**. Reform the SFD program to redirect its resources to stimulate a free market in the provision of financial services to small businesses by providing financial, rather than political, reasons for banks and other institutions to participate in this market. Incentives could be in the form of subsidies of the cost of inaugurating special small credit programs (e.g. training, technical assistance, MIS systems and other techniques related to microfinance best practices) within these institutions rather than subsidized interest rates for SME borrowers. Assistance in the form of training, technical assistance and operating systems should be structured to encourage banks to participate at both the retail and wholesale level, where in the latter case, other institutions, such as foundations, would provide the retail service. Programs at all levels should include components on international trade and export finance, including training on assessing firm-level export readiness and the special risks associated with exporting.

b. **Bank Microfinance Unit Model Reforms**. Donors and the Government should encourage the establishment of special units within banks to stimulate both wholesale and retail SME lending through the provision of subsidies to cover start-up costs. Wholesale lending could be directed to non-bank financial institutions following best practice guidelines, and again, the reforms to the SFD program suggested above should support these new units with SFD resources only when they conform to these guidelines. Programs at all levels should include components on international trade and export finance, including training on assessing firm-level export readiness and the special risks associated with exporting.

c. **Credit Guarantee Model Reforms**. The donors and the government should encourage the expansion of the private sector Credit Guarantee Corporation program rather than dilute its focus or compete with it. CGC is a young company still perfecting its credit guarantee operating system. The low level of guarantees outstanding in relation to CGC's overall size, and the low level penetration among CGC's thirty-two client banks, suggest that CGC needs to market its loan guarantee products more aggressively. However, CGC is being encouraged by USAID to greatly expand its role to include issuing new types of guarantees (exports and leasing) and administering USAID's microfinance program. These diversifications will present significant organizational challenges to CGC, and caution is highly recommended.

It is further recommended that CGC be discouraged from entering into the export credit guarantee business for two reasons. First and foremost, this is a highly specialized line of work more closely resembling the insurance industry than the credit guarantee business. Second, the Export Credit Guarantee Company of Egypt (ECGE) has found limited demand for export credit guarantees because of the low level of Egyptian exports, and is not earning money in this core business.

The desire for an expanded loan guarantee program has reportedly led to high-level GOE proposals for development of an Egyptian small business administration modeled on the U.S. Small Business Administration (SBA), which provides support to small firms producing for both domestic and international markets. The need and desirability of such a new Egyptian government program is clearly in question given the serious questions about the efficacy of SBA guarantees which have been raised in the United States and the high operating costs of government run programs elsewhere in the world.[73] Clearly, a private sector managed CGC which continues to bring down its guarantee costs through expansion of its guarantee business offers the better alternative for Egypt.

d. **The Leasing Model**. While the new legal and regulatory environment appears to be supportive of leasing, which will also benefit export-oriented SMEs, the government will need to carefully monitor the performance of this emerging financing industry to ensure that the potential growth is realized.

4. **General Recommendations**

First, international trade liberalization policies should be accelerated to provide increased opportunities to the SME sector. Trade liberalization has a positive impact on increasing the competition among importers and traders. Consequently, increased competition among wholesalers of raw materials supplying many entrepreneurs operating micro, small, and medium scale enterprises presents incentives for these suppliers to engage in offering international trade loans as a marketing facility to encourage the sale of their commodities. On the other hand, international trade liberalization encourages exports which opens new channels for sale in new expanded markets.

Second, tax and other incentives could be developed to induce investment in Egyptian and foreign-owned private marketing and/or trading companies which would assist in marketing the products for SMEs in both domestic and foreign markets. These firms would act as middlemen between local enterprises (sub-contractors) and larger scale enterprises or foreign customers, would broker information and transfer customer advances to the SMEs for working capital.

Third, efforts should focus primarily on providing financial and non-financial services to small and medium scale enterprises with export growth potential. Findings of the study support that small and medium scale enterprises are the growth engines of the economy rather than microenterprises which are the typical income generation vehicles. This does not imply that initiatives focusing on providing financial and support services to microenterprises are not worthwhile, however it is important to recognize the limitations of the expected outcome for these efforts.

[73] Graham Bannock and Partners Ltd, 1997, volume I, Page 58.

Fourth, efforts should also focus on providing financial and non-financial services to young enterprises with growth potential. Young enterprises are typically those in their early stages of growth, in contrast to start-up enterprises which have a high degree of failure.

Fifth, efforts should concentrate on improving the understanding of SMEs, and for government officials involved in the foreign trade process, of the competitive nature of the international marketplace and the importance of Egypt's successful participation in that market. In particular, the focus should be on improving the export preparedness at the firm level, that is producing competitive levels of quality, quantity, price and delivery performance, and at the national level, that is ensuring an understanding of the importance of proactive government support in achieving global economic integration and export performance.

Finally, and **sixth**, efforts should focus on relaxing the non-financial constraints that limit enterprise growth. Tax laws, labor laws, and government bureaucratic procedures and red tape, were all suggested by entrepreneurs to present significant problems limiting their operations and growth. Improved access to input and output markets, more efficient government procedures, amended labor and tax laws that foster SME growth, would provide a more conducive environment for business development in general.

Annex

Demand Tables

Table 1. Characteristics of Export and Potential Export Businesses in the Enterprise Survey.

	Exporters	Potential Exporters
Sample	(n=29)	(N=35)
Size of Business		
Micro	21%	0%
Small	52%	69%
Medium	28%	31%
Location		
Cairo	62%	23%
6th of October	14%	11%
10th of Ramadan	0%	20%
Alexandria	24%	26%
Fayoum	0%	20%
Ownership Structure		
Proprietorship	45%	43%
Partnership	44%	43%
Simple Commandite	14%	9%
Informal Partnership	0%	0%
Inheritance / De-Facto	0%	3%
Limited Liability/Joint Stock	0%	3%
Business Possess:		
Registration	100%	94%
License	100%	94%
Tax Card	100%	97%
Social Security for All Employees	93%	63%
Social Security for Some Employees	3%	34%
Formalizing the Business:		
Formal	93%	63%
Semi-Formal	3%	31%
Informal	3%	6%
Reason for not Fully Formalizing the Business:		
Difficult Procedures	3%	29%
Lengthy Procedures	3%	6%
Costly Procedures	3%	3%
Nobody Complies with Procedures	0%	0%

Source: DEPRA Enterprise Survey, 1997.

Table 2. Profile of Export and Potential Export Businesses in the EnterpriseSurvey[a].

	Exporters	Potential Exporters
Establishment Profile		
Ave. Number of Years in Operation	13 (7)	14 (15)
Ave. No. of Years Entrepreneur in Business	13 (8)	14 (11)
Ave. Age of Entrepreneur	44 (45)	46 (48)
Ave. Size of PhysicalAssets[b]	1079 (275)	1201 (175)
Ave. Number of Start-up Employees	13 (6)	16 (10)
Ave. Number of Employees Last Year	32 (19)	43 (29)
Ave. Number of Current Employees	38 (20)	44 (34)
Ave. Annual GrowthRate[c]	51 (11)	35 (12)
Ave. Growth over the last Year	12 (10)	4 (2)

Source: DEPRA Enterprise Survey, 1997.

Note a: Statistics reported present means and medians in parenthesis for the given sample. Missing information did not exceed a few observations for a given variable.
Note b: L.E. 1000.
Note c: Annual growth rate measured by change in number of employees over the years the enterprise has been in operation.

Table 3. Selected Characteristics of Exporters and Potential Exporters in the Enterprise Survey.

	Exporters	Potential Exporters
Gender		
Male	93%	91%
Female	7%	9%
Education Level		
Post Graduate	3%	0%
University Graduate	41%	34%
Technical	24%	23%
High School	0%	9%
Basic Education	10%	9%
Read & Write	21%	23%
Read	0%	0%
Illiterate	0%	3%
Position in Business		
Owner	62%	77%
Partner	28%	12%
Manager	10%	11%
Other Employment		
Other Private Business	0%	3%
Private Sector Employee	3%	0%
Public Sector Employee	0%	0%
Government Employee	0%	0%
None	97%	97%

Source: DEPRA Enterprise Survey, 1997.

Table 4. Sources of Investment Capital Reported by Exporters and Potential Exporters in the Enterprise Survey.

	Exporters	Potential Exporters
Investment Capital		
Personal Investment from Savings	83%	60%
Family & Friends	0%	3%
Bank Loan	17%	34%
NGO Loan	0%	0%
Supplier Loan	0%	3%

Source: DEPRA Enterprise Survey, 1997.
Note: % corresponds to percentage of the sample within a size category or for all enterprises in the survey.

Table 5. Selected Indicators of the Relations between Exporters and Potential Exporters, and Suppliers.

	Exporters	Potential Exporters
Contractual Relations with Suppliers		
Public National Suppliers	7%	9%
Private National Suppliers	65%	71%
Foreign Suppliers	7%	3%
More than One Supplier	21%	17%
Form of Payment		
Cash / Retained Earnings	83%	80%
Credit	55%	60%
Advance Payment	24%	29%
Consignment	3%	0%

Source: DEPRA Enterprise Survey, 1997.
Note: % corresponds to percentage of the sample within a sub-sector or for all enterprises in the survey.

Table 6. Selected Characteristics of the Trade Credit Relation (Credit Payment) between Exporters and Potential Exporters, and Suppliers[a].

	Exporters	Potential Exporters
Entrepreneurs Using Supplier Credit	55%	60%
Ave. Value of Transaction[b]	351 (30)	155 (10)
Ave No. of Transactions/yr.	79 (7)	10 (6)
Ave. Value of Credit[b]	30 (10)	128 (7)
Entrepreneurs Charged zero Interest	73%	67%
Ave. Interest Rate (Interest > 0)	17 (8)	9 (5)
Ave. Duration of Credit (Days)	112 (75)	112 (90)
Use of Security	37%	76%

Source: DEPRA Enterprise Survey, 1997.

Note a: Statistics reported present means and medians in parenthesis for the given sample. Missing information did not exceed a few observations for a given variable.
Note b: L.E. 1000.

Table 7. Selected Indicators of the Relations between Exporters and Potential Exporters, and Customers in the Domestic Markets.

	Exporters	Potential Exporters
Contractual Relations with Customers		
Domestic Customers	14%	100%
Foreign Customers	10%	0%
Domestic & Foreign	76%	0%
Form of Purchase in Domestic Market		
Cash	86%	80%
Credit	52%	74%
Advance Payment	24%	34%
Consignment	7%	14%

Source: DEPRA Enterprise Survey, 1997.

Table 8. Selected Characteristics of the Trade Credit Relation (Advance Payment) between Exporters and Potential Exporters, and Customers in Domestic Markets[a].

	Exporters	Potential Exporters
Entrepreneurs Using Customer Advances	24%	34%
Ave. Value of Transaction[b]	22 (5)	104 (10)
Number of Transactions/yr.	5 (4)	5 (3)
Ave. Value of Advance[b]	10 (1)	33 (14)
Ave. Duration of Credit (Days)	20 (21)	52 (47)
Use of Security	100%	83%

Source: DEPRA Enterprise Survey, 1997.

Note a: Statistics reported present means and medians in parenthesis for the given sample. Missing information did not exceed a few observations for a given variable.

Note b: L.E. 1000.

Table 9. Selected Characteristics of the Relations between Exporters and Customers in Foreign Markets[a].

	Exporters
% of Sales Exported	29 (20)
Form of Collection on Exports	
Exporters Selling in Cash	24%
Exporters Selling on Consignment	10%
Exporters Using Letter of Credit	14%
Exporters Using Open Account	52%
Sales Using Open Account	
Ave. Value of Transaction[b]	103 (44)
Number of Transactions/yr.	6 (3)
Ave. Value of Collection[b]	88 (30)
Interest and Fees (%)	2 (1)
Ave. Duration of Credit (Days)	61 (30)
Use of Security	68%

Source: DEPRA Enterprise Survey, 1997.

Note a: Statistics reported present means and medians in parenthesis for the given sample. Missing information did not exceed a few observations for a given variable.

Note b: L.E. 1000.

Table 10. Selected Characteristics of the Informal Loans Exporters and Potential Exporters Use in the Enterprise Survey.

	Exporters	Potential Exporters
Ever Requested an Informal Loan	21%	26%
Ever Rejected an Informal Loan	0%	0%
Used an informal loan Last Year	17%	17%
Ave. Number of Loans Last Year	4 (5)	1 (1)
Source of Most Significant Loan		
Friends	0%	6%
Family in Egypt	17%	11%
Money Lender	0%	0%
Ave Number of Days to get Loan	3 (2)	7 (2)
Ave. Value of Loan[b]	32 (50)	4 (3)
Ave. Interest on Loans	5 (0)	2 (0)
Ave. Duration of Loan (Days)	339 (360)	130 (135)
Ave. Value of Guarantee as % of Loan	0	0

Source: DEPRA Enterprise Survey, 1997.

Note a: Statistics reported present means and medians in parenthesis for the given sample. Missing information did not exceed a few observations for a given variable.
Note b: L.E. 1000.

Table 11. Selected Characteristics of Exporters and Potential Exporters Demand for Formal Loans in the Enterprise Survey.

	Exporters	Potential Exporters
Never Requested a Formal Loan	35%	34%
Reason for Never Requesting a Loan:		
Insufficient Collateral	18%	0%
No Financial Statements	0%	0%
High Interest	18%	14%
Difficult Procedures	0%	7%
No Banking Experience	0%	7%
Availability of Other Sources	45%	21%
Religious Reasons	18%	36%
Fear of Inability of Repayment	0%	7%
Was Rejected a Formal Loan	10%	3%
Reason for Being Rejected:		
Insufficient Collateral	10%	0%
No Financial Statements	0%	0%
No Banking Experience	0%	3%
Use Bank Services for Exports	21%	n.a.
Reason for not Using Banks for Exports		
Insufficient Collateral	4%	n.a.
No Financial Statements	0%	n.a.
High Interest	4%	n.a.
Difficult Procedures	7%	n.a.
No Banking Experience	0%	n.a.
Availability of Other Sources	14%	n.a.

Source: DEPRA Enterprise Survey, 1997.

Table 12. Selected Characteristics of Formal Loans Exporters and Potential Exporters Use in the Enterprise Survey[a].

	Exporters	Potential Exporters
Used a Formal Loan in the Past	65%	63%
Used a Formal Loan Last Year	62%	49%
Ave. Number of Loans Last Year	4 (2)	2 (1)
Source of Most Significant Loan		
Public Bank	50%	46%
Private/Joint Venture Bank	12%	3%
Loan Associated with Special Program	24%	3%
Social Fund for Development	21%	0%
Credit Guarantee Corporation	0%	0%
NGO	3%	3%
Type of Loan:		
Working Capital Loan	32%	29%
Fixed Assets Loan	7%	9%
Domestic Letter of Credit	7%	0%
Foreign Letter of Credit	7%	6%
Discount of Draft	7%	6%
Letter of Guarantee	0%	0%
Loans Used for Exports	34%	n.a.
Loan Size Rationed Borrowers	14%	6%
Ave Number of Days to get Loan	56 (20)	24 (10)
Ave. Value of Loan[b]	484 (50)	650 (450)
Ave. Interest and Fees Charges (%)	12 (10)	16 (16)
Ave. Duration of Loan (months)	26 (18)	22 (12)
Ave. Value of Collateral as % of Loan	114 (100)	187 (160)
Type of Collateral:		
Real Estate	0%	0%
Machinery	7%	3%
Inventory	0%	0%
Bank Accounts	0%	6%
More than One Guarantee	55%	40%

Source: DEPRA Enterprise Survey, 1997.

Note a: Statistics reported present means and medians in parenthesis for the given sample. Missing information did not exceed a few observations for a given variable.

Note b: L.E. 1000.

Table 13. Current Funding Sources Reported by Exporters and Potential Exporters in the Enterprise Survey.

	Exporters	Potential Exporters
Sources of Funds for Current Operations		
Retained Earnings (Cash)	83%	80%
Trade Credit (Supplier/Customer)	65%	71%
Informal Loans	17%	17%
Formal Loans	62%	49%

Source: DEPRA Enterprise Survey, 1997.
Note: % corresponds to percentage of sample within a size category or for all enterprises in the survey.

Table 14. Savings Channels Reported by Exporters and Potential Exporters in the Enterprise Survey.

	Exporters	Potential Exporters
Entrepreneurs Holding Deposits in Formal Institution	93%	77%
Ave. Number of Current Accounts	2 (1)	2 (2)
Ave. Number of Savings Accounts	1 (1)	1 (1)
Ave. Number of Fixed Deposit Accounts	1 (1)	1 (1)
Entrepreneurs Participating in Informal Groups (Gam'iyat)	10%	29%
Ave. No. of Groups Participating in	1 (1)	1 (1)
Ave. Size of Contribution[b]	4 (4)	12 (10)
Informal Collectors		
Entrepreneur. Saving with Collectors	0%	9%
Avg. size of Deposit[b]	0	3 (2)

Source: DEPRA Enterprise Survey, 1997.

Note a: Statistics reported present means and medians in parenthesis for the given sample. Missing information did not exceed a few observations for a given variable.
Note b: L.E. 1000.

Table 15. Selected Indicators of Constraints and Problems Facing Exporters and Potential Exporters in the Enterprise Survey.

	Exporters	Potential Exporters
Most Significant Problem:		
Weak Demand	17%	9%
Marketing	28%	21%
Labor Problems	10%	21%
Raw Materials	7%	9%
Infrastructure	0%	0%
Financing Costly	0%	6%
Insufficient Sources of Financing	7%	6%
Domestic Competition	3%	3%
foreign Competition	3%	0%
Taxes	17%	21%
government Procedures	3%	6%
Customs	3%	0%
Problems with Clients	0%	0%
Machinery & Technology	0%	0%
Others	3%	0%
Second Most Significant Problem:		
Weak Demand	3%	9%
Marketing	18%	16%
Labor Problems	3%	10%
Raw Materials	21%	19%
Infrastructure	3%	0%
Financing Costly	14%	3%
Insufficient Sources of Financing	0%	12%
Insufficient Guarantees	3%	0%
Domestic Competition	11%	6%
Foreign Competition	7%	0%
Taxes	7%	9%
Government Procedures	4%	6%
Export Problems	4%	0%
Customs	0%	0%
Problems with Clients	0%	6%
Machinery & Technology	0%	3%

Source: DEPRA Enterprise Survey, 1997.

Table 16. Selected Indicators of Constraints and Problems Facing Exporters and Potential Exporters who did not Experience Growth the Past Year.

	Exporters	Potential Exporters
Number of Competitors in Market		
1-2	7%	3%
3-5	3%	11%
6-10	31%	14%
11+	59%	71%
Most Significant Problem if no Growth:		
Weak Demand	33%	29%
Marketing	17%	29%
Labor Problems	0 %	17%
Raw Materials	6%	0%
Infrastructure	0%	0%
Financing Costly	11%	7%
Insufficient Sources of Financing	6%	17%
Domestic Competition	6%	0%
Foreign Competition	6%	0%
Taxes	6%	6%
Machinery & Technology	6%	0%
Others	6%	0%
Second Most Significant Problem if no Growth:		
Weak Demand	0%	7%
Marketing	13%	7%
Labor Problems	7%	14%
Raw Materials	7%	14%
Financing Costly	0%	0%
Insufficient Sources of Financing	13%	14%
Domestic Competition	20%	14%
Foreign Competition	7%	0%
Taxes	13%	21%
Government Procedures	7%	0%
Export Problems	13%	0%
Customs	0%	0%
Others	0%	7%

Source: DEPRA Enterprise Survey, 1997.

Table 17. Selected Indicators of Constraints and Problems Facing Exporters and Potential Exporters Regarding Exports.

	Exporters	Potential Exporters
Most Significant Problem:		
Weak Demand	10%	6%
Marketing	10%	0%
Labor Problems	0%	0%
Raw Materials	3%	6%
Infrastructure	3%	0%
Financing Costly	10%	0%
Insufficient Sources of Financing	10%	17%
Insufficient Collateral	3%	0%
Domestic Competition	3%	3%
Foreign Competition	28%	20%
Taxes	0%	0%
Government Procedures	3%	3%
Export Problems	3%	9%
Customs	0%	0%
Problems with Clients	3%	0%
Machinery & Technology	0%	9%
No Access to Agent Abroad	0%	26%
No Experience with Export Procedures	0%	3%
Second Most Significant Problem:		
Weak Demand	0%	
Marketing	14%	
Labor Problems	0%	
Raw Materials	3%	
Infrastructure	0%	
Financing Costly	7%	
Insufficient Sources of Financing	3%	
Insufficient Collateral	7%	
Domestic Competition	9%	
Foreign Competition	7%	
Taxes	3%	
Government Procedures	7%	
Export Problems	10%	
Customs	14%	
Problems with Clients	0%	
Machinery & Technology	0%	

Source: DEPRA Enterprise Survey, 1997.

Table 18. Selected Indicators of Constraints and Problems Facing Exporters.

	No Problem	Some Problems	Severe Problem	Normalization
Strong Competition	29%	32%	39%	55%
Weak Demand	30%	30%	41%	56%
Business Registration	96%	0%	4%	2%
Export Procedures in Foreign Markets	38%	46%	15%	38%
Quality Products for Foreign Markets	27%	58%	15%	44%
Timely Delivery of Exports	59%	41%	0%	20%
Costly Raw Materials	30%	11%	59%	64%
Lack of Raw Materials	59%	11%	30%	35%
Costly Equipment	35%	19%	46%	55%
Lack of Technical Labor	31%	31%	38%	53%
Labor Laws	63%	11%	26%	31%
Tax Laws	21%	18%	61%	70%
Government Procedures	38%	15%	46%	53%
Infrastructure	52%	7%	41%	44%
Inflation	35%	15%	50%	57%
Lack of Financing from Suppliers	40%	24%	36%	48%
Lack of Financing from Banks	36%	20%	44%	54%
Financing from Banks Costly	11%	11%	77%	82%
Insufficient Guarantees	58%	4%	37%	39%
Banking Procedures Lengthy	33%	29%	37%	51%
Client Repayment Problems	38%	35%	27%	44%
Insufficient Information	29%	22%	48%	59%
Instability of Investment Environment	36%	36%	27%	45%

Source: DEPRA Enterprise Survey, 1997.

Table 19. Selected Indicators of Constraints and Problems Facing Potential Exporters.

	No Problem	Some Problems	Severe Problem	Normalization
Strong Competition	40%	37%	23%	41%
Weak Demand	34%	17%	49%	57%
Business Registration	91%	0%	9%	9%
Export Procedures in Foreign Markets	33%	33%	33%	49%
Quality Products for Foreign Markets	33%	0%	67%	67%
Timely Delivery of Exports	100%	0%	0%	0%
Costly Raw Materials	49%	6%	46%	49%
Lack of Raw Materials	66%	20%	14%	24%
Costly Equipment	46%	23%	31%	42%
Lack of Technical Labor	37%	20%	43%	53%
Labor Laws	63%	9%	29%	33%
Tax Laws	31%	9%	60%	64%
Government Procedures	40%	11%	49%	54%
Infrastructure	60%	6%	34%	37%
Inflation	31%	17%	52%	60%
Lack of Financing from Suppliers	49%	14%	37%	44%
Lack of Financing from Banks	53%	12%	35%	41%
Financing Costly from Banks	29%	9%	62%	66%
Insufficient Guarantees	87%	0%	12%	12%
Banking Procedures Lengthy	51%	15%	33%	40%
Client Repayment Problems	34%	31%	34%	49%
Insufficient Information	69%	17%	14%	22%
Instability of Investment Environment	57%	31%	11%	26%

Source: DEPRA Enterprise Survey, 1997.

Appendix A

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Appendix B

List of Organizations Contacted

Al Watany Bank of Egypt
Alexandria Business Association
Alexandria Commercial and Maritime Bank
Arab Management Association
Arab Investment Bank
Bank of Alexandria
Banque Misr
Banque du Caire
Central Bank of Egypt
Commercial International Investment Co.
Credit International D'Egypte
Credit Guarantee Company
DEPRA Project (MOTS)
DEPRA Project (MOE)
Egyptian Exporters Association
Egyptian Center for Economic Studies
Export Development Bank of Egypt
Export Credit Guarantee Co. of Egypt
Industrial Development Bank of Egypt
International Finance Corporation
Ministry of Economy
Ministry of Trade & Supply
Misr International Bank
Mohandes Bank
National Bank of Egypt
National Bank for Development
Nile Clothing Co.
Nile Bank
Nile Agricultural Development Company
ORIX Leasing Egypt S.A.E.
Societe Arabe Internationale de Banque
Suez Canal Bank
U.S. Agency for International Development
United Company for Oriental Sweets
United Securities Stockbrokers
World Bank
World Trading Company (Egypt)

Appendix C

Export Support Schemes in Malaysia, Mexico and Brazil

1. Malaysia

a. Malaysia's Export Credit Refinancing Program. Malaysia offers several export incentives. It provides tax incentives to exporters, including double deduction of expenses for overseas advertising and travel, supply of free samples abroad, export promotion, overseas sales offices, and research on export markets.[1] It also provides export credit through the Export Credit Refinancing (ECR). The ECR, established in 1977, is administered by commercial banks and Bank Negara Malaysia, Malaysia's central bank, provides a short-term credit at 6% per annum to Malaysian exporters for up to four months for pre-shipment and six months for post-shipment. The ECR's pre-shipment facility provides working capital to direct and indirect exporters (domestic suppliers of inputs to final exporters), and its post-shipment facility enables Malaysian exporters to obtain immediate funds upon shipment of eligible goods sold on credit terms. The ECR scheme may be accessed through any commercial bank.

b. Malaysia's Export Credit Guarantee Scheme.[2] The Malaysia Export Credit Insurance Berhad (MECIB), incorporated in 1977, is a wholly owned subsidiary of Bank Industri Malaysia Berhad and the only export credit insurance agency in the country. It has a paid-up capital is RM75 million (US$21.3 million; versus a total shareholders equity for the Export Credit Guarantee Company of Egypt was US$2.97 million at June 30, 1996). The objective of EDCIB is to promote and develop Malaysia export industry by providing appropriate export credit insurance coverage and financing guarantees to Malaysian exporters. To support the growth of local businesses, MECIB also provides domestic credit insurance coverage.

MECIB offers export credit insurance in the form of comprehensive policies to both exporters and banks in which coverage may be specified by shipment, contracts and services rendered. It also offers specific policies on this basis, and will also use specific policies to cover leasing and construction contracts. Its policies cover:

- Commercial Risks - Buyer insolvency, default, and repudiation of contracts

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[1] U.S. Department of State, Country Economic Report, 1996

[2] Malaysia Export Credit Insurance Berhad, 1997

- Non-Commercial Risks - Blockage and delay in transfer of foreign exchange, war and civil disturbances, import bans, and cancellation of import licenses.

and indemnity policyholders up to 95% of their losses arising from the above causes.

MECIB also offers credit guarantees covering export finance extended by other banks and the risks of banks confirming export letters of credit. It offers indemnity bonds for Malaysian construction firms and other service exporters, overseas investment insurance, and guarantees covering credit extended by both buyers and suppliers of exporters.

MECIB's policies and guarantees enhance Malaysian exports in the following ways:

- Credit Insurance To Exporter:
  - Covers up to 95% of export value or loss,
  - Affords the exporter the ability to venture into new and unfamiliar markets,
  - Enhances competitiveness by enabling the exporter to sell on the basis of documents against payment or acceptance and on open account,
  - Improves the exporter's access to export financing,
  - and generally promotes exports by transferring the risk of non-payment from the exporter to MECIB.

- Financing Guarantee To Exporter:
  - Facilitates access to working capital for pre-shipment production,
  - Enables penetration into non-traditional markets,
  - Allows the issuance of bonds to meet buyer requirements on foreign projects or export transactions,
  - Promotes overseas investment by Malaysians

- For Banks*:*
  - Reduces exposure to risk in overseas markets without diminishing their portfolios,
  - Enables more aggressive marketing in trade finance,
  - Increases competitiveness in lending to Malaysian exporters,
  - and thereby generally stimulates the growth of Malaysian exports.

2. Mexico

Mexico's Banco Nacional De Comercio Exterior.[3] Mexico implements its export credit programs through the Banco Nacional De Comercio Exterior (National Bank for Foreign Trade) which offers the following programs:

Pre-Shipment Finance

- Finances up to 70% of value of export or up to 100% of cost of production in US$ or Mexican pesos, whichever is less, for up to 180 days for service sector and up to 360 days for farming and fishing.

Post-Export Finance

- Finances up to 90% of export value for short term sales and up to 85%of export value or 100% of local content, whichever is less, in case of long term sales for up to 360 days with bullet payment, and beyond 360 days by monthly, quarterly, semi-annual or annual payment depending on cash flow.

Equipment Acquisition Finance

- Finances up to 85% of the cost of equipment in US dollars, Mexican pesos or the currency of the country of origin for periods of up to 5 years repayable in monthly, quarterly, semi-annual or annual installments depending on cash flow, provided that the equipment is to be used in an export oriented project.

FX Investment Project Financing

- Finances up to 50% of total value of investments for new projects, and up to 85% for expansion and modernization existing projects, provided the project generates foreign exchange. Amortizes in monthly, quarterly, semi-annual or annual installments depending on cash flow.

Guarantee Services

- Pre-Shipment Input Finance Guarantee. Guarantees finance extended to cover all inputs, including depreciation but excluding advance payments, for production for export thereby covering exporter on losses during production resulting from political risks, catastrophic events and commercial risks in importer's country.

- <u>Post-Shipment Credit Guarantee</u>. Guarantees credit covering export shipment or

[3] Banco Nacional De Comercio Exterior, 1997

partial shipments.

· Post-Shipment Guarantees. Covers the Mexican exporter against lack of payment once the goods are received by the importer. Protects intermediate financing institution if firm is at least 30% Mexican-owned. Only manufactured goods are covered, shipped from Mexico in partial installments - for up to 360 days. Covers all risks listed above plus currency inconvertibility of importing country, expropriation or confiscation of goods or lack of payment by foreign Central Bank. Net loss definition is the same. Payment is 90% of invoice value of export or 90% of credit extended.

The insurance policies are offered by Compania Mexicana de Seguros de Credito S.A. (COMESEC), a BNCE affiliate. Policy holder must be at least 30% Mexican-owned, and policies cover up to 90% of net loss due to:

Political Risk Coverage. Covers changes in legislation in importing country which affect imports, cancellation of import permits, problems in transferring loan payments, war, revolution, etc.

Commercial Risk Coverage. Covers importer insolvency, delayed payment by importer, catastrophic risks due to natural causes, global risks (more than one export, to more than one countries) and specific risks (specific order to one buyer).

Excluded Risks. Insolvency caused by labor relations, buyers financial situation, risks which can be covered by regular insurance when lack of payment is due to buyer's lack of satisfaction.

COMSEC pays policy within 30 days of receipt of claim once it determines claim is not bogus. Policy premiums dependent on risk.

3. Brazil

Brazil's Banco do Brasil.[4] Brazil implements its export credit programs through the Banco do Brasil which offers the following programs:

Standard Trade Services

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[4] Banco do Brasil, 1997

· Export Collections. Perform the collection services of the documents relating to export operations in the conditions and terms agreed to between exporter and importer.

· Confirmation of documentary export credits. By confirmation of the above the Bank guarantees payment of the operation as required by the L/C. if conditions therein are completely fulfilled.

· Advance under an exchange contract. Provide the exporter with an advance of the value of the merchandise being sold up to 180 days before shipment (foreign exchange) a working capital advance .

· Pre-payment of the export. Finance exports in the pre-shipment stage for a period of 180 or 360 days (depending on the product) before shipment of merchandise, with Bank's own resources or by means of its lines of credit from foreign correspondents. Up to 100 % can be financed of the value of the export.

· International Shipping Insurance. Facilitates exports by lowering international transportation risk.

· Ocean Freight - Pre-payment of ocean freight charges for exporter on 35 day repayment terms to reduce administrative costs in shipping.

Guarantee Services

· Guarantees issued by the bank (Bid Bond, Performance Bond, Refund Bond). Facilitate the export of goods and services, with the Bank's guarantee to enable the client to participate in international competitions for business.

Pre-shipment Finance

· FINAMEX- A program to finance working capital for manufactured products contracted for export. Provides financing of up to 100% of the value of the export for up to 30 months.

Export Project Financing

· PROEX - To enhance export project competitiveness, this LIBOR-based, long term financing is for up to 10 years and 85% of the value of the export.

Interest Rate Equalization Service

· PROEX IRES - Banco do Brasil equalizes the difference in interest rate being charged by the importer's bank and an interest rated deemed to be necessary to facilitate the export. The equalization adjustment applies to up to 85 % of the value of the export for periods of 1 to 10 years.

Post-Export Finance

- FINAME - Refinances the exporter for up to 100% of the value of the export for up to 120 months by discounting exchange contracts or assignments of documentary letters of credit.

Post-Shipment Credit Facility

- FINAMEX - Finance the remaining value of an export (up to 15 %) not financed by other FINAMEX programs and can be done under reciprocal credit agreements with other institutions for a maximum term of 360 days.

Exchange Contract Advance

- Advances funds to the exporter after shipment of the export on the value of the merchandise sold for up to 180 days after shipment.

Forfaiting

- FORFEX - Forfaits term export paper to enable Brazilian exporter to compete by giving 3 year terms to importer to pay. After shipment, exporter sells importer's "paper" to Banco do Brasil for immediate payment.

Appendix D

Malaysian Investment Code: Chapter 3

This chapter focuses on investment incentives, and is one of ten chapters pertinent to investment in Malaysia. The full volume is available on the Internet at **www.mida.gov.my**.

Tax incentives and other facilities for the manufacturing, agriculture and tourism sectors are provided for in the Promotion of Investments Act 1986, Income Tax Act 1967, Customs Act 1967, Sales Tax Act 1972 and Excise Act 1976.

1. Incentives for the Manufacturing Sector

The major incentives for companies in the manufacturing sector are the Pioneer Status and Investment Tax Allowance and Reinvestment Allowance.

Eligibility for either Pioneer Status or Investment Tax Allowance will be determined according to priorities termed as promoted activities or promoted products as determined by the Minister of International Trade and Industry.

1.1 Pioneer Status

A company granted Pioneer Status will enjoy partial exemption from the payment of income tax. It will only have to pay tax on 30% of its statutory income. The period of tax exemption is five years, commencing from the production date as determined by the Minister of International Trade and Industry. Any unabsorbed losses cannot be carried forward to post pioneer period.

As an added incentive, companies located in the States of Sabah and Sarawak in East Malaysia and the designated "Eastern Corridor"* of Peninsular Malaysia, will only have to pay tax on 15% of their statutory income during the tax exemption period of five years.

** The Eastern Corridor of Peninsular Malaysia covers Kelantan, Terengganu, Pahang, excluding the districts of Lipis, Raub, Jerantut and Cameron Highlands (except those approved industrial estates located in these districts), and the district of Mersing in Johor.*

1.2 Investment Tax Allowance (ITA)

As an alternative to Pioneer Status, a company may apply for Investment Tax Allowance. A company granted Investment Tax Allowance will be given an allowance of 60% in respect of qualifying capital expenditure incurred within five years from the date on which the first qualifying capital expenditure is incurred. The allowance can be utilised to offset against 70% of the statutory income in the year of assessment. Any unutilised allowance can be carried forward to subsequent years until the whole amount has been used up. 30% of the statutory income will be taxed at the prevailing company tax rate.

As an added incentive, companies located in the States of Sabah and Sarawak in East Malaysia and the designated “Eastern Corridor” of Peninsular Malaysia will be granted an allowance of 80% in respect of the qualifying capital expenditure incurred. The allowance can be utilised to offset against 85% of the statutory income in the year of assessment.

1.3 Reinvestment Allowance (RA)

Reinvestment Allowance (RA) is granted to manufacturing companies which incur qualifying capital expenditure for the expansion of production capacity, modernisation and upgrading of production facilities, and diversification into related products.

The RA is in the form of an allowance of 60% of capital expenditure incurred by the companies. The allowance can be utilised to offset against 70% of the statutory income in the year of assessment. Any unabsorbed allowance will be allowed to be carried forward to the following years until it is fully utilised.

Companies that reinvest in promoted areas, that is, the States of Sabah and Sarawak and the “Eastern Corridor” of Peninsular Malaysia will be allowed to utilise the allowance fully to offset against the statutory income for the year of assessment.

To encourage companies to reinvest in equipment which can improve significantly their productivity level, an allowance of 60% will be allowed to be used fully to offset against the statutory income, similar to the scheme granted to the "Eastern Corridor" of Peninsular Malaysia, Sabah and Sarawak.

1.4 Incentives for Industrial Adjustment

Companies in operation before 31 December 1990 in the wood-based, textile, machinery and engineering sectors are eligible for certain incentives when undertaking or participating in approved industrial adjustment programmes.

For purposes of these incentives, industrial adjustment has been defined as any activity proposed to be undertaken by a particular sector in the manufacturing industry to restructure by way of reorganisation, reconstruction or amalgamation within that particular sector with a view to strengthening the basis for industrial self-sufficiency, improving industrial technology, increasing productivity, and enhancing the efficient use of natural resources and the efficient management of manpower.

Companies undertaking approved industrial adjustment programmes are eligible for the Industrial Adjustment Allowance (IAA). The IAA provides for an allowance of up to 100% in respect of qualifying capital expenditure incurred by a manufacturing company in its efforts at undertaking industrial adjustment. The features of the IAA are:

- The industrial adjustment programme has to be approved by the Minister of International Trade and Industry and the Minister of Finance.
- The IAA is given for qualifying capital expenditure incurred within five years from the date of approval of the incentive.
- Companies enjoying Investment Tax Allowance (ITA) shall only be eligible to apply for IAA in respect of the capital expenditure on which ITA has not been granted.
- Companies granted IAA will not be eligible for Reinvestment Allowance in respect of the same expenditure.

In addition, an Industrial Adjustment Fund has been set up for companies undertaking restructuring programmes. The Industrial Adjustment Fund provides loans to qualifying companies at concessionary rates.

2. Incentives for High Technology Industries

High technology companies are defined as companies engaged in promoted activities or in the production of promoted products in areas of new and emerging technologies. High technology companies are eligible for the following incentives:

- Pioneer Status with full tax exemption at statutory income level for a period of five years; or
- Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of five years. The allowance can be offset against the statutory income for each assessment year without any restriction.

The high technology company must fulfil the following criteria:

- Local research and development (R&D) expenditure to gross sales should be at least 1% on an annual basis. However, companies are allowed a period of three years from the date of operation/ commencement of business to comply with this requirement.
- The percentage of science and technical graduates to total workforce should be at least 7%.

3. Incentive for Acquiring Proprietary Rights

Expenditure incurred on acquiring patents, designs, models, plans, trade marks or brands and other similar rights from foreigners is allowed as deduction in the computation of income tax if the right is used without involving the transfer of ownership and results in payment of royalty. This deduction is given in the form of depreciation for 10 years.

4. Incentives for Strategic Projects

Strategic projects are those with heavy capital investment and high technology, which can generate extensive linkages, and which have significant impact on the Malaysian economy. The Government will consider granting the following incentives to strategic projects of national importance:

- Pioneer Status with full tax exemption at statutory income level for a period of 10 years; or
- Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of five years. The allowance can be offset against the statutory income for each assessment year without any restriction.

5. Incentives for Small-Scale Companies

Small-scale manufacturing companies with shareholders' funds not exceeding RM500,000, which are incorporated in Malaysia under the Companies Act 1965, and having Malaysian equity of at least 70%, are eligible for incentives provided under the Promotion of Investments Act 1986.

To encourage the development of small-scale industries, small-scale companies which meet specified criteria will be granted Pioneer Status if they propose to manufacture products or participate in activities listed as promoted products/activities for small-scale manufacturers.

6. Incentives to Strengthen the Industrial Linkages Scheme

6.1 Incentive for Large Companies

To encourage large companies to participate in an industrial linkages scheme, expenditure incurred for the training of employees, product development and testing and factory auditing to ensure the quality of vendors' products will be allowed as a deduction in the computation of income tax.

6.2 Incentives for the Vendor

Vendors including SMIs which produce intermediate goods in an approved scheme will be granted Pioneer Status for five years with 100% exemption on the Statutory income.
To encourage vendors to produce intermediate goods for the international market, vendors in an approved scheme who are capable of achieving world class standards in terms of price, quality and capacity will be granted Pioneer Status for 10 years with 100% exemption on the statutory income.

7. Incentives for the Agricultural Sector

Under the Promotion of Investments Act 1986, the term company" in relation to agriculture includes:

- agro-based cooperative societies and associations

- sole proprietorships and partnerships engaged in agriculture.

Companies producing promoted products or engaged in promoted activities (please refer to the grey list in the back pocket of this brochure) are eligible to apply for the following incentives:

7.1 Pioneer Status

As in the manufacturing sector, companies producing promoted products or engaged in promoted activities are eligible for Pioneer Status. (Please refer to **Chapter 1.1**)

7.2 Investment Tax Allowance (ITA)

Companies producing promoted products or engaged in promoted activities can apply for Investment Tax Allowance (ITA). (Please refer to **Chapter 1.2**) To enable agricultural projects to enjoy greater benefits, the Government has broadened the definition of qualifying capital expenditure to include the following:

- the clearing and preparation of land;
- the planting of crops;
- the provision of plant and machinery used in Malaysia for the purposes of crop cultivation, animal farming, aquaculture, inland or deep-sea fishing and other agricultural or pastoral pursuits;
- the construction of access roads including bridges, the construction or purchase of buildings (including those provided for the welfare of persons or as living accommodation for persons) and structural improvements on land or other structures which are used for the purposes of crop cultivation, animal farming, aquaculture, inland fishing and other agricultural or pastoral pursuits. Such roads, bridges, buildings, structural improvements on land and other structures should be on land forming part of the land used for the purpose of such crop cultivation, animal farming, aquaculture, inland fishing and other agricultural or pastoral pursuits.

In view of the time lag between start-up of the agricultural project and processing of the produce, integrated agricultural projects are eligible for ITA for an additional five years for expenditure incurred for processing or manufacturing operations.

7.3 Agricultural Allowance

A person or a company carrying on an agricultural activity can claim capital allowances or agricultural allowances under Schedule 3 of the Income Tax Act 1967 in respect of certain capital expenditure incurred for purposes of that business. Capital expenditure incurred in agricultural activities which are eligible for deduction are as follows:

- Expenditure incurred on the clearing and preparation of land, planting of crops and construction of roads for purposes of agriculture is eligible for a yearly allowance of 50% of the expenditure incurred.

- Expenditure incurred on construction of buildings for the welfare of persons or living accommodation can be written off at a rate of 20% per annum.
- Expenditure incurred on the construction of any other building used for the purposes of working the farm can be written off over a period of 10 years.

As long as companies incur the above qualifying expenditure, they will be given this allowance irrespective of whether or not they have been granted Pioneer Status or Investment Tax Allowance.

7.4 Deduction for Capital Expenditure on Approved Agricultural Projects

Deduction for Capital Expenditure on Approved Agricultural Projects has been provided for under Schedule 4A of the Income Tax Act 1967.

This incentive allows a person carrying on an approved agricultural project to elect so that the qualifying capital expenditure incurred by him in respect of that project is deducted from his aggregate income, including income from other sources. Where he so elects, he will not be entitled to any capital allowance or agricultural allowance on the same capital expenditure.

An "approved agricultural project" means an agricultural project approved by the Minister of Finance. Only qualifying capital expenditure incurred within a specific time frame and in respect of a farm cultivating and utilising a specified minimum hectarage for each approved project as stipulated by the Minister of Finance will qualify.

Where there is insufficient aggregate income for the qualifying farm expenditure to be deducted from, the unabsorbed expenditure will be carried forward to subsequent years of assessment.

7.5 Reinvestment Allowance

Reinvestment Allowance is granted to a person or a company engaged in the production of essential food such as rice, maize, vegetable, tubers, livestock, aquatic products, and any other activities approved by the Minister. The qualifying capital expenditure comprises:

- the clearing and preparation of land;
- the planting of crops;
- the provision of irrigation or drainage systems;
- the provision of plant and machinery;
- the construction of access roads including bridges;
- the construction or purchase of buildings, including those provided for the welfare of persons or as living accommodation for persons and structural improvements on land or other structures.

Please refer to **Chapter 1.3** for details of Reinvestment Allowance.

7.6 Export Credit Refinancing Scheme (Please refer to **Chapter 3.10.1**)

7.7 Double Deduction of Export Credit Insurance Premiums (Please refer to **Chapter 3.10.2**)

7.8 Double Deduction for Promotion of Exports (Please refer to **Chapter 3.10.3**)

7.9 Industrial Building Allowance (Please refer to **Chapter 3.10.4**)

7.10 Incentives for Research and Development (Please refer to **Chapter 3.8**)

8. Incentives for the Tourism Industry

To encourage the growth of domestic tourism including "eco-tourism" and "agro-tourism", incentives are available for tourist projects, hotel businesses, construction of holiday camps and recreational projects including summer camps and construction of convention centres with a hall capable of accommodating at least 3,000 participants.
Hotel businesses refers to the following:

- construction of medium and low cost hotels (up to a three star category hotel as certified by the Ministry of Culture, Arts and Tourism); and
- expansion/modernisation of existing hotels.

The incentives available are:

8.1 Pioneer Status (Please refer to **Chapter 1**)

8.2 Investment Tax Allowance (Please refer to **Chapter 1**)

8.3 Industrial Building Allowance

An initial allowance of 10% and an annual allowance of 2% is granted in respect of capital expenditure incurred on a hotel building which is used for the purpose of a hotel business carried out by a company granted Pioneer Status or Investment Tax Allowance.

8.4 Double Deduction for Expenses Incurred on Approved Training

A double deduction for training expenses is provided to companies engaged in the hotel and tour operations business which send their employees to approved training institutions.

8.5 Deduction for Conference Promoters

In addition, local companies which promote conferences held in Malaysia will be granted income tax exemption on income earned from bringing at least 500 foreign participants.

9. Incentives for Operational Headquarters (OHQs)

The term “approved operational headquarters” (OHQ) refers to a locally incorporated company, whether local-owned or foreign-owned, which carries on a business in Malaysia of providing qualifying services to its offices or its related companies outside Malaysia.

To be eligible for the incentives provided, the paid-up capital of the company should be a minimum of RM0.5 million and total business spending should be at least RM1.5 million per annum. The company should also carry out a minimum of three of the following qualifying services to its offices or related companies outside Malaysia:

- management and administrative services
- treasury and fund management services
- corporate financial advisory services
- research and development
- training and personnel management.

Companies granted OHQ status will enjoy a concessionary tax rate of 10% for income from qualifying services rendered to, interest on foreign currency loans extended to, and royalties received from R & D work carried out on behalf of their offices or related companies outside Malaysia.

Approved OHQs can also:

- Apply for expatriate posts which will be approved based on expertise, skill requirements and needs of the company. Duration of work permits will be between three to five years.
- Borrow freely from domestic sources in foreign currency without the approval of the central bank for treasury and fund management operations for their related companies outside Malaysia.
- Borrow freely from domestic sources in Malaysian Ringgit (RM) up to a maximum of RM10 million for use in Malaysia. Borrowing in excess of RM10 million requires prior approval from the central bank.
- Invest freely in foreign securities and lend to related companies outside Malaysia as long as the domestic borrowing in RM is within the RM10 million limit and the remittances are made in foreign currency equivalent.
- Open one foreign currency account or one multi-currency account with any of the designated banks to retain export proceeds in foreign currency.
- Open foreign currency accounts with the designated banks in Malaysia, including the offshore banks in Labuan, or overseas banks for crediting foreign currency receivables other than export

proceeds.

- Use professional services of a foreign firm if such services are not available in Malaysia.

10. Incentives for Research and Development (R & D)

The definition of R & D in the Promotion of Investment Act 1986 is as follows:

"Research and development means any systematic or intensive study carried out in the field of science or technology with the object of using the results of the study for the production or improvement of materials, devices, products, produce or processes but does not include:

- quality control of products or routine testing of materials, devices, products or produce;
- research in the social sciences or humanities;
- routine data collections;
- efficiency surveys or management studies;
- market research or sales promotion."

10.1 Contract R & D Company

A contract R & D company (i.e., a company which provides R & D services in Malaysia only to companies other than its related companies) is eligible to apply for Pioneer Status with full income tax exemption for five years or an Investment Tax Allowance (ITA) of 100% on qualifying capital expenditure incurred within 10 years. The ITA can be utilised to offset against 70% of the statutory income in the Year of Assessment.

10.2 R & D Company

An R & D company (i.e. a company which provides R & D services in Malaysia to its related companies or to any other companies) is eligible to apply for an ITA of 100% on qualifying capital expenditure incurred within 10 years. The ITA can be utilised to offset against 70% of the statutory income in the Year of Assessment. The related companies concerned will not enjoy double deduction for payments made to the R & D company for the use of its services (please see 10.4), inless the R & D company opts not to avail itself of the ITA.

10.3 In-house Research

Companies which carry out in-house research in Malaysia (i.e. R & D carried out within a company for the purpose of its own business) are eligible to apply for the following incentives:

- ITA of 50% on qualifying capital expenditure incurred within 10 years. The ITA can be utilised to offset against 70% of the statutory income in the Year of Assessment.
- Double deduction is allowed on revenue expenditure incurred by a person on research directly

undertaken by him or on his behalf, which is approved by the Minister of Finance.

10.4 Other Incentives

- Double deduction is allowed on payment for the use of services of approved research institutes, R & D companies or contract R & D companies, as well as on cash contributions made to approved research institutes.
- Industrial Building Allowance in the form of an initial allowance of 10% and an annual allowance of 2% is available for buildings used for purposes of approved R & D.
- Capital allowance on capital expenditure incurred in the provision of plant and machinery used for R & D.
- Machinery/equipment, materials, raw materials/component parts and samples used for R & D purposes which have import duty, sales tax and excise duty are eligible for exemption from the duty/tax.

11. Incentives for Training

In order to encourage human resource development, the following incentives are available:

11.1 Investment Tax Allowance

Investment Tax Allowance of 100% for a period of 10 years is given to companies which establish technical or vocational training institutions. This allowance will be abated from the statutory income. Abatement for each assessment year will be limited to 70% of the statutory income.

Existing companies providing technical or vocational training that incur new investment to upgrade their training equipment or expand their training capacities are also eligible for this incentive.

11.2 Deduction for Cash Contributions

Single deduction for contributions in cash to a technical or vocational training institution which is not operating primarily for profit and those established and maintained by a statutory body.

11.3 Exemption from Import Duty, Sales Tax and Excise Duty on Machinery, Equipment and Materials

Machinery, equipment and materials used for training are eligible for exemption from import duties, sales tax and excise duties.

11.4 Double Deduction for Expenses Incurred for Approved Training

Double deduction for expenses incurred on approved training is given to manufacturing and non-manufacturing companies. Automatic approval on double deduction for expenses incurred is given if the employees are trained at approved training institutions. This incentive is available only to those companies which do not contribute to the Human Resources Development Fund (HRDF).

Companies are allowed single deductions for training expenses incurred prior to commencement of business.

11.5 Human resources Development Fund (HRDF)

Companies which employ 50 or more Malaysian workers have to contribute 1% of the monthly wages of their employees to the Human Resources Development Fund (HRDF). With effect from 1 January 1995, companies which employ less than 50 to a minimum of 10 employees and with a paid-up capital of RM2.5 million and above will also have to contribute to the HRDF. These companies can then avail themselves of the matching grants provided by the HRDF.

11.6 Industrial Building Allowance

Industrial Building Allowance (IBA) is granted to a company which has incurred expenditure on buildings used for industrial and technical or vocational training. The allowance is at an annual rate of 10%.

12. Incentives for Export

Manufacturers producing for the export market are eligible to apply for the following:

12.1 Export Credit Refinancing (ECR)

In line with the Government's objective to promote the exports of manufactured goods, Malaysian exporters can avail themselves of export credit refinancing (ECR) which provides short-term credit at preferential rates of interest.

This facility is operated by the commercial banks, while the central bank, Bank Negara Malaysia, will refinance those commercial banks which have extended export credit to eligible exporters. The exporter may invoice his exports in any currency but financing is made available only in Malaysian Ringgit.

The features of the facility are as follows:

(a) Two types of facilities are available under the scheme: the pre-shipment ECR facility which provides working capital to direct and indirect exporters (i.e., domestic suppliers of inputs to final exporters) and the post-shipment ECR facility which enables Malaysian exporters to obtain immediate funds upon shipment of eligible goods sold on credit terms.

(b) To be eligible for the ECR facility, goods to be exported must satisfy the following criteria:

(i) the product should not be listed in the "negative list" (list of products not eligible for the ECR) and it should have a minimum value-added of 20% and a minimum domestic resource content of 30%. For products that do not fulfil the value-added and domestic resource content criteria, exemption is given by Bank Negara on a case-by-case basis.

(ii) Access to the ECR scheme would be subject to the exporter having secured an ECR credit facility with any of the commercial banks and upon presentation of certain documents to the bank. For pre-shipment ECR, financing is granted upon presentation of an export order or a certificate of performance (CP). The CP is used as an additional basis for pre-shipment financing to facilitate consistent exporters whose volume of exports are at least RM3 million per year to fund their inventory and raw materials prior to the receipt of export orders. For post-shipment ECR, the necessary documents are the invoice, customs export declaration form and bill of lading (transport documents).

(c) The maximum period of financing is four months for pre-shipment ECR and six months for post-shipment ECR.

(d) The eligible amount of the pre-shipment facility is 80% of the value of the export order under the order-based method or 70% of the value of exports of the preceding 12 months under the certificate of performance method. For the post-shipment facility, the eligible amount of financing is 100% of the invoice value.

(e) The minimum amount for ECR financing is RM10,000 and the minimum drawdown is RM2,000.

12.2 Double Deduction of Export Credit Insurance Premiums

Premium payments in respect of insurance of products exported paid by exporters to approved local insurance companies are allowed as double deduction.

12.3 Double Deduction for Promotion of Exports

Certain expenses incurred by resident companies for the purpose of seeking opportunities for export of products manufactured in Malaysia are eligible for double deduction. The expenses that qualify are those incurred on:

- overseas advertising
- supply of free samples abroad
- export market research
- preparation of tenders for supply of goods overseas
- supply of technical information abroad
- exhibits and/or participation in trade or industrial exhibitions approved by the **Ministry of**

International Trade and Industry (MITI)

- services rendered for public relations work connected with exports
- fares in respect of travel overseas by employees of companies for business
- accommodation and sustenance expenses incurred by representatives of the company who go overseas, up to RM200 per day
- cost of maintaining sales offices overseas for the promotion of exports.

12.4 Industrial Building Allowance (IBA)

A company is eligible for industrial building allowance (IBA) in respect of buildings used as warehouses for storing goods for export. The IBA consists of an initial allowance of 10% and an annual allowance of 2%.

13. INCENTIVES FOR MULTIMEDIA SUPER CORRIDOR (MSC)

The MSC is a 15-by-50 kilometre (9-by-30 mile) zone extending south from Malaysia's present national capital and business hub, Kuala Lumpur. The MSC is a perfect environment for companies wanting to create, distribute, and employ multimedia products and services.
Companies with MSC Status are entitled to operate tax free for up to 10 years or receive a 100 percent investment tax allowance, and enjoy other incentives and benefits backed by the Malaysian Government's Bill of Guarantees:

- Provide a world-class physical and information infrastructure;
- Allowance unrestricted employment of knowledge workers from overseas;
- Ensure freedom of ownership of companies;
- Allow freedom of sourcing capital globally for MSC infrastructure and freedom of borrowing funds;
- Provide competitive financial incentives including no income tax for up to 10 years or an Investment Tax Allowance, and no duties on the import of multimedia equipment;
- Become a regional leader in intellectual property protection and cyber laws;
- Ensure no censorship of the Internet;
- Provide globally competitive telecommunication tariffs;
- Tender key MSC infrastructure contracts to leading companies willing to use the MSC as their regional hub; and
- Provide a high-powered implementation agency to act as an effective on-stop super shop to ensure the MSC meets company needs.

Malaysia's Multimedia Development Corporation (MDC) is driving this bold initiative. The MDC is a fully empowered "one-stop super shop" wholly focused on ensuring the unconditional success of the MSC and the companies operating in it. Applications for MSC Status is handled by the MDC.

For more information, please refer to "Investing in Malaysia's Multimedia Super-Corridor: Policies, Incentives and Facilities".

14. Incentives for Computers and Information Technology Assets

Computers and information technology assets are given an initial allowance of 20% and an annual allowance of 40%. Thus the full amount can be written off within a period of two years.

15. Incentives for the Storage, Treatment and Disposal of Toxic and Hazardous Wastes

Incentives are granted to encourage the setting up of proper facilities for the storage, treatment and disposal of toxic and hazardous wastes. Companies which are directly involved in the storage, treatment and disposal of toxic and hazardous wastes in an integrated manner are eligible for the Pioneer Status incentive for five years.

Those companies which are themselves waste generators and wish to establish facilities to store, treat and dispose of their wastes, either on-site or off-site, would be eligible for a special allowance at an initial rate of 40% and an annual rate of 20% for all capital expenditure.
As a further incentive, both categories of companies will enjoy import duty and sales tax exemption for machinery, equipment, raw materials and components for the storage, treatment and disposal of toxic and hazardous wastes.

In addition, environmental protection equipment is given an initial allowance of 40% and an annual allowance of 20% to enable the full amount to be written off within a period of three years.

16. Infrastructure Allowance

Companies which undertake projects in the States of Sabah and Sarawak and the designated “Eastern Corridor” of Peninsular Malaysia and which incur qualifying capital expenditure on infrastructure facilities such as bridges, jetties, connecting roads and substations, are eligible for an infrastructure allowance of 100%.

17. Incentives for International Procurement Centres

The term 'International Procurement Centre' (IPC) refers to a locally incorporated company, whether local or foreign-owned, which carried on a business in Malaysia to undertake procurement and sale of raw materials, components and finished products to its group of related and unrelated companies in Malaysia and abroad. This would include procurement and sale from local sources or from third countries.

In order to encourage the establishment of IPCs and to make Malaysia as a marketing and distribution centre, the Government offers the following incentives for approved IPSc.

- approval of the number of expatriate posts will be based on the requirement of IPCs;
- IPCs will be allowed to open one or more foreign currency accounts with any licensed commercial bank to retain their export proceeds without any limit imposed;
- IPCs will be allowed to enter into foreign exchange forward contracts with any licensed commercial bank to sell forward export proceeds based on projected sales;
- IPCs will be exempted from the requirements of the Ministry of Domestic Trade and Consumer Affairs Guidelines on foreign equity ownership on wholesale and retail trade; and
- IPCs will be allowed to bring in raw materials, components or finished products without any payment of customs duties into Free Zones or Licensed Manufacturing Warehouses for repacking, cargo consolidation and integration before distribution to the final consumers.

Companies that have a sizeable network of companies outside Malaysia which are well established and sizeable in terms of assets and employees, with a substantial number of qualified professionals, technical and other supporting personnel, can apply for an approved IPC status.

To qualify for the incentives, the IPCs must fulfil the following criteria:

- locally incorporated under the Companies Act 1965 with a minimum paid-up capital of RM 0.5 million;
- a minimum total business spending of RM 1.5 million per year;
- a minimum annual business turnover of RM 100 million; and
- goods are to be handled directly through Malaysian ports and airports.

18. TARIFF RELATED INCENTIVES

18.1 Tariff Protection

Consistent with its policy of an open economy, the Malaysian Government adopts a trade liberalisation approach and continuously reviews downward the country's tariff structure.
However, in certain cases, tariff protection is considered for deserving infant industries which are in a position to supply a major portion of the domestic market - provided the product is of acceptable quality and the price to consumers is reasonable.

In granting tariff protection, the degree of utilisation of domestic raw materials, the level of local value-added, and the level of technology of the industry will be taken into consideration. Tariff protection granted will be reviewed from time to time, consistent with the needs of the industry and the welfare of consumers.

18.2 Exemption from Import Duty on Direct Raw Materials/Components

The level of exemption from import duty granted on raw materials/components depends on whether the finished products are sold in the domestic market or are exported.

(i) Manufacture of Goods for Export
In the case of companies manufacturing finished products for the export market, full exemption from import duty on direct raw materials are normally granted, provided the raw materials/components are not manufactured locally or, where they are manufactured locally, are not of acceptable quality and price.

(ii) Manufacture of Goods for the Domestic Market
Partial exemption from import duty on direct raw materials and components that are not manufactured locally can be considered for any manufacturing company if it complies with the equity condition as stipulated in the manufacturing license under the Industrial Coordination Act 1975 or it has been granted an extension of time to comply with the equity condition.

Full exemption from import duty is normally given if:

- The finished product made from dutiable raw materials/components is not subject to any import duty.
- The manufacturing company has complied with the government policy guidelines in terms of equity participation, management and employment structure in all categories.
- Companies are located in the states of Sabah and Sarawak and the designated "Eastern Corridor" of Peninsular Malaysia.

In all other cases, (except for the assembly industry) partial exemption can be considered where manufacturers are normally required to pay import duty of 2% or 3% ad valorem. For raw materials which are subject to import duty of 3% or less, application for exemption will not be considered.

To encourage the manufacture of local components for the assembly industry, imports of components which attract import duty of 5% ad valorem and above will required to pay an import duty of at least 5% ad valorem.

18.3 Exemption of Import Duty and Sales Tax on Machinery and Equipment

Most machinery and equipment not produced locally are not subject to import duty and sales tax. However, machinery and equipment with import duty and sales tax can be considered for exemption if:

- they are used directly in the manufacturing process, and
- the equipment is used for environmental control, recycling, maintenance and quality control.

18.4 Drawback of Excise Duty on Parts, Ingredients or Packaging Materials

Under Section 19(1) of the Excise Act 1976, a drawback of excise duty in respect of parts, ingredients or packaging materials of any goods manufactured, may be claimed by the manufacturer if such parts, ingredients or packaging materials on which excise duty has been paid, are used in the manufacture of goods which are exported.

Movements of excisable goods from licensed premises for use in the manufacture of goods by a factory in a Free Zone or the islands of Langkawi or Labuan are considered as exports from Malaysia.

18.5 Drawback of Sales Tax on Materials Used in Manufacture

Under Section 29 of the Sales Tax Act 1972, all duty-paid goods used as materials for the manufacture of other goods which are subsequently exported, are eligible for drawback of the sales tax in full.

Similarly, goods from the Principal Customs Area which are used in the manufacture of other products by a factory in a Free Zone or on the islands of Langkawi or Labuan are considered as exports of goods from Malaysia.

18.6 Drawback of Import Duty

All duty-paid goods used as parts or ingredients or as packaging materials in the manufacture of other goods which are subsequently exported, are eligible for drawback of import duty in full.

The conditions for duty drawback, as stipulated under Section 99 of the Customs Act 1967, are as follows:

- The finished goods exported have been manufactured on premises approved by the Director-General of Customs.
- Such books and accounts are kept as the Director-General of Customs may require for the purpose of ascertaining the quantity of the goods used in the manufacture or for the packing of such manufactured goods.
- Such goods are re-exported within twelve months of the date upon which the import duty was paid or such further period as approved by the Director-General of Customs.
- Written notice has been given on the export declaration form that a claim for drawback will be made, and such claim is made in the prescribed form and established to the satisfaction of a senior officer of Customs within six months of the date of such re-export or such further period as approved by the Director-General of Customs.

Movement of goods from the Principal Customs Area to a Free Zone or the islands of Labuan or Langkawi are regarded as exports. Therefore, such goods, if manufactured in the Principal Customs Area, will be eligible for drawback of duty.

Appendix E

Trade Glossary

Accept. The act of signing a bill of exchange to assent to the transaction and promise to pay the bill at maturity. Normally the drawee signs the bill of exchange.

Acceptance. This term has several related meanings: (1) A time draft (or bill of exchange) that the drawee has accepted and is unconditionally obligated to pay at maturity. The draft must be presented first for acceptance - the drawee becomes the "acceptor" - then for payment. The word "accepted" and the date and place of payment must be written on the face of the draft. (2) The drawee's act in receiving a draft and thus entering into the obligation to pay its value at maturity. (3) Broadly speaking, any agreement to purchase goods under specified terms. An agreement to purchase goods at a stated price and under stated terms.

Accommodation bank bill of exchange. The exporter or importer draws a clean term bill of exchange on its bank, with the backing of a documentary collection or credit, or the imported goods.

Accounts receivable financing. A method of meeting short-term postshipment export financing need. The loans is essential secured by pledging the accounts receivable to the lender as collateral, while the exporter retains the buyer nonpayment risk.

Ad valorem. According to value. See Duty.

Advance against documents. A loan made on the security of the documents covering the shipment.

Advising bank. A bank, operating in the exporter's country, that handles letters of credit for a foreign bank by notifying the export firm that the credit has been opened in its favor. The advising bank fully informs the exporter of the conditions of the letter of credit without necessarily bearing responsibility for payment.

Advisory capacity. A term indicating that a shipper's agent or representative is not empowered to make definitive decisions or adjustments without approval of the group or individual represented. Compare Without reserve.

Agent. See Foreign sales agent.

Air waybill. A bill of lading that covers both domestic and international flights transporting goods to a specified destination. This is a nonnegotiable instrument of air transport that serves as a receipt for the shipper, indicating that the carrier has accepted the goods listed and obligates itself to carry the consignment to the airport of destination according to specified conditions. Compare Inland bill of lading, Ocean bill of lading, and Through bill of lading.

Alongside. The side of a ship. Goods to be delivered "alongside" are to be placed on the dock or barge within reach of the transport ship's tackle so that they can be loaded aboard the ship.

Antidiversion clause. See Destination control statement.

Approved Account Receivable. An FCI term referring to an account receivable on which an import factor has accepted the credit risk. Also often referred to as non-recourse item, approved invoice, or covered invoice.

Arbitrage. The process of buying foreign exchange, stocks, bonds, and other commodities in one market and immediately selling them in another market at higher prices.

Asian dollars. U.S. dollars deposited in Asia and the Pacific Basin. Compare Eurodollars.

ATA Carnet. See Carnet.

Balance of trade. The difference between a country's total imports and exports. If exports exceed imports, a favorable balance of trade exists; if not, a trade deficit is said to exist.

Bank bill of exchange. A bill of exchange whose drawee is a bank.

Banker's acceptance. A banker's acceptance is an accepted bank bill of exchange.

Barter. Trade in which merchandise is exchanged directly for other merchandise without use of money. Barter is an important means of trade with countries using currency that is not readily convertible.

Beneficiary. The person in whose favor a letter of credit is issued or a draft is drawn.

Berne Union. An unofficial international association of export credit and investment insurance agencies.

Bill of lading. A document that establishes the terms of a contract between a shipper and a transportation company under which freight is to be moved between specified points for a specified charge. Usually prepared by the shipper on forms issued by the carrier, it serves as a document of title, a contract of carriage, and a receipt for goods. Also see Air waybill, Inland bill of lading, Ocean bill of lading, and Through bill of lading.

Bill of exchange. A bill of exchange (draft or bill) is an unconditional order in writing, addressed by the drawer to the drawee, signed by the drawer, requiring the drawee to pay on demand r at a fixed determinable future time a certain sum of money to the bearer. The seller, exporter or other person who draws up the bill of exchange is the "drawer" and the person to whom the bill of exchange is addressed is the "drawee" (normally the buyer, the importer or a bank). The drawee becomes the "acceptor" when he signs the bill. A "payee" or any other person who signs the bill is the "endorser". Anyone who adds his signature to a bill becomes liable for its payment at maturity if the principal parties fail to make payment. Also see Draft.

Bonded warehouse. A warehouse authorized by customs authorities for storage of goods on which payment of duties is deferred until the goods are removed.

Booking. An arrangement with a steamship company for the acceptance and carriage of freight.

Buyer's usance. A buyer's usance can be drawn on and accepted by the bank that opens a usance letter of credit. In this case, the foreign exporter receives his proceeds when the bank accepts and discounts the usance bill of exchange. Short-term postshipment export finance is granted to the importer of intermediate or capital goods by the domestic accepting bank. Buyer's usance is sometimes called domestic usance.

Buying agent. See Purchasing agent.

Carnet. A customs document permitting the holder to carry or send merchandise temporarily into certain foreign countries (for display, demonstration, or similar purposes) without paying duties or posting bonds.

Cash on order. Cash payments for exports in advance.

Cash on delivery. Cash payment for exports on delivery.

Cash with order (CWO). Payment for goods in which the buyer pays when ordering and in which the transaction is binding on both parties.

Cash in advance (CIA). Payment for goods in which the price is paid in full before shipment is made. This method is usually used only for small purchases or when the goods are built to order.

Cash against documents (CAD). Payment for goods in which a commission house or other intermediary transfers title documents to the buyer upon payment in cash.

Certificate of manufacture. A statement (often notarized) in which a producer of goods certifies that manufacture has been completed and that the goods are now at the disposal of the buyer.

Certificate of origin. A document, required by certain foreign countries for tariff purposes, certifying the country of origin of specified goods.

Certificate of inspection. A document certifying that merchandise (such as perishable goods) was in good condition immediately prior to its shipment.

CFR. Cost and freight. A pricing term indicating that the cost of the goods and freight charges are included in the quoted price; the buyer arranges for and pays insurance.

Charter party. A written contract, usually on a special form, between the owner of a vessel and a "charterer" who rents use of the vessel or a part of its freight space. The contract generally includes the freight rates and the ports involved in the transportation.

CIF. Cost, insurance, freight. A pricing term indicating that the cost of the goods, insurance, and freight are included in the quoted price.

Clean bill of lading. A receipt for goods issued by a carrier that indicates that the goods were received in "apparent good order and condition," without damages or other irregularities. Compare Foul bill of lading.

Clean draft. A draft to which no documents have been attached.

Collection papers. All documents (commercial invoices, bills of lading, etc.) submitted to a buyer for the purpose of receiving payment for a shipment.

Collection. The process through which the proceeds of an export are collected from an importer or an importers bank.

Commercial attache. The commerce expert on the diplomatic staff of his or her country's embassy or large consulate.

Commercial invoice. An itemized list of goods shipped, usually included among an exporter's collection papers.

Commission agent. See Purchasing agent.

Common carrier. An individual, partnership, or corporation that transports persons or goods for compensation.

Confirmed letter of credit. A letter of credit, issued by a foreign bank, the validity of which has been confirmed by a U.S. bank. An exporter whose payment terms are a confirmed letter of credit is assured of payment by the U.S. bank even if the foreign buyer or the foreign bank defaults. See Letter of credit.

Consignment. Delivery of merchandise from an exporter (the consignor) to an agent (the consignee) under agreement that the agent sell the merchandise for the account of the exporter. The consignor retains title to the goods until the consignee has sold them. The consignee sells the goods for commission and remits the net proceeds to the consignor.

Consular declaration. A formal statement, made to the consul of a foreign country, describing goods to be shipped.

Consular invoice. A document, required by some foreign countries, describing a shipment of goods and showing information such as the consignor, consignee, and value of the shipment. Certified by a consular official of the foreign country, it is used by the country's customs officials to verify the value, quantity, and nature of the shipment.

Convertible currency. A currency that can be bought and sold for other currencies at will.

Correspondent bank. A bank that, in its own country, handles the business of a foreign bank.

Countertrade. The sale of goods or services that are paid for in whole or in part by the transfer of goods or services from a foreign country. (See Barter.)

Countervailing duty. A duty imposed to counter unfairly subsidized products.

CPT (carriage paid to) and CIP (carriage and insurance paid to). Pricing terms indicating that carriage, or carriage and insurance, are paid to the named place of destination. They apply in place of CFR and CIF, respectively, for shipment by modes other than water.

Credit Line. A facility under which a lending institution agrees to provide credit to a borrower, who may be an individual, a company or a bank.

Credit risk insurance. Insurance designed to cover risks of nonpayment for delivered goods. Compare Marine insurance.

Customhouse broker. An individual or firm licensed to enter and clear goods through customs.

Customs. The authorities designated to collect duties levied by a country on imports and exports. The term also applies to the procedures involved in such collection.

Date draft. A draft that matures in a specified number of days after the date it is issued, without regard to the date of acceptance. See Draft, Sight draft, and Time draft.

Deferred payment credit. Type of letter of credit providing for payment some time after presentation of shipping documents by exporter.

Demand draft. See Sight draft.

Destination control statement. Any of various statements that the U.S. government requires to be displayed on export shipments and that specify the destinations for which export of the shipment has been authorized.

Devaluation. The official lowering of the value of one country's currency in terms of one or more foreign
currencies. For example, if the U.S. dollar is devalued in relation to the French franc, one dollar will "buy" fewer francs than before.

DISC. Domestic international sales corporation.

Discrepancy letter of credit. When documents presented do not conform to the letter of credit it is referred to as a discrepancy.

Dispatch. An amount paid by a vessel's operator to a charterer if loading or unloading is completed in less time than stipulated in the charter party.

Disputed Account Receivable. An FCI term referring to a previously approved account receivable that has been disputed by the buyer.

Distributor. A foreign agent who sells for a supplier directly and maintains an inventory of the supplier's products.

Dock receipt. A receipt issued by an ocean carrier to acknowledge receipt of a shipment at the carrier's dock or warehouse facilities. Also see Warehouse receipt.

Document against payment. A sight trade bill of exchange that requires payment on demand involving documentary collection.

Document against acceptance. A term (or usance) trade bill of exchange that allows up to 180 days to payment involving documentary collection.

Documentary credit. A letter of credit.

Documentary bank bill of exchange. A documentary credit (letter of credit) is extended to the seller on behalf of the foreign buyer.

Documentary collection. A trade bill of exchange and other commercial or transport documents (such as a bill of lading) that together confer title to the goods. In a “clean collection” (that is a collection not clearly identifiable with a specific trade transaction), the bank does not control title to the goods.

Documentary draft. A draft to which documents are attached.

Documents against acceptance (D/A). Instructions given by a shipper to a bank indicating that documents transferring title to goods should be delivered to the buyer (or drawee) only upon the buyer's acceptance of the attached draft.

Domestic usance. See buyer's usance.

Domestic letter of credit. A document created by a bank (based on the master export letter of credit on a back-to-back basis) that declares to the indirect exporter that the bank will pay, on behalf of the final exporter, a bill of exchange drawn on it when the indirect exporter submits a bill of exchange and a receipt that the commodities have been delivered to the final exporter.

Domestic Factoring. Factoring in which the factor, the seller and the buyer are in the same country and subject to the same laws.

Draft (or Bill of exchange). An unconditional order in writing from one person (the drawer) to another (the drawee), directing the drawee to pay a specified amount to a named drawer at a fixed or determinable future date. See Date draft, Sight draft, Time draft.

Drawback. Articles manufactured or produced in the United States with the use of imported components or raw materials and later exported are entitled to a refund of up to 99 percent of the duty charged on the imported components. The refund of duty is known as a drawback.

Drawee. The individual or firm on whom a draft is drawn and who owes the stated amount. Compare Drawer. Also see Draft.

Drawer. The individual or firm that issues or signs a draft and thus stands to receive payment of the stated amount from the drawee. Compare Drawee. Also see Draft.

Dumping. Selling merchandise in another country at a price below the price at which the same merchandise is sold in the home market or selling such merchandise below the costs incurred in production and shipment.

Duty. A tax imposed on imports by the customs authority of a country. Duties are generally based on the value of the goods (ad valorem duties), some other factor such as weight or quantity (specific duties), or a combination of value and other factors (compound duties).

EDI. Electronic Data Interchange. The exchange between organizations of computer data in standard format.

EMC. See Export management company.

ETC. See Export trading company.

Eurodollars. U.S. dollars placed on deposit in banks outside the United States; usually refers to deposits in Europe.

Ex-From. When used in pricing terms such as "ex factory" or "ex dock," it signifies that the price quoted applies only at the point of origin (in the two examples, at the seller's factory or a dock at the import point). In practice, this kind of quotation indicates that the seller agrees to place the goods at the disposal of the buyer at the specified place within a fixed period of time.

Exchange permit. A government permit sometimes required by the importer's government to enable the import firm to convert its own country's currency into foreign currency with which to pay a seller in another country.

Exchange rate. The price of one currency in terms of another, that is, the number of units of one currency that may be exchanged for one unit of another currency.

Eximbank. Export-Import bank, usually of the United States.

Export Factor. An FCI term referring to the factoring individual, bank or company responsible for the relationship with the seller, usually based in the same country as the seller.

Export factoring. Factoring involves the outright sale of accounts receivables. The exporter transfers ownership of his receivable to a factor who buys all of the outstanding invoices of the exporter and thereby assumes the buyer nonpayment risk.

Export credit insurance and guarantee. Insurance for exporters and guarantees for export financing banks against overseas buyer nonpayment risk.

Export management company. A private firm that serves as the export department for several producers of goods or services, either by taking title or by soliciting and transacting export business on behalf of its clients in return for a commission, salary, or retainer plus commission.

Export trading company. A firm similar or identical to an export management company.

Export license. A government document that permits the licensee to export designated goods to certain destinations. See General export license and Individually validated export license.

Export broker. An individual or firm that brings together buyers and sellers for a fee but does not take part in actual sales transactions.

Export commission house. An organization which, for a commission, acts as a purchasing agent for a foreign buyer.

Export declaration. See Shipper's export declaration.

FAS. Free alongside ship. A pricing term indicating that the quoted price includes the cost of delivering the goods alongside a designated vessel.

FCA. "Free carrier" to named place. Replaces the former term "FOB named inland port" to designate the seller's responsibility for the cost of loading goods at the named shipping point. May be used for multimodal transport, container stations, and any mode of transport, including air.

FCI Code. The rules by which FCI members transact business through the two-factor system.

FCIA. Foreign Credit Insurance Association.

FI - Free in. A pricing term indicating that the charterer of a vessel is responsible for the cost of loading and unloading goods from the vessel.

Floating policy. See Open policy.

FO - Free out. A pricing term indicating that the charterer of a vessel is responsible for the cost of loading goods from the vessel.

FOB. "Free on board" at named port of export. A pricing term indicating that the quoted price covers all expenses up to and including delivery of goods upon an overseas vessel provided by or for the buyer.

Force majeure. The title of a standard clause in marine contracts exempting the parties for non-fulfillment of their obligations as a result of conditions beyond their control, such as earthquakes, floods, or war.

Foreign trade zone. See Free-trade zone.

Foreign sales agent. An individual or firm that serves as the foreign representative of a domestic supplier and seeks sales abroad for the supplier.

Foreign exchange. The currency or credit instruments of a foreign country. Also, transactions involving purchase or sale of currencies.

Foreign freight forwarder. See Freight forwarder.

Forfaiting. An arrangement whereby exporters of capital goods can obtain medium-term post shipment financing. The forfaiting bank buys bills of exchange, promissory notes, or other obligations at a discount backed by an unconditional guarantee.

Foul bill of lading. A receipt for goods issued by a carrier with an indication that the goods were damaged when received. Compare Clean bill of lading.

Free-trade zone. A port designated by the government of a country for duty-free entry of any non-prohibited goods. Merchandise may be stored, displayed, used for manufacturing, etc., within the zone and re-exported without duties being paid. Duties are imposed on the merchandise (or items manufactured from the merchandise) only when the goods pass from the zone into an area of the country subject to the customs authority.

Free port. An area such as a port city into which merchandise may legally be moved without payment of duties.

Freight forwarder. An independent business that handles export shipments for compensation. (A freight forwarder is among the best sources of information and assistance on U.S. export regulations and documentation, shipping methods, and foreign import regulations.)

GATT. General Agreement on Tariffs and Trade. A multilateral treaty intended to help reduce trade barriers between signatory countries and to promote trade through tariff concessions.

General export license. Any of various export licenses covering export commodities for which Individually validated export licenses are not required. No formal application or written authorization is needed to ship exports under a general export license.

Gross weight. The full weight of a shipment, including goods and packaging. Compare Tare weight.

Import Factor. An FCI term referring to the factoring individual, bank or company responsible for assuming the credit risk of the buyer and for credit control and collections, usually based in the same country as the buyer.

Import license. A document required and issued by some national governments authorizing the importation of goods into their individual countries.

Individually validated export license. A required document issued by the U.S. Government authorizing the export of specific commodities. This license is for a specific transaction or time period in which the exporting is to take place. Compare General export license.

Inland bill of lading. A bill of lading used in transporting goods overland to the exporter's international carrier. Although a through bill of lading can sometimes be used, it is usually necessary to prepare both an inland bill of lading and an ocean bill of lading for export shipments. Compare Air waybill, Ocean bill of lading, and Through bill of lading.

Interfact Agreement. An FCI term referring to the " legal" agreement signed by FCI members who want to do business together, in which both parties agree to observe the FCI Code, the Interfactor Electronic Data Interchange Rules, and the Arbitration rules.

International Factoring. Factoring in which the seller, factor and buyer are not all in the same country, and which may involve the use of the two-factor system.

International freight forwarder. See Freight forwarder.

Irrevocable letter of credit. A letter of credit in which the specified payment is guaranteed by the bank if all terms and conditions are met by the drawee. Compare Revocable letter of credit.

Letter of credit (L/C). A document, issued by a bank per instructions by a buyer of goods, authorizing the seller to draw a specified sum of money under specified terms, usually the receipt by the bank of certain documents within a given time.

Licensing. A business arrangement in which the manufacturer of a product (or a firm with proprietary rights over certain technology, trademarks, etc.) grants permission to some other group or individual to manufacture that product (or make use of that proprietary material) in return for specified royalties or other payment.

Manifest. See Ship's manifest.

Marine insurance. Insurance that compensates the owners of goods transported overseas in the event of loss that cannot be legally recovered from the carrier. Also covers air shipments. Compare Credit risk insurance.

Marking (or marks). Letters, numbers, and other symbols placed on cargo packages to facilitate identification.

Ocean bill of lading. A bill of lading (B/L) indicating that the exporter consigns a shipment to an international carrier for transportation to a specified foreign market. Unlike an inland B/L, the ocean B/L also serves as a collection document. If it is a "straight" B/L, the foreign buyer can obtain the shipment from the carrier by simply showing proof of identity. If a "negotiable" B/L is used, the buyer must first pay for the goods, post a bond, or meet other conditions agreeable to the seller. Compare Air waybill, Inland bill of lading, and Through bill of lading.

On board bill of lading. A bill of lading in which a carrier certifies that goods have been placed on board a certain vessel.

Open insurance policy. A marine insurance policy that applies to all shipments made by an exporter over a period of time rather than to one shipment only.

Open account. A trade arrangement in which goods are shipped to a foreign buyer without guarantee of payment. The obvious risk this method poses to the supplier makes it essential that the buyer's integrity be unquestionable.

Order bill of lading. A negotiable bill of lading made out to the order of the shipper.

Packing list. A list showing the number and kinds of items being shipped, as well as other information needed for transportation purpose.

Parcel post receipt. The postal authorities' signed acknowledgment of delivery to receiver of a shipment made by parcel post.

Payment under Guarantee. An FCI term referring to payment by the import factor to the export factor for an approved account receivable made 90 days after the due date of the invoice concerned.

PEFCO. Private Export Funding Corporation. A corporation that lends to foreign buyers to finance exports from the United States.

Perils of the sea. A marine insurance term used to designate heavy weather, stranding, lightning, collision, and sea water damage.

Phytosanitary inspection certificate. A certificate, issued by the U.S. Department of Agriculture to satisfy import regulations for foreign countries, indicating that a U.S. shipment has been inspected and is free from harmful pests and plant diseases.

Political risk. In export financing, the risk of loss due to such causes as currency inconvertibility, government action preventing entry of goods, expropriation or confiscation, and war.

Pro forma invoice. An invoice provided by a supplier prior to the shipment of merchandise, informing the buyer of the kinds and quantities of goods to be sent, their value, and important specifications (weight, size, etc.).

Purchasing agent. An agent who purchases goods in his or her own country on behalf of foreign importers such as government agencies and large private concerns.

Quota. The quantity of goods of a specific kind that a country permits to be imported without restriction or imposition of additional duties.

Quotation. An offer to sell goods at a stated price and under specified conditions.

Recourse. With respect to factoring, this is an FCI term referring to fact that an import factor who has not agreed to cover the credit risk involved with a transaction may reassign to another party, usually the export factor or the seller, the account receivable if it is not paid.

Remitting bank. The bank that sends the draft to the overseas bank for collection.

Representative. See Foreign sales agent.

Revocable letter of credit. A letter of credit that can be canceled or altered by the drawee (buyer) after it has been issued by the drawee's bank. Compare Irrevocable letter of credit.

Schedule B. Refers to Schedule B, Statistical Classification of Domestic and Foreign Commodities Exported from the United States. All commodities exported from the United States must be assigned a seven-digit Schedule B number.

Ship's manifest. An instrument in writing, signed by the captain of a ship, that lists the individual shipments constituting the ship's cargo.

Shipper's export declaration. A form required for all shipments by the U.S. Treasury Department and prepared by a shipper, indicating the value, weight, destination, and other basic information about an export shipment .

Sight draft (S/D). A draft that is payable upon presentation to the drawee. Compare Date draft and Time draft.

Spot exchange. The purchase or sale of foreign exchange for immediate delivery.

Standard industrial classification (SIC). A standard numerical code system used by the U.S. government to classify products and services.

Standard international trade classification (SITC). A standard numerical code system developed by the United Nations to classify commodities used in international trade.

Steamship conference. A group of steamship operators that operate under mutually agreed-upon freight rate.

Straight bill of lading. A nonnegotiable bill of lading in which the goods are consigned directly to a named consignee.

Tare weight. The weight of a container and packing materials without the weight of the goods it contains. Compare Gross weight.

Tenor (of a draft). Designation of a payment as being due at sight, a given number of days after sight, or a given number of days after date.

Through bill of lading. A single bill of lading converting both the domestic and international carriage of an export shipment. An air waybill, for instance, is essentially a through bill of lading used for air shipments. Ocean shipments, on the other hand, usually require two separate documents - an inland bill of lading for domestic carriage and an ocean bill of lading for international carriage. Through bills of lading are insufficient for ocean shipments. Compare Air waybill, Inland bill of lading, and Ocean bill of lading.

Time draft. A draft that matures either a certain number of days after acceptance or a certain number of days after the date of the draft. Compare Date draft and Sight draft.

Tramp steamer. A ship not operating on regular routes or schedules.

Transaction statement. A document that delineates the terms and conditions agreed upon between the importer and exporter.

Trust receipt. Release of merchandise by a bank to a buyer in which the bank retains title to the merchandise. The buyer, who obtains the goods for manufacturing or sales purposes, is obligated to maintain the goods (or the proceeds from their sale) distinct from the remainder of his or her assets and to hold them ready for repossession by the bank.

Two-Factor System. An FCI term referring to the basic system of operation between two FCI members.

Warehouse receipt. A receipt issued by a warehouse listing goods received for storage.

Wharfage. A charge assessed by a pier or dock owner for handling incoming or outgoing cargo.

Without reserve. A term indicating that a shipper's agent or representative is empowered to make definitive decisions and adjustments abroad without approval of the group or individual represented. Compare Advisory capacity.

SOURCE: National Trade Data Bank and Economic Bulletin Board - products of STAT-USA, U.S. Department of Commerce.

Appendix F

Scope of Work

Trade Finance Reform for Small Business Development in Egypt

Development Economic Policy Reform Analysis Project (DEPRA)

Cairo, Egypt
July 29, 1997

1. BACKGROUND

The Government of Egypt (GOE) has achieved commendable progress in recent years in introducing policy and regulatory reforms to stabilize the economy, improve business confidence, attract foreign direct investment, and promote exports. It continues to pursue trade reforms to further reduce import tariffs, non-tariff barriers, and effective rates of protection. The Government, with the active encouragement of President Mubarek, is giving priority to export development and is eager to develop quick results.

An efficient trade financing system is critical to a rapid supply response to trade policy reform. Egyptian exporters of non-petroleum products require pre-shipment and short-term post-shipment export finance amounting to around $2 billion equivalent annually, assuming that non-petroleum exports will soon rise to about $3 billion annually. Yet only a few hundred well-established firms are able to obtain and rely upon regular trade financing from commercial banks. The Government has tried to address this issue by making trade finance available from the Export Development Bank of Egypt (EDBE). However, due to its limited access to funds, it has only been able to provide financing to some 400 exporters. The Government has also instituted bilateral import finance programs, such as USAID's commodity import program (CIP). While the CIP funds some $200 million of private sector imports annually, its impact on SMEs is uncertain. Most of Egypt's exporters, including several thousand small and medium emerging exporters and indirect exporters who have limited collateral or credit standing are largely confined to self-financing. This limited access to trade finance constrains their export growth. In addition, most direct and indirect exporters of non-traditional products, 133particularly emerging SME exporters, have little or no access to longer-term investment credit. Many SMEs finance their investments by rolling-over short-term borrowings, which is relatively expensive and risky, since short-term credit is potentially subject to termination. Hence, many SMEs must rely on self-financing for their investment needs, which can limit their ability to expand and /or export.

Recent Egyptian trade finance research supports the need to expand trade and investment finance for SMEs. The 1995 SRI study Achieving Egyptian Export Growth: Final Report concluded that "current exporters are typically large, long-established firms, or companies with strong family support. Access to capital and credit by small firms, which are generally not exporters, is very limited. Therefore, to the extent that Egypt needs new firms to enter into exporting activities, one can conclude that financing is a liability that should be addressed in a comprehensive export growth strategy." Likewise, USAID's November 1996 Project Design for a Financial Services Initiative Under Growth Through Globalization found that pre-shipment and post-shipment export finance for small and emerging businesses is not readily available. These findings are consistent with those presented in the World Bank's 1997 draft "Concept Document" for its proposed Private Sector Export Development Project.

Both the World Bank and USAID are interested in helping the Government to expand access to export financing. The Bank is considering a Private Sector Export Development Project that would include export financing through the EDBE. While the Bank has done some preliminary explorations for the proposed project, it does not appear that the project will go forward soon. Discussions with the Bank project mission concluded that the proposed DEPRA study of trade finance would be valuable to efforts to reform trade finance and would not be duplicated by the Bank's efforts to develop their project. USAID, which is considering assisting the Credit Guarantee Corporation (CGC) to expand into trade finance guarantees, has also encouraged DEPRA staff to proceed with the trade finance study.

This proposed trade finance study would benefit from the opportunity to collaborate with another more generally-focused, DEPRA study on Financial Reforms for Small Business Development in Egypt (see attached SOW). The latter study includes a large number of interviews with financial institutions and small and medium-scale and informal enterprises (SMEs) and analyses of SME financing constraints and policy issues. While it focuses on domestic finance issues and policies, it would facilitate and complement the trade finance study. The overall effectiveness and synergy of both studies would be increased if they are implemented in tandem.

2. OBJECTIVES

This study is intended to explore how to improve credit access for SMEs that export or have a potential to export. The study would determine the main constraints to SME trade and investment credit. Hypotheses regarding SME export development and financing will be tested against empirical evidence and form the basis for policy recommendations. While emphasis will be placed on small and medium enterprises which could capture economies of scale, adopt modern technologies, and expand into export markets with improved access to financial sector services, the study will also include informal micro enterprises with export potential. In addition, the study will focus on the experience of and constraints facing financial institutions with SME financing, including special donor and GOE sponsored activities such as the EDBE and CIP. Various financial products of actual or potential significance to SME trade finance would be explored, including pre-shipment and post-shipment trade finance, factoring, loan guarantees, trade insurance, etc. These analyses would generate recommendations for policy, legal and regulatory reforms and special programs needed to accelerate needed reforms.

3. TASKS

A DEPRA study team will carry out the following tasks in conducting the study:

-- Task 1. Review the literature on SME exports and formal and informal financial institutions providing or potentially providing trade financing in Egypt.

-- Task 2. Review the experience of major successful exporting countries with extending public and private trade financing to SMEs, with emphasis on pre-shipment and post-shipment finance, loan guarantees, factoring, long-term financing, trading companies, etc.

-- Task 3. Interview GOE, donor and private sector officials and experts in Egypt on issues facing SMEs meeting their financial needs to expand into export markets, including emerging efforts to form general trading companies. In particular, obtain the views of officials and experts of the MOTS, MOE, Central Bank, EDBE, World Bank, IMF, UNDP, USAID, Egyptian Exporters Association, academic and private think-tanks, etc. A small group of interested public-private sector stake-holders will be invited by DEPRA to serve on a Study Advisory Group. The study team will consult and interact with the Advisory Group to the maximum extent feasible.

-- Task 4. Develop a trade finance focus for the MOE-DEPRA interviews of at least 75 representative SMEs in three large urban centers (Cairo, Alexandria, and one other center) and non-farm SMEs in two rural communities. Discussions with the World Bank suggest the possibility that a larger number of firm interviews (e.g., 200) could be conducted and more rigorous data analysis conducted if the study were to collaborate with a proposed World Bank study of private sector employment. This will be explored by the study team. The interviews should determine the sources and uses of funds and the particular constraints SMEs face in obtaining trade and long-term investment financing, including from trading companies and specialized trade finance institutions. In particular, the study will explore the extent to which they secure informal and formal finance through trade credit, accounts receivable finance, discounted instruments etc., the terms and conditions under which financing is available, and the impact of this finance on investment, exports, and employment. At least one-third of the SME interviews should be with export-oriented firms. The trade study staff would be expected to share in these interview responsibilities.

-- Task 5. Interview managers of major donor and GOE sponsored special export and import financing programs, including those providing trade finance, loan guarantees, leasing, and other trade related long-term financing to determine the feasibility of commercially replicating these programs in the Egyptian formal financial sector.

--Task 6. Interview a representative sample of managers of financial institutions. At least 10 institutions in the above five geographical areas would be interviewed, including providers and potential providers of financial services to SME exporters, about their experience in providing such financial services and the constraints they experience, particularly on account of policy and regulatory reasons. Particular attention will be devoted to determining how adequate collateral could be provided by SME exporters.

-- Task 7. Determine the extent to which SME trade transactions are constrained by lack of access to financial institutions, and the potential of innovative financial instruments to relax those constraints. Review the possibilities for changing or expanding the present Egyptian financial institutions to effectively meet growing trade finance requirements.

-- Task 8. Identify commercially viable possibilities or instruments for increasing SME access to institutional financial markets for trade financing, including trade insurance and guarantees.

-- Task 9. Provide a prioritized set of policy and regulatory reforms that the GOE could implement to facilitate increased SME access to trade and investment financing.

-- **Task 10. Prepare a draft report** of findings, conclusions, and recommendations for review by and discussion with officials of the GOE, USAID, other donors, and private sector groups in Egypt.

-- Task 11. Produce a Final Report incorporating the study's final findings, conclusions, and recommendations to the GOE and donors for improving SME trade financing and export growth in Egypt.

After the study is completed, it is expected that the Final Report would be presented at a Conference on Financial Sector Reforms and SME Development and/or a separate Conference on Trade Finance Reform . Follow-up discussions with GOE and donor officials on implementation of recommended reforms are also anticipated.

4. METHODOLOGY

The Team Leader should propose to the DEPRA study coordinator a detailed Work Plan of the methodologies to be employed in the study. It is anticipated that the DEPRA trade finance team will collaborate with the DEPRA-MOE SME finance team and will work mostly in Cairo, reviewing relevant literature and interviewing GOE, donor, private sector, and financial sector officials and SME owners/managers. However, the DEPRA trade finance team will also need to travel to international trade centers elsewhere in Egypt for interviews with formal and informal financial institution managers and SME owners/managers. Interviews of this sort have been successfully conducted on a qualitative basis in many commercial centers. See for example Benedict's 1962 study of Tehran's bazaar merchants, the recent Asian Development Bank sponsored surveys in five Asian Countries, the World Bank 1993/94 survey of private enterprises in Egypt, and the 1995 interviews of Egyptian rural enterprises by Nagy and Adams.

The interviews with SME owners/managers will require the development of an interview form. Interviews with financial sector managers will also be based upon an interview form. The DEPRA trade finance team will be responsible for the development of trade finance questions for both interview instruments.

5. DELIVERABLES

-- 1. A detailed Work Plan within one week of beginning the study.

-- 2. A Draft Report with findings, conclusions, and tentative recommendations for review by and discussion with GOE officials, USAID staff, Study Advisory Group, and other representatives of financial institutions and the business community in Egypt.
-- 3. Meetings and presentations to the above groups to obtain their review and comments.

-- 4. A Final Report within two weeks of final receipt of discussion comments.

The Draft and Final Reports shall be written in English with an executive summary translated into Arabic. The Final Report will also be submitted on a computer diskette, with Word Perfect or MS World for text files and Excel or Lotus 1-2-3 tables and graphs.

6. LEVEL OF EFFORT AND STAFFING REQUIREMENTS

The study requires two experts, one expatriate and one Egyptian, working over three to four months. The expatriate expert would serve as Team Leader and be contracted for three person months. However, his/her consulting time in Egypt may be broken into two six week periods separated by up to one month. The expatriate should have advance degrees in economics or business finance, experience with trade finance for SMEs in a wide variety of countries, and particularly experience with expanding SME access to financial institutions. The Egyptian trade finance expert would be contracted locally for two person months and should have graduate training in economics or business finance, be familiar with the trade finance sector and SME exporters in Egypt, have experience conducting the sort of interviews envisioned. The study team would be guided on a part-time basis by the DEPRA study coordinator, Dr. James Walker.

7. START AND COMPLETION DATES

The study would begin on or about September 1 and be completed by December 15. The Final Report would be presented at a DEPRA, MOTS, and MOE-sponsored conference on Financial Sector Reforms for SME Development after the study is completed and/or a separate Trade Finance Conference.

8. REPORTING PROCEDURES AND OTHER CONDIITONS

The team leader shall report to the DEPRA study coordinator. The consultants will collaborate with the MOE-DEPRA Financial Reforms for Small Business Development study team. The consultants shall work closely with appropriate GOE officials, USAID/Egypt staff, and representatives of the financial and export-oriented business community. A six day work week is authorized for expatriate short-term consultant for work performed outside the United States.

The DEPRA Project shall provide necessary in-country logistical support, including transportation, office space, access to telephones, essential photo-copying, and basic secretarial support. A printer in the DEPRA office will be available for printing computer files. However, the consultants would need to provide their own personal computers. The Egyptian team member, in addition to his/her professional duties, may be expected to act as translator and interpreter as needed for interviews, essential documents and reports, and to facilitate the activities of the expatriate consultants or study coordinator.

مشروع تحليل وإصلاح السياسات الاقتصادية والتنمية

مصر: إصلاح التمويل التجارى من اجل تنمية المشروعات الصغيرة

معد لأجل

حكومة جمهورية مصر العربية

مقدم الى

الوكالة الامريكية للتنمية الدولية

مقدم من

مؤسسة ناثان (Nathan Associates Inc.)

عقد رقم

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ديسمبر ١٩٩٧

الملخص التنفيذى

يشهد القطاع المالى فى مصر تحريراً شاملاً منذ عام ١٩٩١. فقد تمت إزالة القيود الائتمانية، وتحرير سعر الفائدة ونظام سعر الصرف، بالاضافة الى تطبيق تنظيمات ولوائح مصرفية حديثة، كما تم استخدام عطاءات أذون الخزانة. وكذلك تمت اعادة الحياة الى سوق الاوراق المالية. ومع ذلك، لازال القطاع المالى يخضع لهيمنة بعض المؤسسات الحكومية منخفضة الاداء، والتى تقوم بتخصيص نسبة كبيرة من الادخار الخاص لتمويل ديون القطاع العام. يضاف الى ذلك ان الشطر الاكبر من ائتمان القطاع الرسمى، يوجه الى المشروعات الكبيرة. ومن الملاحظ ان المشروعات صغيرة ومتوسطة الحجم، متضمنة المشروعات الصغيرة جداً فى القطاع غير الرسمى (الورش)، التى تولد معظم القيمة المضافة والتوظف للدولة، وهى بصفة عامة تبدو مستبعدة من تمويل المؤسسات الرسمية، متضمناً التمويل التجارى، الامر الذى جعلها تعتمد الى حد كبير على التمويل غير الرسمى والتمويل الذاتى. وفيما يتعلق ببرامج الائتمان المدعم للمشروعات الصغيرة والمتوسطة، نجدها تغطى جزءاً ضئيلاً من الطلب على التمويل لهذه المشروعات، والتى ركزت قليلاً على تمويل التجارة الدولية. ومن الملاحظ ان ذلك الامر يعتبر قصوراً فى توفير الائتمان لأكثر الاجزاء ديناميكية فى الاقتصاد المصرى، ويشكل عاملاً معاكساً للأولويات التى وضعتها الحكومة لزيادة معدل نمو الاقتصاد، وزيادة الصادرات، واتاحة المزيد من فرص التوظف. ومن ثم طلبت وزارة الاقتصاد اجراء هذه الدراسة يهدف التركيز على كيفية توفير الائتمان للمشروعات الصغيرة والمتوسطة.

وتهدف هذه الدراسة الى تحديد القيود الرئيسية التى تحول دون توفير التمويل التجارى للورش والمشروعات الصغيرة والمتوسطة، ولتقديم توصيات للسياسة من اجل زيادة المتاح من هذا النوع من الائتمان.

وعلى حين انصب التركيز فى هذه الدراسة على المشروعات الصغيرة ومتوسطة الحجم التى تقوم بالتصدير او التى تمتلك إمكانات تصديرية، وقد تمت الاشارة بشكل متكرر الى دراسة مكملة قام باعدادها مشروع تحليل وإصلاح السياسات الاقتصادية والتنمية (دبرا)، والدراسة بعنوان "الاصلاح المالى من اجل تنمية المشروعات الصغيرة فى مصر"، والتى قامت ايضاً بتقييم موقف التمويل فى المشروعات الصغيرة جداً (الورش) بالقطاع الغير رسمى، والتى لديها امكانات للنمو، وكذلك خبرة المصارف والمؤسسات غير المصرفية والقيود التى تواجهها عند التعامل مع هذه المشروعات، وتتضمن برامج التمويل من جهات مانحة، والبرامج التى ترعاها الحكومة المصرية.

كما قامت الدراسة بأستعراض الاشكال المتنوعة من التمويل، سواء الفعلية او المرتقبة التى توجه الى المشروعات الصغيرة، والتى تتضمن، ضمانات القروض، والقبول المصرفى. ويقدم هذا التحليل الاساسى الذى من خلاله تقدم التوصيات الخاصة بالسياسة، والاصلاحات القانونية والتنظيمية المقترحة، والبرامج الخاصةالتى تؤدى الى توفير الائتمان التجارى لقطاع المشروعات الصغيرة والمتوسطة فى الاقتصاد المصرى.

وبداءة، قامت الدراسة باختبار عرض وطلب الخدمات التمويلية لقطاع المشروعات الصغيرة والمتوسطة فى مصر. فمن ناحية، تضمن ذلك إجراء مجموعة من المقابلات مع مدراء المؤسسات التمويلية سواء فى القطاع الخاص أو

القطاع العام، والتى تمثل عرض الائتمان بالنسبة لهذه المشروعات. ولقد غطت هذه الدراسة مناطق القاهرة والاسكندرية وبورسعيد ودمياط، ومدينة السادس من أكتوبر، ومدينة العاشر من رمضان، والفيوم، كما اشتملت على مقابلات لدى البنك المركزى المصرى، واحد عشر مصرفاً تجارياً، وثلاثة من مصارف الاعمال والاستثمار. واثنين من المصارف المتخصصة، بالاضافة الى خمس مؤسسات تمويل غير مصرفية. ومن ناحية اخرى، تضمن استقصاء جانب الطلب مقابلات مع عدد (١٧٣) من اصحاب ومدراء مشروعات صغيرة ومتوسطة الحجم، وذلك بغرض تقدير الطلب على الائتمان. كما تم اختيار مجموعة فرعية عشوائياً تضم (٢٩) مصدراً، (٣٥) من المصدرين المرتقبين، وذلك من المشروعات الصناعية التى اشتمل عليها البحث. وتشكل هاتان المجموعتان الفرعيتان العينة الفرعية التى تم استخدامها فى تحليل الطلب على خدمات التمويل التجارى من جانب المصدرين الحاليين والمرتقبين. وقد تمت تغطية المقابلات الشخصية فى القاهرة الكبرى متضمنة مدينتى السادس من أكتوبر والعاشر من رمضان، والاسكندرية، والفيوم. وقد ركز استقصاء المصدرين الحاليين والمرتقبين على بعض القطاعات الفرعية الاكثر ديناميكية فى قطاع السلع المصنوعة. وتضم هذه القطاعات، صناعة النسيج والملابس. صناعة الاثاث الخشبى، وصناعة الاحذية، والمنتجات الحرفية، وصناعة السجاد.

عرض خدمات التمويل لقطاع المشروعات الصغيرة والمتوسطة:

اوضحت نتائج هذه الدراسة أنه بالرغم من الهيمنة الكاملة (ما يزيد على ٩٨%) للمشروعات الصغيرة والمتوسطة والورش فى الاقتصاد المصرى، فان المصارف التجارية تقوم باقراض نسبة صغيرة نسبياً لهذه المشروعات. وتشير التقديرات الى ان حجم الاقراض الذى تقدمة المصارف الداخلة فى العينة الى المشروعات الصغيرة والمتوسطة يتراوح بين ٥% - ٦% من اجمالى قروض القطاع المصرفى، ويمثل تمويل التجارة نسبة اقل من ١%.وجميع المصارف التى تم استقصاءها تقدم خدمات التمويل التجارى، ولكن لازال استخدام هذا التمويل محدوداً بسبب انخفاض حجم الصادرات المصرية وعدم تنوعها. ومن الملاحظ ايضاً ان صادرات المشروعات الصغيرة والمتوسطة تمثل نسبه صغيرة جداً من اجمالى الصادرات المصرية.

وجملة القول، ان النظام المصرفى ليس تنافسياً بدرجة كافية لان غالبية الموارد المالية للدولة يتحكم فيها المصارف الحكومية الخمسة الكبرى. ويبدو هذا الامر حقيقياً فيما يتعلق بتمويل التصدير، حيث تقوم هذه المصارف، بالاضافة الى عدد قليل من المصارف الخاصة والمشتركة بالقيام بمعظم هذا النشاط. هذا التركز فى القوة يقلل من المنافسة، ويتضح ذلك من الاستخدام المحدود للتكنولوجيا الحديثة، وبصفة خاصة استخدام نظم الحاسب الآلى فى الفروع خارج القاهرة، والمدى المحدود والاستخدام القليل لخدمات مالية معنية (على سبيل المثال، الوساطة التجارية، والرهن التجارى،والقبول المصرفى).

وتنظر المصارف التجارية المصرية الى اقراض المشروعات الصغيرة والمتوسطة، متضمناً تمويل الصادرات، باعتباره اكثر مخاطرة، وأكثر تكلفة، وأقل عائداً بالقياس الى القروض الاكبر، ومعظم المصارف ليس لديها شبكات للفروع، او نظم واساليب خاصة، اوافراد مدربين جيداً، لخدمة المشروعات الصغيرة والمتوسطة بشكل

يحقق الربحية. ويعتبر المصرفيون ان اصحاب المشروعات الصغيرة والمتوسطة غير قادرين، بصفة عامة، على اعداد المعلومات التي تزيد من جاذبيتهم للتعامل المصرفي (ومثال ذلك، القوائم المالية، ودراسات السوق. ...الخ).

واقراض المشروعات الصغيرة جدا (الورش) من اجل التصدير يبدو في الواقع غير موجود. وفي مجملة، يأتي اقراض هذه المشروعات تقريبا من المصارف التجارية، ويكون ذلك مدفوعا ببواعث سياسية، وتأتي قوته الدافعة المبدئية من "الصندوق الاجتماعي للتنمية"، الذي يمثل مبادرة الحكومة. وبأستثناء البنك الوطني للتنمية، تتجنب المصارف إقراض هذه المشروعات للأسباب التي تم ذكرها اعلاه.

والسياسات الحكومية الراهنة تجاه تقديم قروض للمشروعات الصغيرة من اجل التصدير، يتم تنفيذها من خلال خطوط ائتمانية خاصة مدعمة تقدم للمصدرين، وبشكل أكثر تعميما، من الصندوق الاجتماعي للتنمية، ويشكل ذلك عائقا للإنتاجية لأن هذه البرامج:

- تحرم المقرضين من الحوافز الاقتصادية للإقراض.
- لاتؤدي الى زيادة قدرة مؤسسات التمويل على فهم طبيعة المشروعات الصغيرة والمتوسطة، او على انتهاج اساليب خاصة، ونظم ادارة المعلومات الضرورية لخدمة هذا السوق بشكل يحقق الربحية.
- ينتج عنها ارتفاع معدلات الفشل في السداد بشكل غير قابل للاستمرارية، والى تسييل برامج الائتمان، حيث ينظر الكثيرون اليها كبرامج مجانية لا يجب ان ينتظر من يقدمها ان يسترد أمواله.

وسياسات الضمانات المصرفية، والتي تتفاوت بشكل كبير فيما بين المصارف الداخلة في عينة البحث من حيث متطلباتها التي تتراوح بين ١١٠%، ٢٠٠% من قيمة القرض، تعتبر مفرطة بشدة. وجميع مصارف العينة اشارت الى قيامها بتقديم قروض بدون ضمانات، ولكن القليل من هذه المصارف اوضح قيامه بتقديم قدر كبير من التمويل التصديري قبل الشحن، والذي يستند الى وجود خطابات اعتماد. والانواع التقليدية من الضمانات مثل العقارات، البضائع، الحسابات المقبولة، اوراق مالية قابلة للتداول، الارصدة النقدية، المعدات، العقود وعقود التنازل، والضمانات المصرفية والشخصية، تكون مطلوبة بالاضافة الى خطاب الاعتماد. ويواجه صغار المقترضين صعوبة اكبر في تقديم هذه الضمانات اما لأنها غير متوافرة لديهم او لأن تسجيلها يكون مكلفا.

ونظام المحاكم المصرية بطئ ومعوق وغير كفء، ويدفع الى السلوك الباحث عن الريع. وادخال التحسينات في دقة وسهولة وتكلفة التسجيل للضمانات المسموح بها، ودرجة حرية المقرضين في مصادرة الممتلكات، سوف يزيد من توافر الائتمان، متضمناً تمويل التجارة.

وقد تمت دراسة البنك المصري لتنمية الصادرات، والشركة المصرية لضمان الصادرات، بالاضافة الى خمس نماذج تمويل خاصة، وذلك من خلال الدراسة المكملة التي اعدها مشروع (دبرا) بعنوان "الاصلاح المالي من اجل تنمية المشروعات الصغيرة في مصر"، والتي لا ترتبط تحديداً بتمويل التجارة، يمكن تلخيصها على النحو التالي:

* إن نموذج المنظمات غير الحكومية (NGO) كما تحدده جمعية رجال أعمال الإسكندرية، يبدو قابلاً للتطبيق في مصر. ومع التسليم بالانتشار المعقول لتطبيقه، ونضجه العملي كأحد أحسن التطبيقات الدولية لتمويل المشروعات الصغيرة جداً، يبدو الامر يستحق التشجيع لتنمية صناعة لتمويل المشروعات الحرفية من خلال هذا النموذج. إن تقديم هذا النموذج بشكل رسمي كصناعة، ومن خلال الابتكار، وتشريع يتسم بالمرونة، يمكن ان

يساعد بعض الجهات الممارسة مثل جمعية رجال اعمال الاسكندرية على الوصول الى مصادر التمويل التجارى. الأمر الذى ينتج عنه توفير ائتمان اضافى للمشروعات الصغيرة والمتوسطة، متضمنا الائتمان التجارى. ان زيادة عدد المؤسسات التى تستخدم نموذج المنظمات غير الحكومية (NGO)، بالاضافة الى ان التحرك الحذر من جانب المؤسسات القوية منها فى السوق يمكن ان يساعد فى توفير الائتمان للمشروعات الصغيرة والمتوسطة، متضمنة التمويل المباشر وغير المباشر بقصد التصدير.

* إن توافر برامج خاصة لاقراض المشروعات الحرفية والصغيرة داخل المصارف يبدو امراً ممكن التطبيق. فالبنك الوطنى للتنمية يتوسع فى برنامج إقراض المشروعات الحرفية بشكل سريع، وحقق الربحية فى فترة زمنية قصيرة. وقد تحقق ذلك من خلال عمليات ذات كفاءة مرتفعة، والتحكم فى خسائر القروض، والمتابعة الوثيقة لتسب الاداء، ومعدل فائدة فعال مرتفع. ويصل البرنامج الى عدد كبير من المقرضين، وكان ناجحاً بدرجة تكفى لتبرير القرار الخاص بتنفيذه من خلال شبكة فروع البنك.

* ونموذج ضمان الائتمان، كما توضحه وثيقة شركة ضمان الائتمان وشركة ضمان الصادرات، يقدم ايضاً منافع معينة ويبدو كلا البرنامجين مسئولاً عن زيادة الائتمان المصرفى لقطاع المشروعات الصغيرة والمتوسطة، ولكن كلا منهما ظل صغيراً ومحدوداً فى عدد العملاء، وكلاهما يحتاج دعماً لتغطية تكلفة عملياتهما. وادارة المشروعات الصغيرة فى الحكومة المصرية تعتبر بديلاً غير قابل للاستمرار.

* كما سبق ان اشرنا، فان الصندوق الاجتماعى للتنمية يعتبر برنامجاً حكومياً محمود القصد، ولكن انشطته تؤدى الى تشوه اسواق الائتمان بسبب معدلات الفائدة المدعمة، وسجلات اعادة السداد غير النمطية. ولا يجب اعتبار الصندوق الاجتماعى للتنمية نموذجاً قابلاً للاستمرار لتحقيق التوسع المستديم للائتمان للورش الحرفية دون حدوث تحول جوهرى تجاه تحسين الحوافز المالية، والقدرة المؤسسية، للمصارف والمؤسسات غير المصرفية بالنسبة لاقراض المشروعات الصغيرة والمتوسطة، متضمناً الاقراض المباشر وغير المباشر بغرض التصدير.

* اما صناعة التأجير المصرية الناشئة ربما تقدم احد اهم النماذج لتوسع تمويل المشروعات الصغيرة والمتوسطة فى المستقبل. فمن خلال الادوات المرنة التى تستطيع تقديم ما يقرب من ١٠٠% من التمويل اللازم للمعدات، وتستطيع الربط بين المدفوعات وبين تدفقات نقدية محددة، تستطيع صناعة التأجير ان تقدم مصدراً بديلاً مرتقباً مهماً لتمويل المشروعات الصغيرة والمتوسطة فى مصر، عندما يواجه صغار المنظمين صعوبات فى شروط الاقتراض.

* البنك المصرى لتنمية الصادرات الذى أنشئ كبنك وطنى للصادرات، لم يكن اداؤه مرتفعاً. فهو يقدم الائتمان الاساسى للتجارة الدولية، وعدد من الخدمات الاخرى للمصدرين. ويمتلك البنك شبكة فروع محدودة، وليس لديه كثافة عالية من المشروعات المقترضة صغيرة ومتوسطة الحجم. ومن المتوقع ان تؤدى عملية خصخصة البنك المصرى لتنمية الصادرات الى تحسين الاداء ونمو شبكة الفروع، الامر الذى يزيد من الموارد التمويلية المتاحة امام المصدرين سواء صغار او متوسطى الحجم.

ان الدول سريعة النمو فى العالم تستمد قدرا كبيرا من هذا النمو، متضمنا نمو الصادرات، من المستويات العالية للاستثمار الاجنبى المباشر، وتحصل على قدر كبير من المزايا الجانبية فى شكل التكنولوجيا المتقدمة، والمهارات، والقدرة على دخول السوق. ويبدو اداء مصر فى هذا المجال اقل مما يجب ان يكون عليه. ان إجراء تحسين كبير فى المناخ الاستثمارى يكون ضروريا حتى تستطيع مصر تحقيق امكاناتها الكاملة كقاعدة إقليمية للاستثمارات. ان الاداء التصديرى الباهت لمصر يجد جذورة العميقة فى المستوى المنخفض من الاستعداد التصديرى، الذى يمكن ملاحظته على المستوى الكلى وعلى المنشأة، كما ان زيادة الاستثمار الاجنبى المباشر، وما يصاحبه من منافع جانبية، يمكن ان يكون مفيدا لتحسين الوضع التصديرى للدولة.

ان تمويل الصادرات سواء ما قبل الشحن او بعده، وخطط ضمان ائتمان التصدير، تستخدم على نطاق واسع فى الدول المتقدمة والدول الآخذة فى النمو. ومثل هذه البرامج موجودة لدى مصر، ولكنها تبدو اقل شمولا، واكثر توجها لطلب الضمانات بالمقارنة بمثيلاتها فى الدول التصديرية الاكثر نجاحا. ان الاستخدام المحدود لتمويل الصادرات، تبدو أحد اسباب ضعف وتناقص القاعدة التصديرية، والمدى المحدود من الصادرات المصرية، والمنافسة المحدودة فى اسواق التمويل. فالبنك المركزى المصرى لا يدعم بشكل شمولى، خدمات تمويل الصادرات المبنية على اسعار تحددها السوق.

الطلب على خدمات التمويل فى قطاع المشروعات الصغيرة والمتوسطة:

اظهر مسح قطاع المشروعات الصغيرة والمتوسطة مجموعة من النتائج تتعلق بالطلب على خدمات تمويل التجارة تتمثل فيما يلى:

- المصدر الأولى للتمويل الذى استخدمه معظم المنظمين فى عينة البحث كان يتمثل فى الايرادات المحتجزة.
- الائتمان التجارى فى شكل ائتمان الموردين، والدفعات المقدمة التى يدفعها العملاء كانت ثانى اهم المصادر التى يستخدمها المصدرون، والمصدرون المرتقبون.
- باع المصدرون، فى المتوسط، حوالى ثلث إنتاجهم من السلع تامة الصنع فى اسواق خارجية. وعلى حين استخدم عدد قليل من المصدرين خطابات الاعتماد فى عمليات التصدير، فان الغالبية منهم حصلوا على مقابل صادراتهم من خلال آلية الحساب المفتوح.
- تم استخدام القروض الرسمية من جانب ما يزيد على نصف عدد المنظمين فى عينة البحث.
- أوضح نصف المصدرين الذين استخدموا القروض الرسمية خلال العام الماضى انهم استخدموا هذه القروض فى عملياتهم التصديرية.
- تم استخدام القروض غير الرسمية من جانب اقل من خمس المصدرين، والمصدرين المرتقبين.
- ترشيد كمية القروض لم يتضح من الدراسة انها تمثل مشكلة او عنق زجاجة، ويتناقض ذلك مع الاعتقاد الشائع بوجود تحيز ضد المشروعات الصغيرة، المصدرين وغيرهم. وملاحظة المنظمين توضح قيامهم بشكل اختيارى بالابتعاد عن اسواق الائتمان الرسمية، ويرجع ذلك الى توافر مصادر اخرى، والى المعتقدات الدينية.
- جميع المصدرين تقريبا، وحوالى ثلثى المصدرين المرتقبين، لديهم حساب ادخار واحد على الاقل لدى أحد البنوك التجارية. وعلى النقيض، نجد ان الجمعيات "Gameyat or Roscas" وهى ثانى اهم قنوات الادخار

المستخدمة، قد تم استخدامها من جانب حوالي ثلث المصدرين المرتقبين، وحوالي عشر المصدرين الذين تم استقصائهم.

وقد اعتبر عدد قليل نسبيا من المصدرين والمصدرين المرتقبين ان التمويل كان هو اخطر مشكلة تواجههم. كما تمت الاشارة الى عدد من القيود غير التمويلية الهامة مثل ضعف التسويق، ضعف الطلب، الضرائب، مشاكل العمال، المواد الخام، المنافسة.
وهذه النتائج تلقى الضوء على ان التمويل ليس بالضرورة هو عنق الزجاجة على النحو الذى يراه العديد من مؤيدى المشروعات الصغيرة والجهات المانحة.

عرض وطلب خدمات التمويل فى قطاع المشروعات الصغيرة والمتوسطة:

تقدم نتائج هذه الدراسة رؤية ثمينة لعرض وطلب خدمات تمويل التجارة الدولية فى قطاع المشروعات الصغيرة والمتوسطة فى مصر. وعلى حين توضح البنوك التجارية ان التمويل التجارى للمشروعات الصغيرة والمتوسطة يمثل نسبة صغيرة جدا من المحفظة الشاملة فان تحليل طلب المنظمين على خدمات التمويل الرسمى يوضح ان ما يزيد على نصف المصدرين والمصدرين المرتقبين يسحبون قروضا من البنوك وينتج هذا التباين بشكل واسع من نظرة المصرفيين الى اقراض المشروعات الصغيرة والمتوسطة باعتباره مماثلا لإقراض المشروعات الحرفية الصغيرة جدا. فقد لوحظ ان المصدرين الصغار ومتوسطى الحجم يسحبون مقادير كبيرة من الائتمان الرسمى، أكبر كثيرا مما يتصوره المصرفيون. وكما هو متوقع، لا تدخل البنوك التجارية فى عمليات اقراض المشروعات الحرفية الصغيرة لاغراض التصدير، إلا من خلال برامج خاصة او خطوط ائتمان، ومع ذلك لايبدوان المشروعات الصغيرة والمتوسطة تواجه قيدا معوقا عند دخولها للتمويل المصرفى. ونصف عدد المصدرين الذين استخدموا القروض الرسمية، قاموا باستخدام قروض رأس المال المتداول لخدمة اعمالهم التصديرية. والطريقة النمطية لسداد قيمة الصادرات كانت من خلال آلية الحساب المفتوح. ويتمشى ذلك مع الاتجاه العالمى الذى يوضح ان المصدرين الذين يستخدمون آلية الدفع من خلال الحساب المفتوح يكونون أكثر تنافسية.

التوصيات:

ان تحسين الاداء الشامل للقطاع المالى سوف يفيد جميع المشروعات بما فيها المشروعات الصغيرة والمتوسطة والحرفية الصغيرة جدا. ويمكن تحسين الاداء الشامل من خلال تنفيذ التوصيات التالية:

- مراجعة الموقف الراهن للبنك المركزى الرافض للموافقة على دخول بنوك اجنبية اخرى. ان نافذة السماح بالدخول عن طريق شراء حصص الدولة فى البنوك المشتركة يعتبر خطوة ايجابية، ولكنها غير كافية. فالبنوك الاجنبية سوف تدخل الى السوق فقط فى حالة امتلاكها للكيان العامل بنسبة ١٠٠%. ففى الاسواق الاخرى، مثل الاسواق سريعة النمو فى آسيا، نجد ان حرية دخول السوق نتج عنها ممارسات مصرفية حديثة، وزيادة المنافسة قادت الى توافر الائتمان بتكلفة ارخص واكثر استقرارا، ووجود مؤسسات مالية اكثر قوة. فالاقتصاد المصرى ليس متخما من الناحية المصرفية.

- الغاء التأثير الحكومى على الصناعة المصرفية من خلال المطالبة بمعدلات فائدة منخفضة على اقراض المشروعات الصغيرة والمتوسطة. فمعدلات الفائدة الاقل من المعدلات السوقية للفائدة تقلل من حوافز البنوك لتقديم القروض للمشروعات الصغيرة والمتوسطة.

- استمرار والاسراع فى عمليات خصخصة النظام المصرفى من اجل زيادة مستوى المنافسة والخدمات المقدمة للمشروعات الصغيرة والمتوسطة.

- ينبغى تكملة عمليات الخصخصة بجهود تستهدف تقليل هيمنة هذه المؤسسات، وذلك عن طريق تجزئتها الى كيانات أصغر لتشجيع المنافسة والابتكار فيما بينها.

- تقليل تكلفة الاموال للمؤسسات المصرفية عن طريق تخفيض متطلبات الاحتياطى الى المستويات الواعية المطلوبة. فاذا صاحب ذلك زيادة التنافسية فى البيئة المصرفية، وزيادة كفاءة البنوك، سوف ينتج عن ذلك معدلات فائدة سوقية منخفضة. ويمكن التحكم فى التوسع المحتمل للمعروض النقدى من خلال عمليات السوق المفتوحة التى يقوم بها البنك المركزى.

- التطبيق الكامل للتنظيمات الحكومية الجديدة التى تتطلب الافصاح الكامل للتقارير المالية للبنوك عن طريق تقارير المراجعة السنوية ونصف سنوية طبقا للمعايير الدولية. ففى ظل وجود سوق مصرفى خاص حر فى مصر مستقبلا، فان المعلومات الافضل سوف تسحب الموارد الى افضل البنوك من ناحية الاداء، وبالتالى تحسن التوافر الشامل للأئتمان.

- تحسين الاشراف على البنوك من اجل الالتزام بالحرص والمنافسة عند الاقراض. ان التنفيذ الملزم للقواعد الخاصة بالاحتياطى وكفاية رأس المال سوف يسمح للبنوك التى تبحث بشكل فعال عن مقترضين يتمتعون بالسمعة الطيبة، بان تتوسع بشكل أسرع من البنوك التى تقدم قروضا لاتتسم بحسن الاداء.

- الاستمرار والاسراع فى عملية اصلاح نظام المحاكم، وعلى وجه الخصوص انشاء محاكم تجارية خاصة.

- ادخال اصلاحات على برامج الصندوق الاجتماعى للتنمية بحيث يتم استخدام موارده بشكل يشجع على وجود السوق الحرة فى تقديم الخدمات المالية للمشروعات الصغيرة، وذلك استنادا الى الاسباب المالية وليس السياسية، عندما تقوم البنوك وغيرها من المؤسسات الاخرى بالمشاركة فى هذه السوق.

- تحديث التشريعات الحالية بحيث تمكن من تقدم نظام لضمانات القروض اكثر مرونة، واكثر أمنا، وغير مكلف.

- صياغة تشريع جديد وحديث يحكم نشاط المؤسسات المالية من المنظمات غير الحكومية NGO مثل جمعية رجال أعمال الاسكندرية. ولكن يتم اجتذاب عمليات تمويل الحملة من البنوك التجارية، ينبغى على هذا التشريع

ان يسمح للمنظمات غير الحكومية بالحصول على وضع قانونى يشبه ذلك الذى تتمتع به الشركات المشتركة عندما تحافظ على وضعها عندما لا تحقق ربحا.

- ينبغى على الجهات المانحة، والحكومة ان تشجع على اقامة وحدات خاصة داخل البنوك لتشجيع عمليات الجملة والتجزئة لإقراض المشروعات الصغيرة والمتوسطة من خلال تقديم الدعم لتغطية نفقات انشاء وبدء هذه الوحدات.

- يجب على الجهات المانحة، والحكومة ان تشجع على توسع شركه ضمان الائتمان التابعة للقطاع الخاص، والشركة المصرية لضمان الصادرات، بدلا من تخفيف التركيز عليها او التنافس معها من خلال انشاء برنامج حكومى لإدارة المشروعات الصغيرة او اى برامج مشابهة.

- وينبغى الاسراع بسياسات تحرير التجارة لكى تقدم فرصا متزايدة لقطاع المشروعات الصغيرة والمتوسطة. وزيادة المنافسة بين تجار الجملة الذين يقدمون المواد الخام للعديد من المنظمين فى المشروعات الصغيرة والمتوسطة والورش الحرفية.

- تقديم الحوافز لشركات التسويق والتجارة التى يجب ان تساعد فى تسويق السلع تامة الصنع من انتاج المشروعات الصغيرة والمتوسطة، سواء فى الاسواق المحلية او الخارجية.

- تقديم الحوافز للاستثمار فى تحسين الاستعداد التصديرى للمصدرين المصريين الحاليين والمرتقبين، وبصفة خاصة ادخال تحسينات على نوعية الانتاج، والجودة، والتسعير.

- اقامة سوق داخلى لاعادة خصم الاوراق التجارية، متضمنا انشاء عمليات القبول المصرفى، وذلك من خلال جعل البنك المركزى المصرى "الملجأ الاخير لعمليات الخصم" بشكل يعتمد على هيكل معدلات الفائدة السوقى، الذى يسمح للبنوك التجارية بأجراء عمليات الخصم بشكل يحقق الربحية لها.

- زيادة تكرارية وتشكيلة البرامج التدريبية المرتبطة بتمويل التجارة الدولية، وذلك من خلال اتحاد البنوك، ومعهد التدريب المصرفى التابع للجامعة الامريكية بالقاهرة. وينبغى اضافة البرامج التدريبية التى لا تؤدى فقط الى زيادة فهم الوضع الخاص للمشروعات الصغيرة والمتوسطة، ولكن تركز بشكل خاص على العقبات التى تواجهها فى التصدير، وزيادة المخاطر التى تتضمنها.

- سن تشريع جديد، وتنظيمات تسمح بشكل واضح للشركات الاجنبية بتصدير جميع المنتجات المصرية بغض النظر عن الجهة القائمة بإنتاجها، واستيراد المنتجات بقصد اعادة بيعها بغض النظر عن الجهة النهائية المشترية.

- التركيز مبدئيا على تقديم الخدمات المالية وغير المالية للمشروعات الصغيرة والمتوسطة ذات إمكانات النمـــو. ونتائج الدراسة تشير الى ان مثل هذه المشروعات تعتبر محركات النمو فى الاقتصاد اكثر مـــن المشـــروعات الحرفية الصغيرة جدا التى تمثل عربات توليد الدخل.

- التركيز ايضا على تقديم الخدمات المالية وغير المالية للمشـــروعات الشـــابة ذات إمكانـــات النمـــو. ويقصـــد بالمشروعات الشابة تلك التى فى مراحل نموها الاولى، بعكس المشروعات البادئة والتى تتضمن درجة عاليـــة من احتمالات الفشل.

- تخفيف القيود غير المالية التى تعوق نمو المشـــروعات. فقوانيـــن الضرائـــب، قوانيـــن العمـــل، التســـويق. والاجراءات الحكومية الروتينية والمحظورات، حددها المنظمون كمشاكل هامة راهنة تقيد عملياتـــهم وآفـــاق نموها. ان تحسين الوصول الى أسواق المدخلات وأسواق المنتجات، والاجراءات الحكوميـــة الاكـــثر كفـــاءة. وادخال تعديلات على قوانين الضرائب والعمل التى تقوى نمو المشروعات الصغيرة والمتوسطة، سوف تقـــدم بيئة أكثر صلاحية لتنمية النشاط الاقتصادى بصفة عامة.