

June 2023

MASHREQ SUSTAINABILITY CASE STUDY

Empowering SMEs in Egypt through Financial Solutions

Snapshot

- Small and medium enterprises (SMEs) are critical for the economic and social development of emerging markets.
- The Central Bank of Egypt (CBE) has encouraged all banks to increase focus on the SME sector and expand the proportion of their total lending that goes to SMEs to reach at least 25% by end of 2023.
- SMEs are more likely to generate jobs, and at a faster pace, when they have access to finance.
- To support the SME segment in Egypt, Mashreq Egypt has taken active steps through provision of various facilities like Equipment Finance, Revolving Facilities, Receivables Finance & Supply Chain Finance.



SMEs at a Glance

- SMEs are the backbone of a healthy economy and a dynamic community.
- Access to financial services for SMEs remains severely constrained in many developing countries, restricting business growth.

IN-NUMBERS

The Central Bank of Egypt (CBE)

has encouraged all banks to increase focus on the SME sector and expand the proportion of their total lending that goes to SMEs to reach at least 25% by end of 2023.

UN SDG 8 (Decent Work & Economic Growth) and UN SDG 10 (Reduced Inequalities)

are central to Mashreq's SME financing solutions in Egypt and in line with CBE directives.

90%

of all businesses in the Middle East are represented by SMEs.

About 50%

of the labor force in the Middle East is comprised of the SME segment.

EGP 2.43bn

in loans was extended by Mashreq Egypt in 2022 to the SME segment.

Executive Summary

Small and medium enterprises (SMEs) are critical for the economic and social development of emerging markets. These businesses generate income and create the majority of jobs. SMEs are more likely to generate jobs, and at a faster pace, when they have access to finance.

70% - 95%

OF NEW EMPLOYMENT OPPORTUNITIES IN EMERGING ECONOMIES ARE GENERATED FROM THE SME SEGMENT.

Driven by its corporate sustainability strategy and keen focus on supporting regional initiatives in Egypt, Mashreq is actively supporting the SME sector in Egypt in line with CBE directives.

Context

The role played by small and medium-sized enterprises (SMEs) in our economies and societies is very significant and, in most cases, crucial. They provide the main source of employment, accounting for about 60% of jobs in the manufacturing sector and 75% in services and generating between 50% and 60% of value-added services on average.

SMEs CONTRIBUTE UP TO 33%

OF GDP IN EMERGING ECONOMIES, HIGHLIGHTING THE SEGMENT'S CRITICAL IMPORTANCE TO ECONOMIC GROWTH.

A healthy SME sector is a vital ingredient for inclusive growth, creating jobs across regions and sectors, including the low-skilled categories. SMEs provide opportunities for skills development and help support their employees' access to healthcare and social services.

Financial inclusion has been one of Egypt's national priorities since the launch of its Sustainable Development Strategy (SDS) Vision 2030. SMEs form a key pillar and stakeholder group in the achievement of this vision.

A manufacturer based in Upper Egypt serves as a good example for the impact Mashreq Egypt's SME initiative is creating. The company was established in 2017 as a sole proprietorship with paid in capital of EGP 2.5 million and is active in the field of electrical products manufacturing like electricity tubes, electricity controllers and electricity generator. To capitalize on its initial success in the field, it rolled out ambitious growth plans to set up additional manufacturing capacity in Egypt. Mashreq granted the company a medium-term loan for EGP 2 million for a tenor of 36 months, which has enabled the company to accelerate its growth plans and directly contribute to the nation's economic development and job creation.

Outlook

Sustainable economic growth is a key focus area of UN SDGs and Mashreq Egypt is helping in achieving this growth and industry innovation by aligning with the strategies of the Central Bank of Egypt for the SMEs sector. Through its SME financing initiatives, the Bank is directly contributing to UN SDG 8 (Decent Work and Economic Growth) and UN SDG 10 (Reduced Inequalities).

Since inception in 1967, Mashreq has adopted the principles of social responsibility, integrity, and transparency into every aspect of its business. Mashreq has now joined the United Nations Global Compact initiative, which will further support the Bank's efforts to embed strong ESG practices across the organization. Mashreq has financed and facilitated deals worth USD 15.5 Billion in sustainable financing as of end 2022. Supporting achievement of the UN Sustainable Development Goals through sustainable loans, sustainable bonds and other financial facilities will continue to remain a key priority for Mashreq.

Mashreq Egypt's Role:

To support the SME segment in Egypt, Mashreq Egypt has taken active steps through provision of various facilities like Equipment Finance, Revolving Facilities, Receivables Finance & Supply Chain Finance.

The Bank has extended SME financing in multiple industry segments including:

- Food and Beverage
- Chemicals, Plastics and Rubber
- Contracting
- Paper, Printing and Packing
- Pharmaceuticals & Medical Equipment
- Electrical and Electronics manufacturing

Loans extended by Mashreq Egypt to the SME segment have been consistently increasing year on year. In 2020, the bank had provided loans totaling to EGP 1.3 Billion and by 2021, this number had increased to reach EGP 1.53 Billion. The trend continued in 2022 with the total amount reaching EGP 2.43 Billion. Mashreq Egypt has launched various funding services in which it provides expertise in the regional debt market to help fulfil the growth objectives of its SME customers.

Mashreq Egypt extended another type of financial support with an ESG angle, where a protocol was signed with Credit Guarantee Company "CGC". This protocol enabled Mashreq Egypt to be among the first three banks in Egypt to partner with CGC in its newly launched program (DAMAN). The program is tailored to support job creation among young population for the most disadvantaged segments and areas. The initiative comes under the umbrella of CBE to enhance job creation.

CGC is aiming to contribute towards the creation of 350K jobs by 2025. Through the new job creation product, CGC connects the borrowers (business owners) with lenders (Banks) through a digitized & simplified credit assessment process. The below case represents the first facility under DAMAN program which was booked in October 2022.

Potential Impact

Enabling SMEs access to hassle-free financing solutions has a multi-fold positive impact and a ripple effect on economic activity.

A pre-pandemic report from the International Monetary Fund noted that increasing SMEs' access to finance in the MENA region to one comparable with the average level of emerging and developing economies would raise annual growth by 1% potentially creating up to eight million jobs in the Arab world by 2025.

Sources:

- <https://fbj.springeropen.com/articles/10.1186/s43093-021-00073-w>
- <https://enterprise.press/stories/2021/12/15/smes-get-a-helping-hand-from-cbe-60736/>
- <https://www.amf.org.ae/en/programs-support/small-medium-enterprises>
- <https://www.oecd-ilibrary.org/docserver/25aa3d56-en.pdf?expires=1665224409&id=id&accname=guest&checksum=8DD21B92D3985FB CFF572848EC899054>
- <https://www.zawya.com/en/smes/mashreqs-programme-to-provide-smes-easy-access-to-liquidity-uj78gmuc>