



الحلقة الأولى

SMEs

الشركات الصغيرة والمتوسطة

05:28



SMEs Definition, Role, and Importance

SMEs and Economies

SMEs and the Banking Sector

SMEs Finance Challenges and Opportunities

CBE and SMEs



Introduction to SMEs

- Small and Medium enterprises (SMEs) represent the main catalyst of economic development.
- Small and medium sized businesses contribute intensely to achieving the fundamental goals to any national economy, becoming the backbone of social-economical progress.
- The SME sector plays an extremely important part in modern economy, proving to be the most attractive and tremendous innovative system.
- The vital contribution to SME in economic development is a reality unanimously recognized.
- Showing their economically and socially beneficial effects led to the consideration of the SME sector as a field of strategic interest for the economy.

Introduction to SMEs

- SMEs have always played a very important role in economic and social life of any country, being the basis of the development of the economy.
- SMEs are categorized by their dynamism, flexibility, adaptability, mobility and their innovative potential.
- SMEs are considered to be essential for the harmonious development of the economy, and may ensure the cohesion of the economic structure, good economic growth and, of course, creation of new jobs.

Identifying enterprises as
Small and Medium Enterprises (SMEs)
The common criteria for a definition

Introduction to SMEs - The Definitions of SMEs – Criteria



Introduction to SMEs - The Definitions of SMEs

- SMEs are often classified by:
 - The number of employees
 - The value of their assets
 - The capital of the enterprise
- The turnover/sales of the enterprise
- The classification varies within regions and across countries relative to the size of the economy and its endowments.
- It is important to note that there is no universal definition of SMEs but usually a minimum as well as a maximum size for SMEs within nations .

SME's role in the Economic Development

Role of SMEs in Economic Development

- Globally, Small and Medium Enterprises (SMEs) represent over 90% of Business Enterprises and provide around 50-60% of Total Employment opportunities worldwide .
- Studies have indicated that SMEs are vital for development of any country as they contribute to:
 - Reshaping the productive sectors
 - Generating employment opportunities
 - Creating an environment for entrepreneurship
 - Promoting innovation

Role of SMEs in Economic Development

- SMEs are the Engine of Growth
- SMEs are essential for a Competitive and Efficient Market
- SMEs are critical for Poverty Reduction
- SMEs play a particularly important role in developing countries

Role of SMEs in Economic Development

- In the OECD area, SMEs are the predominant form of enterprise, accounting for approximately 99% of all firms.
- They provide the main source of employment, accounting for about 70% of jobs on average.
- They are major contributors to value creation, generating between 50% and 60% of value added on average.
- In emerging economies, SMEs contribute up to 45% of total employment and 33% of GDP.

Role of SMEs in Economic Development

- 99% of the world Economic Enterprises are SMEs
- Around the world, SMEs account for 55-95% of country GDP
- More that 50% of the world Labor Force are employed by SMEs
- Globally, SMEs generate the largest number of new employment opportunities each year
- SMEs are the most dynamic components of the world economy
- SME play a key role as part of the value chain, whether as suppliers of production input or channels for distribution
- SME development can contribute to economic diversification and resilience.



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SMEs' Role in Economic Growth

- The relationship between SMEs and the economy is a two-way street:
 - SMEs influence Economy
 - Economy Influences SMEs
- SMEs contribute to the economy by pumping money into the economy during expansions
- SMEs contribute to the economy by spending on products and services
- SMEs contribute to the economy by by creating jobs, stimulating innovation, and promoting exports

- In the United States, SMEs account for over 60% of net new jobs.
- In the European Union, SMEs account for over 70% of net new jobs.
- In China, SMEs account for over 80% of net new jobs.

SMEs also contribute to the economy by stimulating innovation. Due to the limited resources and the fact that they are more prone to threats, SMEs are more likely to be innovative than large firms because they are more flexible and adaptable. They are also more likely to take risks and try new things. This innovation can lead to new products, new services, and new ways of doing business.

While SMEs play an important role in the economy, they are also vulnerable to economic shocks. When the economy enters a recession, SMEs are more likely to fail than large firms. This is because SMEs have fewer resources to weather a downturn. They also have less access to credit, which can make it difficult for them to operate or expand.

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Five Economic Factors that pose a direct threat on SMEs

Demand: Small and medium-sized enterprises (SMEs) depend on customer demand to sell their products and services. When the economy is in a boom, there is a high demand for these goods and services, but when the economy is in a recession, demand falls, which can lead to lower profitability and even the closure of the company.

Costs: SMEs are also affected by operating costs, such as rent, labor, and raw materials. In periods of economic inflation, costs rise, making it difficult for medium-sized companies to make a profit.

Regulations: SMEs are subject to regulatory laws from governments, and they pay the cost of compliance with these laws from their limited budgets. This can make it difficult for medium-sized companies to compete with large companies that have larger budgets for this item.

Technology: Of course, technology is constantly changing, which can be a challenge for SMEs that need to keep up with the latest trends just like large companies. However, in economic crises, SMEs are unable to bear the cost of investing in new technologies, which puts pressure on their profits.

Policies: These have a direct impact on SMEs. For example, imposing new taxes or new regulatory rules can immediately lead to an increase in the costs of SMEs and even exceed their ability to bear them.

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CIB Summer Programme Banking Finance and Entrepreneurship

Presented by: Juan Gamecho



JBS Training





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The Importance for SME Financing for Banks

- As SMEs represent over 90% of Business Enterprises and provide around 50-60% of Total Employment opportunities worldwide, they can't be overlooked by financial institutions especially the banks.
- The Financial Institutions and banks are currently targeting this sector for its economic impact as well as the impact they have for banks profitability, in addition to the direct effect on enterprise prosperity.

The Importance for SME Financing for Banks

Banking services to SMEs have become an attractive sector for banks and a main contributor to banks profitability due to the following reasons

- SMEs are a market segment not yet saturated nor fully penetrated by any bank
- Due to the diversity of activities in the SME market and its continuous expansion, this sector represents an interesting opportunity for banks
- Decrease in the profitability of other banking services coupled with high competition in the market has resulted in banks looking for new markets
- Government initiatives encouraging banks to finance SMEs have further attracted banks to this sector

The Importance for SME Financing for Banks

Financing SMEs through banks contributes to:

- Avoiding concentration level in banks' Portfolio
 - Financing SMEs results in less concentration in lending portfolios
- Reducing risk in banks
 - Distribution of lending over a larger number of clients working in diversified activities reduces risks
- Increasing the number of clients and achieving financial inclusion
 - Offering financial services to a larger number of clients expands banks clients base and contributes to financial inclusion.

The Importance for SME Financing for Banks (cont.)

Financing SMEs through banks contributes to:

- Increasing the number of financial operations and transactions in banks
 - Offering financial services to SMEs achieves an increase in profitability over the long term as it contributes to the increase in number of transactions
- Building up client base with growth potentials
 - SMEs tend to grow their operation and hence move up-wards into larger enterprises.

If Banks do not offer services to SME, clients their client base will not expand and hence will not develop and grow their activities and profitability

The Importance for SME Financing for Banks (cont.)

The SME sector is considered an attractive market for banks due to the following reasons:

- Market changes and international financial crises
- Banks' needs to expand their portfolio while maintaining diversity and reducing risk
- Decreasing profit margins from corporate transactions
- Increasing investment requirements for retail activities
- Great interest in the SME banking services world-wide

The Importance for SME Financing for Banks (cont.)

Advantages	Justification
Higher interest	Alternative financing sources are limited, captive to one bank
Higher fees	Many small transactions than larger firms
Stable interest income	Higher & more constant utilization of funds
Diversified risk	Small sized of each account = diversified portfolio risk
Asset liability management less complex	Lower variation in debt outstanding reduce management of ALM

The Importance for SME Financing for Banks (cont.)

SME finance is profitable for banks in cases of providing a wide variety of banking services for each client not just one product to achieve diversity and reduce risk and hence profitability

NO dependency on lending activities only but a complete set of banking products

This requires full understanding of bank employees of the SME sector, its characteristics and needs particularly needs related to granting credit to this sector, the general rules of credit, financial analysis and the different financial tools and products as well as other sources of finance offered by Non-banking Financial Institutions.



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Finance

Challenges to SME Banking

The challenges facing SME Banking are two folds:

- From Banking perspective (supply side)
- From SME perspective (demand Side)

Challenges to SME Banking

	Supply side (FI)	Demand Side (SMEs)
SME	<ul style="list-style-type: none"> • Identification of bankable clients • Lack of accurate information • Adequate reliable financials • Technology requirements • Financial structures of SMEs • Need for capacity building 	<ul style="list-style-type: none"> • Knowledge of available Financial products • Cost of Finance • Applicability of financial products • Documentation & administrative requirements • Financial literacy • Legal structure

Challenges to SME Banking

- In addition, SMEs face several challenges that impact their capacity of obtaining the needed finance.
- Though these challenges are not directly related to the banking sector; they impact SMEs capacity to obtain Finance. These can be summarized in the following:
 - Institutional challenges
 - Financial challenges
 - Marketing challenges
 - Technical challenges

Challenges to SME Banking

- Institutional challenges
- Difficulties to become formal
- Constrains in obtaining the required permits
- Dealing with governmental entities' (bureaucracy and length process)
- Lack of knowledge of institutional requirements

Challenges to SME Banking

- Financial challenges
- Weak capital structure
- Cashflow limitations
- Lack of collateral
- Financial literacy
- Inappropriate utilization of funding obtained
- Lack of proper internal financial monitoring

Challenges to SME Banking

Marketing challenges

- Deficiency in market study
- Limited access to markets
- Low competition capabilities
- Shortage of marketing infrastructure & network
- Limited of quality of products
- Limited integration between labor & business needs

MARKETING

Challenges to SME Banking

Technical challenges

- Availability of skilled labor
- Availability of support services (accounting, legal, admin)
- Lack in technical experience of business owner (managerial expertise)
- Use of technology

Highlighting the financing gap in the market and the available opportunities.

- Approx. 85% of SMEs in emerging markets suffer from credit constraints
- Approx. 70% of all emerging-market SMEs do not use any formal credit
- This means informal sector meets their financial requirements, though at times with stringent conditions
- Nearly 23.7% of SMEs disappear in two years and nearly 52.7% of SMEs exit the market in four years due to business failure, bankruptcy, or other reasons (Estimates IFC 2010)

Highlighting the financing gap in the market and the available opportunities.

- Recent global economic downturn has further aggravated the problems that already existed
- Some of the key issues are:
 - Very few SMEs are able to finance their expansion through their Cash Flow and have to explore external sources of funding
 - Collateral issues still represents a stumbling stone
 - Lack of successful track record of SMEs creates the perception of greater credit risk among the banks
 - SMEs lack the substantial asset base (collateral) to provide as security against bank loans, especially in the services sector

Highlighting the financing gap in the market and the available opportunities.

- Hence, SME finance represents an interesting opportunity for Financial Institutions and banks worldwide.
- The market, despite all the recent activities is still open for expansion.
- There is an interest worldwide to approach the SME finance market with different products and services that fulfills SME financial needs and assist their growth .

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CBE Role in Supporting SMEs in Egypt

In recent years, the Central Bank of Egypt has taken positive steps to support SMEs in Egypt:

- The Central Bank of Egypt has reduced interest rates significantly in recent years, making it cheaper and more accessible to finance SMEs.
- The Central Bank of Egypt also provides funding to SMEs through a variety of programs, including the SME Finance Initiative and the SME Financing Program. These initiatives offer financing to SMEs on favorable terms, such as low interest rates and long repayment terms.
- The Central Bank of Egypt also provides technical support to SMEs through a variety of programs, such as the SME Skills Development Program and the SME Business Development Program.
- These initiatives have helped to make SMEs more competitive and to contribute to economic growth.

The Central Bank of Egypt has also launched a number of initiatives to support SMEs, including:

- The SME Finance Initiative, which provides funding to SMEs at favorable terms.
- The SME Training and Qualification Initiative, which provides training and support to entrepreneurs.
- The SME Startup Financing Initiative, which provides funding to startups.
- The SME COVID-19 Response Initiative, which provides support to SMEs to cope with the economic impact of the COVID-19 pandemic.
- These initiatives have helped to make SMEs more competitive and to contribute to economic growth.

- The number of SMEs in Egypt increased from 1.5 million in 2014 to 2.2 million in 2022.
- The volume of SME financing increased from 100 billion Egyptian pounds in 2014 to 200 billion Egyptian pounds in 2022.
- The number of SMEs that received financing from the Central Bank of Egypt in 2022 was more than 100,000 companies.
- The number of jobs created through the financing provided by the Central Bank of Egypt to SMEs in 2022 alone reached more than 500,000 jobs.

These figures show that the Central Bank of Egypt's support for SMEs has been effective in helping them to grow and create jobs. The Central Bank's initiatives have helped to make SMEs more accessible to financing, and they have also provided them with the training and support they need to succeed. As a result of the Central Bank's support, the number of SMEs in Egypt has increased, and the volume of financing available to them has also increased. This has helped to create jobs and boost the economy.