

Ex-Ante Evaluation (for Japanese ODA Loan)
Private Sector Investment Finance Division,
Private Sector Partnership and Finance Department, JICA

1. Name of the Project

Country: Arab Republic of Egypt (Egypt)

Project: Micro, Small and Medium Enterprises Support Project (the “Project”)

Loan Agreement: March 30, 2021

2. Background and Necessity of the Project

(1) Current State and Issues of the Development of the Micro, Small and Medium Enterprises Sector in Egypt

There are approximately 3.74 million private business enterprises in Egypt, and the vast majority of these are accounted for by approximately 3.65 million Micro, Small and Medium Enterprises (hereafter referred to as “MSMEs”), of which 94% are micro enterprises, 5.9% are small enterprises, and 0.1% are medium enterprises (Egypt’s Central Agency for Public Mobilization and Statistics, April 2020). MSMEs account for 25% of the GDP, 72% of total employment (9.7 million people), and play a major role in Egypt’s economy (2019).

The Egyptian government made the promotion of MSMEs one of the five pillars of its industrial policy in its Industry and Trade Development Strategy 2016–2020, as there is a need to improve financial access to help cover the financial gaps of MSMEs, as well as establishing a legal framework and expanding business support services. The Central Bank of Egypt (hereafter referred to as “CBE”) has taken initiatives like stating all domestic commercial banks should allocate at least 20% of their loan portfolios to SMEs by 2020, and allowing them to reduce their legal reserves to set aside finances for loans to SMEs. Despite this, the loan funding gap for MSMEs was around US\$ 43.9 billion as of 2017, and further measures are required. Furthermore, only 9.3% of adult women have bank accounts in Egypt, and access to financing for Women-owned MSMEs (hereafter referred to as “WMMSMEs”) is particularly restricted. In addition, the spread of COVID-19 is also affecting the country, as the GDP growth rate has slowed down from 5.6% in 2018/19 to 3.6% in 2019/20 due to economic activity stagnating, and this has affected MSMEs who have been confronted with a reduction in income, lack of liquidity, and a further worsening of access to finances. In March 2020, the Egyptian government

launched an approximately US\$ 6.4 billion counter measure to help mitigate the impact of COVID-19, and also implemented a six-month moratorium on the repayment of all bank loans.

In these circumstances, the Project aims to improve access to financing for MSMEs, including WMMSMEs, all over Egypt, through the major state-run commercial bank, Banque Misr S.A.E. (hereafter referred to as “BM”), which has 732 branches all around the country and has been particularly focused on financing MSMEs, including WMMSMEs, in recent years.

(2) Japan's and JICA's Cooperation Policy and Operations in the MSME Sector

The development of the private sector is positioned as a cooperation program in the JICA Country Analysis Paper for the Arab Republic of Egypt (March 2016), with the aim of achieving inclusive growth through the expansion of support for MSMEs, starting with the cultivation of inclusive financial markets. In addition, the promotion of sustainable economic growth is stated as a pillar of the Japanese government’s Country Development Cooperation Policy for the Arab Republic of Egypt (September 2020), as well as its efforts to improve the investment and business environment, and thus the Project is consistent with these analyses and policies. Up to now, we have supported job creation and improved financial access for MSMEs through ODA loans for the Social Fund for Development Project, the Micro and Small Enterprises Support Project, and technical cooperation projects of “Introduction of new micro finance products.” Also, the development finance institutions of each country, including JICA, adopted the 2X Challenge: Financing for Women at the G7 in June 2018, which aims to mobilize funding to contribute to the economic empowerment of women, and the Project is expected to contribute to this 2X Challenge.

3. Project Description

(1) Project Objective

The objective of the Project is to improve access to finance for MSMEs, including WMMSMEs that are run and operated by women, through the provision of a long-term loan to BM, a major state-run commercial bank in Egypt, thereby contributing to sustainable economic growth in the country.

(2) Project Site/Target Area

The whole country of Egypt

(3) Project Components

The loan to BM will improve access to loans and finances from BM for MSMEs,

including WMMSMEs, throughout Egypt. Furthermore, it is planned that 30% of the loan amount provided by JICA for MSMEs will be used for loans to WMMSMEs. In addition, Sumitomo Mitsui Banking Corporation (hereafter referred to as “SMBC”) is also planning for its funds to be used in the same way as JICA’s.

(4) Total Project Cost

1.5 billion US dollars

(5) Project Implementation Structure

1) Borrower: Banque Misr S.A.E

2) Executing Agency: Banque Misr S.A.E

(6) Environmental and Social Consideration / Poverty Reduction / Social Development

1) Environmental and Social Considerations

① Category: C

② Reason for Categorization: The Project’s negative impact on the environment and society is judged to be minimal, based on the JICA Guidelines for Environmental and Social Considerations (announced in April 2010).

③ Other / Monitoring: The main purpose of the funds is working capital and funds for purchasing equipment for MSMEs.

2) Cross-Cutting Issues: Nothing in particular

3) Gender Category: [Gender Project] GI (S) (Gender Activities Integration Project)

<Activity Components / Reason for Categorization> The Project is carried out with women business owners as a main target group, and it’s an initiative that contributes to the empowerment of women by improving their access to finances. Furthermore, it is planned to apply to have this recognized as a 2X Challenge gender commitment.

(7) Other Important Issues: This is the first project under “SMBC-JICA Sustainable Finance Framework” which was launched on March 30, 2021.

4. Targeted Outcomes

(1) Quantitative Effects

Indicator	Baseline (June 2020 Actual)	Target (October 2023)
MSME loan balance	40,000 million EGP*	63,541 million EGP (April 2026)
Increase in number of borrowers of MSME loans due to JICA's loan	0	4,589 people
(Within that, increase in number of borrowers of WMMSME loans)	0	1,970 people

*EGP means Egyptian Pound.

(2) Qualitative effects: Improved access to finance for MSMEs, including WMMSMEs.

(3) Internal Rate of Return: As this is a bank loan project, the EIRR (Economic Internal Rate of Return) and FIRR (Financial Internal Rate of Return) are not calculated.

5. External Factors and Risk Control

Nothing in particular.

6. Lessons Learned from Past Projects

The lesson learned from the ex-post evaluation of the ODA loan to Egypt, the Micro and Small Enterprises Support Project (ex-post evaluation conducted in 2016), for forming a similar project to support loans to micro and small enterprises, was the importance of ① an abundance of experience in the loan business, and ② having lots of branches in order to gain the trust of customers that are dispersed throughout the country. In the Project, we confirmed BM's loan business experience, set-up of branches, and loan adjudication process through a review. We also confirmed that BM retained a sufficient ability to execute loans despite the impact of COVID-19.

7. Evaluation Results

The Project is consistent with Egypt's development issues, development policies, as well as Japan and JICA's cooperative policies and analyses, and by being instrumental in improving access to finances for MSMEs and promoting sustainable economic growth, it will also contribute to Goal 5 (gender equality), 8 (economic growth and employment), 9 (infrastructure and industry), and 17 (implementation means and partnerships) of the SDGs. Therefore, it is highly relevant to support the implementation of the Project.

8. Plan for Future Evaluation

1) Indicators to be Used for Future Evaluation

As indicated in Section 4.

(2) Timing

Ex-post evaluation: May 2026

End