

# Evaluation Summary

## Support to Agricultural Small and Medium Enterprises (SASME) – Access to finance components

Country: **Egypt**

Sector: **Agriculture Finance**

Evaluator: HORUS Development Finance on behalf of the Consortium Nodalis – Iram – AEDES

Date of the evaluation: **June-August 2022**

### Key data on AFD's support

**Project number:** CEG 1046

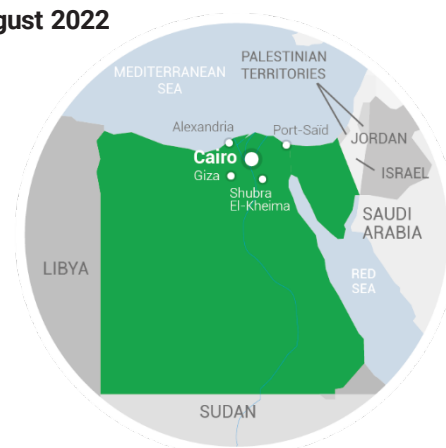
**Amount:** EUR 30 M (Credit Line), along with a EUR 22 M Grant from the EU,

**Disbursement rate:** 100%

**Signature of financing agreement:** August 2015

**Completion date:** December 2020

**Total duration:** 5 years



### Context

The SASME Project, co-funded by AFD and the EU, was designed in 2012, shortly after the 2011 revolution, to support the development of Agricultural SMEs in Egypt. Important financing gaps had been identified for all types of players (from small family farms to larger commercial companies) and financing needs (from short term working capital to long term investment needs).

### Actors and operating method

The “access-to-finance” components of SASME consisted in:

- a EUR 30 million credit facility provided by AFD as a contribution to the Ministry of Agriculture's Agricultural Development Program (ADP), softed by a EUR 2.5 million grant from the EU (interest rate subsidy). The credit line was managed by an agent bank under the supervision of ADP. Loans were disbursed to agricultural SMEs through 8 partner banks.
- a Risk Sharing Mechanism (RSM), established via a EUR 9 million EU contribution and managed by a private Guarantee Company (CGC), under the supervision of MALR. 18 Participating Intermediary Lending Institutions used the RSM to grant loans to agricultural SMEs.
- A EUR 2M technical assistance component, implemented by the Egyptian Banking Institute, to strengthen capacities of financial stakeholders.

### Objectives

The overall objective of the SASME Project was to support the efforts of the Government of Egypt to create job opportunities and income generation in rural areas and develop the agricultural sector. More specifically, the access to finance components aimed to improve Agricultural SME's access to finance and build banks' capacities to serve agricultural SMEs.

### Expected outputs

- An increased utilization ratio of the disbursed funds under SASME and other ADP programs
- Increased volumes of loans and guarantees
- Increased outreach of agricultural loans, taking into account borrowers' profiles

## Performance assessment

### Relevance

Considering the financing gaps of the sector, the intervention was highly relevant and the combination of financial instruments allowed to address the different barriers. Nevertheless, the credit scheme only partially met the needs of the final beneficiaries as the product features were not fully adapted to their specific needs and the duration of the loan approval process was considered as a weakness by the beneficiaries.

### Coherence

The Project was fully aligned with the Government of Egypt's strategy toward agriculture, as well as with its objectives to support SME finance. Nevertheless, the attractiveness of the credit scheme was strongly affected by Central Bank of Egypt (CBE)'s initiative which enabled to finance SMEs at lower interest rates (5% initiative) at the end of the implementation period. The announced end of this initiative shall create more space for similar financing. On the contrary, the guarantee became all the more attractive as it was recognized by CBE, and could be factored in the calculation of banks' capital adequacy ratio. The project was fully aligned with AFD and other donors' interventions in Egypt.

### Effectiveness

With EGP 1.3 bn disbursed between 2016 and 2020, the credit line has achieved disbursement targets, with a cumulated utilization ratio that exceeded 100%. The RSM has covered 1,392 loans for a total of EGP 1.49 bn, largely exceeding targets. The 3.09% NPL ratio reflects a good quality of the guaranteed portfolio, but probably also risk averse approaches at some banks. For both the credit scheme and the RSM, small loans represented the majority of the disbursements (58% of the loans amounted to less than EGP 500k), which reflects a good performance in terms of inclusiveness, although information on the proportion of first-time borrowers is not available.

### Efficiency

The complex governance structure and the large number of stakeholders has generated significant delays in the Project implementation and high implementation costs. The efficiency of the credit scheme was highly affected by the permanent mobilization of 40% of the ADP funds in time deposits and a heavy process, leading to a high cost per beneficiary. Conversely, the efficiency of the RSM was very good thanks too an efficient process and attractive products, leading to a leverage ratio of 4,29 as of June 2021, largely exceeding targets.

### Impact

The Project has clearly contributed to building technical capacities in banks and increasing their appetite to serve agricultural SMEs. The credit line and RSM both mainly contributed to serving the livestock and dairy sector, and with a majority of short-term, working capital loans. The definition of specific targets and preferential conditions for segments/projects with the highest developmental impact or less served by the banking sector would probably have led to a higher impact.

### Sustainability

Whereas the credit scheme is not sustainable in a context of co-existence with the CBE initiative - which is expected to end in a near future-, the RSM is bound for robust growth. Two major factors confirm that the Project is likely to have long term effects on access to finance for Final Beneficiaries: (i) technical capacities have been created within the banking sector, and (ii) credit risk on agricultural SME portfolio is satisfactory.

### Added value of AFD's contribution

The AFD -EU joint action allowed to mobilize complementary instruments that were well articulated.

## Conclusions and lessons learnt

The SASME Project has provided the Egyptian banking sector with an innovative and highly relevant combination of tools to support agricultural lending. Despite a long preparation phase and the Covid crisis, the Project has achieved very good results, leveraging existing schemes and relying on experienced partners. The credit scheme has however suffered from a heavy process, a limited leverage, and, at the end of the implementation period, a decreasing relevance/attractiveness due to the introduction of the Central Bank's "5% initiative", which might end soon.

An extension of the RSM, promoting portfolio guarantees, and with preferential conditions would be highly relevant, as well as further technical assistance focused on new products, innovation, and the financing of sustainable agricultural practices.

While banks are now mature for direct credit lines, a revolving fund could allow further involving multiple financial intermediaries, including microfinance institutions. It should however extend credit lines to banks rather than managing loans individually and set-up a competitive offer compared with the Central Bank's initiative if it remains.

Moreover, any future project should define adequate indicators and target value to monitor the performance in terms of inclusiveness, as well as specific sustainability targets.