Access to finance in the MENA region
A multi-pronged approach

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Introduction

Access to and use of financial services by both enterprises and households is of increasing concern to policy makers across the developing world. One important dimension in the debate on access to finance, which has been less analyzed so far, is the gender gap. Specifically, it has often been argued that lack of access to finance impedes female entrepreneurship and prevents women from participating in the modern market economy (Honohan and Beck, 2007).

Recent empirical evidence using household data indicates that access to basic financial services such as savings, payments and credit can make a substantial positive difference in improving poor people's lives (Caskey et al., 2006; Dupas and Robinson 2009). For firms, especially small and medium enterprises (SMEs), the difficult access to finance is often the main obstacle to growth (Schiffer and Weder, 2001; Cressy, 2002; IADB, 2004; and Beck et al., 2005, 2006, and 2008a).

Analysts and policymakers increasingly recognize the importance of SMEs[2] in economic development (Beck, Demirgüç-Kunt, and Peria, 2008a; OECD, 2006). SMEs are critical because they account for large shares of total output and employment and are thus key to the strategic objective of overcoming poverty. Studies indicate that formal SMEs contribute up to 45 percent of employment and up to 33 percent of GDP in developing economies; these numbers are significantly higher when taking into account the estimated contributions of SMEs operating in the informal sector (Stein, Teima and al, 2010).

[1] We thank Sopanha Sa, Hadi Chaibainou, Nicola Ehlermann-Cache, Korin Kane, Olivier Balmont, Regis Galland,. All errors are ours.
[2] There is no universally accepted definition of SMEs based on specific criteria (e.g., number of employees). SMEs are generally considered to have a maximum of 250 employees (with a smaller number in Africa).

A 2007 World Bank survey found that for 76 developed and developing countries, SMEs accounted for the largest number of companies and, in most countries, more than half of all non-agricultural employment and close to 60 percent of manufacturing employment (Beck, Demirgüç-Kunt, and Peria, 2008a).

More precisely, the new database built by the IFC and McKinsey (Stein, Teima and al, 2010) suggests that there are an estimated 420 to 510 million micro, small and medium enterprises (MSMEs) worldwide, of which 9 percent are formal SMEs[3]. 80-95 percent of these MSMEs are in emerging markets, of which 7 percent are formal SMEs , 15 percent are formal micro enterprises, while the rest (78 percent) are informal enterprises and non-employer firms.
Only 12.5 percent of the estimated 420 to 510 million are Middle East and North Africa (MENA) SMEs, of which 68 percent are informal, 22 percent are micro enterprises and 10 percent only are formal SMEs.

Specificities of MENA countries

Over the last three decades, MENA countries have moved from a model of state-led growth to one more relying on the private sector. Business environment has been improved in all countries by simplifying business regulations, opening up the financial sector, and reducing restrictions to trade and investment. The private sector has developed and grown thanks to the reforms but the result has been far below what similar reforms have produced in high-growth countries. Private investment rates in MENA have increased by 2 percentage points on average but were less responsive to reforms than elsewhere according to the IBRD (2009).

A 2007 World Bank survey raised that of 5,169 firms surveyed, a woman is the principal owner of about only 13%, whereas the world average is closer to 30% (Nabli, 2007).
The widely held perception is that the few female entrepreneurs in the MENA region are mainly in the informal or formal micro sector (employing fewer than 10 workers), producing less sophisticated goods and services. This perception is wrong. Of the formal-sector female-owned firms surveyed, only 8% are micro firms. More than 30% are very large firms employing more than 250 workers. Female-owned firms are as well established as male-owned firms. About 40% of female-owned firms are individually owned – an impressive figure, even if less than the 60% of male-owned firms. In Syria and Morocco, the only two countries with relevant data, more than 65% of female-owned firms are managed by the owner, debunking the myth that women are owners in name only. In sectoral distribution female-owned firms are much like male-owned firms, with nearly 85% in manufacturing and 15% in services, compared with 88% of male-owned firms in manufacturing and 10% in services.

Bank credit remains the most important source of external finance to SMEs

The primary role of banks is financial intermediation, i.e. channeling of resources from lenders to borrowers with the view to putting the existing assets to best economic use. This activity involves two important elements: risk assessment and maturity transformation. To assess the risk that banks take by engaging in each transaction, the bank analyses inter alia the borrower's ability to pay, the economic environment of the country where the activity is taking place, the probability of the exchange rate fluctuations, and so on. In order to keep daily operations running smoothly,

[3] Typically registered businesses with 5-250 employees

banks have to perform maturity transformation, i.e. to match short-term borrowing with the long-term lending.

Given the overall lack of financial service provision, with fewer than one in five households having access to formal financial services, this problem is potentially more pressing in MENA countries and Africa than in other developing regions of the world.
Globally, one of SMEs characteristics is that, due to their size, they do not access financial markets. They consequently rely only on debt and equity for external finance. Firms often depend on informal sources of funding in the very early stages of their development. External sources, however, become more important as firms start expanding, and their availability can determine decisively the growth trajectory of SMEs. Internal financing sources typically include an entrepreneur's own savings, retained earnings, or funding through the sale of assets. The external sources of finance can be informal (family and friends or supplier finance) and formal (debt or equity).

According to the IFC and McKinsey study (Stein, Teima and al, 2010), close to 45 to 55 percent of the formal SMEs (11-17 million) in the emerging markets do not have access to formal institutional loans or overdrafts despite a need for one. The finance gap is far bigger when considering the micro and informal enterprises – 65-72 percent of all MSMEs in emerging markets lack access to credit.
According to the World Bank Enterprise Survey Data (2006-09), banks finance a significant proportion of companies' investment finance needs – between 15 and 25 percent depending on the size of the firm whereas other sources don't reach 5 percent – and are also the major provider of financing for working capital (Stein and al, 2010 p17). SMEs typically need a variety of additional financial services that only commercial banks are well-positioned to provide. These include cash management, insurance, transfers, and other transactional products. In the past few years, some banks have mainstreamed gender finance under SME banking. For example, banks are designing special financing programs to increase access to business financing by women-owned SMEs. In some cases, such programs are accompanied by support such as training in business development skills (Jeucken, 2005).

SMEs are riskier to fund

Virtually all governments, international organizations, and donors assign a high priority to the SME sector and to facilitating SME access to finance. Nevertheless, the record of actually expanding access to finance has been mixed in all countries. This is partly because the financing of SMEs presents specific challenges for financiers, who must make special efforts to operate in this market segment (US Aid, 2009).

First, SMEs have a much higher rate of failure than larger firms (Evans, 1987). Numerous studies show that the variance of profitability and growth decreases with size. Moreover, unlike established public companies, which are expected to observe standards of corporate governance with clearly defined roles for shareholders, managers, and other stakeholders, SMEs tend to reflect the idiosyncrasies of their owners and their informal relationships with stakeholders. Finally, the risk of the principal/agent dilemma, which is inherent in all financing operations, is particularly acute with SMEs (OECD, 2006, p. 19).

In addition to these risks of SME lending, many financiers consider it to be more costly – and therefore less profitable – to lend to SMEs. Financiers often state that it takes about the same amount of time and resources to source, evaluate, approve, and monitor a loan to an SME as it does to a large company. However, because the loans are smaller, the ratio of costs to the loan amount is proportionately higher (while the revenue generated from the loan in interest and fee income is proportionally lower). Furthermore, in countries, like in the MENA region, where the banking system is particularly not competitive and only serving the richer part of the population, this has a dramatic impact on SMEs.

What makes the MENA banking sector special ?

Organized banking systems are relatively new in the MENA region[4]

Most of the countries established national currency and central bank in the middle of the twentieth century. The banking structure of MENA countries is often based on a simple supply model with basic products and low leverage. MENA countries share a moderate growth and relative autonomy with respect to international money and credit markets, due mainly to the non-convertibility of domestic currencies. A large part of the banking income is composed of interest and banking commissions.

Despite of their disparity and their heterogeneity, the MENA countries share many common characteristics today: for most of them, Arabic remains the official language as well as the dominant culture, whereas political, economic and legal domains have been structured while influenced by Western Europe and the United States. Another common characteristic: their banking structures, although profound, are vulnerable and insufficiently finance local economies.
The current political changes could impulse a further in-depth reform. Although the financial systems in the MENA region have developed substantially in the 1990s and 2000s, their financial sectors still need further modernization as well as regional and global integration. MENA countries face a double difficulty: a relative lower level of investment and a relatively less efficient financial sector.

The banking systems in the region have experienced three eras of modernization: (i) in the 50ies after accessing to independence and the start of industrial oil-bearing resources concern, (ii) in the 80ies by implementing measures of the IMF and World Bank's structural adjustment plans and (iii) from the 90ies by further modernizing the economy and regionally and globally integrating. To a large extend and at different degrees, legal and regulatory frameworks have been improved, a growing part of public banks have been privatised as well as competition has been stimulated in the financial sector.
Their progressive integration and adhesion to international rules (such as those of the Basel Committee) also contributed to modernization and development in MENA banking environments.
Access to banking services, governance, risk management, development of retail banking and SMEs funding are the main domains of concern today. Regional and international development of Arab banks covers Maghreb, Europe and Sub-Saharan Africa.

[4] See Brack, forthcoming

MENA banking systems remain dominated both by banks and by the public sector

The characteristics of the financial systems in the MENA are globally the following: (i) bank dominance and heavy public sector presence in most countries; (ii) limited financial sector openness in some countries; (iii) bank soundness exhibiting significant cross-country variations; (iv) public banks burdened with inefficiencies and a high level of nonperforming loans (NPLs) in certain countries; (v) still inefficient fixed-income and equity markets; (vi) shortcomings in the legal, regulatory, and supervisory frameworks despite tangible progress; and (vii) a largely cash-based payment systems that is being modernized[5].

More than half of total financial assets (57%) are banking assets, and credit supplied by banks is about 60% of gross domestic product, and public banks represent from 13% of assets (Kuwait) to 90% (Algeria). Banks are thus the main source of households and corporate's external financing. The banking sector is conservative in extending loans to private enterprises, especially in countries with state dominated banking sectors. Banks in a substantial part of MENA countries impose high collateral requirements, which raise particular difficulties for enterprises with intangible assets. As a result, there is higher reliance on internal funds – including retained earnings – as well as family and friends, and lower reliance on local commercial banks. There is also underuse of leasing arrangements for new investments and trade credit for working capital loans.

According to Rocha et al (2011), state banks seem to be taking greater risks than private banks in their SME lending business. They are less selective in their strategies to target SMEs, have a lower ratio of collateralized loans to SMEs, and a higher share of investment lending in total SME lending. At the same time, they also seem to have less developed SME lending technologies and risk management systems. A lower share of state banks has dedicated SME units, makes use of credit scoring, and conducts stress tests.

And, even in the countries where the majority of banks are private-owned, competition remains weak. The result is that the financial system, even stable, is inefficient with high non-performing loans (between 10 and 30% in Maghreb) compared to the other countries with equivalent incomes, and that an important part of the population has only a limited access to banking services. A fine indicator of the market and in particular the potential access of the population to banking services is given by the number of branches serving every 100 000 people. The ratios vary from 4-5 (Algeria, Egypt, Palestinian Authority) to 21.5 (Lebanon) among Mediterranean countries and are comparatively low. Nonetheless the banking industry is in an emerging process in most of the countries which may go in hand with higher accessibility in the future unless other channels such as online services substitute the need of agencies to a greater extent (Brack, Elsen and Pons, 2009).

Perspectives: the new private sector and financial markets

Foreign banks are present in all MENA countries. Even if they have important shares of banks' capital, they have restricted market shares. But they largely contribute to foster innovation and training. In many countries, the "new" private sector is composed of recent entrants and smaller firms and has yet to advocate for accessing to "unusual" banking finance. And then the banking system has to move from state-guaranteed loans to a private guaranteed activity. New generations

[5] For Maghreb countries, see Tahari, Brenner, De Vrijer, Moretti, Senhadji, Sensenbrenner & Solé, (2007)

of entrepreneurs, ones that are more open to competition, exports, and innovation need to have access to external finance more easily.

Financial markets in the Middle East have buzzed with activity since the beginning of Western civilization, but yet, the region that gave the world the basis of modern commerce has been relative latecomer to global financial markets. Market finance is under-developed and not sophisticated, even in countries with abundant liquidities. Financial markets have developed slowly in the absence of risk coverage instruments needs because MENA economies have very limited resources and exports diversification and because firms are usually family-own and the public sector dominates.

Private equity emerges in MENA countries, as well as business angels and venture capitalists, targeting the biggest companies.

Despite the interest in the SME sector, lending volumes are still not very impressive.

There are significant differences between the two main sub-regions and individual countries. The share of SME lending in total lending is only 8 percent, of which 2 percent in the GCC (Gulf Cooperation Council) countries, and 13 percent in the non-GCC countries. The low share of SME lending in the GCC reflects largely the characteristics of concentrated oil economies. The share of SME lending in the non-GCC is higher, but still lower than the shares of SME lending in developing and developed countries (Beck, Demirguc-Kunt, and Peria (2008b)). Most importantly, the shares of SME lending in total lending in both the GCC and non-GCC regions are substantially below the banks own long-run targets, also suggesting substantial room for further lending to SMEs. In the case of non-GCC countries, three sub-groups can be identified: a first group with SME lending below 10% of total lending (Syria, Egypt), an intermediate group with SME lending between 10%-15% of total lending (Palestine, Jordan), and a third group with SME loans between 15%-24% of total loans (Tunisia, Lebanon, Yemen, and Morocco).

Both GCC and non-GCC countries offer deposits and cash management, loans, overdraft facilities, trade finance, leasing, payments & transfers, insurance and technical assistance. However, technological and innovative investments supported the increase in households deposit collection : ATMs – 92% of GCC banks and 78% of non-GCC banks – point of sale networks – 58% of GCC banks and 28% of non-GCC banks – internet – 88% of GCC banks and 58% of non-GCC banks – or mobile – 75% of GCC banks and 45% of non-GCC banks.

The significant rise of oil prices provided abundant liquidity to be invested in the banking sector, as well as credit growth with positive externalities on equity markets and the real economy.

In the World Bank's Enterprise Surveys, the MENA region has the lowest percentage of firms with credit lines or loans from financial institutions, at 25.07%, compared to 56.92% for Eastern Europe and Central Asia, or 45.02% for South Asia (Alvarez de la Campa, 2011)[6]. Based on the same study, 16.4% of firms in MENA using banks to finance investment, the lowest compared to other regions (34.18% in the OECD) and on average "34% of firms identified access to finance as major constraint to economic activities". The constraint may be higher (Algeria, 50% and Lebanon, 42%) or lower (Oman, 25%). This adds to the inefficiencies of the banking sector in the MENA region and its unsuitability to well finance the economic development.

[6] See datasets available on www.entreprisesurveys.org

Responsibilities are shared

Regarding SMEs' funding, banks can nevertheless intervene only on what is within their domain of duty and responsibility. They can for example neither influence the cost of borrowed funds on interbank markets, nor change the regulatory framework (which imposes the type of collateral the loans are secured with for example), nor influence the quality of the business model of a entrepreneurial project. The banking sector is able to tackle and change some of the problems, but not all.

Causes and responsibilities are thus shared by several stakeholders: banks, regulators, professional organizations and entrepreneurs themselves. Some problems are specifically found in MENA countries, where flaws and gaps in the legal, institutional, and regulatory environment represent further disincentives to banks and financial institutions to undertake SME lending.

First, SMEs in MENA countries as well as in other emerging markets typically lack acceptable forms of collateral to secure bank loans; and banks do ask for collateral more than anywhere else. Second, weak legal systems often prevalent and the corresponding weak enforcement of claims against borrowers inhibit banks from lending. Third, SMEs often shun the formal economic and regulatory framework and operate in the informal economy (ILO, 2007). Fourth, high rates of taxation, complex tax regimes, and regulations that seriously increase the cost of doing business (e.g., complex business registration processes) do not encourage the use of formal financial markets.

Another impediment is government policy affecting the allocation of financial resources (OECD, 2006). Banks may be under pressure to fund public enterprises and/or to purchase certain assets – such as government or quasi-government bonds. In some economies, private banks operate as part of industrial-financial groups, often controlled by elites with close ties to government, that tend to lend on the basis of personal relationships or special interests.
When entrepreneurs perceive a lack of willingness on the part of financial institutions to deal with SMEs or recognize that the process is not fair and transparent, this removes an incentive for firms to move into the formal economy (i.e., to gain access to formal finance).

Bank regulators also play a role in enabling or discouraging commercial banks to lend to SMEs. Lack of adequate collateral may be a significant deterrent for banks to lend if the regulator severely penalizes them by requiring additional reserves for loans that are not adequately collateralized – no matter how good the cash flow, management, and other creditworthiness variables of a specific SME borrower may be. Excessive conservatism on the part of regulators may discourage cash-flow or "relationship" lending. Therefore, an SME with limited or no collateral may become ineligible for bank borrowing, even if its business has been successful.

Finally, well-intentioned policy or lending programs have sometimes actually discouraged banks from developing SME lending. A lack of loanable funds (liquidity) in the banking system and/or the high cost of credit were often perceived as the main obstacle to SME finance. In response, donor-funded programs provided liquidity to commercial or government-development banks through specialized credit lines; the banks could then on-lend these funds to SMEs. In many cases, interest-rate ceilings were imposed that made it difficult to price credit to reflect the risks and costs of lending to SMEs. These programs often distorted the market, and default rates were high.

Globally, the review of the banking systems in the MENA region leads to the necessity of a new phase of reform and modernization, aiming mainly at:

- ✓ solving inefficiencies of the banking systems;
- ✓ improving access and develop the range of banking and financial services, including secured transactions;
- ✓ reinforcing the regulatory framework, by hard and soft laws within the framework of a dialogue gathering all stakeholders implicated;
- ✓ improving liquidity allocation;
- ✓ developing competition framework and convergence of the banking systems to a regional model.

In the MENA region, access to finance for small size entrepreneurs seems largely influenced by several typical factors: (i) low level of extension of banking facilities and the high level of unbanked population, (ii) over-liquid of public banks financing mainly big public projects, (iii) high levels of NPLs / philosophy of subsidy instead of commercial approach for banking, (iv) qualification of employees, (v) the banking services are still not seen as a commercial action vis-à-vis the client.

In order to lend successfully to SMEs, financiers must learn how to reduce risks and share risks with the borrowers, and to reduce the costs relative to the size of the loans.
There are many strategies to reduce risk. One solution is to require borrowers to contribute a significant amount of their own money as equity in the company or into the specific transaction. Other techniques include the use of mortgages and other forms of collateral to secure the loan, or the use of guarantees, insurance, or principal and interest payments tied to the company's cash flow. In addition to mitigating the financiers' own losses in case of default, these mechanisms prevent situations in which the borrower can transfer nearly all of the risk of his activity to the lender while maintaining all of the "upside". A third method is to develop appropriate risk-rating and evaluation systems for SMEs.

The review has been made: there is a lack of confidence in the relationship between bankers and entrepreneurs, in emerging and in developed countries. Working for a while on trying to overcome these difficulties, the European experience could be inspiring: because bank credit is a substantial part of external finance in Europe (more than two thirds conversely to the United States where financial markets represent 75% of external finance) and because more than 98% of firms are SMEs. Financial literacy, dialogue within stakeholders and authorities, establishment of banks dedicated to SMEs seem to be good examples as they already inspired banking communities in some MENA countries.

Nevertheless, the differences are huge on some aspects and dedicated and innovative solutions have also to be designed for MENA countries, such as training, financial products but also financial literacy, which have to deal with a very low access to banking services and to compete with a still large informal economy. In that case, many improvements already undergone in the most advanced MENA countries can inspire all the region.

Improve the banking model and the relationship with clients

From a strict banking perspective, banks have to improve their management of credit risk in many cases, and then move from a subsidized to a more commercial credit approach.

Globally, recent dialogues between bankers and SMEs have raised some improvements to be carried out. In particular, the delay of response after asking for loan should be shortened; there is a need for higher reciprocity in information transparency as well as to recognize the central role of the account manager within the bank. The context is now uncertain and individual enterprises accounts might have been affected by the consequences of the financial turmoil and the economic recession, the dialogue between firms and their banker has become essential.

Communication is vital between bankers and clients to build a better understanding of both partners' needs. Help the bankers to know more about the firm and the firm to have confidence in the banker. Enhance the flow of information about the firm and how information is used by banks (for scoring purpose for example).
Some determining points have emerged recently, to which banks and SMEs already in business together can contribute:

- ✓ regular relations,
- ✓ mutual and transparent information,
- ✓ to explain the economic and financial fluctuations of the firm
- ✓ to anticipate the needs for financing,
- ✓ to provide estimated and prospective data.

Reciprocal confidence is crucial.

Contrary to Europe, where almost all citizens and firms have a bank account or more[7], only a limited part of the MENA population has already a bank account. And as 98% of firms have less then 5 to 10 employees, the vast majority of entrepreneurs and bankers have still to get connected.
This issue has already been identified by the authorities and banking associations in many countries of the MENA region, which implemented programs such as regional meetings gathering SMEs and bankers to meet and learn about existing banking possibilities. This is also an opportunity for bankers to learn about entrepreneur's activities.
Besides, there are a lot of stories of bankers having helped entrepreneurs to provide compliant accounts to ask for a loan.

Although Algeria, Mauritania, Morocco, and Tunisia have a public credit registry, there are no private credit bureaus in agencies in the Maghreb countries. However, in Morocco, the central bank has put its new credit risk database under private management. In most countries, the scope, access, and quality of information remain limited.
A revision of the banking law in Tunisia in May 2006 requires banks to establish an executive credit committee reporting to the board of directors, and to emplace a compliance control system also under board supervision.
Countries in the Maghreb should support the development of borrowers' credit information. Private credit bureaus and public credit registries (the latter, to the extent that the information is not used solely for the purpose of banking supervision) are useful to strengthen banks' risk management and expand lending to new market segments. Public credit registries should be established where they do not exist (e.g., Libya), and the accessibility and quality of the

[7] 98% of the french adult population possesses at least one bank account and an average of 7 financial products

information should be improved throughout the region, along with appropriate safeguards in terms of consumer and data protection. The development of private credit registries could also be encouraged.
According to the World Bank's in 2010 5% of individuals and firms (expressed as a percentage of the adult population) are listed in MENA in a public credit registry with current information on repayment history, unpaid debts, or credit outstanding. The proportion of individuals and firms listed in a private credit bureau is 11.7% for the region, and only 2% for the less developed countries in the MENA region.
Globally, the systems operating in the MENA region are either a public credit registry or a private credit bureau, rarely both (except Egypt and the United Arab Emirates):

- ✓ private credit bureau: Algeria (0.2% of adults listed), Israel (88.2%), Kuwait (29.6%), Morocco (9.9%), Saudi Arabia (18%);
- ✓ public credit registry: Bahrain (35.9%), Jordan (1.5%), Lebanon (8.7%), Oman (19.6%), Qatar (0.1%), Syria (2.2%), Tunisia (22.9%), Gaza (5.6%)
- ✓ both: Egypt (10.3% of adults listed by a private system and 2.9% by a public one), United Arab Emirates (17.7% private and 8.4% public).

Financial literacy

Programs should also include financial literacy schemes and education for women on the benefits of accessing finance. In the MENA region, in some cases entrepreneurs do not even apply for loans because they were not well aware of the existing of such a possibility of external finance for them, or, if they knew, because they are certain they could not meet the collateral requirements requested by banks.
As an answer, financial and pragmatic literacy and information are crucial. Many banking associations have implemented tools to further present banking activity to households and entrepreneurs, explaining rights and duties of both bankers and their clients after contracting, as a go-between. The French Banking Federation has created *"The Banking Keys"* in that purpose and has inspired Morocco, Tunisia, Lebanon for example. The British Bankers Association has very recently created a new website gathering information on all ways of external finance, both debt and equity.

Possible partners for these types of initiatives include commercial banks, institutions involved in administering the new secured lending regime, institutions familiar with lending to women – even in a different context – such as microfinance institutions, and women's business associations.

Training

Several training institutes dedicated to banking have been created in the MENA region, especially in Mediterranean countries, to enhance the qualification of banking employees.
Banks have also established training academies dedicated to banking activities and implemented training programs to upgrade expertise and commercial capacity of employees to search for new clients.

Innovation

Developing new banking and financial products would be relevant too, as innovation is fundamental to reduce the cost of credit for small businesses.
Banks have to further develop new banking and financial products (such as risk coverage…) and their tailoring capacity to enlarge the range of external finance products, at the lowest cost. Innovation is key to reduce the cost of credit for small businesses.

Development of direct external finance

After discussing capital markets and traditional banking, the primer demonstrates how innovative financing techniques (e.g., factoring and leasing) can be used to make credit available to companies that have good potential but have difficulties accessing traditional bank financing. A common characteristic of these techniques is that the provider of finance relies less on collateral and historical performance and more on claims against a company's specific short- and medium-term assets and the future cash flows that these assets will generate from business activities. These techniques can often be used in environments where traditional credit products have inadequate or limited utility for a large number of SMEs.

In this regards, Europe could be seen as an example: SMEs' financing highly depends on credit there also, and thus some measures aimed at promoting access to external finance for SMEs should be inspiring (see in annex). The main reasons to list shares on the stock market seem to be linked to enterprise and owners' strategy. Demarigny (2010) proposes a list for Europe: to make capital composition evolve, to reinforce visibility and credibility of the company towards clients and suppliers, to raise capital to finance new projects and for merger and/or acquisition, to get management compensation system more correlated to results.
Obviously, some of them can apply in MENA countries. Alternative and regional stock markets could also be developed to permit to big SMEs to access market finance. But some difficulties existing in Europe have to be overcome, and especially in the MENA region where they might be more significant. A listed company becomes liable to the market, and then owes transparency and implementation of more structured decision processes as well as promotion of more efficient running of financial and risk management of the firm. This can represent higher constraints than just applying for a loan, particularly in the MENA region for smaller companies.
But such ways could be explored for medium-sized firms, as well as corporate bond markets also.

Create and promote banks dedicated to SMEs and guarantee schemes

Besides, it is important to set up or develop government sponsored-banks dedicated to SMEs, like for example Oséo in France. Oséo's intervention is based on guarantee and different types of funding: short term, launching participating loan, equity & venture capital, with a regional scheme close to entrepreneurs. It also promotes innovation.
Rocha et al. (2011) show that guarantee schemes have contributed both to more SME lending and to a higher share of investment lending. Indeed, the countries which seem to have a larger share of SME lending in MENA – Morocco, Lebanon and Tunisia – also have larger guarantee schemes.

Promote consultation and cooperation between bankers, authorities, entrepreneurs and clients

It seems important to improve global relationships between banks and other financial stakeholders: authorities, regulators, guarantee (and mutual guarantee) institutions, entrepreneurs' associations, peripheral professions (such as accountants…) to discuss for example how to enlarge the range of collaterals and guarantees to get a credit.

Europe and the US have been developing consultation and cooperation between stakeholders, civil society and authorities as well as promotion of codes of conduct by the banking and financial community, supervised by the authorities. Fostering the voice and the involvement of bankers and entrepreneurs in rulemaking process has proven its efficiency, and should be promoted in the MENA region. But this would be possible if the banking (and financial) community could speak with one (unified) voice, within a professional organization. The fastest development of the banking sector seems to occur in countries with a strong banking association, able to challenge the authorities, regulators and the civil society, and to cooperate with the Central Bank and several ministries in charge of banking and financial affairs.

From the European experience, it seems also important to develop the business environment such as accountants, experts to help SMEs after they have been set up.

Gender

The (antique) subsidized way of funding the economy should not been recalled to fund the women entrepreneurs but a competitive financial system, able to provide well-designed financial products. In the MENA region, the most current way of funding the economy is based on public banks and these countries should evolve to a competitive financial system, able to provide well-designed financial products. Trying to solve the difficulties of women entrepreneurs - or more generally small entrepreneurs - should not lead to subsidized banking or positive discrimination, disregarding the quality of the project itself and its capacity (or not) to generate growth and job creation. Women entrepreneurs should be given the same chances than men. That means that women entrepreneurs should not be subsidized but be given the same business environment than men. Microfinance experiment has shown that women are reliable with regard to payment. Would it be a solution to apply "social collateral" of microfinance or traditional "tontine" to more conventional forms of funding? Banks have to be able to be close to clients' needs.

Best practices

A forum of best practices is very important in that matter, as well as the right combination between hard and soft laws, such as code of conducts. Stakeholders have to be involved in the design of solutions whereas the efficiency of the final result might gain from authorities' formal intervention.
And no "one fits all - approach" should be promoted, as much specificity and particular cases would emerge, both regarding legal, cultural, geographical aspects. Genuine designed solutions have to emerge and to be specific to treat the problem locally.

First explanation often given for this situation: restricted access to external finance for entrepreneurs. And first stakeholder to be pointed out for its responsibility into that situation: banks. But the picture is more complex obviously. The legal and business environment, entrepreneurs themselves, cultural aspects share also some responsibility.
Banks should not be considered as solely responsible for the difficulties experimented by entrepreneurs to get external funding. Bankers are often pointed out to be responsible of all difficulties as they are too much or too little risk-averse depending on the case. And bankers themselves are highly depending on their regulatory, legal and competitive environment.
Besides, entrepreneurs with proven quality projects do not seem to experiment difficulties to get external finance, through debt or equity products. Some others have more difficulties to access finance.

All efforts should converge to establish a competitive solution, including responsible entrepreneurs. The efforts should aim at promoting a more efficient banking sector by enhancing its capacity of competitive allocation of funds and projects. And in that purpose, no pressure on banks based on number of credits granted should be promoted in the MENA countries. It appears important to develop the banking sector's efficiency first.

In that purpose, banking associations have a great role to play, as intermediaries with entrepreneurs associations and with authorities.

The path of reforms should be based on the existing and be adapted to the financial structures.
There are arguments in favor of global convergence of the whole financial systems in the MENA region towards an Arab banking and financial model. The region shares many characteristics in this respect (history, legal framework...) and is evolving to common approaches and trends thanks to opening and migrating to adopting international rules and standards. It makes thus sense to share experience and good practices of the existing, and work together and cooperate to design the best measures to ensure the same chances to all entrepreneurs with creative and rentable projects.

Are women disadvantaged in access to financial services? Yes, but the reasons are not only within the financial sector; they lie in other dimensions related to female participation in the modern market economy. Policies to expand access to financial services to women have to address these other dimensions if women are to reap the benefit of financial services as much as men (Aterido et al., 2011).
Enterprises surveys conducted by the World Bank[8] show that SMEs face more severe financing constraints than large firms. SMEs face a host of non financial and financial constraints, especially in low-income countries. Although large firms generally face the same constraints, they seem to be much less constrained by the lack of access to financing, at all income levels.
But, other research on obstacles to business growth also shows that the smallest firms are most adversely affected by financial and non-financial constraints – tax rates, corruption, informal, electricity, transportation, regulation – and that these constraints are particularly severe in developing countries[9], and particularly in the MENA region.

[8] World Bank Enterprise Survey (2006-09)
[9] See Beck, Demirguc-Kunt, and Maksimovic (2005)

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SMEs in Europe

Of the 20 million active enterprises in the EU-27's non-financial business economy in 2006, the overwhelming majority (99.8 %) were SMEs. A closer inspection reveals that 91.8 % of the total were micro enterprises (employing fewer than 10 persons), while 6.9 % were small enterprises (with 10 to 49 persons employed), 1.1 % were medium-sized enterprises (with 50 to 249 persons employed) and the remaining 0.2 % were large enterprises (with 250 or more persons employed)[10]. More than two third of employees (67.4%) work for SMEs[11].
In line with the ongoing recovery in economic activity, the percentage of SMEs using external sources of finance tended to increase slightly, but broadly across sources, compared with the previous survey rounds.

Between September 2010 and February 2011, 40% of responding firms drew on their overdraft facilities or credit lines and more than a third used a bank loan. Meanwhile, the increasing use of leasing, hire-purchase or factoring (by 34% of SMEs according to the latest survey results) or trade credit (by 27% of SMEs) confirmed the revival of inter-company financing. The rise in the number of firms using external finance was even more evident for large firms[12].
Not surprisingly, European SMEs largely rely on banks when selecting sources of external financing (32% reported having used a bank loan in the previous six months and 30% a bank overdraft or credit line). Leasing, hire purchase and factoring (used by 27%), as well as, to a lesser extent, trade credit (15%), also played a relatively important role. By contrast, market-based financing was of minor importance (0.9% had issued debt securities in the previous six months and 1.3% had issued equity or relied on external equity investors)[13].

[10] http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-BW-09-001/EN/KS-BW-09-001-EN.PDF
[11] In legal terms here, a small and medium-sized enterprise (SME) should have fewer than 250 employees.
[12] http://www.ecb.int/pub/pdf/other/accesstofinancesmallmediumsizedenterprises201104en.pdf?
[13] http://www.ecb.int/pub/pdf/other/accesstofinancesmallmediumsizedenterprises200909en.pdf