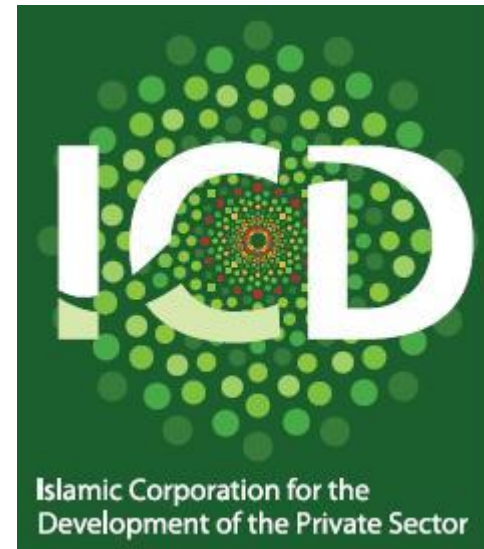


**SME BANK - ADFIMI INTERNATIONAL DEVELOPMENT FORUM  
KUALA LUMPUR, 5-6 JULY, 2012**



**Islamic Corporation for the Development of the Private Sector**

*Member of Islamic Development Bank (IDB) Group*

**Enabling Enterprise, Building Prosperity**

# TABLE OF CONTENTS

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1. IDB GROUP
2. CURRENT STATE OF SME SECTOR
3. OBJECTIVES AND CONTENT OF SME PROGRAM
4. CASE STUDY | KINGDOM OF SAUDI ARABIA
5. CASE STUDY | WEST AFRICA
6. CASE STUDY | TUNISIA
7. SUMMARY

1.

## IDB GROUP

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# ISLAMIC DEVELOPMENT BANK

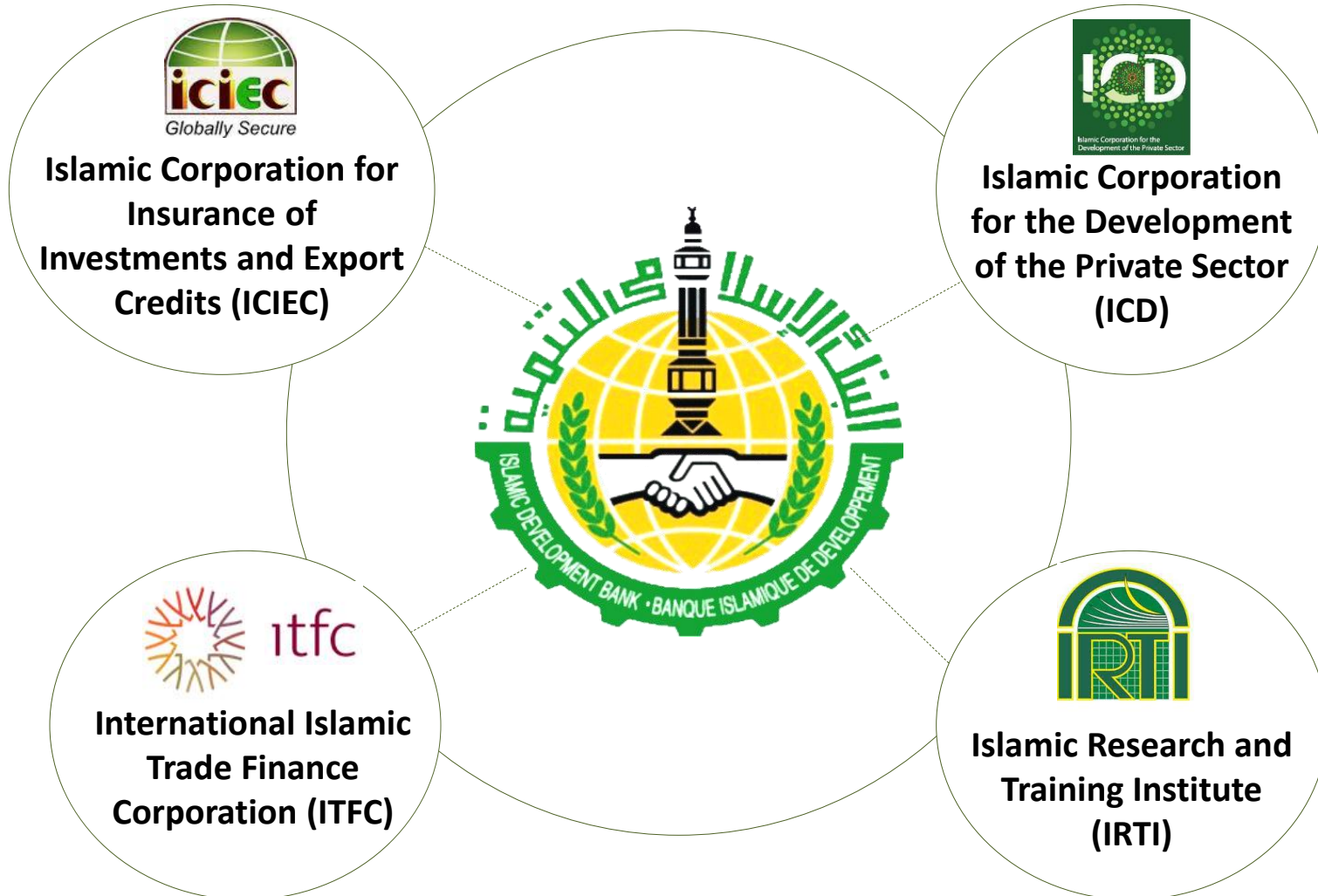
- IDB, headquartered in Jeddah, Saudi Arabia, is a USD 50bn+ bank with 56 member countries mainly located in Asia, Middle East and Africa
- IDB Group Strategic Objectives:
  - Promotion of Islamic financial industry and institutions
  - Poverty alleviation
  - Promotion of cooperation among member countries
- IDB Group Priorities:
  - Human Development
  - Agriculture Development and Food Security
  - Infrastructure Development
  - Intra-trade Between Member Countries
  - Private Sector Development
  - Research and Development in Islamic Economics, Banking and Finance

## **IDB Group Vision:**

**To be the leader in fostering socio-economic development in member countries and Muslim communities in non member countries in conformity with Shari'ah Law**



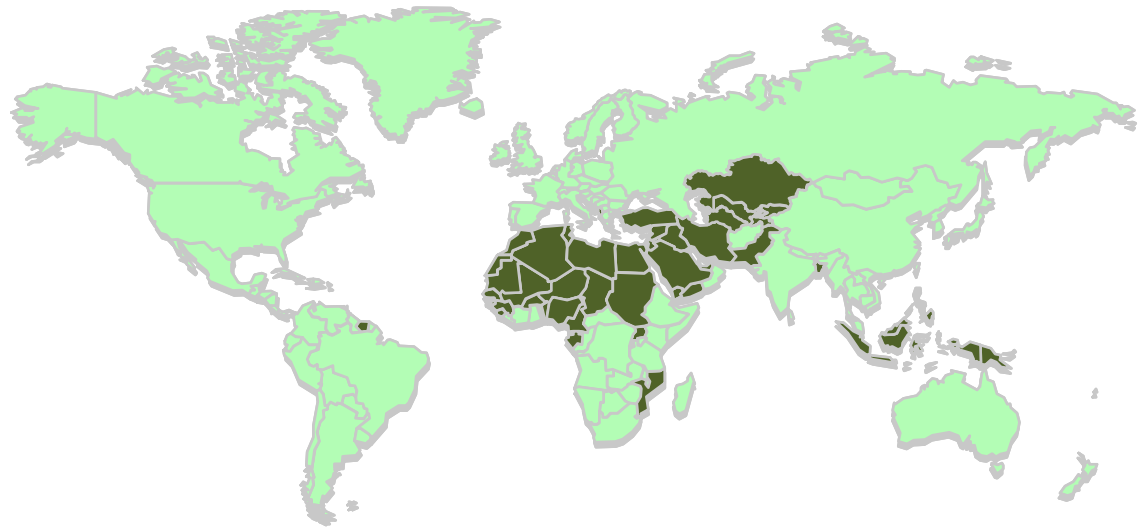
# ISLAMIC DEVELOPMENT BANK GROUP



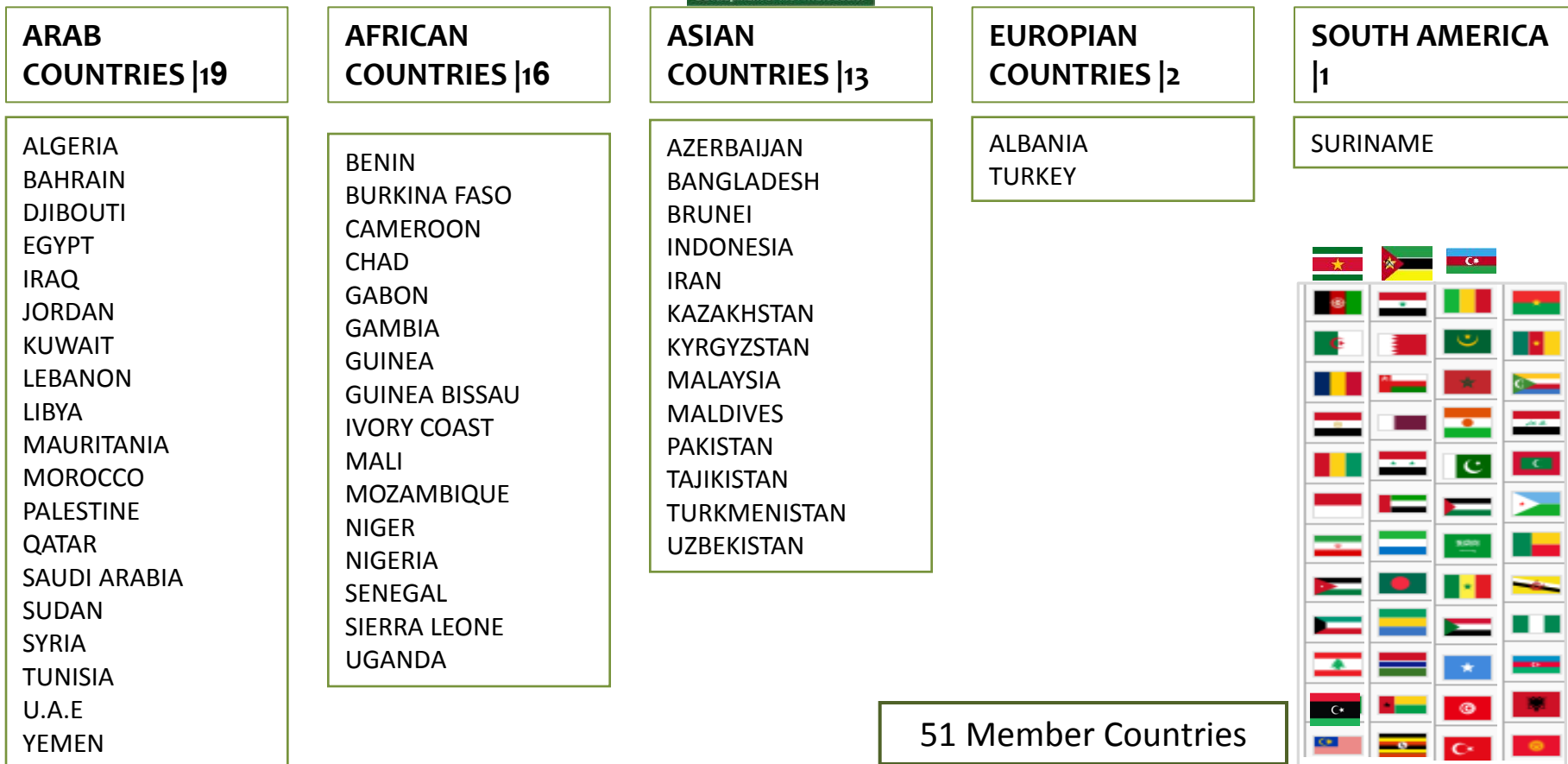
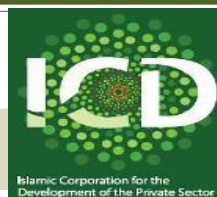
# ICD MISSION & VISION

- ICD is the private sector arm of IDB, a multilateral development finance institution
- ICD was established in 1999 with an authorized capital of USD 2bn.
- ICD is 50% owned by IDB, 20% by public financial institutions & 30% by member countries

- *The Vision of ICD* is to be a major player in the development & promotion of the private sector as a vehicle for economic & social growth & prosperity in Islamic countries
- *The Mission of ICD* is to complement the role played by IDB through
  - Providing Islamic financial services & products
  - **Promoting competition & entrepreneurship in member countries**
  - Advising governments & businesses
  - Encouraging cross border investments



# ICD MEMBER COUNTRIES



51 Member Countries



# OVERVIEW: ICD Goals & Strategic Objectives

**ICD strategic objective is to promote private sector by: helping create jobs; providing Islamic financing capabilities in all member countries; and providing access to financing.**

## 1440 Vision

- 1 million jobs created
- 1 million low income families with access to finance
- 50 Islamic finance channels created / developed
- Enabling environment in 10 member countries
- 70% of resources from the market

## ICD Goals

- 1 – 2 channels (financial institution investments) per country by 1440
- 3,000 enterprises per channels (SME through to corporations in key sector)
- 1 direct investment per country by 1440(in sectors outside financial services)



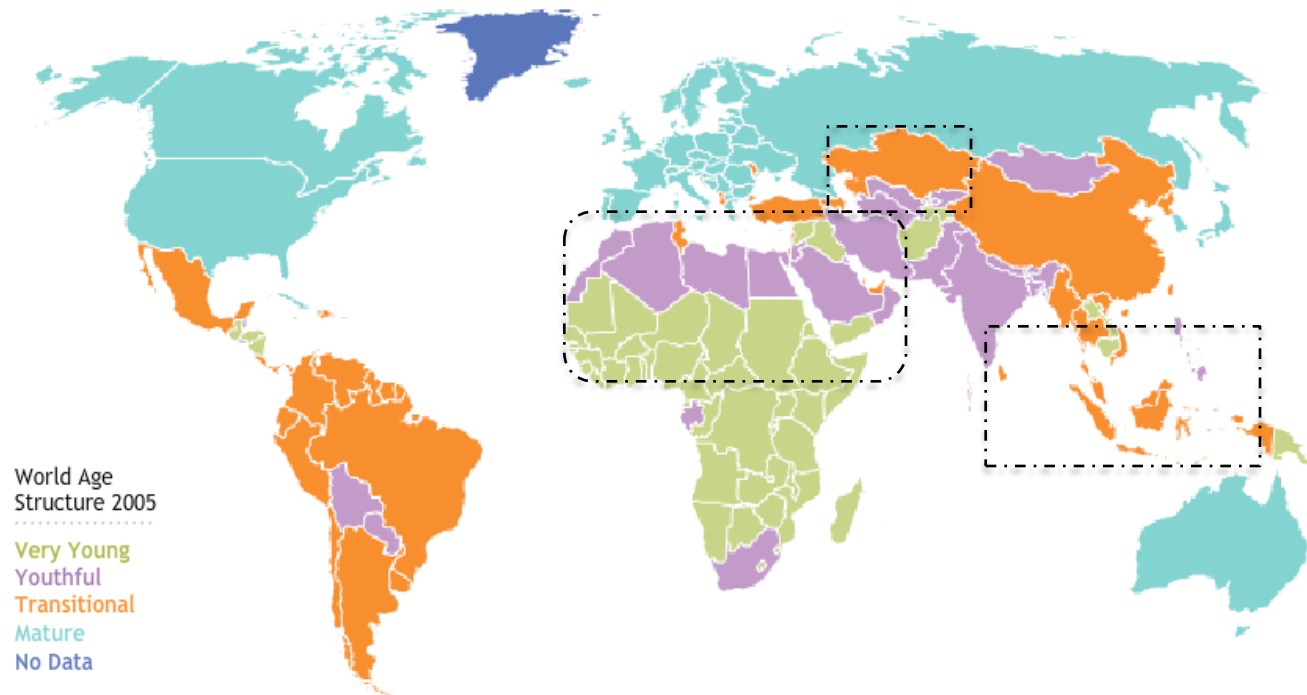
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## CURRENT STATE OF SME SECTOR

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# TREND ACROSS MEMBER COUNTRIES

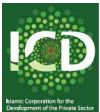
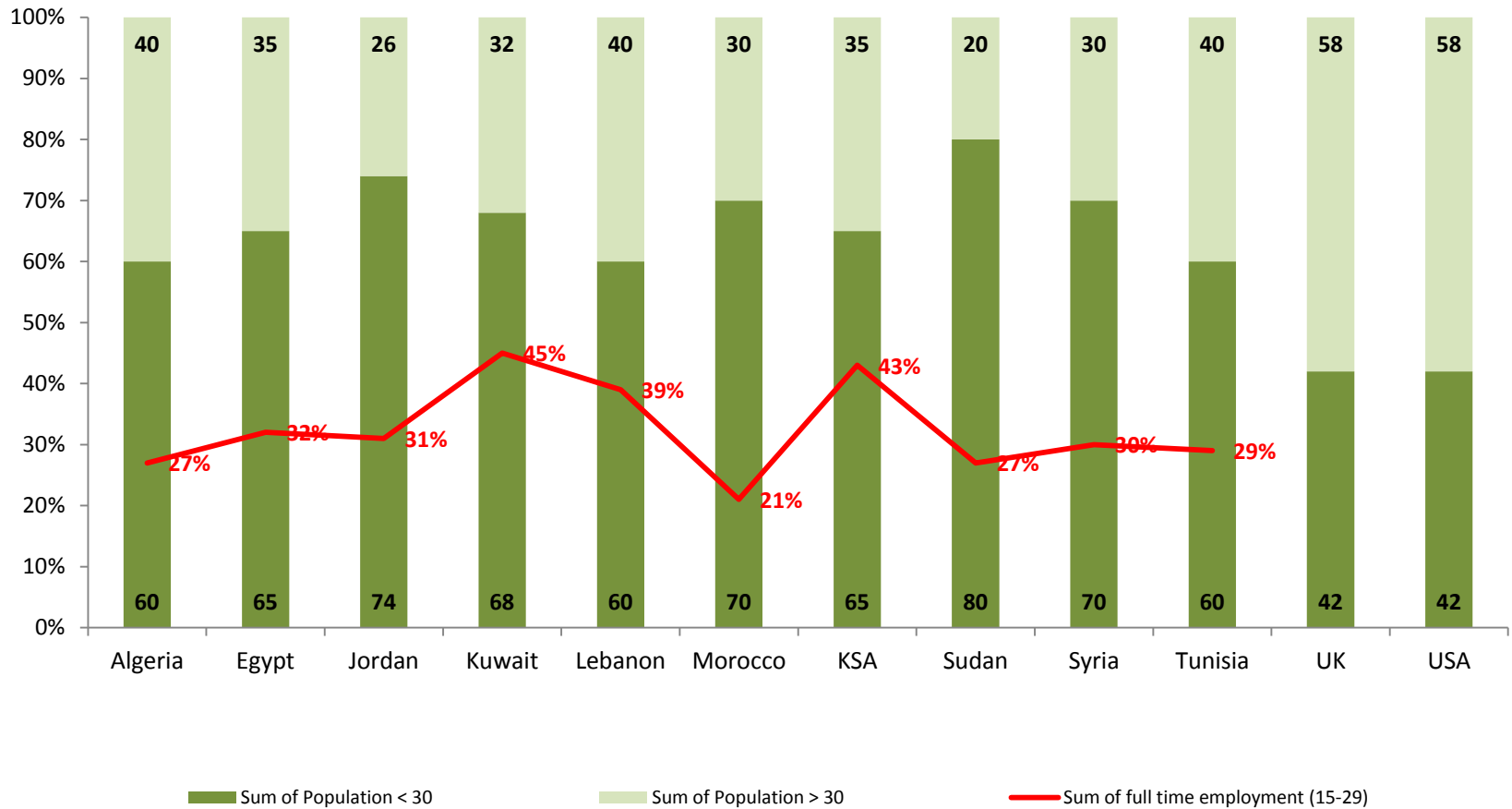
Recent unrest in key member countries is led by a young & growing population (the “youth bulge”) that is reacting to economic deprivation



- 60% percent within member countries are under 30 years
- “Youth bulge” is forming with large segment between 15 & 29, with a median age of 24

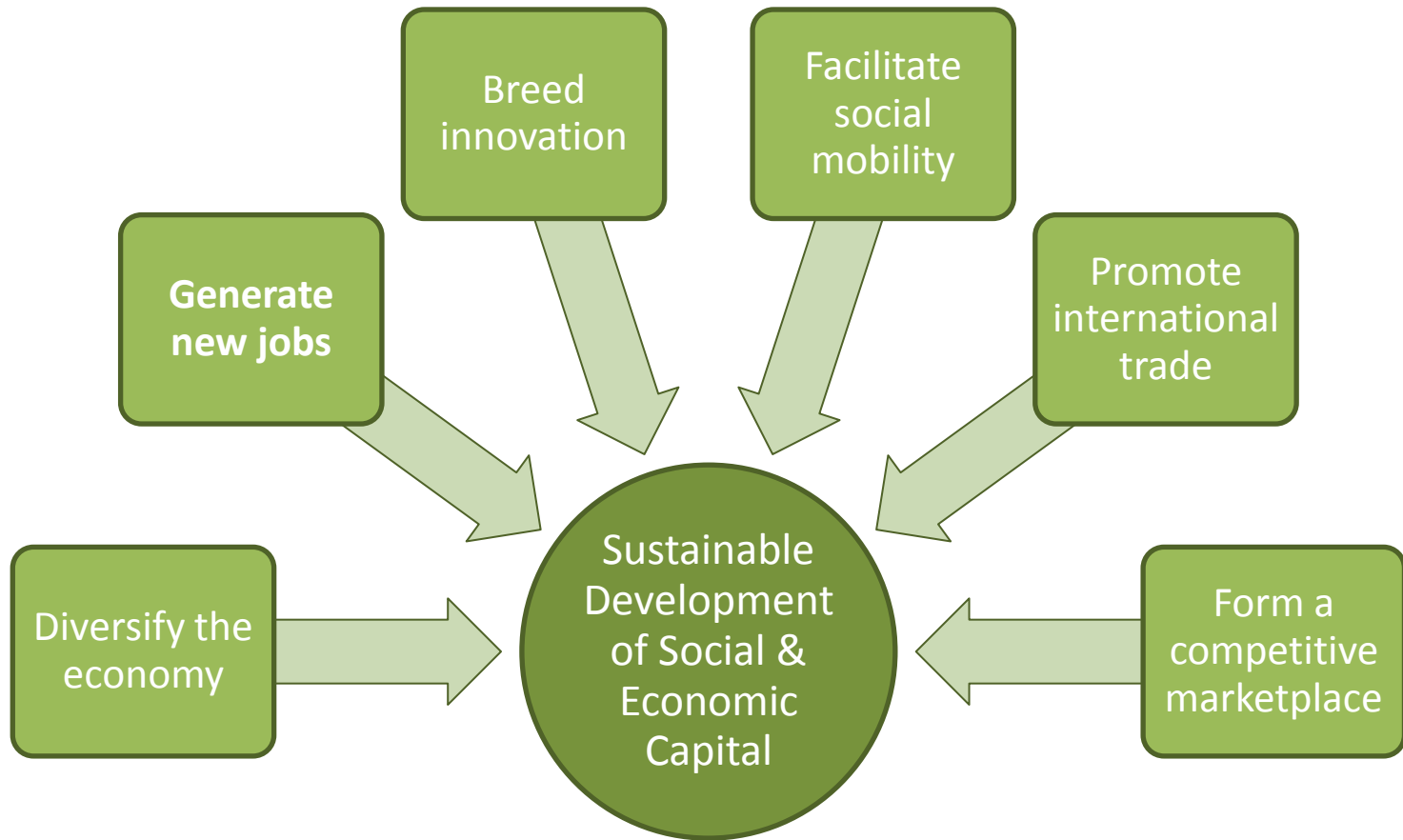
# YOUTH BULGE

Unemployment is rampant amongst the youth. As an example, in Middle East and North Africa region, 80-100 million new jobs must be generated by 2020 to keep employment at current levels



# SME SECTOR - OPPORTUNITIES

SMEs are recognized as a key source of growth, dynamism, innovation and flexibility. Hence they are what some economists call the “Backbone” of an economy.



# CHALLENGES TO THE SME SECTOR

**While SMEs are the most viable contributor to development, significant obstacles exist for the SME sector within member countries**

## Access to Markets

- Underdeveloped domestic markets (lack of domestic demand), and insufficient access to international markets

## Education & Training

- Shortage of professional skills and entrepreneurial approach. High ratio of government employment has limited private sector skills

## Policy

- Lack of policies for SME formation and growth (e.g., long registration & licensing times)

## Common Challenges in SME Sector Development

## Support Services

- Basic services (e.g., licensing, lease premises) can take months to secure, burdening newly-formed enterprises

## Social

- Entrepreneurship is not a prestigious track amongst the educated
- Comfortable government jobs, when available, are preferred over the hustle of entrepreneurship

## Capital

- Limited availability of equity (e.g. seed capital & growth capital)
- Limited bank financing & onerous requirements (e.g., personal guarantees)

# SME SECTOR NEEDS

**Governments need to remove hurdles to SME development, while promoting policies and development programs to build sustainable competencies**

Providing Assistance

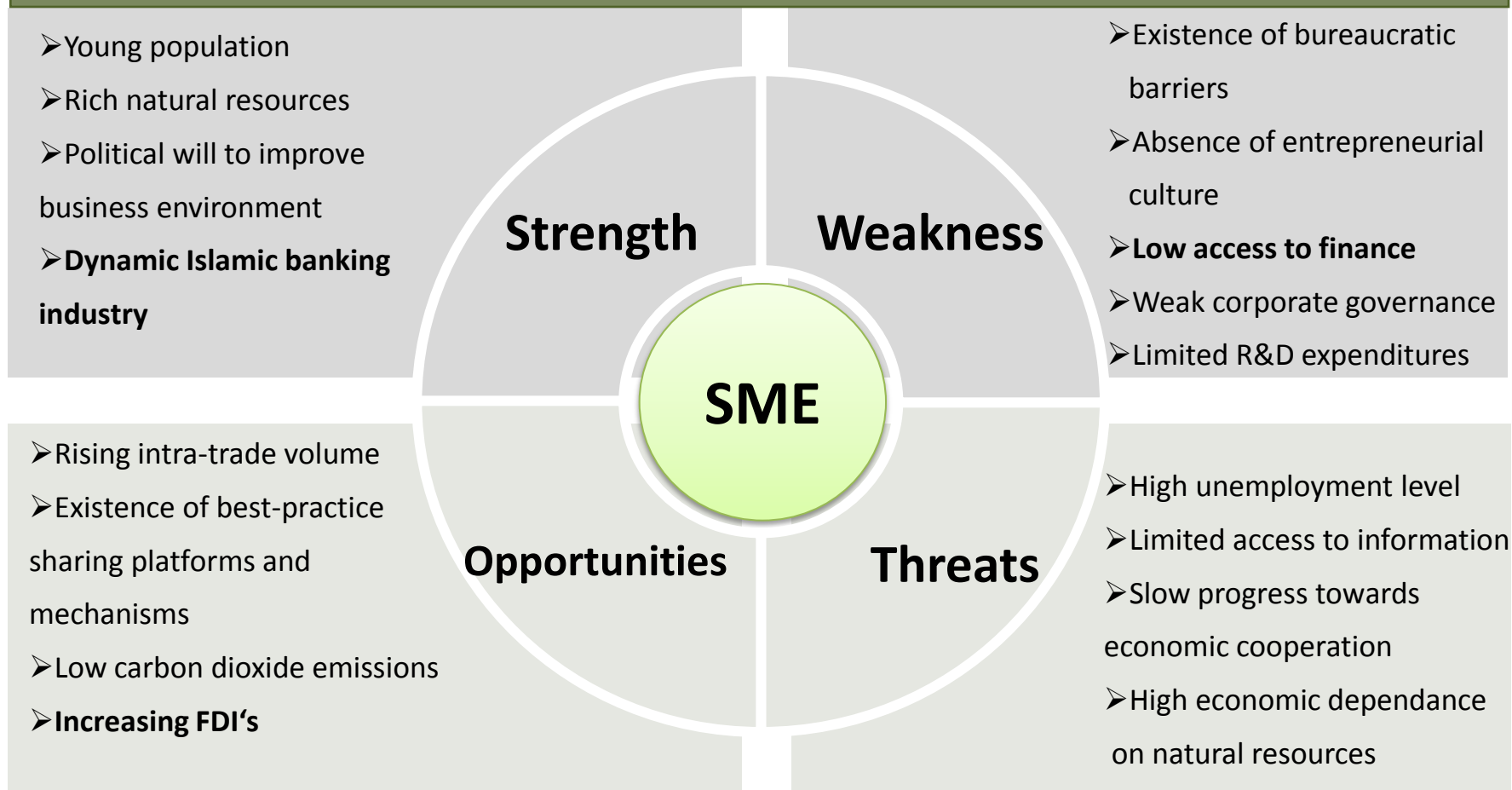
- *Establishing programs for financing, training and education*
- *Promoting & advising on public policy to encourage SME growth*

Removing Impediments

- *Removing obstacles to SME establishment & growth – bureaucracy & red tape*
- *Challenging cultural & social stereotypes to entrepreneurship*

# SWOT ANALYSIS

## Member Countries SMEs Focus



3.

## ICD SME PROGRAM

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# ICD SMEs DEVELOPMENT OBJECTIVES

The principle objective of the ICD SME Program is to enhance access to finance for fast-growing SMEs that contribute to job generation, economic development & stability

## Objectives

Foster enterprise development & broad-based economic recovery

A favorable policy & regulatory environment

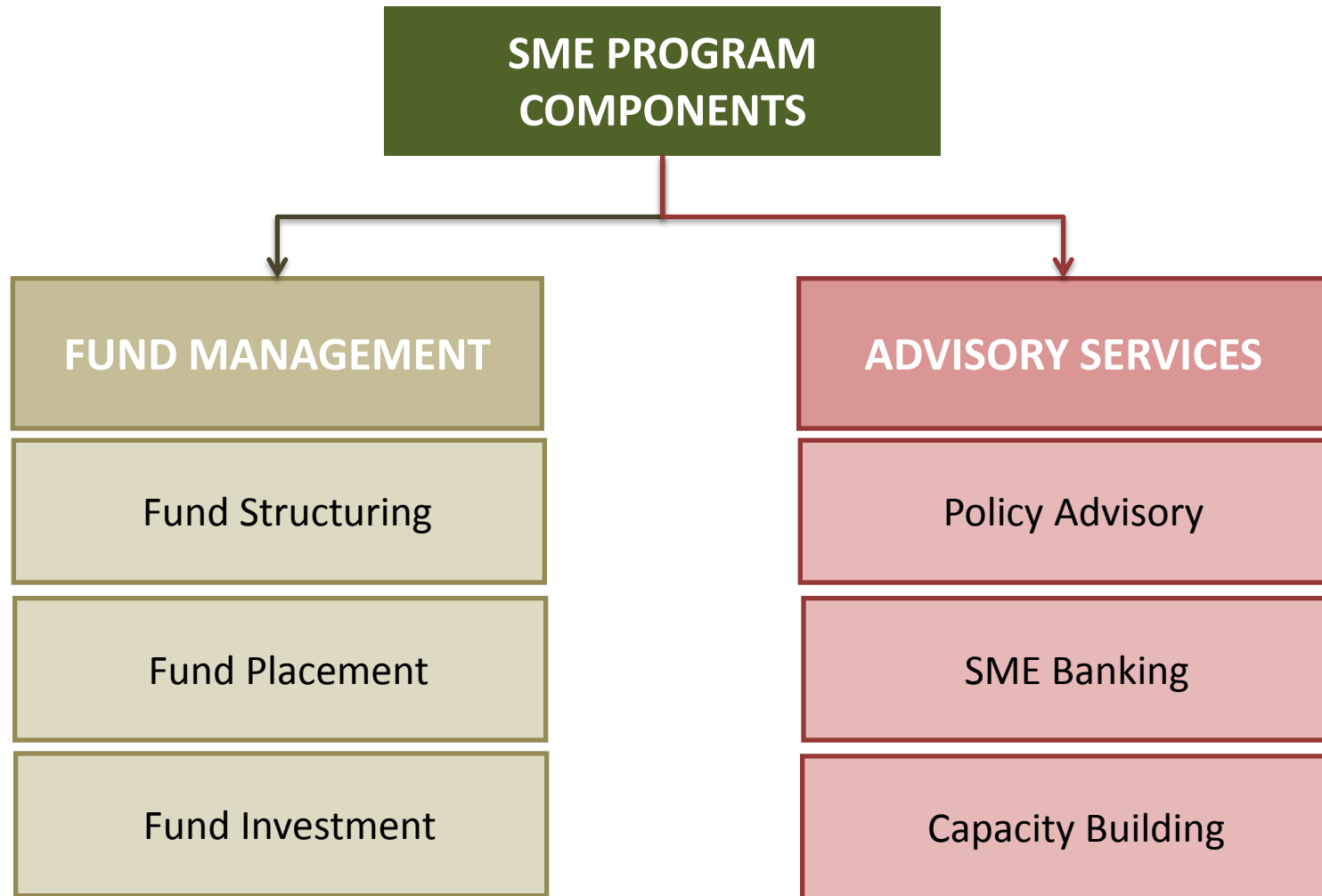
Access to new technologies & know-how education & training programs

Building entrepreneurial skills & extending networks with support institutions

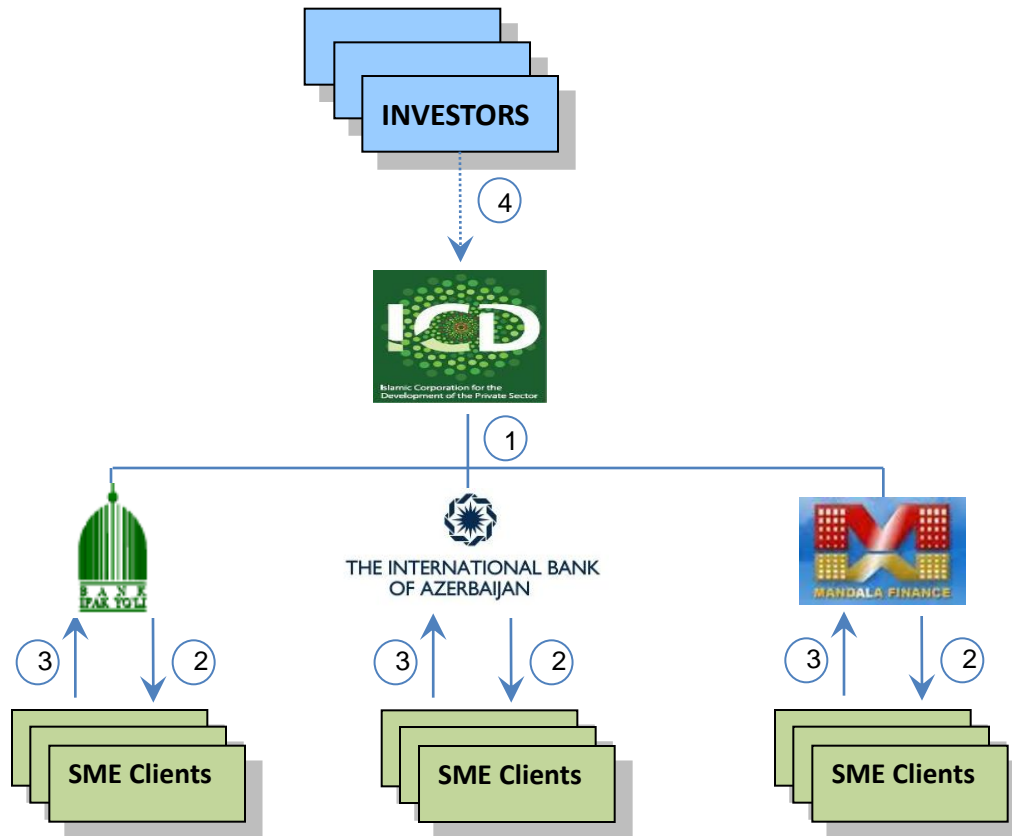
Strong, sustainable institutions providing financial assistance with improved market access

Upgrade & improve the competitiveness of value chains in which SME's participate

# SME PROGRAM FRAMEWORK



# PROMOTING SME DEVELOPMENT VIA LINE OF FINANCE



- 1 ICD's disburses line of financing against guarantees from the financial institutions
- 2 Financial institutions disburse medium term financing to SMEs for expansion, working capital, etc.
- 3 SMEs pay their medium term financing and the financial institutions will repay ICD for the line of financing
- 4 Other investors may participate in the line of financing by appointing ICD as the Investment Agent.

## As a result of this ICD helped to:

- Expand SME lending in the CIS and South East Asia regions
- Provide financing to 54 SMEs in five member countries (Azerbaijan, Kyrgyz Republic, Tajikistan, Uzbekistan and Mauritania) and over 5,000 motorcycles were financed by PT Mandala Multifinance for the use of small family businesses in Indonesia

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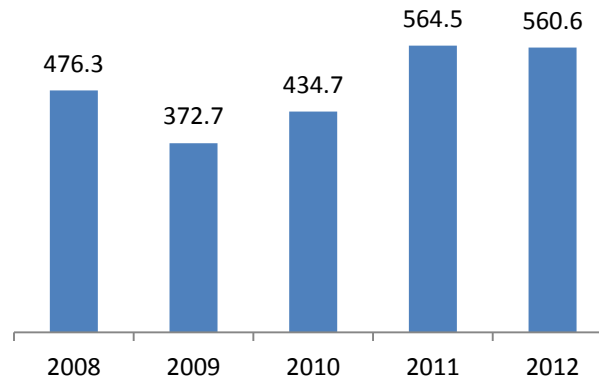
## Case Study | KINGDOM OF SAUDI ARABIA

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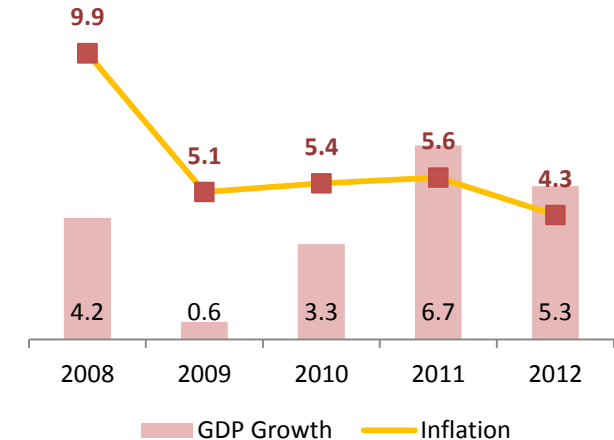
# KSA BUSINESS ENVIRONMENT

- Long-term drive by government to encourage a greater role for the private sector by government
- Need to provide employment for the country's young unemployed
- The fiscal boost by recently announced state spending initiatives are forecasted to lift real GDP growth
- Efforts to address this the government will extend financing guarantees to banks offering loans to SMEs to promote entrepreneurship

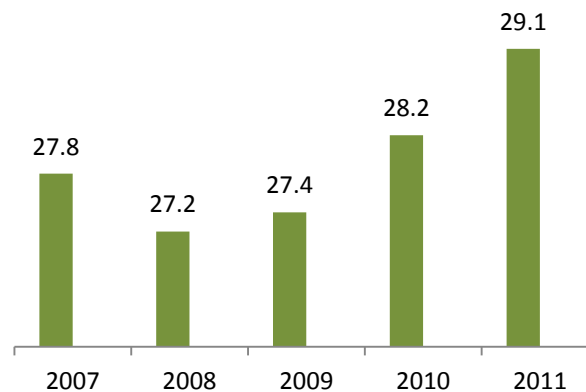
Nominal GDP (USD billion)



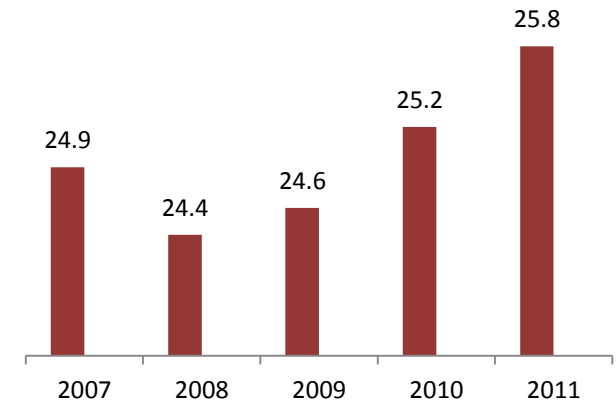
Real GDP Growth and Inflation (%)



SME Contribution to GDP (%)



SME Contribution to Total Employment (%)



(Source: ICD, EIU, CGI)

# SME SECTOR IN KSA

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## *SME Findings in ICD's KSA SME Survey 2011:*

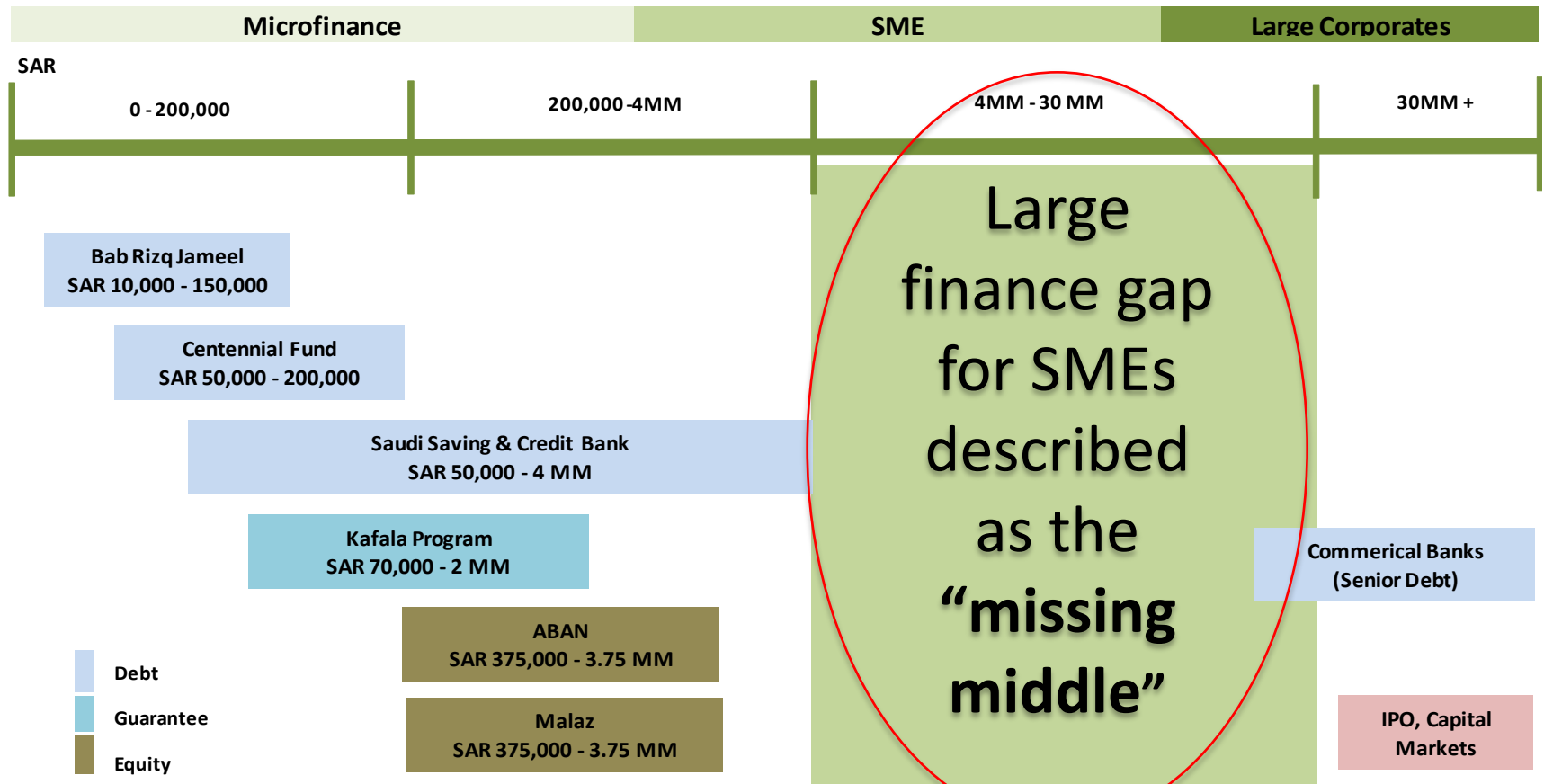
- 600,000 SMEs (< 250 employees)
- 97% of total number of enterprises
- 71% of non-oil employment
- 25% of total employment
- **70% do not have formal banking relationships**
- **60% believe banks are inflexible & conservative**
- **70% access informal sources of finance (self, family & friends)**

### **SME Definition according to ICD:**

“A formal enterprise with assets < SAR 50 million **OR** annual turnover between SAR 2.5 million & SAR 100 million employing between 10 & 250 personnel, with no more than 25 percent voting shares owned by a larger entity.”

# SMES' ACCESS TO FINANCE: EXISTING GAP

Lending growth will remain slow in 2012, with the bulk of lending going to larger companies creating a finance need for SMEs in KSA



# KSA SME FUND STRUCTURE

Legal Structure	Contractual Fund regulated <b>under Capital Market Authority</b>
Fund Type & Target Size	<b>Shari'ah compliant</b> Closed-ended, <b>SAR 1 billion</b>
Fund Term	Initial term of <b>8 years</b> , subject to 2 consecutive extensions of one year each.
Investment Horizon & Strategy	Expected investment horizon per investee will be 5-6 years, with the option to make 2 extensions of 1 year each (5 + 1 + 1) SMEs with growth potential and solid financial history
Exit Strategy of Investment	Business Cash Flow, and Internal Management Buy-back
Target Investors	Saudi Public Institutions, Banks and Multi-lateral Development Entities
Investment Size	Investment per account will range between <b>SAR 1 million to 20 million</b> , with an average expected ticket-size of SAR 11 million
Sector Exposure	Maximum 30% exposure per sector
Modes of Finance	The Fund's investments will be structured mainly by way of <b>Musharakah Mutanaqisah</b> (Diminishing Musharakah), as well as other Shari'ah compliant structures such as Ijarah and Murabaha



5.

## Case Study | WEST AFRICA

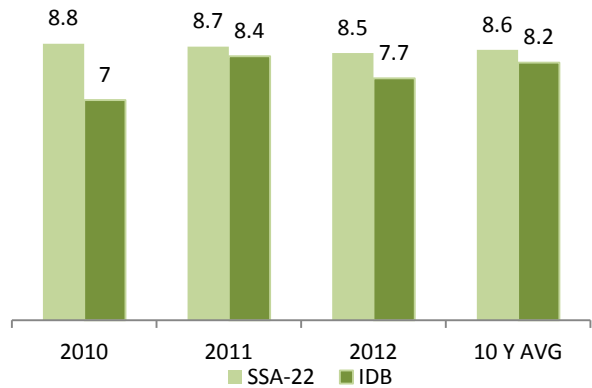
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# WEST AFRICA BUSINESS ENVIRONMENT

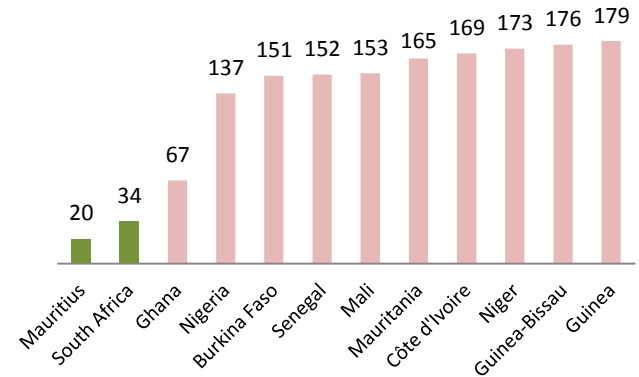
- Population of West Africa now exceeds 265M and is projected to grow by an additional 40M
- SME's provide over 70% of employment for lower income families in much of Sub-Saharan Africa
- They typically represent 90% or more of all companies and one-third of GDP
- Roughly 30% of West African GDP is linked to agriculture, which is twice the level of the rest of Sub-Saharan Africa

**Sub-Saharan Africa (SSA-22)** Benin, Burkina Faso, Cameroon, Chad, Comoros, Côte D'Ivoire, Djibouti, Gabon, Gambia, Guinea, Guinea-Bissau, Mali, Mauritania, Mozambique, Niger, Nigeria, Senegal, Sierra Leone, Somalia, Sudan, Togo & Uganda.

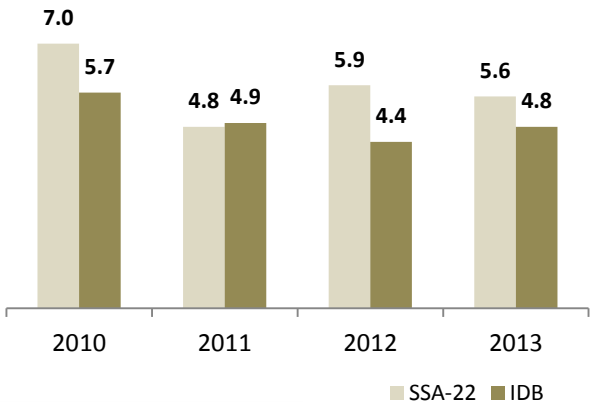
### Consumer Price Inflation



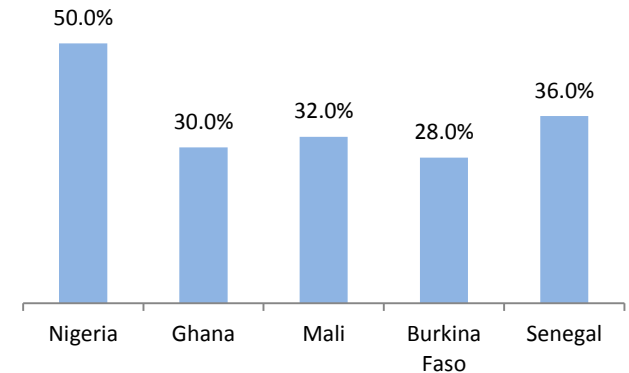
### Ease of Doing Business 2011



### Real GDP Growth



### SME Contribution to GDP (%) (2010)



## WEST AFRICA BACKGROUND

*IDBG has historically struggled to identify bankable, high-quality projects & sponsors in Sub-Saharan Africa.*

*To address this issue, a technical assistance (TA) fund was setup into which it would contribute USD 1.5MM annually for three consecutive years (**cumulatively USD 4.5 million**), with one-third contributed by ICD & the remainder from the IDB*



Definition: The provision of technical expertise, means and/or know-how to assist in the preparation or implementation of a small to mid-sized firms, or to help develop the capacity of institutions.

# MAIN OBJECTIVES OF WEST AFRICA SME PROGRAM

To support SME private companies in Sub-Saharan Africa to grow & become stronger by helping them prepare sound & “bankable” feasibility studies, conduct internal capacity & governance gap analysis & provide recommendation to “close the gap”.

This will be achieved as follows:

- *Preparation or updating of pre-feasibility/feasibility studies*
- *Help in capacity building & development of private sector in Sub-Saharan Countries*
- *Visible & sustainable developmental impact (~2000 jobs, over \$40M in new sales)*
- *Improved financial returns for projects financed by IDB Group of ~\$20M over 5 years*
- *Improved access to Islamic finance, complementary to Group channel activities*
- *Vehicle to attract partners & donors & work with FIs on improving bankability*
- *Enhanced institutionalized knowledge of TA, which can be applied in other regions*

# CHARACTERISTICS OF PROGRAM

## Types of Technical Assistance

- Project-related TA: *This covers preparation of feasibility study & also provides them with integrated business consulting services*
- Corporate Related Technical Assistance Advisory: *It involves recommending a strategy & ways to improve internal Corporate Governance, operations &, provide support in implementing recommendations made in feasibility studies*

## ***Beneficiaries:***

All SME's private sector in Sub-Saharan countries may benefit from Technical Assistance Fund. However, priority will be given to the companies with high growth potential & its business contributes to the national development plans taking into consideration the Shari'ah compliance issues

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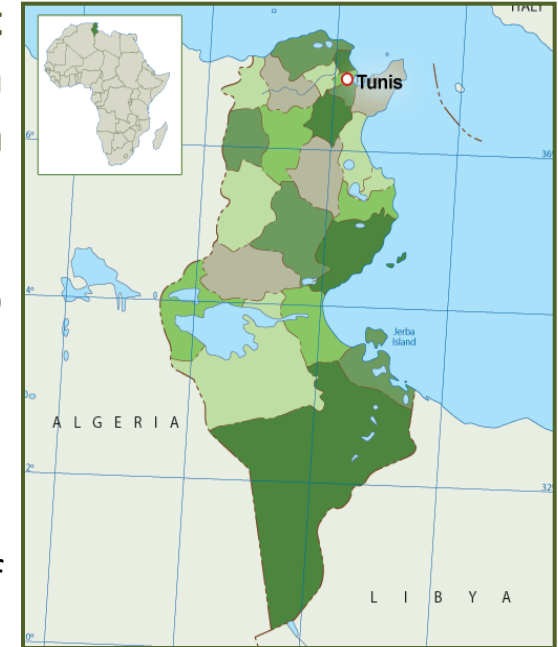
## Case Study | TUNISIA

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# TUNISIA

With strong economic reforms, well structured investment environment, young educated population, a strategic location & a new transparent government with pressure to deliver, Tunisia proves to be an attractive place to invest

- **Tunisia's new future:-** fertile ground for the SME sector to help contribute to lower the high unemployment rates of the youth and create cohesion between all levels and regions of society.
- **Strong competitiveness indicators:-** namely good governance, transparency in public institutions, and political feasibility of reforms
- **Access for Islamic Finance:-** Tunisia is increasingly becoming a destination for Islamic Finance tools with a strong local demand for such products.
- **Well positioned economy with proximity to major markets:-** proximity to major markets such as the EU and other MENA



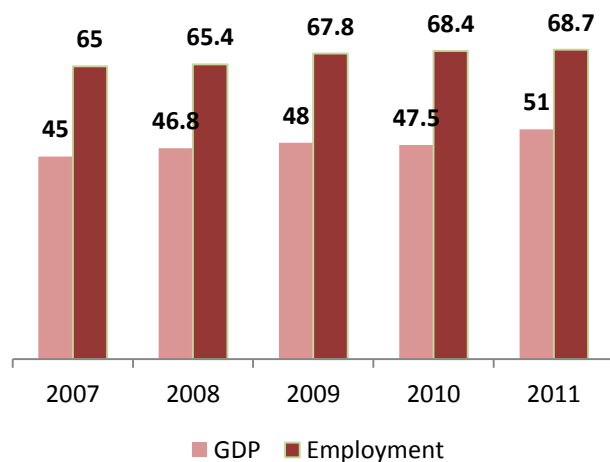
# TUNISIA : SME SECTOR KEY INDICATORS

- Long-term focus by government to develop SME sector dating to **early 1990's**

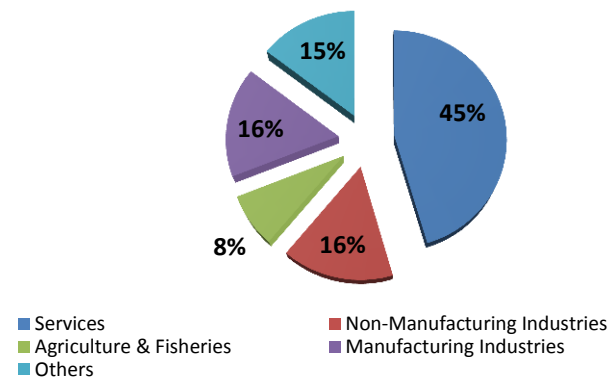
- 1st MENA-12** country to introduce SME dedicated bank (BFPME) 2005

- Efforts to address youth unemployment prompted FDI's and government to extend **financing guarantees** to banks offering loans to SMEs

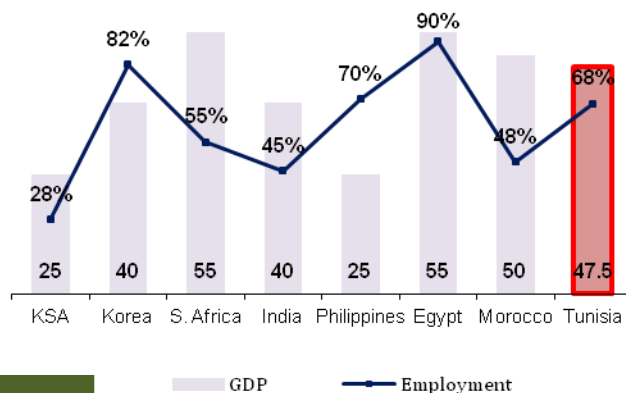
SME Contribution to GDP (%)



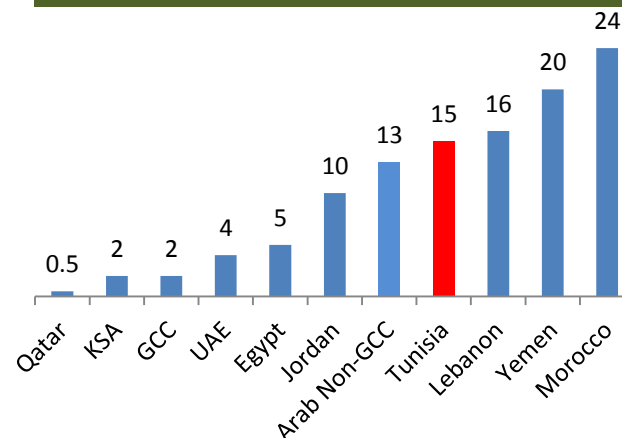
Contribution of SME to GDP by Industry (%)



SME Contribution to GDP & Employment (%)  
Country Comparison 2010



(%) Bank Loans to SMEs



(Source: ICD, EIU, IFC)



# RATIONALE OF THE FUND: DYNAMIC SMEs WITH DIFFICULT ACCESS TO FINANCING

**A high concentration of SMEs with few financing options, poor corporate governance and tremendous potential to contribute to the Tunisian economy presents a clear opportunity for an SME fund**

## Tunisia– Key Stats

- An estimated **60% of the population is under 30**
- Youth unemployment (ages 20-24) represents 2/3 of total unemployed
- Over 41% of those ages 15-19 expressed desire to leave Tunisia
- Over **412,000 jobs needed** just to reduce youth unemployment rates to about 13%

## High SME concentration, with strong potential to help reduce unemployment

- SMEs make up > 97% of businesses, contribute to 68% of employment & account for 45% of GDP

## Shortage of financing, with significant scope

- Loans to **SMEs account for only 15%** of the total loan portfolio of Tunisian banks
- When granted, loans to SMEs are done on **unfavorable terms:** short maturity, high interest rate

## Poor Corporate Governance and procedures

- Most of SMEs are Family owned business or Ventures with poor financial control and procedure
- No independent governing bodies representing Management on the one hand and shareholders on the other

**Clear Opportunity for the 50 Million TND SME fund**

Source : OECD | AfDB

## PROPOSED SME FUND TERMS

<b>Fund Sponsors</b>	ICD , CDC
<b>Fund Structure</b>	FCPR- Contractual Fund registered in Tunisia, regulated under <b>CMF rules</b>
<b>Fund Size</b>	<b>50 Million TND</b>
<b>First closing</b>	20 million TND shared between ICD and CDC
<b>Purpose</b>	Musharakah & Musharakah Mutanaqisah investments in SMEs in Tunisia in target sectors. The fund will primarily invest in minority stakes
<b>Investment Period/Horizon</b>	18-24 months   5 years
<b>Life of the Fund</b>	<b>8 years</b> from the initial closing date, subject to 2 one-year extension with the prior consent of the Trustee Committee
<b>Target IRR</b>	15%

- Upon Final closing ICD contribution shall be **no more than 30% of total commitment - TND 15m**

## DEVELOPMENT OUTCOME

**This Fund will have a positive impact on the Development of Tunisia by investing in roughly 28 companies thereby generating roughly 1000 jobs**

Development	How
<b>Job Creation</b>	The investment strategy targets growth transaction with equity financing geared towards expansion investments resulting in job creation
<b>Value Creation in under-developed areas</b>	The investment strategy targets transaction across the entire country
<b>Boost entrepreneurship spirit</b>	The fund may invest on a case by case in greenfield project and ventures
<b>Improve the corporate profile</b>	The ICD through the FM will enhance the processes of the investees and corporate governance

# THEEMAR SME FUND



**First Tunisian Shari'ah Compliant Small and Medium Enterprise (SME) Fund and Largest with a target size of TND50 Million (US\$30 Million)**

**Taking the lead initiative, Caisse Des Depots Et Consignations (CDC) and the Islamic Corporation for the Development of the Private Sector (ICD), and with support from KIPCO group and Albaraka Bank. The Fund Manager will be UGFS North Africa.**



كيبكو  
KIPCO  
شركة مشاريع الكويت (التأجير)  
Kuwait Projects Company (Holding)



البركة



الخليج المتحد للخدمات المالية شمال افريقيا  
United Gulf Financial Services North Africa

7.

## SUMMARY

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## SUMMARY

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- Increasingly apparent to governments that the **role of SMEs is essential to the development and growth of any economy**
- World is ever more globalized through the liberalization of national markets, growth of MNCs, increasing FDI activity , and strategic alliances, the SMEs sector has found itself competing beyond its borders to encompass the world market
- **MC governments must implement significant structural reforms.** These reforms should include liberalization of trade, a complete overhaul of the tax system, restructuring and improving financial sector regulation, and privatization of state-owned enterprises (SOEs)

## LESSONS LEARNED

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- **Research and Study:** Comprehensive research must be done to ensure proper intervention.
  - **Saudi Survey** (face to face interviews and questionnaire to SME owners)
  - Tunisia throughout field research where ICD experts **met with actual SME's** and other stakeholders of the SME ecosystem such as Government agencies.
- **SME Level Needs:** SMEs need an array of services but one for sure and that is finance.
  - **Equity** (with clear exit strategy)
  - **Islamic Debt Financing** offered through Local Islamic Banks or Windows
  - **Working Capital** offered through entities such as the ITFC
  - **Technical Assistance** offered by the main sponsors of the Fund
- **FUND Level Needs:** In order for an Islamic Fund to be successful it needs:
  - **Strong Strategic Partner** (government) that shares same objective
  - **Good Corporate Governance** Structure which helps to attract FDI, builds sponsor trust and facilitates IPO exits.
  - **Capable Local Fund Manager**

# OUTCOME OF SUCCESSFUL INTERVENTION

## OUTCOMES

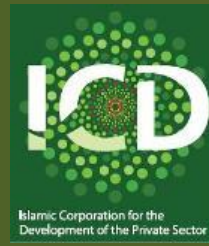
**Investment Opportunities** increase thereby attracting external investors to Islamic Products

Enhancement of **Capital Markets** by introducing Islamic SMEs by way of IPO and other listings

**Enhancement of the SME sector** thereby contributing to sustained development of the economy

**Enhancement of Private Equity** market and increasing Islamic Finance awareness and knowledge





## CONTACT

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KINGDOM OF SAUDI ARABIA

[www.icd-idb.org](http://www.icd-idb.org)

**Enabling Enterprise, Building Prosperity**

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