

Joint SDG Fund – Component 2 – SDG Financing

Template for the Joint Programme Final Progress Report (preparatory funding)

Cover page

Reporting period: June 30 – December 30, 2020

Country: Egypt

Joint Programme (JP) title: Catalyzing private investments for a green and competitive Egyptian economy

Short title: Private Sector SDG Financing in Egypt

List of PUNOs:

-Convening agency: United Nations Industrial Development Organization (UNIDO)

-Other PUNOs:

Food and Agriculture Organization of the United Nations (FAO)

United Nations Development Programme (UNDP)

RC (name): Elena Panova

Representative of Lead PUNO (name and agency): Bassel Al Khatib, UNIDO

Government JP Focal Point (name and ministry/agency): Hazem Khairat, Ministry of Planning and Economic Development

RCO JP Focal Point (name): Marwa Alameldeen **E-mail:** marwa.alameldeen@un.org

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Budget (Joint SDG Fund contribution): US\$ 5,000,000 (amount for preparatory phase: US\$200,000)

Budget Expenditures: US\$ 131,318

Delivery Rate 70.3% - Prep Funding Rate (%) =
$$\frac{\text{Expenditures PUNO}}{\text{Total transferred funds Jan 2020 to December 2020}}$$
;

Short Description of the Joint Programme (1 paragraph for each section)

This description will be used to update your country page in our online platform (please scan the website before answering) <https://sdginvest.jointsdgfund.org/proposals>

Financial leverage (estimated target in US\$): US\$ 114 mn

Challenge:

Green small and medium enterprise (SME) growth in Egypt's agriculture and manufacturing sectors is constrained by limited access to formal institutional finance and the lack of appropriate technical assistance (TA) and business linkages. In terms of the demand side, many SMEs in the agriculture and manufacturing sectors are informal and do not have the knowledge and capacity to satisfy banks' lending requirements. At the same time, SMEs in these sectors are often unaware of many financially attractive opportunities for green investments. As for the supply-side, limited SME finance and few international financial institution (IFI) programmes goes to green SMEs in the agriculture and manufacturing sectors. Furthermore, the majority of financial institutions (FIs) do not couple their finance with TA and private and institutional intermediaries have limited capacities to provide services dedicated to green SMEs in these sectors. This structural imbalance has

led to a huge financing gap between the supply and demand sides for green start-ups and SMEs in the agriculture and manufacturing sectors, and those led by women.

Innovation (financial instrument/mechanism/approach):

An integrated approach will be introduced to Egypt at first time, targeting green SMEs at different development stages in agribusiness and manufacturing sectors. This approach consists of three innovative components: 1) providing an opportunity for early stage investors to get a no-own-money-at-risk view into a potential investment pipeline; 2) taking advantage of a clustering approach that has not been explored hitherto and involving corporations and industrial parks to promote green SME development; 3) setting up a Guarantee Facility for agri-SMEs to reduce admin costs by eliminating separate institutional structures and reduce excessive requirements for secured lending in the sector and therefore incentivize portfolio expansion into green investments.

SDG Impact:

PUNOs will build on previous and ongoing successful experiences in Egypt and worldwide to help remove barriers to development of the green economy, including through TA, business linkages and capital mobilization for SMEs that contribute to sustainable food production (SDG 2), clean energy and resource efficiency (SDGs 7, 9), low-carbon development (SDGs 12, 13) and circular economy (SDGs 9, 12), with the ultimate aim of accelerating the achievement of the SDGs and national social, environmental and economic goals. The sectors of focus will be agriculture and manufacturing. The JP will provide dedicated support to women-owned/majority-staffed SMEs through tailored TA and financial instruments (SDG 5, 8). Additionally, partnerships between government, private sector, banks, and investors - including Development Finance Institutions (DFIs) and IFIs - for sustainable development will be strengthened (SDG 17).

Partners:

- Industrial Modernisation Centre (IMC)
- Egyptian Micro, Small and Medium Enterprises Development Agency (MSMEDA)
- National Bank of Egypt (NBE)
- African Development Bank (AfDB)
- Siemens

Final Progress Report (MAX 3 PAGES)

1.1. Progress achieved

I. Financial Vehicle Design

During the preparatory phase, an integrated financial vehicle has been designed. The proposed intervention is comprised of three components which aim at unlocking investments in green small and media enterprises (SMEs) with high SDG impact.

Component 1: Gender-Sensitive Technical Assistance & Matchmaking Supported by Seed Grants for Early-stage SMEs and Start-ups; by UNIDO and UNDP: This component involves two-interrelated actions:

Action 1: Technical assistance (TA) and matchmaking for green SMEs in the agribusiness and manufacturing sectors. The Joint Programme (JP) will create awareness about green investments and raise gender awareness among key stakeholders. The JP will also create additional capacity within relevant SME development institutions and further develop these using UNIDO's Computer Model for Feasibility Analysis and Reporting (COMFAR) as well as UNDP's impact management tool designed to assist SMEs to conduct self-assessments. In addition, the JP will transfer knowledge to financial institutions (FIs) and prepare a financing guide for SMEs. A portfolio of 140 green investment projects will be profiled with a typical investment between US\$ 100,000 – US\$ 1 million with an average capital of US\$ 300,000. Activities conducted during the preparatory phase identified US\$ 42 million as possible leverage from private investments based on these activities.

Action 2: A seed grant facility will be established to support early-stage businesses and start-ups, as a collaboration between exiting incubators and the UNDP Innovation Lab. Overall, up to US\$ 1.2 million of the total amount requested from the SDG Fund will be used for on-granting. The grant resources will leverage follow-on investment from angel investors and subsequently venture capitalists (VCs), whose investment enables commercialization. The combination of seed grants and angel/VC capital, along with value-add from key advisors, will jointly leverage commercial debt. The seed grant facility is expected to leverage investments for early-stage businesses and start-ups of US\$ 16 million.

Component 2: Green Industrial Financing Facility for Men- and Women-Owned SMEs (GIFFS); by UNIDO: GIFFS involves the design, setup and operation of a blended finance mechanism that will leverage the industrial cluster approach of the Government of Egypt (GoE) to support green SMEs. Long-term loans from large local and international investors will be provided to industrial park developers for the benefit of green SMEs. SMEs are expected to be able to use such finance to ease the high burden of upfront / shorter time periods they currently have to pay deposits to developers. GIFFS is expected to enable a structure of sufficient scale and creditworthiness to leverage private and development funding, and to have a long-term impact. Since the GIFFS envisages extension of finance for women-owned SMEs, gender-sensitive finance will be offered to ensure that women are well-represented, accounting for 30% of the JP beneficiaries.

Component 3: Flexible Guarantee Facility for Agribusiness Value Chains; by FAO: The financial mechanism proposed is a guarantee mechanism with fast start up and simple procedures that can be quickly operational and scalable. At least two selected partner FIs will be earmarking resources to build or expand a specialized green portfolio. The partner financial institutions will lend SMEs that comply with eligibility criteria of the JP and are appraised and approved using the existing FI lending policies. This facility has the scope to leverage US\$ 6 million from partner FIs. A demonstration portfolio of at least 130-150 agri-SMEs with estimated average underlying loan sizes of US\$ 50,000 equivalent will be financed through this facility, of which at least 30% will be women-led/owned/majority-staffed.

II. Assessment during the preparatory phase

Based on the funding received from the Joint SDG Fund, the PUNOs hired subject-matter experts to support the designing of the JP. The PUNOs held two consultative sessions to take stock of relevant ongoing efforts and strategize with potential partners in October 2020 – including during Egypt Entrepreneurship Summit 2020. In addition, more than 30 individual meetings were organized with various relevant stakeholders. The PUNOs engaged with various ministries, national authorities and private sector representation bodies, such as General Authority for Investment (GAFI), Micro, Small, and Medium Enterprises Development Agency (MSMEDA),

Industrial Modernization Center (IMC), Suez Industrial Development Company (SIDC), Egyptian Commercial Services (ECS), Suez Canal Economic Zone (SC Zone), Industrial Development Authority (IDA), Federation of Egyptian Industries (FEI), and Egyptian Junior Businessmen Association (EJBA) for the development of the various components of the JP.

Component 1- Gender-Sensitive Technical Assistance and Matchmaking Supported by Seed Grants for Early-Stage SMEs and Start-ups: Consultations revealed that there is a need for a comprehensive approach to support green Egyptian SMEs with specific focus on gender equity and TA. Furthermore, there was a consensus that there is a need to build the capacity for preparation of green investment proposals using tools such as COMFAR. The consultations also concluded that there is a need to improve investment promotion activities such as the organization of investment forums, which provide an opportunity to align three flows of investment (public, private and ODA) around priority sectors/projects. The seed grant facility is a partnership-based approach to successfully fund green start-ups. PUNOs have already engaged extensively with the incubators identified as candidate investment committee members. In addition, previous research led by PUNOs facilitated engagement with angel investing consortia, and preliminary discussions are underway. PUNOs have also explored partnerships with the European Investment Bank (EIB) and investment managers and incubators such as Catalyst and ChangeLabs. For setting-up the seed grant facility, there have been strong engagement and discussions with international financial institutions (IFIs) including European Bank for Reconstruction and Development (EBRD), African Development Bank (AfDB), Dutch Entrepreneurial Development Bank (FMO) and EIB.

Component 2- GIFFS: the concept has been developed and extensive concept testing discussions were held with a wide range of stakeholders across local FIs, development financial institutions (DFIs), government representatives, corporations in value chains and industrial park developers. These groups all indicated that such an approach is lacking and would add value to the Egyptian green SME financing landscape, notably for the manufacturing sector. The GIFFS will leverage a strategic partnership between UNIDO, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), and World Bank for the global guidelines of eco-industrial parks. While specific pipeline development has not been undertaken yet, it is confirmed from consultations that a wide range of SMEs can benefit from this facility. This has come up in discussions with the National Bank of Egypt (NBE), Credit Guarantee Company (CGC) and MSMEDA and with EBRD GEF which provides a high level of confidence in the ability to secure a good pipeline. A large share of industrial park tenants are SMEs where they utilize shared infrastructure and utilities.

Component 3- Flexible Guarantee Facility for Agribusiness Value Chains: design parameters and projections were completed based on consultations with potential domestic partner FIs, namely two commercial banks (NBE and Alex Bank), two monetary financial institutions (Lead Foundation and Alexandria Business Association) and the MSMEDA. All the above expressed interest in participation at the executive operational level (heads of credit department and, in the case of MFIs, managing directors) and alignment with their corporate strategic plans. Additional consultations were held with FMO, Rabobank and the AfDB as potential co-financing partners, who confirmed the JP alignment with their missions and impact targets and expressed interest in further exploring opportunities to blend the JP resources and/or provide TA to the JP beneficiaries. The existing Memorandum of Understanding signed by FAO with FMO and Rabobank will facilitate partnership implementation under this JP.

III. Investor mapping and matching

- Green Climate Fund (GCF) & Global Environment Facility (GEF) - (anticipated).
- Potential investors: International Fund for Agricultural Development (IFAD), AfDB - African Export-Import Bank (Afreximbank), EBRD, FMO - (anticipated).
- Potential National Financial Institutions: NBE, Export Development Bank of Egypt (EBE), Alex bank, The Sovereign Fund of Egypt (SFE), EFG Hermes - (anticipated).

1.2. Challenges faced

- **COVID-19:** The outbreak of COVID-19 has resulted in many difficulties regarding coordination, consultation and assessments in the programming phase. During the lockdown period, PUNOs rapidly utilized ICT tools such as Zoom to ensure that planned activities conducted in time.
- **Lack of awareness:** For some stakeholders, green growth is not their priority and main area of focus, particularly during the current pandemic. To ensure the financial vehicle designed by JP is attractive and feasible, the Ministry of Planning and Economic Development, JP main Government counterpart, as well as other key national counterparts, were involved during various development stages of the JP from the very beginning. Besides, a wide spectrum of consultations and dialogues with strategic Government partners, IFIs, private sectors and other stakeholders was conducted. All activities held during the preparatory phase were conducive to JP's effective implementation in the future. Also, in all meeting and consultation activities, PUNOs were keen to familiarize national counterparts with the importance of green growth dimensions and how it would help the country in achieving SDG targets and the country's national sustainable development strategy.
- **Time limitation for JP's development:** The duration of the preparatory phase was short, and that brought many challenges regarding consultation, programming, and resources mobilization, particularly in the current context of COVID-19 where communication and connection are highly impacted. To overcome those barriers, PUNOs set a clear timeline and collaborated with each other closely via regular coordination meetings. As for resources mobilization, PUNOs will leverage all the available channels to support the implementation of the JP, including many global donors in implementing programmes in Egypt with the same SDG impact target. Moreover, opportunities to cooperate and coordinate with a portfolio of more than US\$ 25 million of ongoing Technical Cooperation projects by PUNOs in Egypt were mapped and identified to support to the project implementation in the future. PUNOs also initiated dialogue with all relevant and active development partners to materialize cooperation proposals. This approach demonstrated high degree of success and supported the process of JP development and overcoming the time limitation.

1.3 Partnerships leveraged

Did you leverage new partnerships during the preparatory phase (e.g. government, private investors, IFIs, bilateral/multilateral banks, etc.)?

- Yes
 No

- **As members of the JP steering committee:** Ministry of Planning and Economic Development; Ministry of Trade and Industry; Ministry of International Cooperation; Ministry of Finance; Ministry of State for Environmental Affairs; Ministry of Agriculture and Land Reclamation
- **As partners on Components 1:** IMC; MSMEDA; eAswaaq Misr; Olam Spices; Siemens; Flat6Labs; Falak; ChangeLabs (letters of support were received from IMC, eAswaaq, Olam Spices, and Siemens)
- **As partners on Component 2:** IDA; SC Economic Zone; SIDC; NBE; EBE; EFG Herms (letters of support were received from all listed partners)
- **As partners on Component 3:** AfDB and MSMEDA (written statement of intent to collaborate once funding is approved was received from AfDB)

1.4. Co-funding mobilized

Source of funding	Yes	No	Type? (\$ or in kind support)	Name of organization	Amount (USD)	Comments
Government	<input type="checkbox"/>	<input type="checkbox"/>				
Donors/IFIs	<input type="checkbox"/>	<input type="checkbox"/>				
Private sector	<input type="checkbox"/>	<input type="checkbox"/>				
UN/PUNOs	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<i>In kind</i>	<i>UNIDO, UNDP, and FAO</i>	<i>980,000</i>	<i>UNIDO-500,000USD UNDP-130,000USD FAO-350,000USD</i>
Other partners	<input type="checkbox"/>	<input type="checkbox"/>				

1.5. Budget changes (if relevant) - NA