

Funding and Investing in MSMEs for Advancing Financial Inclusion in the Middle East and North Africa Region

Interview with Babette Stein von Kamienski, SANAD Board Member and Head of Division for Infrastructure in Southern Africa with KfW

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[Interview in Arabic](#)

Photo credit: KfW, 2018.



Babette Stein von Kamienski is Member of the Board of the SANAD Fund for MSME in the MENA region and since 2016, she is KfW's Head of Division for Infrastructure in Southern Africa with a portfolio of approximately 1.5 billion euros focusing on renewable energy, energy efficiency, water, and transport. Babette joined KfW in 1993 and has managed various workstreams. Prior to her current role, she headed KfW's team on Education and Economic Development for the MENA region and was involved in financial systems development, education projects, and crises programs for Syrian refugees. Babette was also responsible for the Policy Team of KfW Development Bank's Strategy Department developing corporate policy for national and international development organizations between 2001 and 2005. Prior to KfW, Babette worked with UNIDO developing, evaluating, managing, and monitoring technical assistance projects specifically targeting women entrepreneurs. She holds an MA in Anthropology, Psychology and Psycholinguistics from the University of Munich.

In your opinion, how does MSME funding contribute to financial inclusion?

Micro, small and medium enterprises (MSMEs) represent a backbone to the economy in the Middle East and North Africa (MENA) region and comprise a significant share of all businesses. In some countries, they even make up the clear majority. That also means they are responsible for a considerable proportion of national employment. And yet, MSMEs are still notably underserved by the financial sector. There are certainly microfinance institutions in the region; but the financial products they offer are geared primarily toward startups. On the other end of the scale, we have large banks, which do not typically focus on MSMEs. So, when entrepreneurs outgrow microloans, but are not yet large enough to turn to conventional banks, they can have difficulty accessing financing that fulfills their needs. We call this the “missing middle.”

By providing financing specifically customized to the requirements of these businesses, the [SANAD Fund for MSME](#) helps ensure the continued existence and growth prospects of this key sector of the economy. This in turn fosters job creation and retention and contributes to overall economic growth and stability.

From your experience in the region, what are the key opportunities and challenges facing the growth of MSMEs?

Let’s start with the challenges. First and foremost, access to proper finance is a considerable hurdle. This applies to MSMEs as mentioned above, where small and medium-sized businesses are lost in the gap between microcredit and large banks – and more so for rural customers. It’s hard to find and weigh your financing options when the nearest bank is 80 kilometers away from you. Moreover, women entrepreneurs are considerably underrepresented among business owners and often face special difficulties in acquiring debt capital.

Other challenges are posed by an often volatile economic and operational environment. Inflation is an issue in many countries. Exchange rate fluctuation especially affects the important import and export sector, where SMEs are heavily represented. Exchange rate volatility is also difficult for business owners who take out loans in a foreign currency: they need to pay off foreign-currency debt using income made in the local currency.

In addition, MSMEs often grapple with insufficient infrastructure for financing their businesses, such as online banking or speedy and reliable money transfer. And finally, not all legal regulations are conducive to MSME finance: Licensing restrictions, for example, can make it difficult for small-scale banks to enter the market and provide a competitive incentive for portfolios to include MSME-appropriate credit lines.

These challenges, however, simultaneously represent clear opportunities for growth in the region. SANAD is particularly well-equipped to fill niches in the market, starting with our focus on MSME financing in MENA. Egypt, for example, is an enormous market with huge potential – a country of 105 million people with a large unmet demand for financial services for entrepreneurs.

But the opportunities to strengthen this sector go beyond direct funding. Technical assistance at our disposal helps SANAD address capacity needs among not only partner institutions, but also regulators and other policymaking bodies, such as central banks. Financial technology is also something we promote heavily: Fintech provides great solutions for bridging infrastructure gaps, making finance more accessible to rural populations, and even helping, for example, refugees attain credit for establishing a business or a home. SANAD works with local initiatives and incubators to promote the development of fintech in the region, in addition to bringing best-in-class fintech companies from abroad to work in MENA.

Agrifinance is another area of opportunity. We have the tools and networks to reach out to farmers, especially those in rural areas, and help them strengthen their businesses. Finally, there is a market for low-cost housing, for which SANAD also facilitates targeted financing.

What are the main tools and mechanisms used by SANAD to promote MSME funding and employment creation in the region?

That’s a good question. Let’s talk about how SANAD works.

We believe strongly in responsible finance. Strengthening the local financial sector and enabling borrowing in local currency are two important pillars for ensuring a sustainable, responsible lending environment. To that end, we deploy three main instruments toward our mission of boosting MSME development in MENA: debt financing, equity financing, and technical assistance.

SANAD’s debt financing predominantly takes place through local financial intermediaries. These are partners who share our mission and values, and whose great advantage is their direct access to our target groups as well as their local market knowledge. We don’t try to step in from abroad; we utilize and support local financial infrastructure.

It’s also important to mention that much of our lending takes place in local currency. SANAD’s fund structure includes a special share class, the “L-shares,” that enables this. The L-share class provides a risk cushion, supported by the German government, that absorbs exchange rate fluctuations and allows vulnerable small business owners to borrow in their own currency. Doing so protects them from the vagaries of currency ups and downs, which can really put a heavy strain on a small business.

In addition to debt financing, SANAD also operates a very important Equity Sub-Fund. We not only lend through our network of local financial institutions, we also invest directly in existing and new businesses that help meet MSME needs. This especially demonstrates that we are prepared to step in and create Greenfields. For example, as soon as new microfinance regulations in Egypt allowed for commercially run MFIs, we established a new credit institution together with local partners to address considerable unmet demand in the country.

In addition, SANAD has a well-established Technical Assistance Facility, or “TAF,” that is actively engaged in providing support beyond financing. The TAF is there to help the financial sector build its capacity for MSME financing. This can take the form of training for loan officers, information sessions for central banks, or conferences bringing together influential players around the financial sector to increase awareness of the need for, and special considerations involved in, MSME funding. The SANAD TAF also works directly with businesses to help give them the edge they need to succeed. Through the SANAD Entrepreneurship Academy – a branch of the TAF that focuses specifically on empowering entrepreneurs in the region – we sponsor and run programs such as financial literacy training and business acceleration. The Entrepreneurship Academy also helps connect promising startups to funding, mentorship, and networking opportunities.

TAF also actively drives fintech initiatives. We work with local incubation and acceleration organizations to seek out the most innovative technological solutions for financial inclusion, and then we encourage them with pitching events to meet investors and with business training to develop their businesses or – in the case of startups – to get their ideas investment-ready.

What are SANAD’s key achievements to date?

Well, so far, the SANAD Fund for MSME has created 50 thousand jobs and sustained another 270 thousand jobs. In the seven years since the fund’s inception, our debt financing has enabled end-borrowers to take out over 170 thousand sub-loans to finance their businesses and housing. Our more than 150 SANAD TAF projects have benefited over 5,000 people and 115 partner institutions.

But those are just the numbers. Let’s talk about how we’ve achieved this impact.

We’ve recently had a couple of equity investments of which we are particularly proud. Last year, we launched [Sanadcom for Business Finance](#) in Jordan together with Microfund for Women and Women’s World Banking Capital Partners. Sanadcom for Business Finance is an SME lender that not only addresses the “missing middle,” it especially caters to women entrepreneurs. Although only 5% of female business owners in Jordan are women, one-fifth of Sanadcom’s clients are women – and this number is growing.

Just last spring, we joined forces with the Arab African International Bank to establish [Sandah for Microfinance](#) in Egypt, the first internationally backed institution to open its doors since the Egyptian Financial Regulatory Authority introduced its new microfinance framework. Sandah is particularly well positioned to serve micro and very small enterprises in so-far underfunded areas.

Speaking of achievements, the SANAD TAF, and its Entrepreneurship Academy, have been very active recently in supporting entrepreneurs. Just last year, we followed up on the successful [“Fincluders”](#) competition for fintech startups by offering these promising businesses a “Fincluders Bootcamp” – two weeks of intensive training to get these innovations ready for the market. The TAF also piloted a project to [provide Syrian refugees with digital identities](#) to allow them access to loans – for starting a business, establishing a home, or otherwise improving quality of life and supporting their integration into the local community.

Furthermore, we recently partnered with [Mowgli Mentoring](#) to give one-on-one coaching to Syrian refugees looking to start or grow a business. We were also proud sponsors of the 2018 Young Entrepreneurs Awards Egypt, which not only showcased the next generation of business owners to investors, banks, and government representatives, it also gave them a chance to win funding and nonfinancial support. The top prize went to a woman, by the way. There was also the Cairo event we sponsored together with [Falak Startups](#), where 15 promising new businesses from all over Egypt presented their business models to ministers, potential investors, and other key players in the Egyptian entrepreneurial scene.

And finally, we supported the inaugural edition of the [Arab Financial Inclusion Innovation Prize \(AFIIP\)](#) whose winners were announced at the closing ceremony of the 2018 Sanabel Conference held in Amman, Jordan in early November.

How about SANAD’s future plans?

Our plans are ambitious and given our track record and momentum, we are quite confident of generating a significant positive impact in the next few years in the MENA region.

In terms of employment, our aim is to create another 100 thousand jobs, and sustain an additional 180 thousand, over the coming five years. We have just set up a successor equity sub-fund to continue to invest in equity projects over the next 5-6 years.

And of course, we will continue to invest on the debt side. That means continuing our successful partnerships with local financial intermediaries, in addition to intensifying our product suite in agrifinance and low-cost housing.

As always, the SANAD Fund has its eye on innovation. The region is developing at impressive speed and needs are diverse when it comes to supporting local businesses. We are always on the lookout for opportunities to extend our product offering to suit the demand of our stakeholders – whether these are end borrowers seeking funding, partners wanting to expand their portfolio, refugees looking to make a living, entrepreneurs in need of business coaching, or fintechs poised to make a difference in financial inclusion.

These investments and expansions reflect SANAD’s position that we are in it for the long term.

SANAD (which means “support” in Arabic) was initiated by [KfW Development Bank](#) as a public-private partnership model. Funded by the [German Federal Ministry for Economic Cooperation and Development \(BMZ\)](#), [the European Union](#), [the KfW Development Bank](#), [Switzerland’s State Secretariat for Economic Affairs \(SECO\)](#), [the Development Bank of Austria \(OeEB\)](#), [the German GLS Bank](#) and [the Dutch Development Bank \(FMO\)](#). The Fund is open to development finance and international financial institutions as well as private investors. SANAD is advised by the impact investment company [Finance in Motion](#).