



MED MSMEs

Policies for inclusive growth

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SUPPORT TO AN ENABLING BUSINESS ENVIRONMENT FOR MSME DEVELOPMENT & FINANCIAL INCLUSION

FROM POLICIES TO IMPACT

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TAKING A FRESH LOOK AT MSME POLICIES AND REGULATIONS TO ADDRESS NEW CHALLENGES

After times of uncertainty, the second half of 2021 marked a notable inflexion point: the acceleration of the vaccination campaigns in the EU South Med countries contributed to building immunity and helped dispel the spectre of a global economic collapse. Retail outlets are reopening, production lines rumble again and logistic chains grease the wheels of the ramping-up internal and - to an extent - external trade. If the world economy remains far from its pre-COVID performances in terms of trade and investment, the bold, swift, and comprehensive public responses introduced as early as March 2020 helped enterprises withstand the storm with less-than-expected collateral damages.

In 2022, most of the South Med countries are anticipated to record a 3 to 6%¹ growth in GDP and post-COVID measures flourish to take advantage of the revival. But they come in a context of radical shifts in demand, buying patterns, value chains², and the growing imperative to accelerate the green transition and preserve biodiversity. Adding to complexity of change management, the return to growth generates tensions around the price of energy, commodities, and logistics, thus feeding inflationist pressures, a resounding reminder of the “world before”.

The light at the end of the tunnel therefore comes with a burning question “How to draw lessons from the crisis, and ensure that future growth will generate inclusiveness and sustainability?”

First, by relying more than ever on entrepreneurs and MSMEs: be they traditional or social enterprises, mature businesses or unicorns-to-be, their capacity to innovate during the crisis, their agility to reshape business models and their territorial anchorage, altogether confirmed their central position in driving competitiveness, resilience, job creation and social cohesion. Second, by assisting MSMEs in surfing the current knowledge/digitalization/disintermediation wave, a transformation that is not new - as it dates back from the 2010s - but that has been fast-tracked by the pandemic.



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¹ Middle East and Central Asia Economic Outlook - At a Glance - IMF Data

² McKinsey, December 2021, Coronavirus' business impact: Evolving perspective | McKinsey

All this requires taking a fresh and bold look at policies, regulations, and instruments in place, to better respond to new challenges. Taking a reflexive look at policies is what the EU did, with the adoption of the new Industrial Strategy, the new SME Policy, the agenda for the Mediterranean and the Green Deal. Policies will support investment and trade along the lines of digital transformation, reshoring, resilience, and green transition, in view of generating inclusive growth that focus on people, youth and women in particular. This dynamic also reaches the shores of the EuroMed and will generate a wealth of opportunities provided that policies, regulations and instruments are in place.

While we are shaping effectively our future, enriching our experience, and helping each other to succeed, the MED MSMEs Team wishes you a new year filled with happiness and prosperity.

Thanks to all our colleagues and partners!

The MED MSMEs Programme aims at contributing its share to the dynamic with the contribution of more than 300 stakeholders, coordinated at national level by the National SBA Coordinators. The Programme mobilized expertise to support an informed dialogue on frontier topics selected in close collaboration with the South Med Partner Countries: “supporting SME exports through digitalization”, “upscaling the impact of micro-finance on the MSME financing”, “awareness on open banking and fintech”, and “boosting guarantees for impact” are the challenges that we will keep on addressing collectively in 2022.



Christophe MALHERBE
Team Leader

SUPPORTING NATIONAL DIALOGUE TO INFORM THE REGIONAL MSME POLICY AGENDA

After 12 months of relentless commitment to support dialogue on priorities at national level, key recommendations to facilitate access to finance and internationalization were issued by the Programme’s experts and discussed with more than 300 policy makers and private sector representatives in the course of September 2021.

These recommendations were issued based on the dedication of the national SBA Coordinators, who formed and animated working groups on internationalization and SME access to finance, two remaining stumbling blocks for MSME development, employment creation and competitiveness in the South Med countries.

These working groups included notably the representatives of the Ministries of Economy or Industry, Ministries of Trade, relevant SME support agencies, Central Banks, non-bank regulators and private sector representatives. The participation of EU Delegations to the national events also brought instrumental inputs and facilitated the articulation of the Programme’s activities with the bilateral cooperation.

In total, 21 working groups were held to discuss national policy papers and roadmaps developed by experts, with a question in mind: how can the regional approach facilitate addressing national priorities? Peer-to-peer exchanges, sharing of experience, highlighting of good practices and vivid inter institutional and public-private debates allowed producing specific and actionable recommendations that were presented to the UfM and DG GROW as an input for the preparation of the new Regional Platform on Industrial Cooperation Work Programme (2021 – 2024).

The two reports presented were rich of more than 20 recommendations on topics cutting across the region. They have been selected based on interest marked by three countries or more, value addition of the regional lens, ensuring non-duplicability and contributing to a possible catalytical effect on the mobilization of resources at the national and regional levels.



As regards access to alternative and innovative finance, three key areas were highlighted addressing the following questions: what policies and regulations are needed to enhance the role and impact of the microfinance sector to address the needs of underserved segments (notably the “missing middle”)? How can the South Med countries take advantage of the Fintech and open banking revolution underway? How to replicate the South Med success stories of the regulatory sandbox in other partner countries? And How could a regional counter-guarantee or risk-sharing mechanism contribute to enhance financial inclusiveness? Report on Access to Finance [HERE](#).

As regards SME exports, the Programme has issued a series of specific recommendations to strengthen SMEs exports in the EU South neighbourhood region, including making knowledge more reliable and accessible by establishing systems for collecting and reporting on SMEs export statistics; raising awareness on shifts in global value chains and policy responses (e.g. COVID-19 and GVCs, supplier diversification) and opportunities for export of tradable services in the EU and Africa. MSMEs Export Regional Report [HERE](#).

SBACs advocated to have these recommendations taken into consideration in the upcoming UfM RPIC Work Programme so as to ensure sustainability on these specific topics.

PUSHING MICRO FINANCE TO THE MAINSTREAM

The development of Microfinance is critical to the development of SMEs in the South Mediterranean partner countries. The MED MSMEs Programme continued its activities to reinforce the Microfinance services. The latest activity was the organization of a webinar on 28 October 2021 gathering 42 participants to discuss the best ways to upscale the Microfinance lending services using the findings of a study commissioned by the MED MSMEs Programme: The policy reforms in each partner country can be inspired by the exchange of best practices and the creation of direct links between the local micro finance associations and the European Microfinance Network can add significant value. Also, digitalization and utilization of Fintech services can reduce the loan application fees and facilitate the establishment of mechanisms for better management of the portfolio risk.

Practically, the experts at the MED MSMEs Programme have developed a set of tools to push these efforts including a matrix presenting the available policies and regulations related to the micro finance sector

and services in the South Med countries, summarizing the availability of good practices and opportunities for improving policies with the utmost goal of upgrading access to alternative finance for MSMEs. These efforts are completed by the development of the online regional survey for collecting data on the MF institutions and sectors at national level in the South Med countries for improving services of MFIs.

Facilitating Small Enterprise access to finance by scaling up innovative FIs key findings



DEVELOPING A REGIONAL RISK-SHARING MECHANISM TO ENHANCE THE IMPACT OF SOUTH MED GUARANTEE COMPANIES

Guarantee funds have proven to be powerful tools to respond to the challenges raised by the pandemic. In a context of sluggish economic activity, they contributed to address the needs of cash squeezed MSMEs by increasing guarantee coverage, supporting loan rescheduling, and launching innovative guarantee products encouraging financial support to MSMEs throughout the crisis. In that respect they ensured the continuity of essential services, secured employment and preserved productive capital.

Taking stock of the responses highlighted by the EuroMed Guarantee Network ([EMGN](#)) in a comprehensive study issued in May 2021, the MED MSMEs Programme initiated a survey that will contribute to assess the relevance of a Regional Risk-Sharing Mechanism (RRSM) in supporting South Med guarantee companies in developing their operations towards the underserved segments of the MSME market, including youth and women-led enterprises, start-ups and the semi-formal sector.

The results of the survey will help scoping the plans and needs of the national guarantee companies over the medium term and highlighting the common challenges that could be better addressed by a regional risk sharing mechanism. The survey will be completed by bilateral consultations shading a light on the preferred features of such a mechanism. The outcome of the consultations will give rise to a draft term sheet that will be discussed with EMGN members. In a first Phase the MED MSMEs Programme shared the conclusions of a study highlighting previous experiences in other parts of the world, showing that such regional risk sharing mechanism can efficiently encourage guarantee companies to stretch their interventions towards underserved segments of the market (small enterprises, social enterprises, entrepreneurs, women in business, informal sector, etc.) You can find the study [HERE](#).



◆ THE PSD2 AND HOW TO BUILD ON PREVIOUS EXPERIENCE

The MED MSMEs Programme focuses on taking advantage of the EU PSD2 (**Payment Services Directive Two**) experience to inspire regulators in the Southern Mediterranean and to assist Southern Mediterranean countries to catch up with the digital revolution.

The Programme initiated the dialogue on the new EU PSD2 legislation to pave the way for policymakers and regulators in the South Med region to accompany the current and unavoidable evolution towards the “banking 4.0” and to facilitate access to finance for MSMEs and entrepreneurs in the Southern Mediterranean, notably through Fintech. The Programme is using a three-staged approach by providing support in the adoption of the PSD2 mechanism, the implementation of open banking and disseminating ideas of branchless banking, and providing a roadmap to reach these objectives through Public and Private dialogue on the national and regional level PSD2 is the European Union’s second Payment Services Directive. With consumer permission, it will allow non-bank institutions, such as merchants, to retrieve data about consumers from banks. This sharing of data will allow additional banking services, including more products for small businesses, leading to increased economic growth and employment. This directive requires banks to open their payment infrastructure and customer data to accredited organizations (third parties) through Application Programming Interfaces (APIs) that provide a secure data exchange environment.

There is an important potential to develop businesses on many levels: Access to payment data allows registered non-bank financial institutions, from Fintech start-ups to retail and big tech companies, to access big data from Europe’s large financial institutions based on which they can develop and offer customized products and services. Those products and services can help integrate MSMEs, notably those operating locally, into value chains and improve their bankability and access to finance.



PARTNERSHIPS UPDATES

To ensure complementarity and generate synergies, the Programme's activities are articulated with other regional EU Programmes, and notably the Trade and Investment Facilitation Mechanism-TIFM ([EuroMed Trade Helpdesk](#)) managed by ITC and the [EBSOMED](#) coordinated by BusinessMed.

The recommendations of the two regional reports on policies for enhancing MSME Access to Finance and SME Export allowed also informing the dialogue on the priorities of the upcoming work programme of the UfM Regional Platform for Industrial Cooperation on SME development (co-chaired by [DG GROW](#)).

At national level, close coordination has also been sustained with EU Delegations to ensure the alignment of interventions with the bilateral cooperation and pave the way for potential follow-on activities capitalizing on the regional practices disseminated; the involvement of the EU Delegations as observers in various working groups may notably facilitate the scaling-up of some pilot projects.



Union for the Mediterranean
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الاتحاد من أجل المتوسط

LEVERAGING DIGITALIZATION TO CAPTURE THE NEW OPPORTUNITIES TO DEVELOP SME EXPORTS

Digitalisation is the process of replacing manual business processes with digital solutions. This type of innovation affects all aspects of enterprises and their operational environment. In the export sector, among others, it facilitates SMEs' access to information, enables faster and cheaper transactions, and develops new ways of promoting products and cross-border collaborations.

In this area, the MED MSMEs Program intervenes to support the revision of exporting SMEs' regulatory frameworks and support strategies. The objective is to support their adaption to the digitalization requirements and to facilitate access to digital services and tools, thus improving the business environment of exporting SMEs.

Case studies from various countries (Italy, France, Germany, Ireland, Estonia, South Korea, Malaysia, New Zealand, Ecuador, Morocco) - illustrating how digital transformation in action can serve exporting SMEs - were developed and disseminated through workshops mobilizing institutional and export actors in some of the Programme's partner countries (Jordan, Lebanon, Morocco and Tunisia).

Support actions are being launched in Jordan, Tunisia, Morocco and Palestine, respectively in the areas of simplification and digitalization of foreign trade procedures, digital transition of exporting SMEs in the agri-food sector, the establishment of a digital platform for the promotion of export support instruments and services, and the updating of the national export strategy.

The results of these actions will be disseminated and feed peer-to-peer dialogue during regional and sub-regional meetings planned in 2022.

Leveraging digitalisation to capture new opportunities to develop exports of Lebanese SMEs



Programme implemented by

