

MEDADRION

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Campus Universitario di Coste Sant'Agostino
Sala delle lauree - Facoltà di Giurisprudenza

***The Mediterranean Business Development Initiative
(Med Initiative)***

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Content

- Theory
- Objective
- Diagnostic
- Framework
- Guiding Principles
- Interventions
- Next Steps
- Research, Policy and Political Process
- Conclusions

Theory

- The central contention is that **small firm**, home of the independent **entrepreneur** and the independent **inventor**, has been the primary source of the technical ideas and innovations that serve as the foundation for the **unprecedented growth** performance of the world's industrial economies (Baumol)
- A functioning financial system allows **access to finance** for firms and entrepreneurs and promote economic growth (Schumpeter)
- Lessons from Development Economics: Participation

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Objective

Fostering MSMEs (micro, small and medium sized enterprises) activity in the Mediterranean region:

- o supporting financial market development
- o promoting economic growth
- o creating jobs and
- o increasing welfare

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Diagnostic in Major Mediterranean Countries

- Micro and SMEs (MSMEs) constitute 99% of Med firms and provide 2/3 of total employment
- The region is facing the challenge of creating from 30 to 40 million jobs before 2020 to maintain unemployment rates at present levels
- Difficult access to financing for MSMEs

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Diagnostic: Access to financing for MSMEs in the Mediterranean

- Prior to the current crises, excess of liquidity in most Med markets together with a **difficult access to financing for MSMEs** → 75% are internal funds
- Banking finance remains the main source of external finance for MSMEs (12%)
- The current situation worsens it:
 - Decrease in capital inflows
 - Declining in investment
 - Reduction in remittances

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Diagnostico

Micro, Piccole e
Medie Imprese

Attivita' che
generano reddito
(IGA)

Attivita' che
generano
Crescita
(GGA)

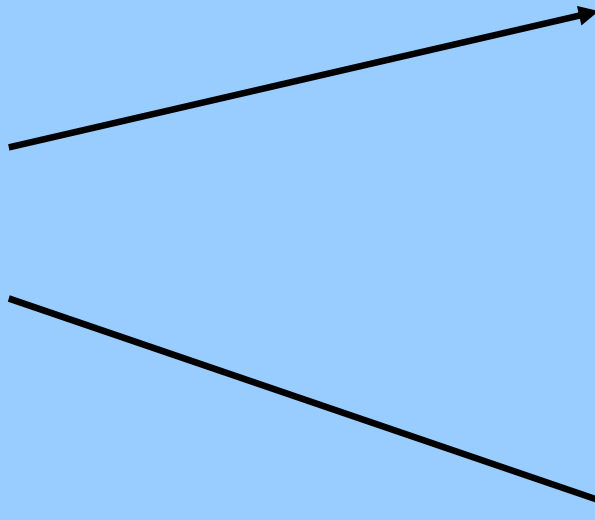
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Diagnostic

Micro, Small and
Medium
Enterprises

Income
Generating
Activities (IGA)

Growth
Generating
Activities
(GGA)



Framework: A Wide Spectrum of Challenges

Small and Medium Entrepreneurs with innovative and riskier projects that would generate growth but with limited access to finance (e.g., due to lack of collateral)

Targeted and Innovative Financial Support and Technical Assistance



Small and Medium Entrepreneurs with some growth potential and having limited access to finance

Limited financial support; TA direct to improve project and risk analysis of various players



Existing and Potential Micro Entrepreneurs almost exclusively dedicated to income generating activities

Widespread Support with Financing and Technical Assistance



Quadro di Riferimento

Imprenditori con progetti innovativi e rischiosi
che generano crescita, ma che non hanno
finanziamento (es. mancanza di garanzie)

Sostegno finanziario e Assistenza tecnica



Imprenditori con un certo potenziale di
crescita, ma con limitato accesso al
finanziamento

Assistenza tecnica per l'analisi del rischio



Micro Imprenditori con attività che
generano reddito

Sostegno finanziario diffuso e assistenza
tecnica

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Guiding Principles

- Ownership (political and operational)
- Market oriented and market driven
- Additionality/Value added

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Inclusiveness: Union for the Mediterranean

Member States

- Spain
- Italy
- Others: France, Portugal...

EU Institutions

- EIB (FEMIP)
- European Commission

Countries of Operations

- Morocco
- Tunisia
- Algeria
- Egypt
- Other Countries and Institutions

Matrix of Interventions

		Tunisia	Morocco	Algeria	Egypt
Bank Financing	Guarantees Schemes	Technical support for project analysis and use of guarantee		Assistance to the Government for studying the establishment of a legal framework for mutual guarantee societies (MGS) and counter guarantee public societies (CGPS)	A counter guarantee facility could support the local guarantee system.
			Possibility of guarantee related to the uncertainty of the judicial process		
		Co-participation in existing guarantee schemes	Co-participation in existing guarantee schemes- Caisse Centrale de Garantie		
	Local Currency	Competition with banking cost; exchange risk	Technicalities to explore further		
	Technical Assistance	Technical Assistance to Companies for financial package	Technical assistance to companies to assemble financial packages and also to monitor during implementation	Technical Assistance to Companies for financial packaging and project preparation and to banks for evaluation of risks. Co-operation with programmes of the Central Bank to help changing the banking culture.	Support to the expansion of credit Bureaus
Non-Bank Financing	Financing thru Capital Markets	Technical Assistance Investment companies	Technical assistance indebted companies		Technical Assistance to SMEs (financial packaging and project preparation) and banks (project valuation and risk analysis)
					Securitization cash flows of SMEs
					Investment in innovative Start ups with Young Entrepreneurs association
		Securitization cash flows of SMEs		Possible in the long term with participation of appropriate institutions	Technical assistance for the creation of a special listing of SMEs on the stock exchange (NILEX)
		Creation of a fund to support liquidity of shares of SMEs listed in a special listing of the stock exchange	-	Possible in the long term with participation of appropriate institutions	Creation of a fund to support liquidity of shares of SMEs listed in the NILEX
	Direct Financial Support to SMEs	Financial support to Investment companies to exit from given investments in SMEs	Financing and restructuring for SMEs heavily indebted	Possible in the long term with participation of appropriate institutions	
MFIs	Financing and Refinancing Micro finance institutions and micro entrepreneurs	Through the intermediation of Banque de Solidarite Tunisienne (BST) or directly to local Micro financial institutions	Participation to Jaida (existing fund to finance Micro financial institutions)	Possible in the long term with participation of appropriate institutions	Participation in existing funds to finance Micro financial institutions
	Studies and Research	Development Insurance Market for micro entrepreneurs	-		Insurance markets
Industrial Cooperation		Development cooperation in advanced areas of innovation such as nano technology, tourism, agro business		Development cooperation for entrepreneurs in specific sectors, e.g., artisan	
		Granting market access to products of the companies of the Mediterranean and particularly of the South			
Policy Advice		Constitution of an Unit able to provide policy advices to the governments and support the coordination among different interventions.			

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Intervention: Market Niches

- Generate collaterals and guarantee schemes to facilitate the access of SMEs to banking financing
- Develop alternative financing sources:
 - ➡ Leasing and factoring
 - ➡ Equity through venture capital
- Support microfinance institutions (MFI) in accessing private capital
- Provide Technical Assistance

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Intervention: Financial Instruments

- Credit guarantee schemes
- Funds to venture capital (private initiative)
- Refinancing MFIs (with market criteria)
- Targeted technical assistance

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Intervention: Financial Instruments

- **Bank Financing:**
 - Guarantees, Credit Guarantee Schemes
 - Local currency
 - Technical Assistance
- **Non-Bank Financing:**
 - Capital market
 - Direct Support (Funds for Venture capital)
- **Microfinance:**
 - Re-financing MFIs
 - Instruments Development (savings, insurance)
- **Technical Assistance**

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Next Steps

➤ **Feasibility study**, financed by the EIB through the FEMIP Trust Fund:

- Validate the diagnostic and needs identified as well as the specific instruments chosen
- Elaborate the business plan
- Define the operational structure (financial and human resources including the local structure); Governance

Outcome expected by December 2009

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The Political Process

- Ibiza Summit, February 2007: Mandate by Italian and Spanish Prime Ministers
- Presentation in ECOFIN-Euromed, September 2007. Support by ECOFIN of May and October 2008

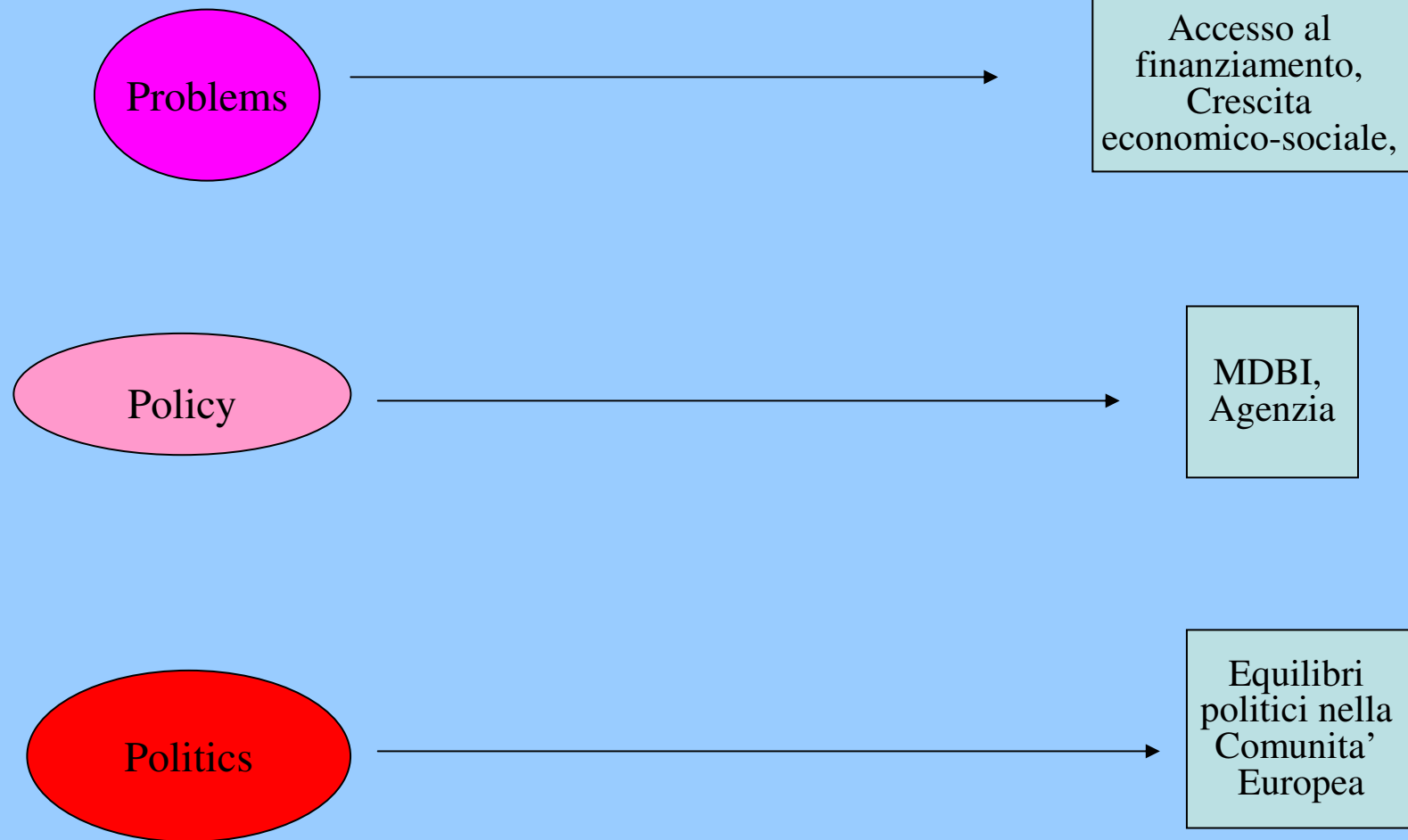
**Priority Project within the Union for the
Mediterranean, July 2008**

Kingdon's Model

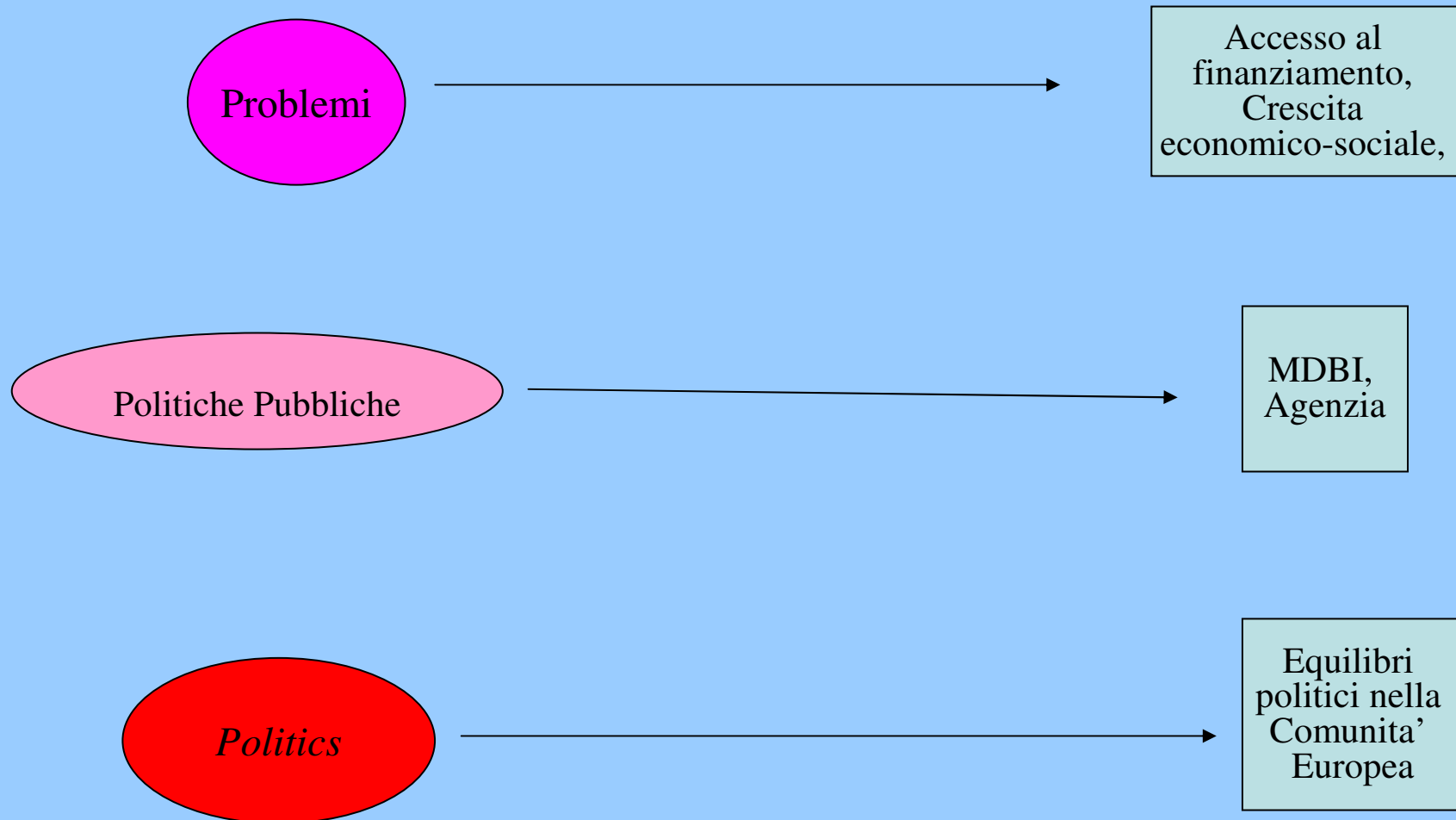
- Kingdon's model focuses more on the flow and timing of policy action than on its component steps and it is extremely useful in understanding the complexities and realities of policy-making. In his model, Kingdon emphasizes three streams: the *problem* stream, the *policy* stream, and the *political* stream, which move independently through the policy system.
- *The stream of problems.* The rationale behind this stream is that a given situation has to be identified and explicitly formulated as a problem for it to bear the slightest chance of being transformed into a policy. Indeed, a situation that is not defined as a problem, and for which alternatives are never envisaged or proposed, will never be converted into a policy issue.
- *The stream of policies.* The second stream used to explain how an issue rises or falls on an agenda has to do with the stream of policies. This stream is concerned with the formulation of policy alternatives and proposals. An important aspect of this model is the belief that such proposals and solutions are not always initially built to resolve given problems, but they may float in search of problems to which they can be tied.
- *The stream of politics.* Although they take place independently from the other two streams, political events, such as an impending election or a change in government, can lead a given topic and policy to be included or excluded from the agenda. Indeed, the dynamic and special needs created by a political event may move the agenda around.

The model contradicts the rational approach to decision-making, i.e., policies are not the product of rational actions, because policy actors rarely evaluate many alternatives for action and do not compare them systematically.

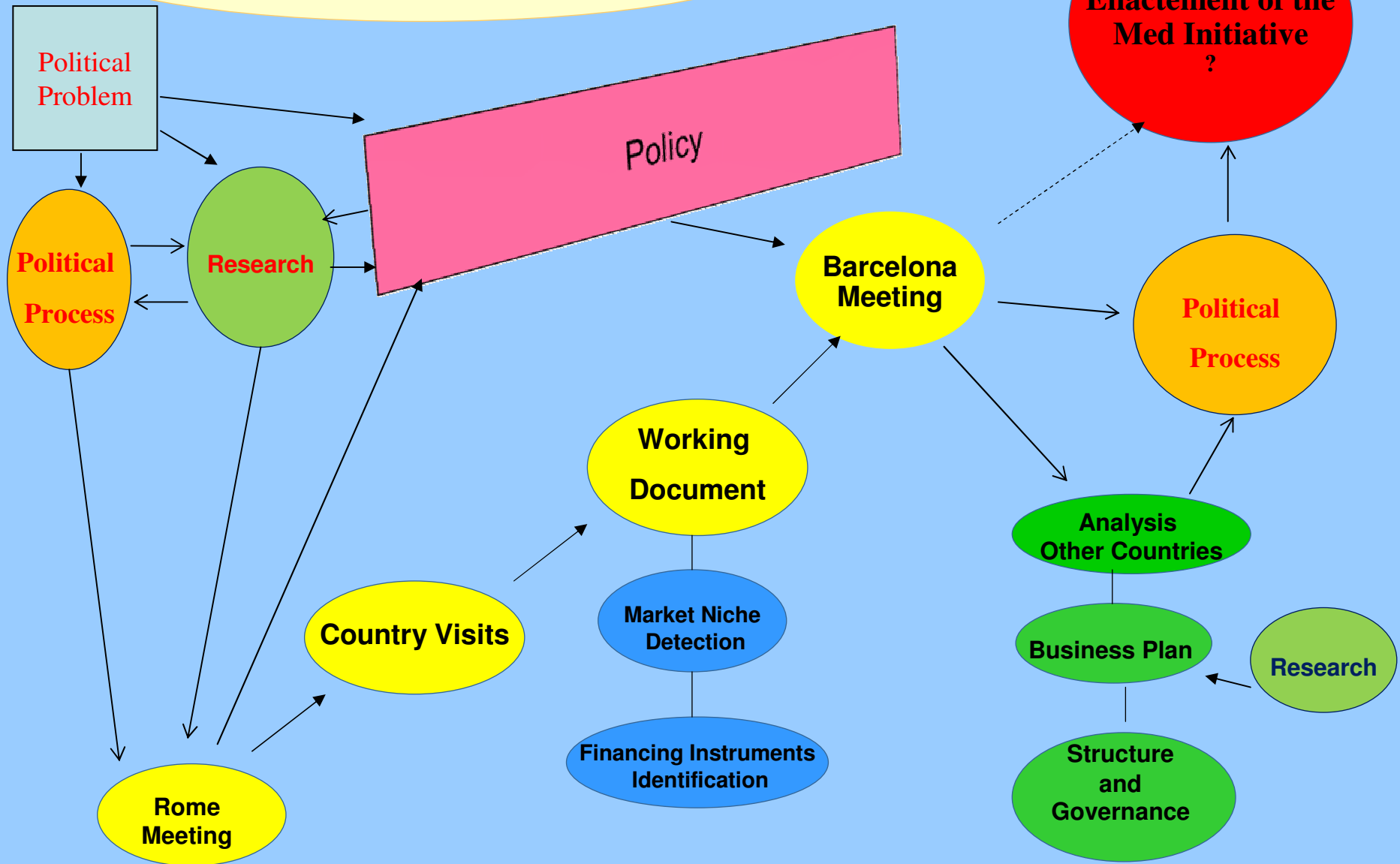
Kingdon's Model



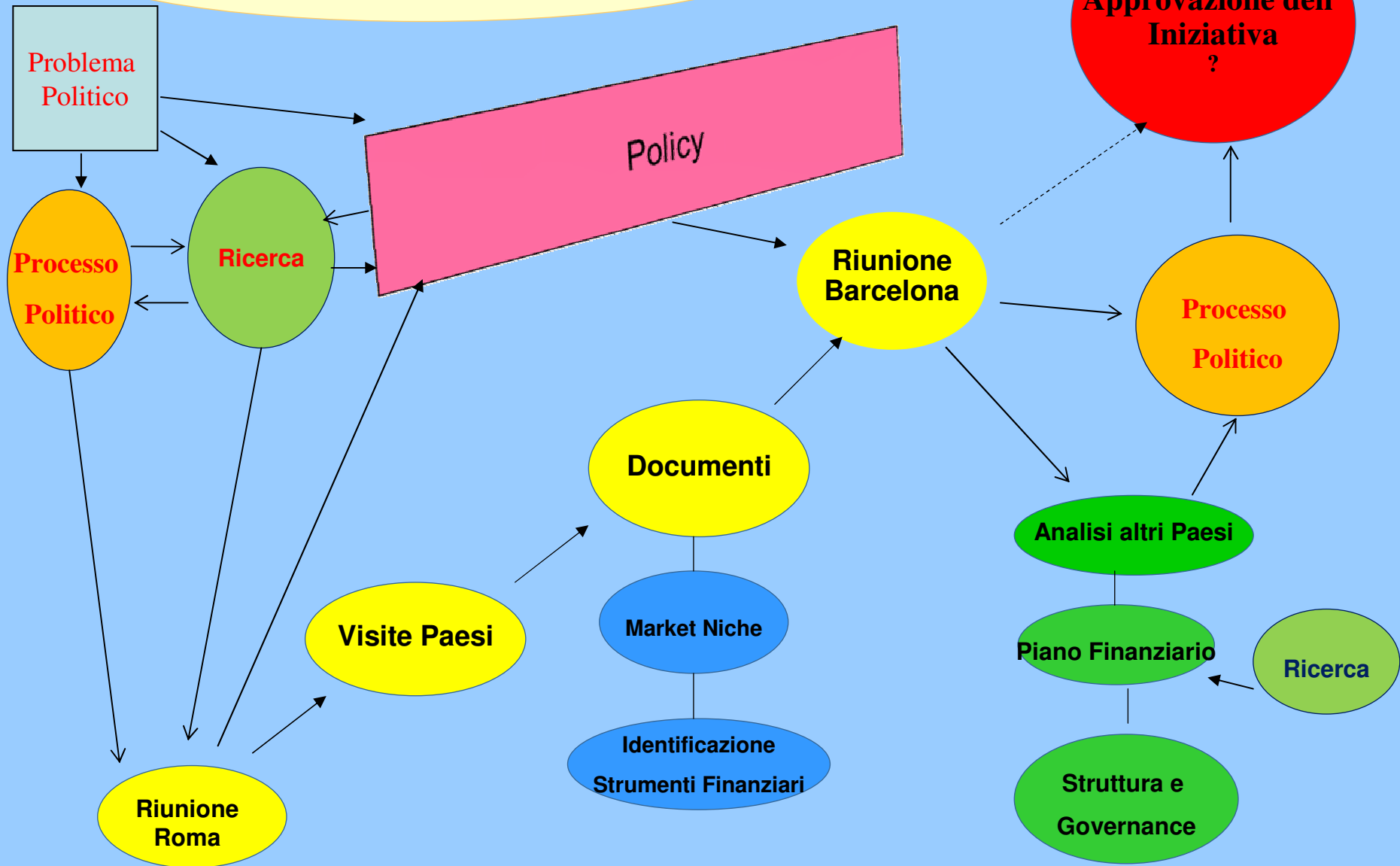
Il Modello di Kingdon



The Road Map



Il Percorso



Conclusions

- Changes are incremental and “big bangs” only happen when the policy and the political processes converge and are aligned
- Research feeds the policy and political processes
- Given the objective of integration, the Med Initiative has the goal of incorporating countries and areas not presently included yet.
- The areas and countries of the Adriatic and Ionian seas are natural candidates to be part of the Med Initiative.