



# Demonstrating Impact

In the Middle East and North Africa Since 2011



## SANAD – KEY FIGURES

### MSMEs REACHED

as of Q1 | 2016

**68,180**

### INVESTOR COMMITMENTS

as of Q2 | 2016

USD **187.9** MILLION

### APPROVED DEBT INVESTMENTS

USD **278.4** MILLION

### APPROVED EQUITY INVESTMENTS

USD **11.7** MILLION

### INVESTMENT PARTNERS

as of Q2 | 2016

**23**

### TECHNICAL ASSISTANCE FACILITY

### PROJECT VOLUME

USD **7.8** MILLION

### PROJECTS APPROVED

**91**

### INSTITUTIONS SUPPORTED

**109**

### PEOPLE SUPPORTED

**2,160**

All figures are from inception in 2011 to Q2 | 2016, unless noted otherwise.

## SANAD – OUR MISSION

Our mission is to foster employment creation, especially among youth, and economic development in the Middle East and North Africa (MENA) region through the sustainable provision of finance to micro, small and medium-sized enterprises (MSME) via qualified and eligible financial intermediaries.



### New Opportunities for the Future

The German Federal Ministry for Economic Cooperation and Development (BMZ) is honoured to highlight the achievements of the SANAD Fund for MSME. Five years ago, KfW initiated this fund on behalf of my ministry. These five years have been the beginning of a success story. The fund has worked tirelessly in the Middle East and North Africa to strengthen the economic fabric of this important region. Every time SANAD supports an enterprise, the fund creates new opportunities for the future. It pays particular attention to giving young people and women access to finance, thereby increasing employment opportunities for those who are often the most vulnerable members of society. I am confident that SANAD will continue to successfully support prosperity and stability in the Middle East and North Africa.

Thomas Silberhorn

PARLIAMENTARY STATE SECRETARY TO THE FEDERAL MINISTER FOR ECONOMIC COOPERATION AND DEVELOPMENT (BMZ)



### A Step Beyond

The Arab Spring movements have clearly shown that the support of employment generation is of utmost importance to the Middle East and North Africa. Special focus has to be placed on young people – the region's future. With the foundation of the SANAD fund we have laid the cornerstone of an impressive success story: within a short time and through its partners, SANAD has provided more than 65,000 loans worth more than USD 215 million to micro, small and medium-sized enterprises along with USD 7.8 million of customized technical assistance to financial sectors. In the region, the fund's ability to leverage investments through a public-private partnership model is unique. With flexible and tailor-made solutions, the fund successfully addresses the financing needs of micro, small and medium-sized enterprises. It is one of the very few examples where commercial success and poverty alleviation are achieved at the same time.

Wolfgang Reuß

CHAIRMAN OF THE BOARD OF DIRECTORS AT SANAD







## AN INTRODUCTION TO SANAD



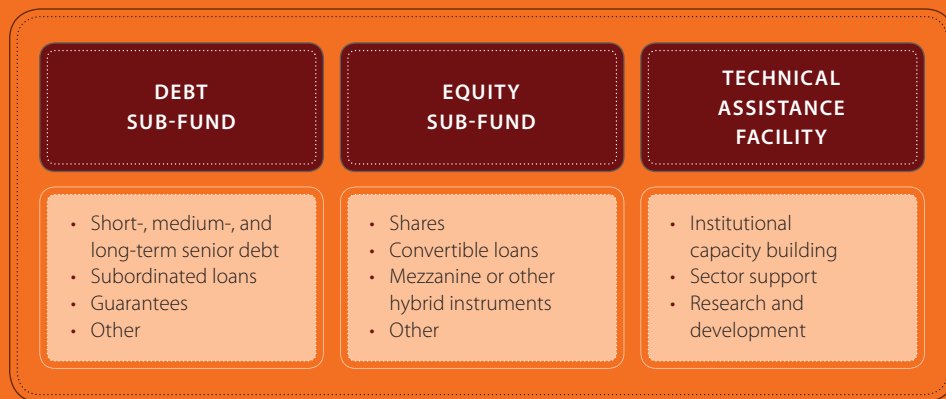
### SANAD PARTNERS WITH FINANCIAL INTERMEDIARIES BY OFFERING SOLUTIONS ADAPTED TO MARKET REQUIREMENTS

The SANAD Fund for MSME (SANAD) cooperates with a broad spectrum of financial intermediaries that provide MSMEs with access to finance:

- Microfinance Institutions (MFIs)
- Commercial banks
- Leasing companies
- Other financial service providers



To best serve its partners, SANAD works through two sub-funds and a separate Technical Assistance Facility



that together offer a wide range of adapted solutions.

## GOVERNANCE STRUCTURE

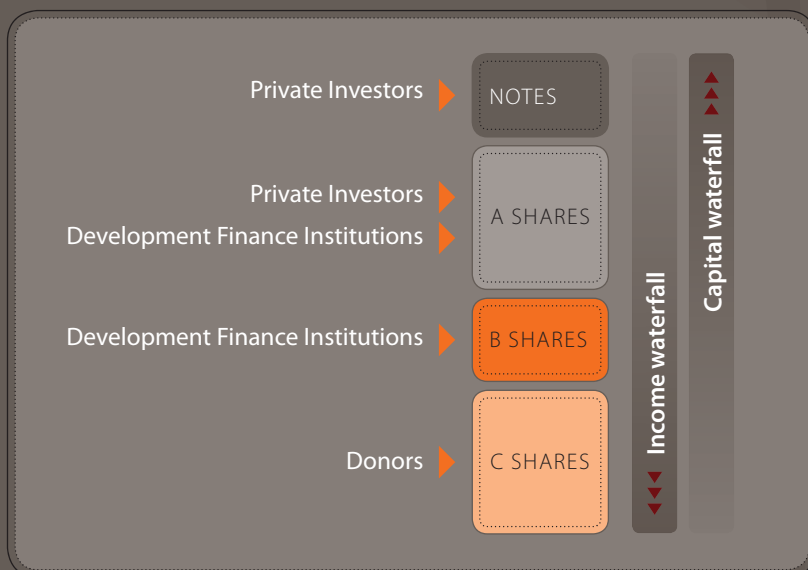




## SANAD-PUBLIC-PRIVATE PARTNERSHIP

### Debt Sub-Fund

SANAD first started with its Debt Sub-Fund, a unique public-private partnership that rests on a junior tranche of donor-funded "C" shares which serves as a risk cushion for senior shares and notes. Such tiered risk-sharing allows private investors in notes to receive profits first while being the last to take any loss, a system that also maximizes the leveraging of public funds.

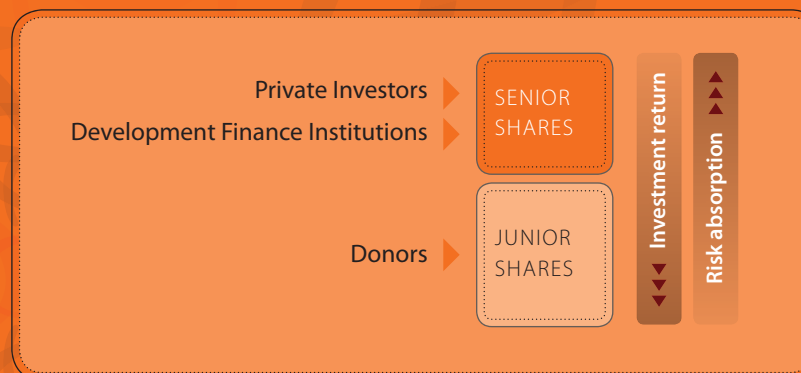


#### Creating Solutions

SANAD recognized the need to offer local currency funding to protect partner institutions and MSMEs from the risk associated with lending in hard currencies (e.g., US dollars). Consequently, the Debt Sub-Fund offers loans in local currencies (e.g., Jordanian dinar or Tunisian dinar). To also protect its investors, the fund and its advisor Finance in Motion developed a unique capital layer called "L" shares, which underwrite any currency risk. These donor-funded shares serve as a market-based instrument that maintain their value by charging a risk premium which reflects the likely devaluation of the local currency. To date, SANAD provided USD 42 million of loans in local currency.

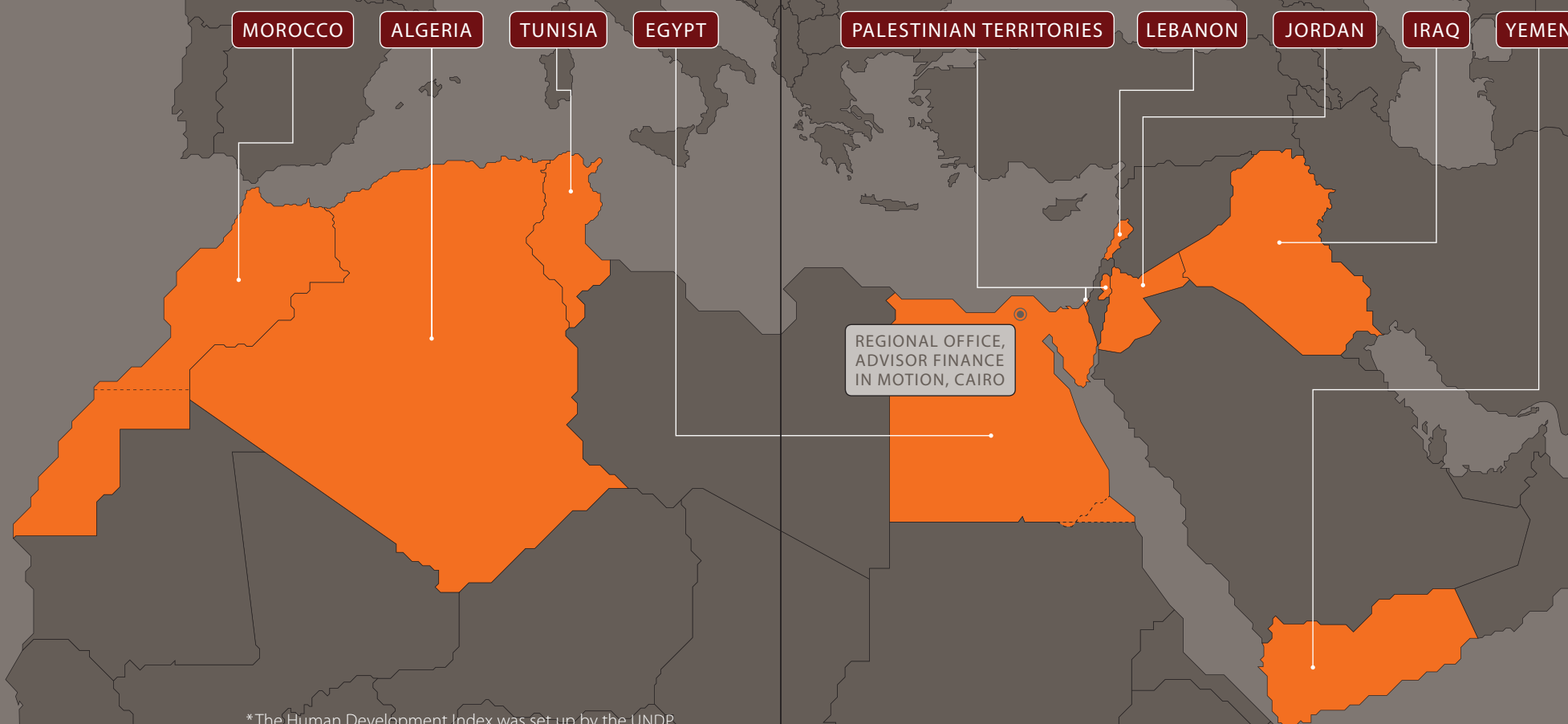
### Equity Sub-Fund

Launched in October 2012, the Equity Sub-Fund complements the Debt Sub-Fund while aiming to maximize the overall development impact of SANAD. The Equity Sub-Fund mainly focuses on investments that act as catalysts for market innovations and expand the region's risk frontier. Junior shares are financed by donors and bear any first losses of the fund, thereby providing unique protection for private investors in senior shares.



## SANAD – OUR TARGET REGION

Country	Morocco	Algeria	Tunisia	Egypt	Palestinian Territories	Lebanon	Jordan	Iraq	Yemen
Inhabitants (million)	34.4	39.7	11.1	91.5	4.4	5.9	7.6	36.4	26.8
Human Development Index*	0.628	0.736	0.721	0.690	0.677	0.769	0.748	0.654	0.500
GDP (USD billion)	100.4	166.8	43.0	330.8	12.7	47.1	38.2	168.6	51.0
Youth Unemployment (%)	20.2	20.0	31.8	42.0	39.5	20.7	28.8	34.6	29.9



\*The Human Development Index was set up by the UNDP to measure national quality of life with these dimensions of human development: life expectancy, education and standard of living. The best possible score is 1.

## SANAD – OUR STORY SO FAR

# 2010

The rapid spread of the Arab Spring has provided the world with a stark example of how much political stability depends on economic strength and job creation. In December 2010, throngs protesting high unemployment and lack of freedom filled the streets of Tunisia. Their uprising found fertile ground in other countries suffering economic and social woes, and people demanding at least a chance at a better life hit the streets across the Middle East and North Africa (MENA).

Well before governments in the region began to teeter, Germany's KfW Development Bank, on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), had already started exploring ways to support economic development and the creation of employment across MENA. When the protests then sparked a profound process of transformation, the bank accelerated its efforts.





# 2011

On 11 August 2011, KfW initiated the SANAD Fund for MSME (SANAD) with funding from the German Ministry for Economic Cooperation and Development (BMZ) and the European Union. The fund was designed to support job creation and stability by providing access to financing for micro, small and medium-sized enterprises (MSMEs). This focus is reflected in the name of the fund: SANAD means „support“ in Arabic.

Shortly after its inception, the Debt Sub-Fund successfully disbursed its first loan in Lebanon. The senior loan to BLC Bank marked the first investment in the country and was followed by many new investments with a range of partners, making Lebanon one of the most active countries in SANAD's portfolio.

From the start, SANAD could also rely on its Technical Assistance Facility, which is tasked with paving the way for investments or amplifying the impact of SANAD activities. The facility takes a holistic approach by providing hands-on support, specifically in the area of capacity building and training for partner institutions (commercial banks, microfinance institutions (MFIs) and other financial institutions). At the financial sector level, the facility designs projects that promote crucial topics such as responsible finance and regulations that support access to finance, while also conducting research projects in the region.



# 2012

In 2012, SANAD entered **Jordan** by issuing loans to two MFIs, MEMCC and Finca. As both loans were in local currency, they also marked the first use of SANAD's unique internal hedging system with "L" shares created specifically for that purpose.



The year 2012 also saw SANAD's entry into the **Palestinian Territories** through its first investment in Faten, the country's leading MFI. In addition, the fund expanded its financing activities in **Lebanon** through the first of several investments in Bank Audi.

## Partnering with Bank Audi

Bank Audi is one of the most active lenders to Lebanon's SME market. SANAD is therefore proud to have deepened its relationship with Bank Audi through a number of top-up investments over the years that have further improved access to finance for SMEs. SANAD's tenors of up to 10 years are a key element allowing Bank Audi to match the need for the long-term funding of SMEs.

**Bank Audi**

The year also proved a busy one for the Technical Assistance Facility: It sponsored 15 technical assistance projects that spanned training, capacity building and sector workshops in **Egypt, Iraq, Jordan, Lebanon, Morocco, the Palestinian Territories and Tunisia**.



## Sector Development Through Technical Assistance

In **Iraq**, an increasingly challenging operating environment, SANAD organized or supported events on MSME finance. In **Morocco**, a market study analyzed the unmet funding demand of very small enterprises (VSEs) and explored options for developing VSE financing. A two-day conference in Cairo for microfinance regulations in Arab countries hosted representatives from 19 MFIs and 4 microfinance networks from **Egypt, Iraq, Jordan, Lebanon, Morocco, the Palestinian Territories and Yemen**.

Finally, 2012 also witnessed the creation of the Equity Sub-Fund. This important step allows for the purchase of strategic minority stakes in financial institutions to bolster their equity base and to multiply impact by expanding their borrowing capacity, which allows for further loans to MSMEs.



# 2013

In 2013, the Debt Sub-Fund was particularly active in **Tunisia**, where it issued its first local currency loan in Tunisian dinar to Enda inter-arabe, the market leader in the Tunisian microfinance sector. The funding also targeted disadvantaged rural areas of Tunisia and increased the product offerings for young entrepreneurs.

On the debt side, portfolios in active countries were increased through additional investments such as in Reef Finance, SANAD's first partner focused on rural clients, who include farmers, agricultural processors and other small businesses in the West Bank and Gaza.

The Equity Sub-Fund signed its first equity deal by becoming a founding shareholder of the greenfield MFI Advans Tunisie.



## Equity Sub-Fund's First Investment

SANAD made its first equity investment in the nascent Tunisian microfinance market just after the introduction of the country's first microfinance law. Together with its partners, the Equity Sub-Fund established the microfinance company Advans Tunisie in June 2013. French microfinance operator Advans SA serves as the main shareholder, and local minority shareholders include Amen Bank and the socially oriented INAAM holding company. Pre-operations began in August 2014, and business started in March 2015 after Advans Tunisie received its operating license. It offers loans averaging TND 5,000 (circa USD 2,500) as part of a mission to provide access to affordable funding and thus create jobs and sustainable economic development in Tunisia.

أدفانس  
advans

# 2014

The next milestone came in 2014 when the fund signed a senior loan contract with AlexBank in Egypt, its first financing deal in the country.

## Entering Egypt through AlexBank

The investment in AlexBank allowed SANAD to enter and support MENA's most populous country as it continues to work toward stability. The bank is an important partner for SANAD given its shared interests in MSME development. AlexBank's efforts and investments in better serving this segment were recognized when "Banker Africa" magazine selected it "Best Micro-finance Bank" in North Africa.



As investment activities across all active countries were further scaled up, the fund also brought in new shareholders: Switzerland's State Secretariat for Economic Affairs (SECO) invested EUR 5.5 million in the junior tranche of SANAD's Debt Sub-Fund and donated EUR 1.5 million to the fund's Technical Assistance Facility.



## SANAD – IMPACT

When SANAD had entered its third year of operations, the timing was right to initiate a study measuring the impact the funding was having on the ground. SANAD's impact study was only successfully completed thanks to the very kind cooperation of two fund partners: Al Majmoua, the largest MFI in Lebanon and one with a very strong social commitment; as well as Vitas Jordan, a leading MFI in Jordan and a pioneer in SME lending.

Over the course of two years, 1,000 MSMEs from Lebanon and Jordan were interviewed about how they had fared with the financing received:

# 51%

of enterprises reported an increase in business income

# 27%

of enterprises created additional jobs

While the above averages demonstrate the very positive impact SANAD funding can have, the data cannot be considered representative for all investments due to variations across countries, sectors, institutions, and dates.



## SANAD – A WORD FROM OUR END-BORROWERS



*"It is my belief that the financing I received is the reason behind my personal and business success. The loans helped me graduate from university and create my own business."*

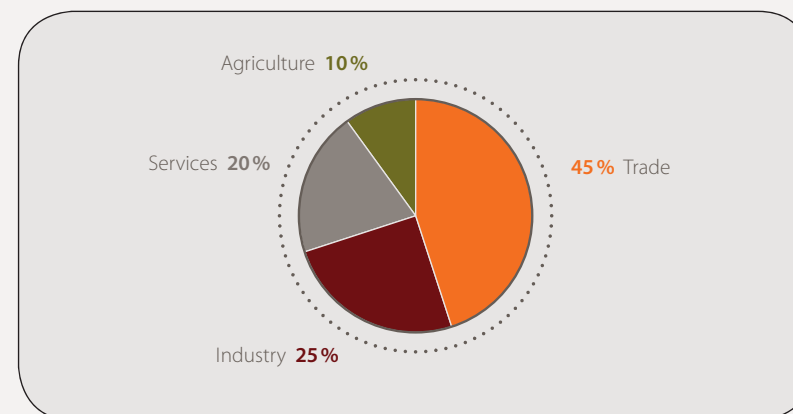
Fatima Kamel Metayrik  
GRAPHIC AND GLASS ART DESIGNER  
CLIENT OF AL MAJMOUA, LEBANON

*"I am looking forward to continuing my partnership with Vitas Jordan, whose funding has helped me expand my product range so I can grow my business and remain competitive in the market."*



Ruba Zeidan  
STATIONERY SHOP  
CLIENT OF VITAS JORDAN

## SANAD – MSMEs BY SECTOR



As of Q1 | 2016

# 2015

In 2015, SANAD made its first investment in **Morocco** through a senior loan to Al Amana Microfinance, the country's leading MFI. It also made its first investment in **Yemen** through a local currency loan to Al Amal, the leading microfinance bank in the country.

Overall, 2015 was a busy year, with the debt portfolio exceeding the USD 100 million mark for the first time. SANAD garnered further support for the Debt Sub-Fund when it secured EUR 10 million from the Development Bank of Austria OeEB.

The Equity Sub-Fund also initiated its second investment that year.

## Second Equity Investment Creates Leasing Firm in Egypt

In August 2015, the Equity Sub-Fund signed contracts for its second direct investment, the Global Leasing Company (GLC). The Egypt-based firm was established as a joint venture with Wadi Degla Holding for Financial Investments, one of the largest Egyptian investment groups and a like-minded and highly committed partner for SANAD. GLC's mission is to serve the underdeveloped Egyptian SME market by providing innovative leasing solutions for economic development and job creation. Consequently, financial returns are not the only objective for GLC; a commitment to the social mission of alleviating poverty and supporting the poorly penetrated SME Egyptian leasing market is a main focus as well.







### German Bank Supports SANAD

GLS Bank, the first social and ecological bank in Germany, agreed to invest EUR 13 million in the Debt Sub-Fund in early 2016. The bank said it chose SANAD because the fund's activities are strongly in line with the bank's focus on sustainable investments.



# 2016

The fund's growth momentum continued in 2016 when the debt portfolio surpassed USD 150 million and remained on course to reach USD 200 million. The strengthening of existing relationships and the addition of further partners in Egypt and Morocco underpin this growth.

In 2016, the fund also made its third equity investment with Sandah for Micro-finance in Egypt following the passage of a new microfinance law in 2015. Pre-operations commenced in mid-2016, and doors were expected to open for clients by year's end. The company will primarily serve very small enterprises with loans of up to USD 12,000.

The capital in both sub-funds has steadily increased, reaching almost USD 200 million in total. In January 2016, the Debt Sub-Fund succeeded in raising its first private sector funding, a remarkable milestone based on its solid track record in achieving its goals while safeguarding its assets in the challenging MENA region.

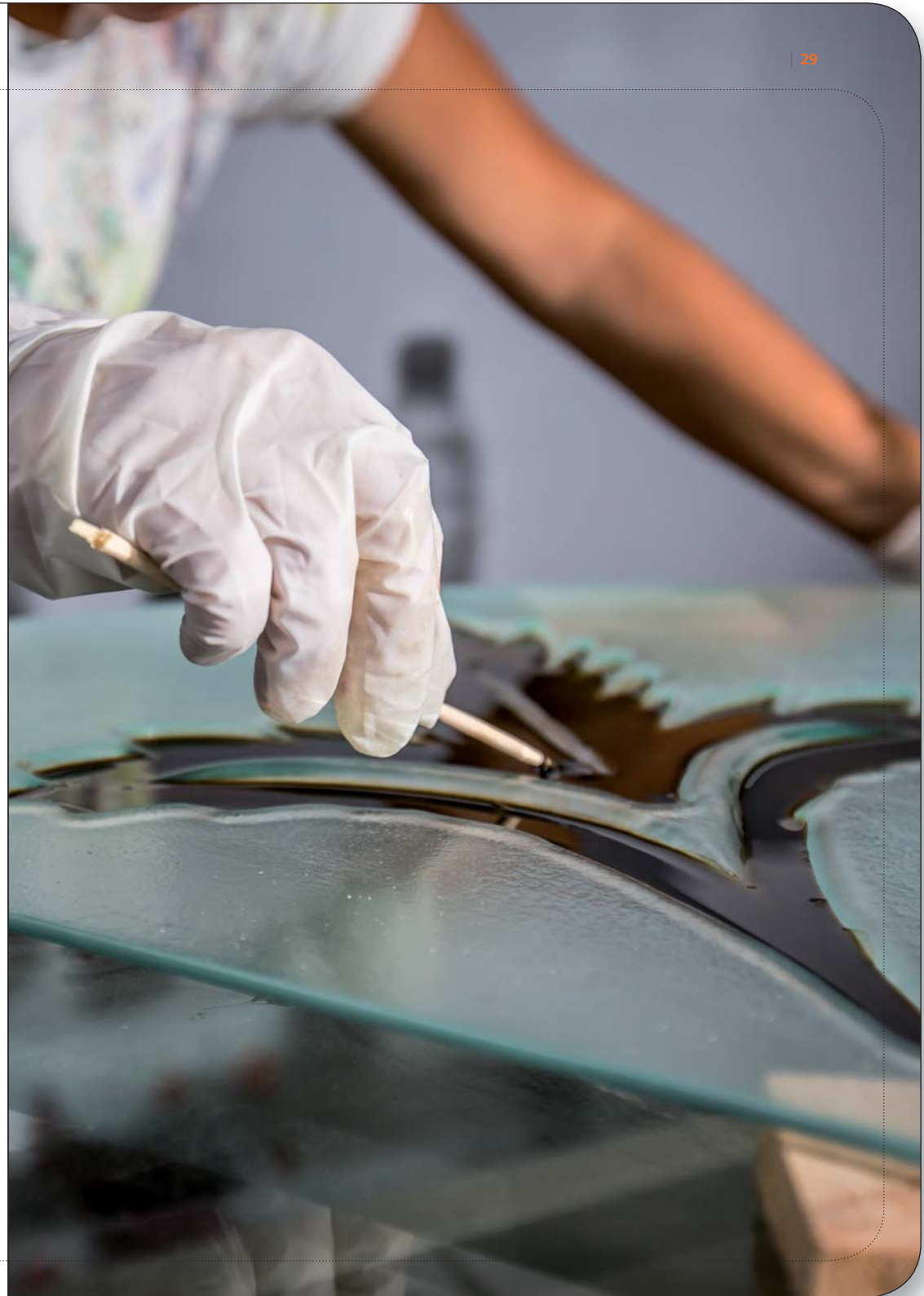
Fostering housing and shelter has become an increasingly important topic for SANAD. A Technical Assistance Facility study of MENA confirmed substantial unmet demand for housing finance rooted in rapid population growth, limited housing supply, displacements through regional conflicts, and migration from rural to urban areas. Countries such as Jordan and Lebanon have been particularly affected by Syrian and Iraqi refugees, while the Palestinian Territories and Yemen required reconstruction of homes following renewed military conflict. To address this demand for housing and shelter, SANAD's shareholders have agreed to expand the mission of the fund to also include this highly important development topic.

## Outlook

SANAD reflects with pride on its achievements to date, yet we know that in the coming five years our fund will need to further develop and improve its service as we remain cognizant of the challenges ahead. The fund will continue its debt and equity investment activities as well as technical assistance to promote access to finance for MSMEs and for housing to low- and middle-income segments of society. Special focus will be given to sectors such as agriculture, which continues to be inadequately understood and hence underserved by financial institutions despite being critical for the development of MENA. Just as important is our unbroken focus on vulnerable segments of society that also lack the proper support, such as youth, who are our future.

Our goals will also require further innovation and the continued testing of important frontiers. The emergence of new technologies has already paved the way for increased access to finance in low- and middle-income countries, and further developments in the area of Fintech are likely to present solutions to both current problems and those yet to be recognized.

History has shown that progress and prosperity can cross national boundaries, a trend that could spur the exploration of additional markets as a way to help even more enterprises and people seeking access to finance. As the fund develops, so do its products, a process that could broaden the range of investment instruments, delivery channels and partners, all in an effort to meet the fund's core goal: Supporting MSMEs and those seeking prosperity and a place to call home.





SANAD would like to thank  
all our partners for their  
kind support and assistance.



**Bank Audi**



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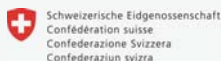
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