

Please read the disclaimer at the base of the document

Wednesday 30 September 2009

Panel VI

SME's – Can They Ride to the Rescue?

The panel was moderated by **Samir Radwan** (SR), Board of Trustees, General Authority for Investment and Free Zones, with panelists: **Josse Dora Fiani** (JDF), Chief Executive Officer, Coface Egypt; **Karim Helal** (KH), Group CEO, CI Capital Holding; **Dina Khayat** (DK), Managing Director, Arab African Investment Management; **Adham Nadim** (AN), Executive Director, Industrial Modernization Center; **Heba El Serafy** (HS), Director of Research, Egyptian Exchange. Below are excerpts from the session.

SR: Good morning everybody. I would like to welcome you to one of the most important sessions of this conference. We had a word amongst ourselves before coming here today, and have agreed that our job today is to provoke you and everyone else. This reminds me of a lovely story I heard in Latin America. There was a poor peasant who went to a priest and said "father, my chickens are very ill," the priest said "there is a prayer you can say." The next day the peasant returned and said to the priest, "father I tried it and one third of my chickens died." The priest gave him another prayer to try, and the peasant tried it and returned the next day and said "father, I tried the second prayer and half my chickens died this time." The priest gave him a third prayer to try. The third day the peasant returned and said "father, I tried the third prayer and this time all my chickens died." The priest said "that's too bad, I had a really had a good prayer for them this time." This to me is SMEs in Egypt. Its contributions in the country are very low. SMEs should be the backbone of the economy, as they are in places like Canada, where they present 60% of GDP. France and Italy, are the same, many of their products like the Lamborghini come from SMEs. We also looked at Malaysia, where they have one single institution that looks after SMEs, but has 111 services attached to it.

The question now is what is it that prevents Egypt from doing the same? We don't want to waste too much time on complaining, the team would like to instead, look forward. I did something for GAFI based on their experience, and we came up with the four pillars required for the successful nurturing of SMEs. These pillars include: entrepreneurship, access to finance, and of course a whole spectrum of services that are necessary to support the latter two. There are many open ended questions, that we still cannot answer, one of which is the crisis. After the crisis we began to see glimmers of hope. I think SME enterprise has a very important role to play in the post crisis economy of Egypt.

Should we have a special bank? Who provides the services and how do you deliver these services? Regarding, access to finance, what's the story there? To answer these questions we have a formidable panel that is gender balanced. Now I would like to start straight away with our panelist Karim.

KH: Good afternoon everyone. If I can pick up where Dr. Samir ended, SMEs are the soup of the day in Egypt. We were here last year, at the Euromoney Conference talking about the same issue. During this year there has been a lot of lip service for SMEs. Yes, they are the engine, and the biggest contributor to the economy. I'm going to talk about this from the perspective of investment banking. I would like to start with a similar experience; one of the main problems SMEs face, is access to capital, or in fact any type of financing. In addition to this, they need a variety of other things like strong management. But let's talk about the need and availability of capital and look to the Nilex so I can explain and also defend why nothing has happened so far.

I think the responsibility for achieving the potential of SMEs lies with investment banks and financial intermediaries. I would have to say that true investment banking is based on relationships. We look for long-term, everlasting relationships with companies and this means taking medium companies with potential and help them to draw in long term clients. Here, investment banking is transaction driven. Going back to basics and going back to relationships, that is the answer. Taking these companies back to the Nilex, I believe, will clearly help us in realizing this industries potential. At CI Capital we have started a fund for this, and several other banks have also followed suit, which is great news.

Why is it that institutions are not jumping to put money into those funds? Why is it harder to raise money for these types of funds? I think the answer is we are missing one important factor, which is that the SME space has a double bottom line. SME's promise higher than average returns, provide direct routes as well as short cuts that facilitate the trickledown effect, which in turn creates employment opportunities. All of these factors mean you are increasing the spending power of the masses and you are helping to create an entrepreneurial culture. We don't need graduates who just hang their diplomas on the wall, we need entrepreneurs. Investors are also look for political stability, which means jobs in social welfare as well as a happy society, overall.

SR: In one word, tell me what you think will trigger this change?

KH: Investment bankers have to do their job.

DK: SMEs mostly exist outside of the formal economy. One of the problems Karim referred to was access to finance, and whilst there have been solutions put forth SMEs have not taken advantage of them, because they lie outside of this system. What can the government do? IFC has co-sponsored a number of funds, but the process will be slow and difficult because most of these funds will be competing for the SMEs that are registered in the system. Since most SME's are not in the system, there will not be a large number of companies for them to compete for. We can help, but the government needs to play a bigger role. Their number one priority needs to be focusing on the registration SMEs, and getting them into the system. I know that GAFI has done this, but we need a one-stop-shop for SMEs. This centralization will go a long way in helping SME's gain access to banks and funds. Nobody is going to go to a company that has nothing to offer except good management and a vision, and give it equity. Business registration and tax incentives are other important ways that the government can help, without subsidizing the industry.

SR: Dina, you have firsthand experience of transition economies. Is there something we can learn from them? How did they manage?

DK: Management. The lesson of Poland is important. Poland worked and struggled on its own, and it was with the help of its management that SMEs started to enter the system. This is what we are trying to do, but it will be a learning experience for us.

SR: Dora, Fiani said we can help. What kind of help can we give? What would you recommend?

JDF: I would like to add another aspect. In order to progress we need to address the business environment and issues related to the behavioral attitudes of those in the industry. You have SMEs banging on the door about a lack of subcontracting in Egypt. In Italy the furniture business is based on subcontracting. In Egypt we have to address the issue of the supply chain. Another aspect, that needs to be looked at, is the lack of team culture. One of the reasons we don't see clusters in Egypt is because there is no team spirit in this country. So, we haven't seen many companies getting together and operating together, in Egypt. Another issue is delivery, it is important that we create tools that will facilitate delivery. If you don't have the luxury to wait for one generation of SMEs to mature, or for banks to develop the number of credit managers needed, to deal with the size and number of SMEs or for banks to develop tools, that will enable them to study and process large number of SME requests for finance, then you probably won't succeed. We also need to look at segmenting SMEs, in order to customize the services we provide them with.

SR: Heba, you have heard all this, where do we go from here?

HS: Yes, I actually agree with everything that has been said. We at the stock exchange have created a platform for SMEs. To date, only 3 companies have joined and there has been no trading so far. When we first launched this market, we knew that SMEs would have difficulty floating their shares and going public, so we gave them one year. However, these companies were faced with under priced IPO's so they decided to postpone the floating of their stocks. I think once this happens, their profile and image amongst the public will definitely increase. The key challenges lie in the company's sizes and in investment banks. Banks prefer bigger accounts. It is a load for banks to bring these companies into the market. The problem is, we were relying on investment banks to bring these companies into the market. The Egyptian Exchange is currently working on preparing the trading environment for these companies, so that if they want to start trading they can. We also have another 10 companies who are in the final stages of presenting their papers to the exchange. There is a lot of interest amongst SMEs, in joining the Nilex. However, without a good investment bank to advise SME's, I don't think we can make it. There has to be a collective effort made by all parties, including the Social Fund for Development, the Stock Exchange, the Ministry of Finance, investment banks, and many others, but from our end we have provided a platform for SMEs.

SR: I think you have to be more proactive in the distribution of information. One of SME industry's biggest problems is lack of information. Adham, what do you make of all this?

AN: We work with 14,000 entities in Egypt's private sector, meaning we work with around 80% of the SME market, and we are giving them all the support they need to succeed. The companies we serve represent 96% of insured employees. In 2008 we ran a survey on the companies we work with to find out what problems they faced. One of the main issues was access to finance. We ran a second survey and inquired in detail as to the kind of finance they needed. In the first couple of weeks we got responses from 600 companies, who in total needed 8 billion LE this year. So we started looking for solutions and found that the mechanisms in place did not have the capacity to deal with the magnitude of the problem they were facing. We started making deals with leasing companies to get more money and worked with companies to get them listed on the Nilex. It was a lengthy and costly process, but we covered it and offered credit guarantees that allowed us to secure loans of 250 million LE.

The group funds that cater to SMEs are well below the 1 billion mark. So there is a huge gap that we still need to fill. I want to go back to the question of this session: SMEs: can they ride to the rescue? I have a statistic on first time exporters. There were 2,260 first time exporters in 2008, and their exports totaled 5.5 billion LE. This market is not getting funding so how can you expect this segment to grow. In the past nine months we have witnessed 1,500 new first time exporters, exporting close to 3 billion LE. Yes, SMEs are the answer to the country's economy problems, but what can we do to help them? This is the issue that still needs to be addressed. One thing is for sure whatever we're doing at the moment, is not enough. More definitely needs to be done.