



Arab-EU economic co-operation in the Mediterranean: mutual interests & partnership prospects for SME development

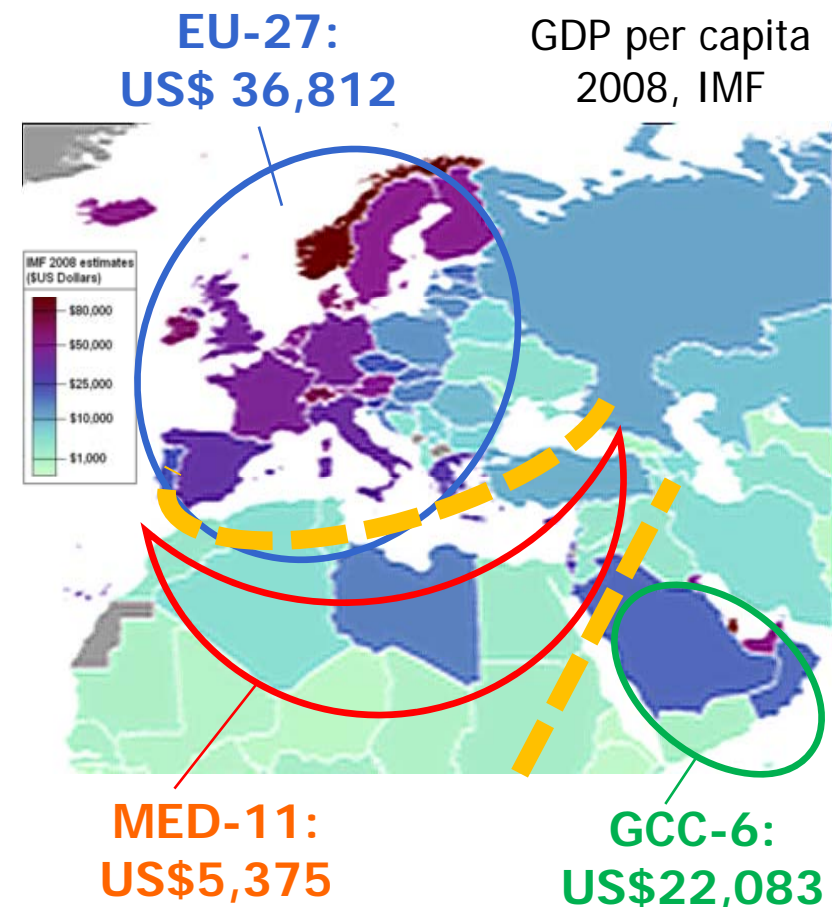
Damascus, 20-21 February 2010
Bénédict de Saint-Laurent, ANIMA /Invest in Med

Issues raised

- Who is investing in the Mediterranean economies and why?
 - Who will create massive amounts of jobs?
 - How to favour a sustainable development approach?
- What are the main needs of Mediterranean SMEs?
 - Are they specific (management, sectors, main gaps)?
 - What sort of value may they bring to the region and the countries' economy?
- Could a triangular (Mediterranean-Gulf-Europe) co-operation on SMEs be envisaged?
 - What type of joint answer to accompany SME growth?
 - How could a real partnership be developed, based on mutual interests?

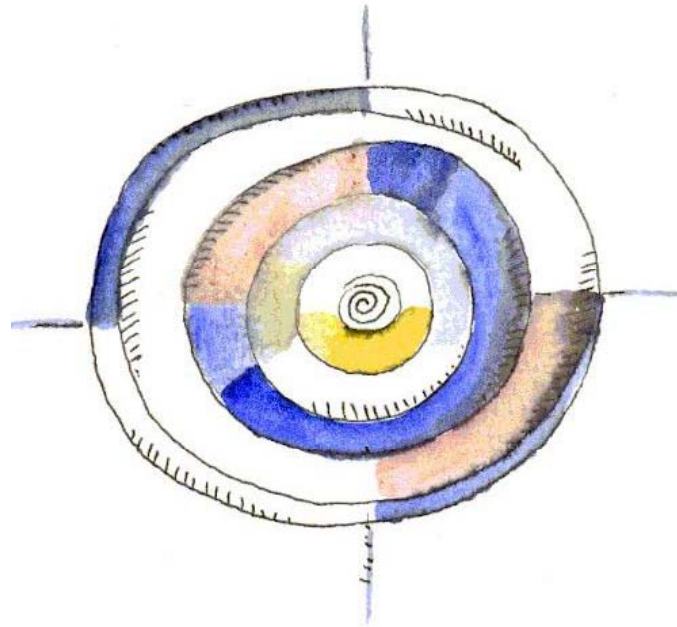
Co-operation between Europe, Gulf and the Mediterranean is more important than ever

- The worst world economic divide
 - GDP/capita: 1 to 7, a time bomb!
- EU SMEs need growth relays
 - Demand in South Med markets grows > 3-5% in 2010 and 2011
 - Lower investment capacities result in closer destinations
- Med SMEs to be unleashed
 - 3-5 million jobs per year to create
 - Small Mediterranean market sizes imply fast internationalisation for SMEs
 - Need to switch from *sub-contracting* to *co-development* (innovation, technology, design)



The existing MED-EU-GCC co-operation

- A great logic, as it mixes
 - The know-how, technology, savings surplus and labour needs of Europe
 - The human and natural resources, but also gaps in infrastructure, social needs and consumption of MED countries
 - The energy, financial resources, need for secure investments and a safe neighbourhood for the Gulf States
- This triangle -similar to that of Japan-China-ASEAN, but much less well-integrated - starts existing as a reality for business operators
 - But is rather unbalanced
 - Still far from an *organised co-operation playing field*
 - Furthermore, the triangle has a strong side (EU-MED), an average side (EU-GCC) and a relatively weak side (MED-GCC)

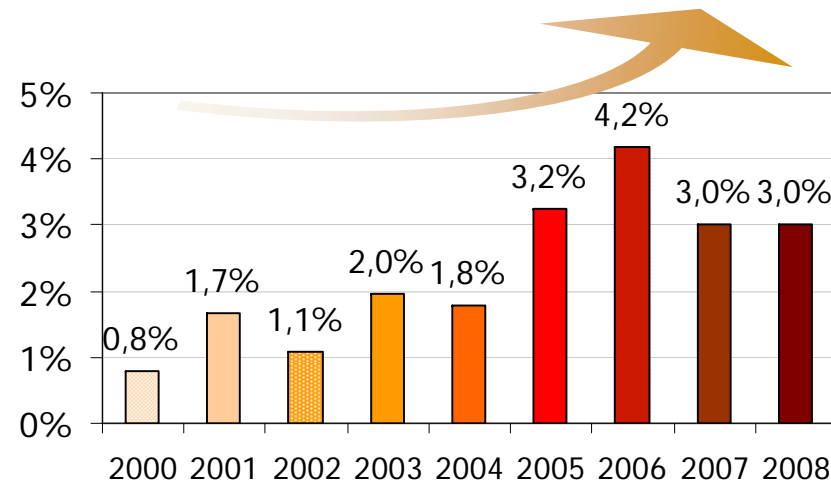


1. Who is investing in MED, where and how?

MED countries FDI recovery

MED share of world FDI

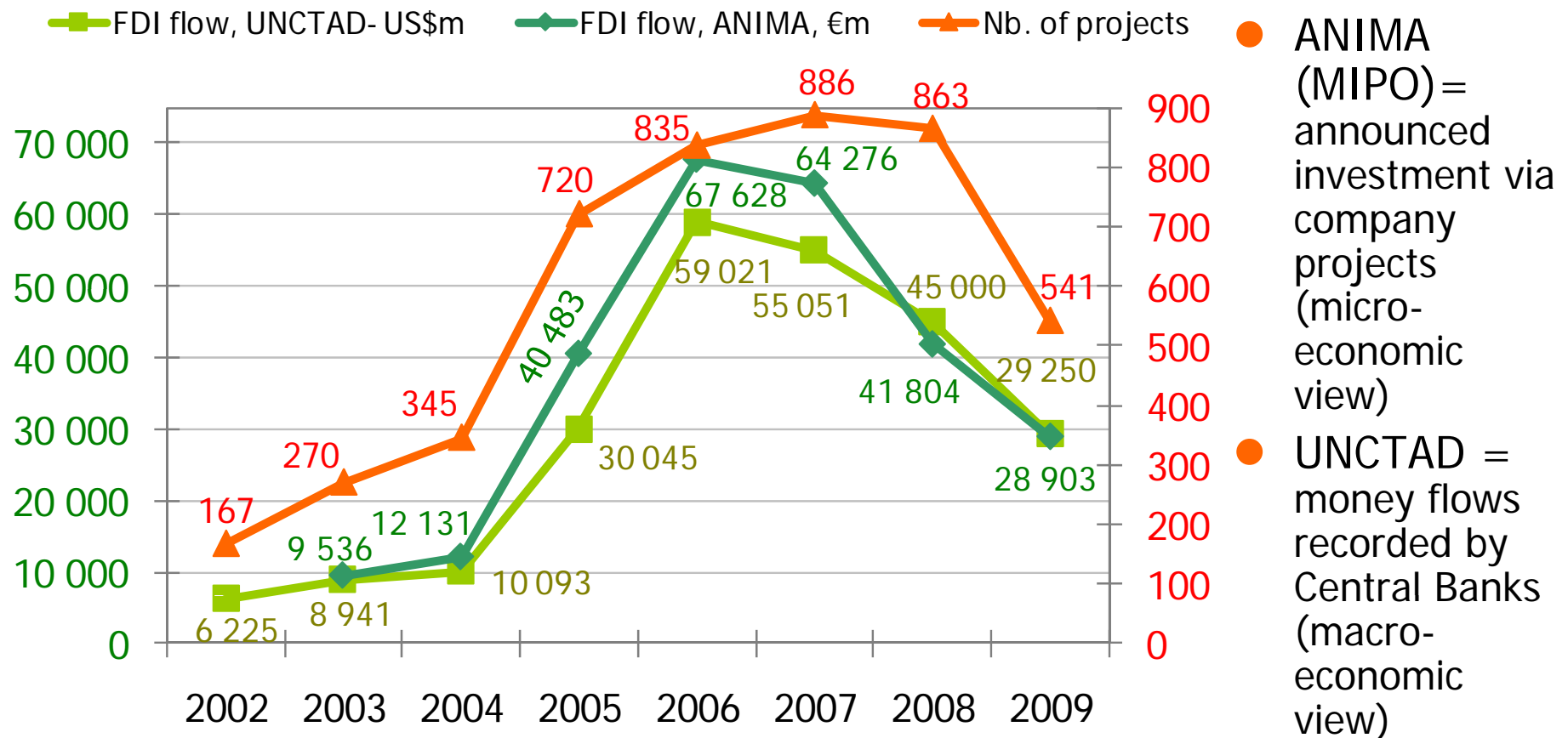
- FDI increase
 - Around €35bn in FDI/year in 2004-2009 (average)
 - Vs. €10 bn/yr in the 2000s
- Two countries get the most
 - Turkey as EU candidate
 - Egypt, benefiting from strong reforms since 2004



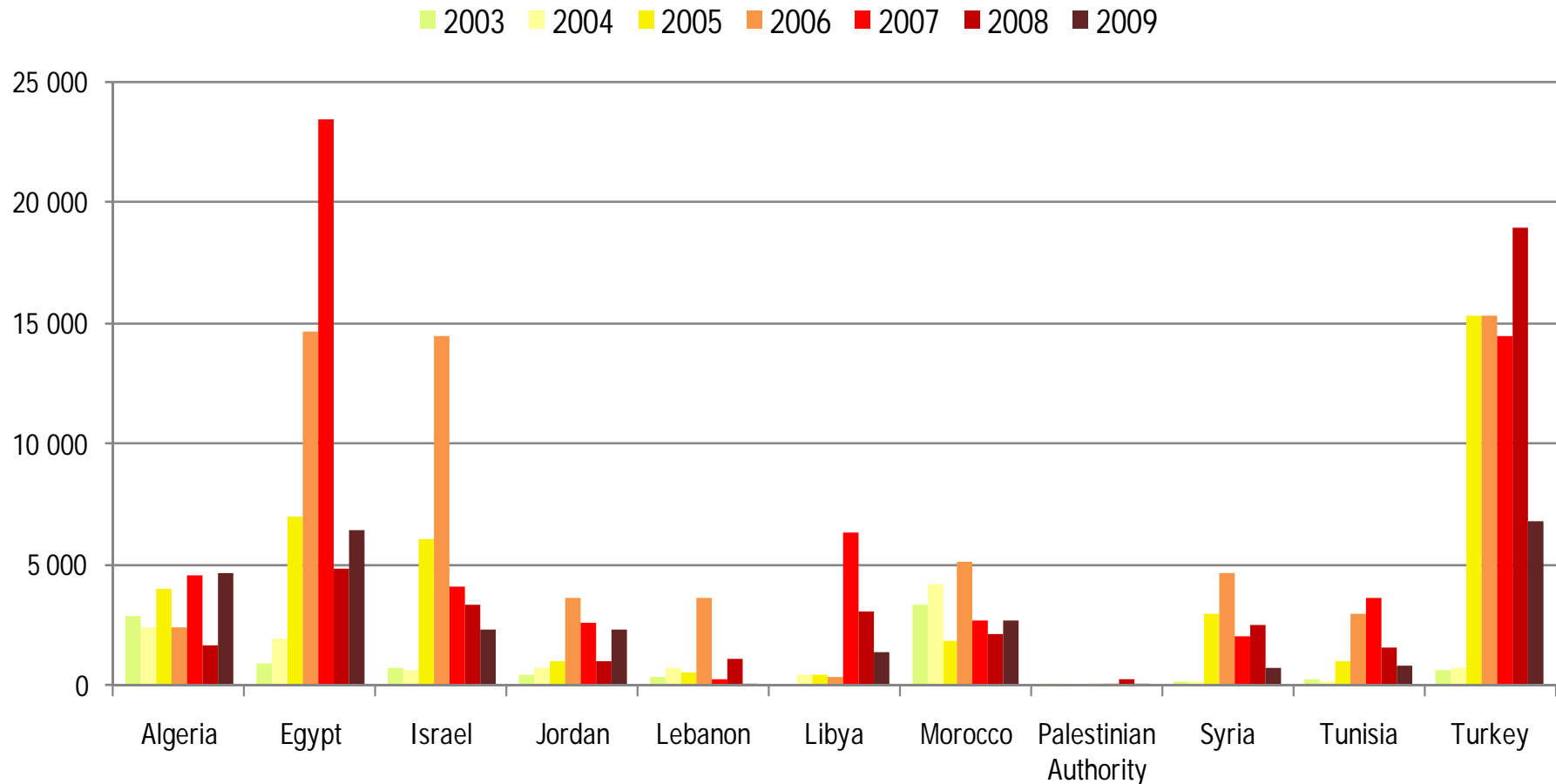
- The whole region is on an upward trend
 - External reasons: proximity with Europe at a time of high energy costs and search for lower labour costs
 - Internal reasons: continued growth since 2000, pressure of domestic demand, full conversion to market economy and business realism (e. g. Syria), clever public investment programmes (Tanger-Med, e-government in Jordan, Tunisian technopoles etc.)
 - Small countries (Jordan, Lebanon, Tunisia and, above all, Israel) have relatively better FDI performances than the large ones

Soft landing –then impact of world crisis...

FDI flows to Med-10 countries



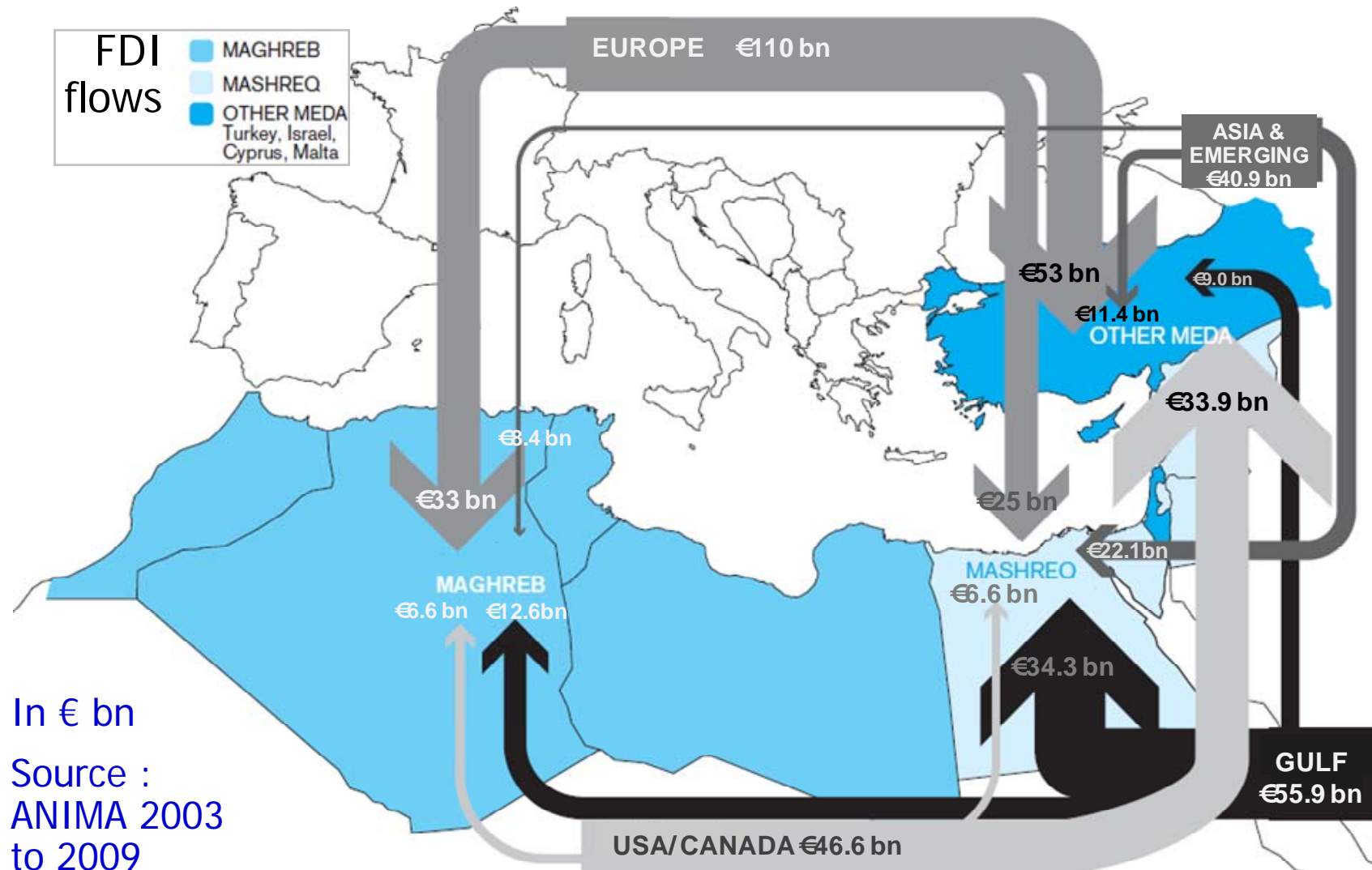
MED country performances, total FDI



FDI inflows, in € million

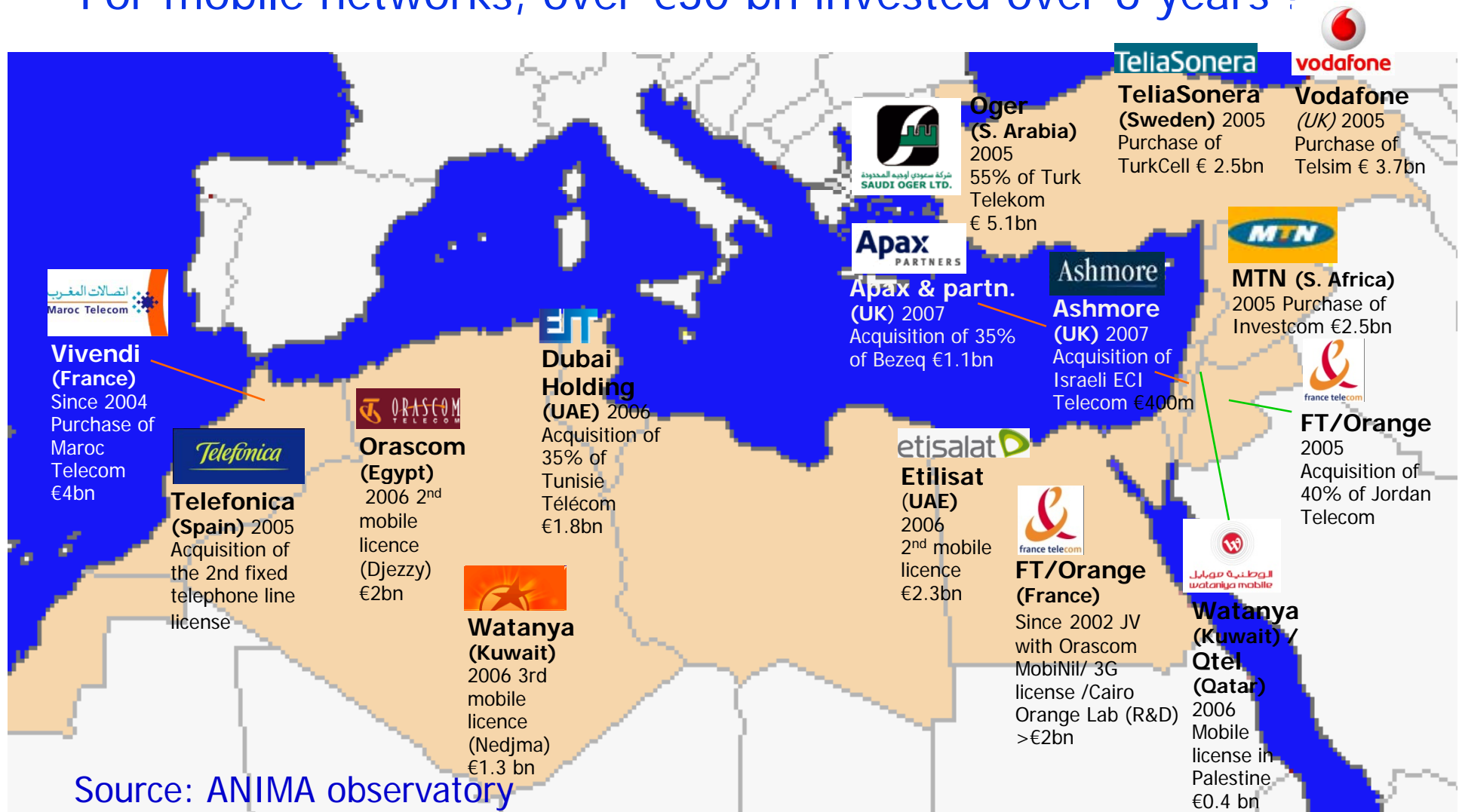
Source: ANIMA observatory 2003-2009

A new economic map is being drawn...



Major MED telecom deals

For mobile networks, over €30 bn invested over 6 years !

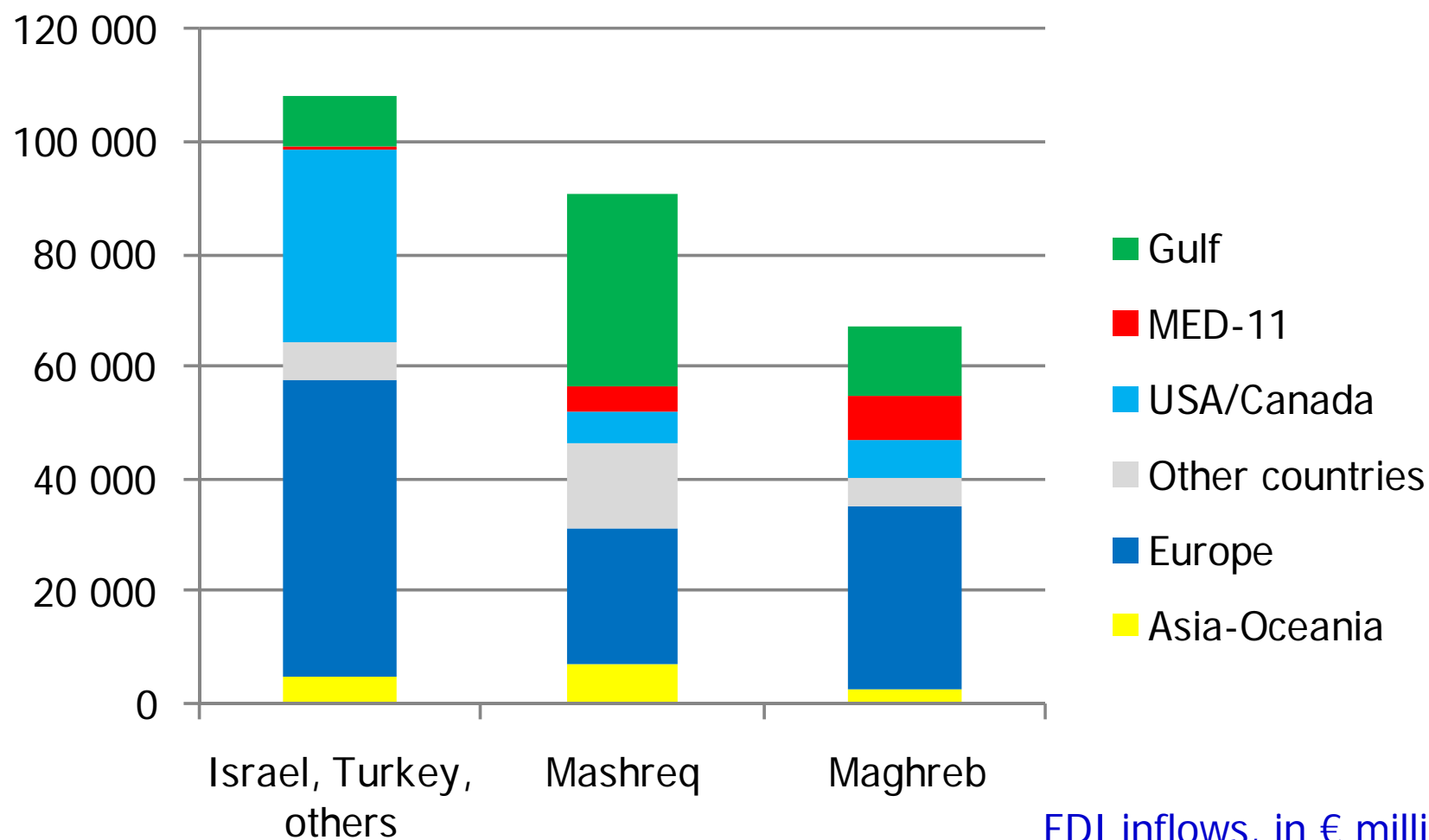


Source: ANIMA observatory

Global picture of FDI in MED countries

- The MED region has received around €265bn through 4,627 FDI projects in the last 7 years (2003-2009)
 - Source: ANIMA records – average €38 bn/year of FDI into Med
 - Vs. UNCTAD records - average of €35 bn/year
- Main beneficiaries
 - Israel & Turkey capture 40% of the flow
 - Mashreq 34%
 - Maghreb 26%
- Four major players involved
 - Europe, the former colonial power and traditional investor
 - North-America, interested in resources and main sponsor of Israel
 - The Gulf, concerned in terms of Arab brotherhood and also looking for geographical/profitable expansion
 - The MED countries themselves, poorly integrated, but developing some in-roads for industrial networking

Origin of MED inward FDIs, 2003-2009



FDI inflows, in € million
Source: ANIMA observatory 2003-2009

Recent trends

- ANIMA observatory
 - A relatively strong decline in 2009
 - 541 FDI projects recorded vs. 863 in 2008 (-37%)
 - 56 billion euros in gross volumes, vs. €66 bn in 2008 (-15%)
 - 29 billion euros in net volumes (amounts corrected for the multi-stage projects), vs. €42 bn in 2008 (-31%)
- ANIMA data are in line with those of UNCTAD
 - Decrease of 39% in global FDI flows in 2009
- Signs of recovery
 - 10 projects ranging between 1 and 2 billion euros
 - 4 mega-projects higher than 2 billion euros (e. g. Barwa Real Estate in Egypt et al Maabar in Jordan)
 - 4th quarter of 2009 =the best of the year: 182 FDI projects or one third of the annual total –good trend in 2010

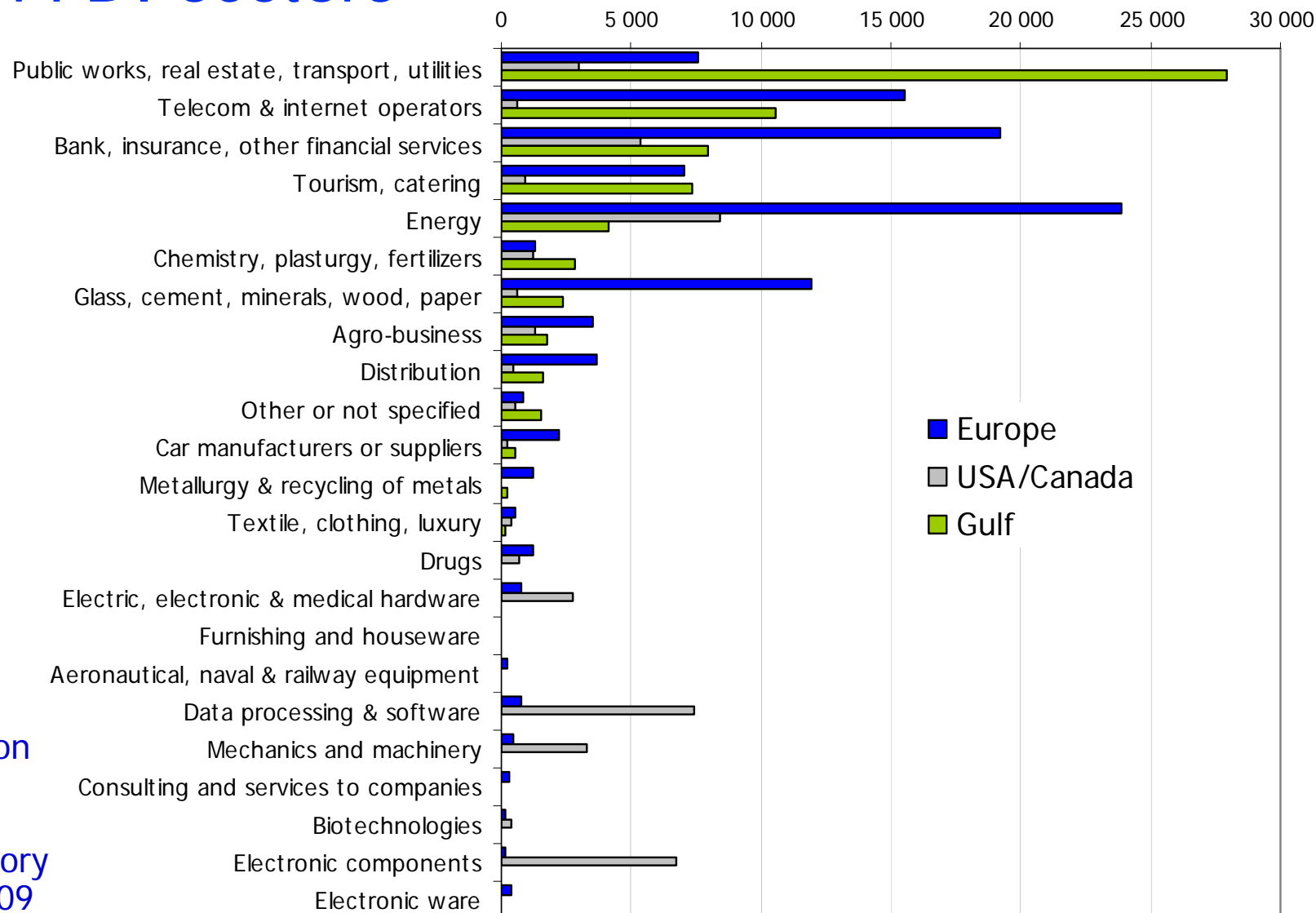
Gulf: greenfield projects often oversized

- 681 Gulf-originated projects have created 121,000 announced jobs (direct jobs)
 - Or 178 jobs per project
 - Vs. 93 for European projects
- Strong preference for *greenfield* projects
 - Creation of new facilities, 93% in amounts
 - Vs. 73% for Europe and 41% for North-America
- Size
 - Twice the size of EU projects: €102m vs. €49m
 - Pharaonic dimension of some projects
 - But several Gulf projects carry a remarkable design, add a real value to MED economies and are sustainable (e.g. in logistics)
 - Most projects are launched by large private or public holdings

Some Gulf projects in stand-by

- Algeria. Emaar Properties (UAE)
 - Ambitious tourism project in Colonel Abbes, west of Algiers, to be developed on an area of 109 hectares (€2.9bn). Project cancelled due to difficulties in mobilising land
- Algeria. Mubadala Development + Dubal (UAE)
 - JV formed by Mubadala Development and Dubal to own 70% in a US\$ 5 billion aluminium smelter project, with 30% for Sonatrach-Sonelgaz. Project stalled (increase in construction costs up to \$7bn, Sonatrach request to have at least 49% of the project)
- Jordan. National Industries Group/Noor (Kuwait)
 - A BOT led by a Kuwait/Spanish consortium to re-build the Amman-Zaral railway (€ 228m). Concession cancelled and project postponed due to financial difficulties
- Morocco. Sama Dubai (UAE)
 - US\$ 2bn Amwaj project in the Bouregreg Valley, Rabat. Contract interrupted by the promoter in January 2009 due to lack of funds
- Tunisia. Dubai Holding/Sama Dubai (UAE)
 - Century City and Mediterranean Gate mega project in Tunis' southern lake area, US\$ 14 to 25 billion over 15 years. Project postponed for an indefinite period

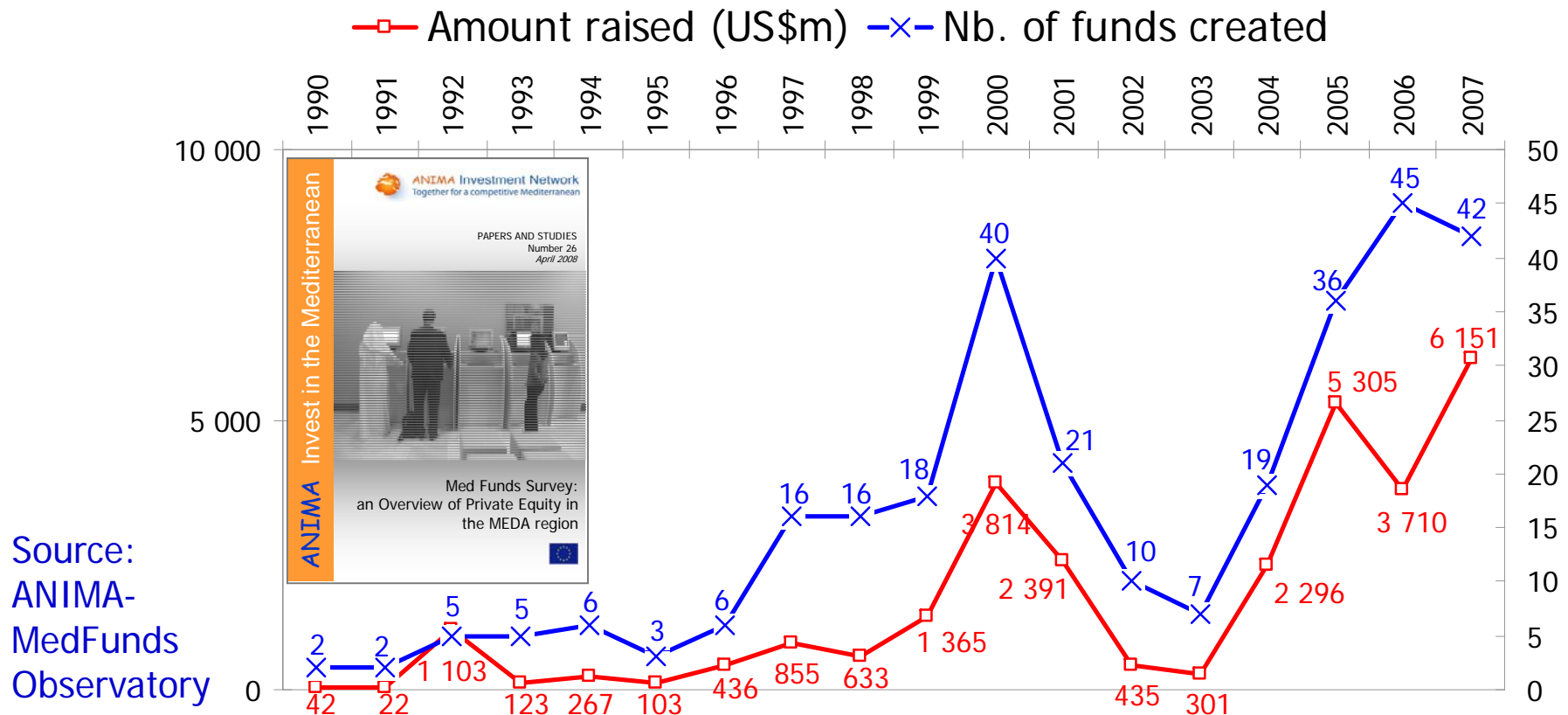
Main FDI sectors

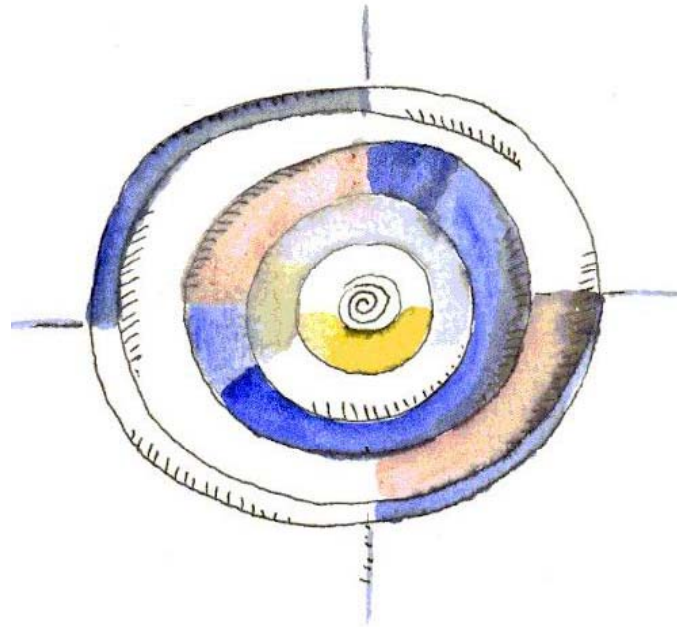


In € million
Source:
ANIMA
observatory
2003-2009

MedFunds: Gulf appetite for private equity

- A strong acceleration in 2005-2007 (100 new funds, US\$15bn)
- New resources for enterprises
- But *equity gap* (50k€ -1.5 million €) and difficult exits...

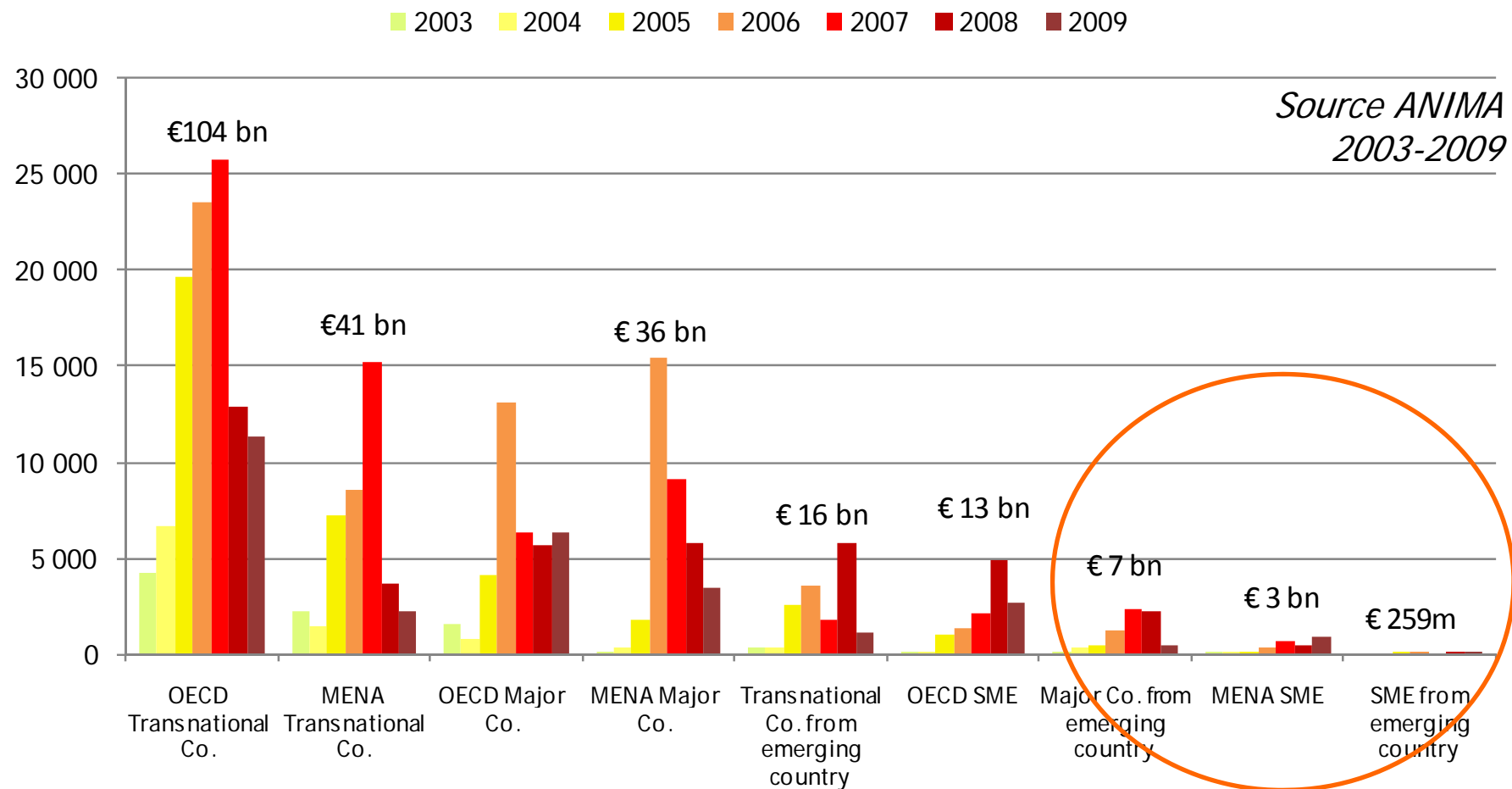




2. Why SMEs?

SMEs, the missing investors

- FDI from TNCs account for 64% and large companies for 28%
- SMEs (8%) are mostly significant from Europe



A must: SME development & financing

Source:
FEMISE

- The biggest part of the yearly 3-5 million jobs to be created *will result from SME development*
- If the MED countries are to close rapidly their gap with Europe, it will be via a combination of:

Needed in terms
of facilitating
framework



- Public projects such as Tanger-Med or Algerian highway

FDI: 100 000 direct
& 300 000 indirect
jobs/yr



- Big projects developed by major companies

- Projects by existing SMEs able to *move upwards*

Should create 1 or
2 million jobs/yr?



- Projects by new start-ups



Might create 0.5 to 1
million jobs/yr?

- Unformal sector



Will continue to play a major role

- The benefits of SMEs
 - Grow faster, are more flexible and more innovative
 - Use labour as their first resource- SMEs= between 48% (Morocco) & 61% (Jordan) of total MED workforce

Some ways to address these segments

- PPPs & big public projects - *investment range €50m-€5bn*
 - EIB, DFIs, SWFs, public treasuries, major funds, companies
 - Example of answer: Africa Infrastructure Fund, Inframed etc.
- Majors - *investment range €10m-€2bn*
 - FDI, big JVs, brownfields (reinvestment of benefits)
 - Our role: they do not need us! Follow-up (FDI observatory)
- Big SMEs – *investment range €1m-€20m*
 - Private equity funds, commercial banks
 - Our role: follow-up (MedFunds), networking (Euromed Capital Forum)
- Innovative start-ups -*investment range €50k-€500k*
 - Few seed and VC funds (except Israel)
 - Our role: create a capital market for this segment (MedVentures)
- Micro-entreprises & informal sector - *investmt.range €10-100k*
 - Micro-finance, diaspora investments, self-entrepreneurs
 - Our role: FARO (for France) ?

Empowering SMEs is a priority

- 4 gaps to be filled for SME development



- **Financial:** almost impossible to mobilise equity from €50k to €1m (guarantees, collateral, cost of due diligence for small projects etc.)



- **Internationalisation:** the Med countries' markets are fragmented and small

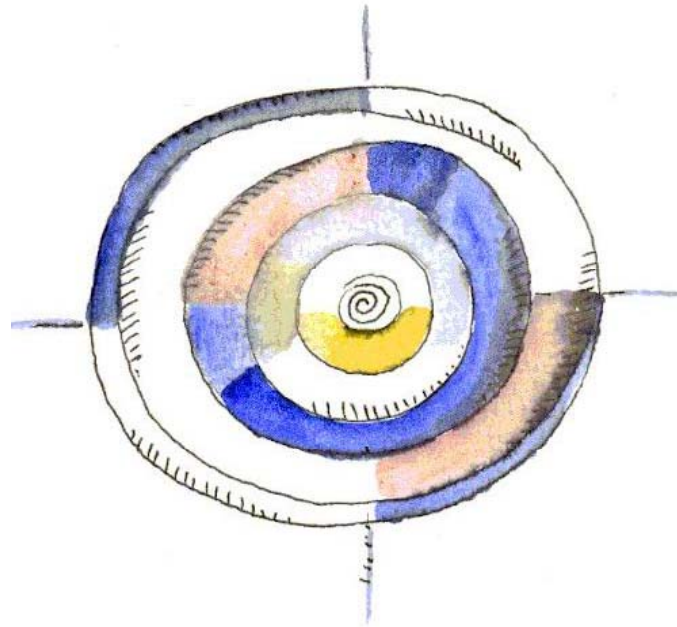


- **Information:** need for resource centre (opportunities, markets, access rules), info bureau (rating)



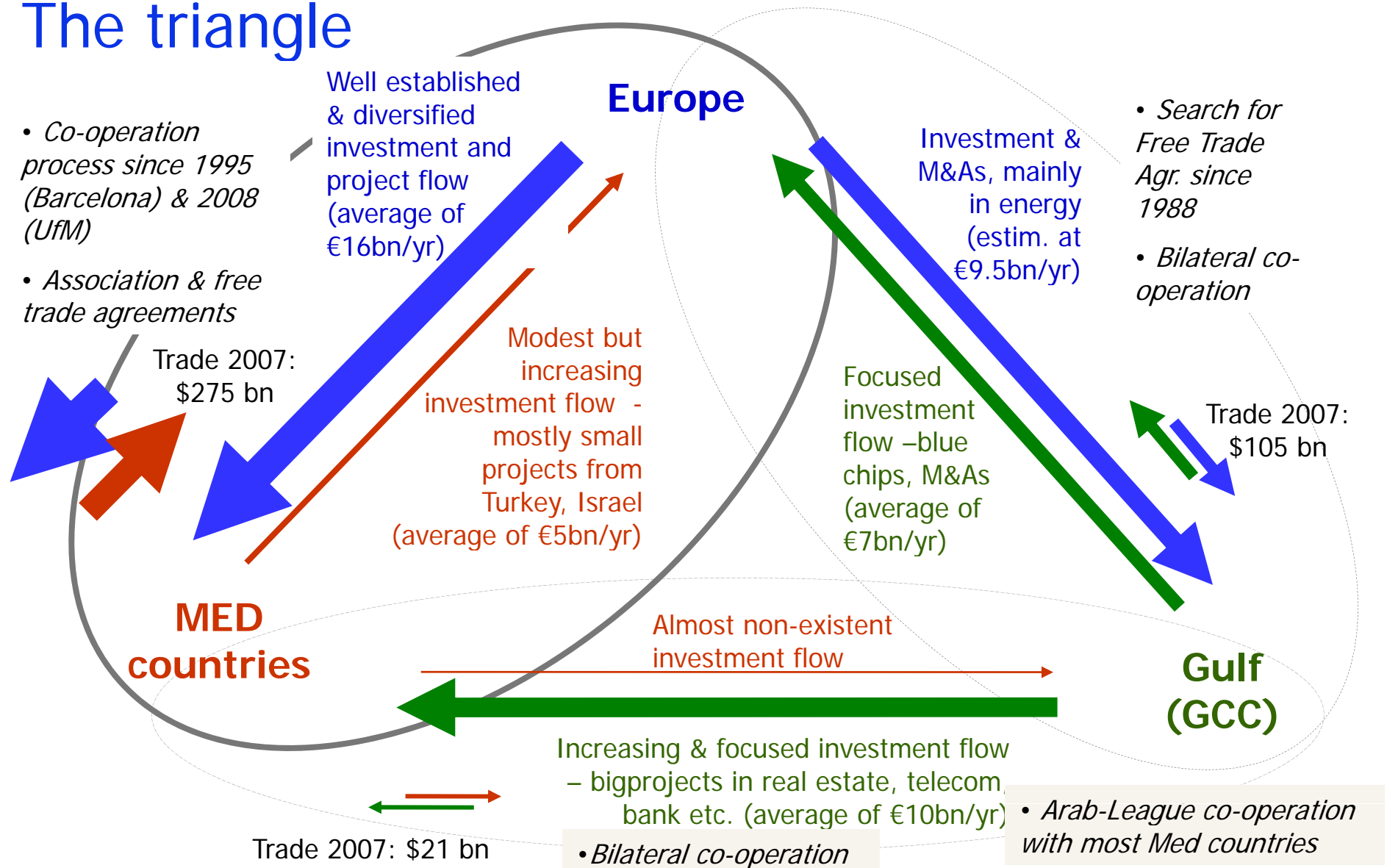
- **Human resources:** need for entrepreneur coaching, development of financiers' capacities (sectors, technology)

→ This is what we are doing in Invest in Med



3. The way forward

The triangle



What Euro-Arab-MED co-operation on SMEs?

- Developing SMEs
 - Convergence cannot happen without the *massive creation of value-added activities in MED countries in the two next decades*
 - EIB & UfM studying a *Mediterranean Business Development Initiative*
 - Could lead to the creation of instruments such as new guarantee schemes, funds for microfinance or seed capital
 - Need to build/reinforce networks where nascent companies can be nurtured, informed, coached, internationalised
- Building confidence via a permanent dialogue platform
 - Cf. ASEM -an informal process of dialogue and co-operation bringing together EU-27, EC, 16 Asian countries & ASEAN
 - See also OECD-MENA agenda on reforms
 - Making a better world from EU, MED and GCC would imply *making the problems of some a solution for others*
- An Investment charter focusing on FDI quality
 - Making the Mediterranean a **pilot area** for **sustainable projects...**

The challenge of SME financing

- Donors/public actors (EIB, WB, AIDMO) are talking **billions**
 - E.g. projects of SWF (ADIA, KIA, Qatar) to launch SME funds, but amount envisaged of US\$1 bn
 - This would rapidly saturate a very limited SME market
- Need for a full transformation chain
 - Commercial banks poorly engaged in the financing of industry (most Med countries)
 - Lack of liquidity: scarce exits, weak stock exchanges etc.
 - Capillarity needed in order to touch the 20 million SMEs
 - Major institutions ↔ banks ↔ funds of funds ↔ branches ↔ investment offices ↔ local funds (+business angels, etc.)
- Need to avail capital at acceptable cost
 - *Low cost* due diligence
 - Decrease of the Med spread

SME financing

Loin de la coupe aux lèvres...

- Private equity

- According to ANIMA MedFunds survey (2008), 320 funds and US\$31bn in equity raised
- But, for the \$15bn raised during the last 3 years (2005-2006-2007), only 15% was invested at mid-2008 !
- With an average ticket in the \$2-12 m range, the great majority of SMEs is excluded from PE

- Example of FEMIP financing (EIB)

- Officially 50% is for the private sector
- However this capital injection goes to commercial banks (credit lines) and PE funds (18 participations and €380m in 2008)
- According to Almeras 2009, only 30% of the FEMIP funds are forwarded to the private sector and benefit essentially to major enterprises

Some true priorities

- Guarantees
 - Especially replacing collateral that SMES are not able to provide
- Loans in local currencies
 - Big amounts of money sleeping in coffers
 - FEMIP only lends in € /need to raise dinars to lend dinars
- New instruments
 - E.g. direct acquisition of project shares, cf. BERD or AFD FISEM
 - Meso-finance (seed funds, range of €50k-€1.5m, not covered)
- Technical assistance to structures
 - Support to banks, BAs, technoparks, incubators, diaspora netwks
 - SMEs also need to be transformed, internationalised
- Improvement of projects
 - Coaching, accompaniment at local level
 - Filtering of the best 1,000 to 5,000 entrepreneur files per year
 - Matchmaking events (start-up pitching) and yearly awards (champions)

Implies
networks

Create a pro-SME *ecosystem*

- The issue of SMEs and SME financing is strategic
- It concerns several stakeholders
 - The financial system
 - Enterprises
 - Governments (MoF, Industry, agencies, technoparks etc.)
 - The civil society (education, media, business angels etc.)
- Rather than an agency/a fund, set-up a positive *ecosystem*
 - Use of *existing networks* (as a public-private organisation grouping EDAs, CCIs, Enterprise Feds, *MedAlliance is a perfect partner*)
 - *Multiplication of impact* by using networks and local evangelists
 - Adaptation of the *successful pilots* and *best practices* from both Europe and Med countries (Plan Emergence, Smart Village, E-Algérie 2013 etc.)
 - *Clever regulations* (incentives for investing in SMEs, Small Biz Act etc.)

Thank you

Bénédict de Saint-Laurent
General Delegate, ANIMA
bsl@anima.coop

i^{NVEST}
in med

Boost investment
and business in
the Mediterranean

