

Summary Notes on the Roundtable Discussion Entitled:  
**“Finance & Distressed Assets: SME Chronic Problems”  
What’s New?”**

Wednesday March 7, 2018, from 9:00 am to 3:00 pm

**Session 3: Mechanisms for Supporting Insolvent Enterprises**

**Speakers:**

- Magdy Mohamed Fahmy, Vice Chairman, Egyptian Dyeing and Textile Company
- Elhamy El-Zayat, Chairman, Emco Travel
- Baheyya Ahmed Ismail, Managing Director and Executive Director of Direct Investment, Concorde International Investments
- Magdy El-Dakrouy, Senior General Manager, SAIB

**Moderator:**

- Ghada El-Gohary, Board Member, Misr Venture Capital

**Main points addressed during this RTD:**

- Investment funds are the most popular mechanism for solving the problems of insolvent companies.
- The percentage of non-performing loans to total loans in Egypt is 7.2 percent, which is somewhat high.
- These Funds bring in high profits and therefore are attractive for investment.
- The most popular of investment funds is the "turn-around" type, which is of interest to Egypt, because it helps achieve the State's developmental goals.
- Misr Venture Capital is the first company in Egypt to support insolvent companies. The "Tahya Misr" (Long Live Egypt!) Fund contributes 46.7 percent in the company, the Industrial Modernization Centre 20 percent, the National Investment Bank 20 percent and Ayady Company 13.1 percent.
- The strategy of the company depends on injecting funds in insolvent companies in the form of either contribution or lending or Murabaha, according to the needs of each company. Whatever the means, restructuring is the most important element to ensure that the client does not run into financial trouble once again.
- A team from the Industrial Modernization Centre studies the technical and financial problems and then submits a report to Misr Venture Capital, which makes a final decision whether or

not to finance the company according to criteria such: impact of the company on the national economy, whether or not the products of the company are needed in the market, sound management, no erosion of capital, and no judicial rulings made against the company.

- Priority is given to labor-intensive companies that rely on domestic production inputs.

### **The problems facing the textile sector:**

- Customs evasion led to the exposure of the sector to unequal competition, which led to the closure of many factories.
- There is a significant shortage in qualified and trained human resources.
- The industry relies on long staple cotton to produce medium and short-staple cotton products, which is a waste of their market value.
- Aging machinery and technology, leading to poor productivity and quality.
- The imbalance of financing structures in textile and weaving companies, leading to pressure on employment economics.
- Management lacks professionalism.
- The contraction of markets and decline in world prices.
- To counter insolvency, a portion of the indebtedness of companies capable of exporting may be converted into a contribution to these companies. The second solution is cash injection, through financing open documentary credits, in the sense of financing wages, raw materials, etc. until exporting and collection of documentary credit.

### **The problems facing the tourism sector:**

- The tourism sector lost more than two-thirds of the number of jobs in comparison to 2010. Those who continued in the sector are the least productive.
- The price of hotel services is very low. For example, the price of a night in a five-star hotel in Sharm El-Sheikh or Hurghada is estimated at \$20, inclusive of three meals and soft drinks, and decreases to \$10 if the hotel is distant from the beach.
- In 2013, an investment fund was set up in cooperation with a number of companies and banks. It was announced at the economic conference in Sharm El-Sheikh. However, the project has so far been suspended despite the existence of a full Board of Directors.
- Tourist offices in the US and Paris have been closed at a time demand on Egyptian tourism from these countries has been increasing.
- Tourism companies in Egypt need to be restructured. Replacements and renovations are very poor and therefore the level of service offered to tourists does not rise up to global levels.
- Internal transport in the transport sector is facing many problems, due to the rise of the price of the bus from LE 600 thousand to LE 3 million. The Ministry of Tourism regulations require

that the latest model be purchased in the market, while an older model can be purchased at a much lower price.

### **Bisco Misr's leading restructuring experience:**

- Direct investment aims to enter a company to maximize profits, then exit in a timely manner.
- The most important factor in direct investment is to obtain a controlling stake to control the board and accordingly implement the plan.
- All branches of Bisco Misr factories have been replaced and refurbished, and placed under one administrative umbrella to better control purchases and sales.
- The quality of products has also been improved, the company's brand name has been standardized and large-scale marketing operations have been launched.
- The company's sales outlets have been modernized, and a large fleet of distribution vehicles has been built.
- The company implemented a program of early retirement to solve the employment problem, and about 900 workers retired under this program with no problems.
- A minimum wage was set at LE 500 pounds and then raised to LE 1200 before exiting the company.
- The company was restructured financially. Before the start of restructuring, the company had achieved LE 20 million profits, half of which were from financial investments. After the restructuring and before exiting the company, the profits amounted to LE 63 million pounds from sales of biscuits alone.

### **Key points in the discussion:**

- The primary problem that causes financial insolvency is mismanagement.
- Initiatives, such as the Central Bank initiative, aim at solving the general problems facing all the workers in the market. Accordingly, each sector must be targeted separately with appropriate policies and tools.
- The I-Score company will record all SME data, and each bank that provides funding to SMEs shall submit data in this respect, including the financial statements, to be registered and availed under an integrated database.
- The problem of SMEs should be considered more comprehensively than merely the funding issue. There are many obstacles, other than financing, that face these enterprises, such as marketing, training and preparation of feasibility studies.
- No one in Egypt exclusively knows the number of insolvent companies. The Industrial Modernization Centre has already compiled an inventory of insolvent companies but no radical solutions have been offered to these enterprises. This has prevented other insolvent companies from submitting their papers to the Centre.

- The SME Authority aims to facilitate coordination within the Ministry of Industry but does not solve the problem of small enterprises as required.
- There is a need for a coordinating body reporting directly to the Prime Minister to coordinate between all those involved in small enterprises, but should not be involved in implementation. The current Authority sets policies while simultaneously lending enterprises, thereby losing its ability to perform both functions efficiently.
- The problem with financing small and medium enterprises is that it is left to individuals' discretion at banks.