

SESSION 4

Innovative Solutions in SME Development and Finance

Friday 10 April 2009, 9.00-11.00

The general objective of this short paper is to provide the distinguished participants with the broad scope of the discussions that will take place during this session of the conference and with the details of the session's structure. While suggesting an overall framework as well as some keywords for the proposed issue it aims to set the tone of the debates.

The distinguished participants are kindly invited to feel free to refer to the subjects proposed below as a support in order to guide the design of their interventions during the session.

Detailed programme

Moderator of the session: Laurent KLEIN, Deputy Director of AFD in Turkey

9.00 – 11.00	<p>Round Table/ Interaction with the audience:</p> <ul style="list-style-type: none">- Financial innovations and Guarantee, the French Experience Michel GANOOTE, Europe Delegate at European Programs Direction - OSEO- The Turkish Experience in SME Finance and Non Financial Services Streamlining Huseyin Aydin, CEO Halkbank- Downscaling and Microfinance Aude Flogny-Catrisse, Head of the Private Sector Division, AFD Dirk HABÖCK, IPC- Private Equity Investment firms, the Tunisian Experience Ahmed Abdelkefi, President Tuninvest Group, Tunisia
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Proposed Format of the Session

The session's structure will be as follows:

The Session will be structured as a 2 hour long Round Table during which keynote speakers will have the opportunity to:

- Contribute to the debate by presenting their experience and stand concerning the discussed subject
- Participate to the discussion moderated by a professional media host. The discussion will be substantially in line with the issues detailed below.
- Engage into interaction with the audience during the whole length of the Round Table.

Important:

This session is a moderated Round Table. Thus, please kindly note that individual presentations of the keynote speakers shall no case exceed 15 minutes each.

Practical Issues:

Various support tools (short media, PowerPoint diaporama etc) may be provided by the panellists. Please do not hesitate to come back to us for more information. However please note that the documents should be in English.

Presentations as well as Round Table Discussions should be conducted in English. There will be

simultaneous English/Turkish translation.

The distinguished participants are invited to attend after the session a Lunch with the audience. Each panellist will chair an assigned table. Members of the audience will choose their table according to the issue presented by the panellist.

Important:

Please note that every panellist is expected to provide the organizers beforehand the conference with a short memo, not longer than 2 Word pages, which will include:

- A short presentation of the panellist (biodata, experience in the considered field of activity). This information will be strictly used for the conference purposes in the program as well as for the presentation of the panellist during the session.
- The panellists' position regarding the proposed issues, the subjects on which he/she would like to elaborate more specifically, the business cases, experiences and best practices that he/she would like to mention. This part is intended for the organizers and will NOT be published.

Targeted audience of the conference:

- Turkish SMEs
- SMEs from Mediterranean and other emerging countries
- Banks and Development Banks interested in the Turkish market
- Business associations, Industrial Zones and Chambers of Commerce
- Export credit insurance and Venture Capital companies
- Turkish authorities (i.e. Ministry of Finance, Under secretariat of Treasury, State Planning Organisation, Central Bank, Ministry of Industry and Trade)
- Local and International Media

Suggested Scope of the Session

The conference is oriented towards the business community and is designed to address best practices, funding opportunities as well as to identify trends and innovations in SME sector development.

The discussion will first present the French and the Turkish experiences related to the financing of SMEs. In a second stage, two specific financing techniques will be developed: microfinance and private equity investments.

One of the main impediments that SMEs encounter is access to capital and financial services. Commercial banks tend to primarily serve large companies and have more difficulties when it comes to SME financing due to high fixed cost, lack of information about individual SMEs and the market, insufficient guarantees, difficulty to assess the credit risk through classical financial analysis.

This market segment requires a specific set of procedures for banks. Access to long-term financing is particularly difficult, especially for the lower end of the SME sector. However banks have increasingly been investigating this market and SME lending is growing in Turkey.

Why is it more difficult for SMEs than for larger corporates to have access to banking facilities or to find private investors? Is it mainly a supply-side problem or should the matter of the insufficiently structured approach of SMEs towards banks also be considered as a reason? Why is it easier for SMEs to get funding in some countries than in others? These questions are important since SMEs, and more specifically the innovative ones, represent a key factor for the economic development and employment in an economy.

1. Financial innovations and Guarantee, the French Experience

Keynotes speaker: Michel GANOOTE, Europe Delegate at European Programs Direction - OSEO

Credit constraint is commonly recognised as an impediment for SME creation, development and transmission, partly because their small size does allow the financing to be secured by acceptable

guarantees and partly because of the higher risk associated with their operations. Among other difficulties SMEs may also face liquidity shortages and obstacles grow even more when they want to deal with governmental customers, work abroad, develop innovative technologies or increase their capital.

In France, various measures have been taken to support SME development. OSEO, initially SOFARIS created in 1982 by Jacques Delors, French finance minister, is the result of the recent merger between "la Banque des PME" (SMEs' Bank) and ANVAR (Agency for Innovation) has developed several programmes and products adapted to the needs of SMEs, partly financed by the French State. Within OSEO different funds are dedicated to specific goals such as enterprise creation, innovation, development, internationalisation, transmission.

- OSEO is not a classical bank, what have been the reasons for its creation? What has been the role of SOFARIS guarantee schemes?
- How beneficial has the French loan guarantee program been to help firms who have trouble to raise financial resources otherwise? By inducing more risk taking by both the entrepreneurs and banks do loan guarantee programs have an impact on bankruptcy probability?
- Have such programs proven to be effective in fostering entry into entrepreneurship?
- What is the evidence about the guarantee program's impact on firm development in terms of employment and capital growth?
- How can we help SMEs to bid for public contracts, despite often too long payment delays? What service does OSEO bring to allow SMEs to have access to European financing?
- What are the existing possibilities for innovative companies? And for exporting SMEs? What is the « SME Pact »?
 - What are the non-financial tools of support that OSEO can offer to SMEs (i.e. business plan design, professional connexions etc)?

2. Financial and Non-financial Services for SMEs: a Turkish bank's experience

Keynotes speaker: Huseyin AYDIN, CEO HALKBANK

Last years have seen a tremendous development of a banking offer to the SME segment in Turkey. Banks see the SME segment as attractive with good prospects and tend to compete not only for credit conditions but also for non-financial services.

Most of them have set up a separate department to manage their relations with SME clients and development different lending technologies. However, differentiation between small businesses and medium-sized businesses is seldom done. Also, in general few functions in the lending process have been decentralized. The objective of this session will be to identify through the example of Halkbank good practices in bank involvement with SMEs (business model, risk management process, non-financial support) in Turkey and room for progress there still is.

- What are the main features of credit products dedicated to SMEs at Halkbank? How does Halkbank address the issues related to SME financing constraints? What are the features of an average Halkbank SME client?
- What functions related to SME services at Halkbank have been decentralized to the branches to better serve the clients?
- As concerns access to credit of SMEs what criteria does Halkbank in comparison to other banks use to make its lending decision? How does Halkbank assess its risk in the Sme's sector (financial analysis, credit scoring, other?)
- How do Halkbank and other banks in Turkey reach out to SME clients? Do bank have a specific approach to medium and small businesses? What are the solutions brought to SMEs by HALKBANK to finance their growth?
- What solutions are present in Turkey to finance innovation?
- How does HALKBANK consider the problem of guarantees when dealing with SMEs?

- What are the opportunities in private equity in Turkey? How can HALKBANK help Turkish SMEs to strengthen their shareholders' equity?
- What is the role of the unit "Entrepreneur Banking"?
- Which support, advices, training, can HALKBANK offer to Turkish SMEs?

3. Downscaling and Microfinance

Keynotes speaker: Dirk HABÖCK, IPC

Aude FLOGNY-CATRISSE, Head of the Private Sector Division, AFD

Microfinance has been praised as the panacea against the exclusion of the smallest entrepreneurs and of the poor from access to credit. The year 2005 has even been sacred "The Year of Microfinance" by the UN, recognizing thus the development benefits of microlending.

Microfinance institutions have multiplied in South-East Asia, Latin America and Africa offering a variety of financial services ranging from insurance, to savings and microlending to support livelihood.

In Turkey some microfinance players are already on the market. In particular it must be mentioned, that the "SME" definition used in Turkey (EU definition) qualifies as SMEs 99% of all enterprises. However this sector is far from being homogenous, especially in terms of the size of enterprises. In 2008 out 1800 randomly chosen SMEs 70% had 1-5 employees, that actually corresponds to the microenterprise category. These enterprises are mostly young with 63% less than 10 years in business. Among small enterprises (that is having less than 50 employees) the main source of financing is still the owner's equity with 75%. On the other hand in 71% of the cases lack of collateral is cited as the main reason for the rejecting of a loan application.

- Do best practices around the world (India, Bangladesh, Balkans etc) provide the evidence that microfinance might work in Turkey?
- Is microlending really a solution for small entrepreneurs to create a sustainable business? What are the guarantees requested? What kind of projects is suitable for microfinance?

Banks have the capacity to deliver microfinance services that is to downscale, given the many inherent advantages such as extensive branch network, well-established back office systems, large capital base and the ability to offer non financial services.

- What is the role of private banks in microfinance? What is the difference between a consumer loan and a micro-loan? What are the critical conditions for the micro-lending to become a viable and profitable banking market segment in Turkey?
- If not banks, what institutions might provide well-designed microlending services to small and microentrepreneurs in Turkey?

4. Private Equity Investment firms, the Tunisian Experience

Keynotes speaker: Ahmed ABDELKEFI, President TUNINVEST Group, Tunisia

The strengthening of the shareholders' equity is essential to the development of corporates. However it is often very difficult for SMEs to get the necessary funds.

Tuninvest Finance Group is a private equity house, providing financial consultant services in Tunisia. It currently manages 9 generalist funds aiming mainly to invest in Mid-Caps in Maghreb and Sub-Saharan Africa. It has developed as well an expertise in upper balance-sheet analysis and financial engineering as well as in market analysis and strategy.

- What is the role of a Private Equity Investment firm?
- What types of corporates can be considered?
- How does a group such as Tuninvest contribute to the economic development of a country?
- Is Tuninvest present as well in innovative corporate?
- What about the Private Equity Investment firms in Turkey?