Knowledge
Around The Corner

INDUSTRIAL MODERNISATION CENTRE
مركز تحديث الصناعة

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SMEs Profile in Egypt and Global Best Practices

I Introduction and SMEs Definition

Small and Medium Enterprises (SMEs) are playing an important economic role in both developed and developing countries by obviously sharing in the total employment, GDP and by being an essential source of income for a large population segment.

From this perspective, this article will show some SMEs definition and success stories, in order to point out the approaches taken for developing these dynamic and newly growing enterprises, with the aim to achieve an overall economic growth and sustainable development.

SMEs can be generally presented as economic enterprises that require small amount of capital, employ labor with low level of management and manufacturing expenses, yet have the flexibility of quick decision making However, there's no unified common definition for SMEs, either worldwide or in Egypt. Definitions range from those based on the number of employees to those based on business turnover or assets, as follows:

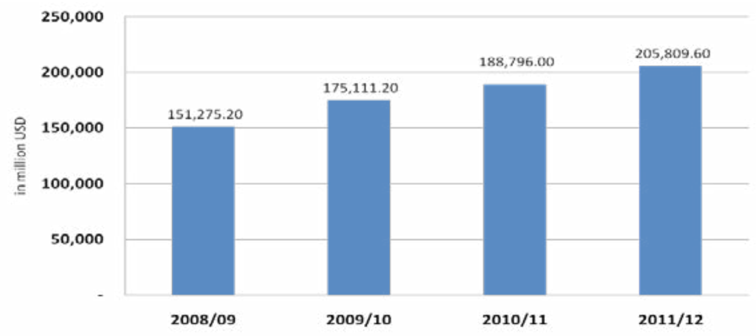
Country	Micro Enterprises	Small Enterprises	Medium Enterprises
Turkey	**No. of Employees:** 1-9 **Annual Turnover:** Less than USD 0.5 million **Total Assets:** Less than USD 0.5 million	**No. of Employees:** 10-49 **Annual Turnover:** Less than 2.4 million **Total Assets :** Less than 2.4 million	**No. of Employees:** 50-249 **Annual Turnover:** Less than USD 12 million **Total Assets :** Less than USD 12 million
European Union	**No. of Employees:** 1-9 **Annual Turnover:** Less than USD 2.8 million **OR** **Total Assets:** Less than USD 2.8 million	**No. of Employees:** 10-49 **Annual Turnover:** Less than USD 14 million **OR** **Total Assets:** Less than USD 14 million	**No. of Employees:** 50-249 **Annual Turnover:** Less than USD 70 million **OR** **Total Assets:** Less than USD 60 million
Jordan	**No. of Employees:** 1-9 **Paid Capital:** Less than USD 42,300	**No. of Employees:** 10-49 **Paid Capital:** More than USD 42,300 up to USD 1 million	**No. of Employees:** 50-99 **Paid Capital:** More than USD 42,300 up to USD 1 million
UAE		**No. of Employees:** 1-49 **Annual Sales:** Less than USD 2.7 Million **Paid Capital**: Less than USD 1.4 Million	**No. of Employees:** 50-100 **Annual Sales:** USD 8 Million
Malaysia		**No. of Employees:** 1-49 **Annual Sales:** Less than USD 3 Million	**No. of Employees:** 50-149 **Annual Sales:** Less than USD 7.5 Million
Egypt **According to Law No. 141 for 2004**	**Capital:** Less than USD 7,000	**Capital:** USD 7,000 – 142,000 **No. of Employees:** Not more than 50	
According to CAPMAS	**No. of Employees:** 1-4	**No. of Employees:** 5-49	**No. of Employees:** 50-99

2 SMEs Facts and Figures (Egypt)

Based on several national and international reports, SMEs importance can be reflected in the following figures:

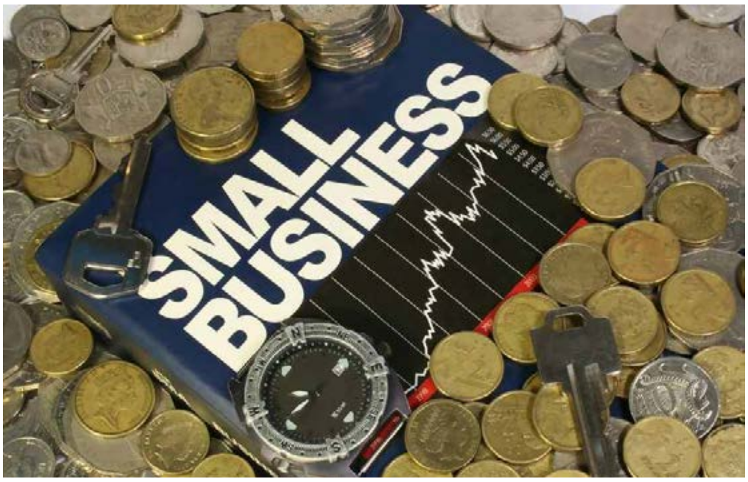
- SMEs represent 80% from the industrial base in many developing countries.
- In Egypt, SMEs are amount to be more than 2.5 million enterprises.
- SMEs occupy 99% of non-agricultural private sector establishments, where small enterprises represent 87% from total industrial enterprises.
- Small sized enterprises contribute by 13% to the total industrial production, compared to 46% for medium ones.
- SMEs contribution to the Egyptian GDP increased from FY 2009/09 till FY 2011/12 as shown in graph (1).

SMEs Contribution to GDP
(FY 2008/09 – 2011/12)



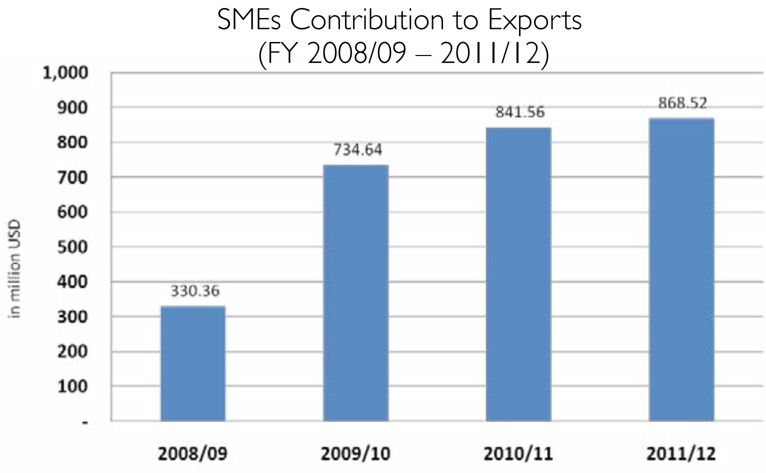
graph (1)
Source: Ministry of Finance & OECD

- SMEs represent 75% of the total employed workforce.
- SMEs with the capacity of 5-19 workers represent 85.4% from the total SMEs workforce, compared to 6.3% only for SMEs having a capacity of more than 50 workers.
- Micro and small enterprises MSEs (with less than 50 workers) represent about 80% from the total employment, dominated by micro enterprises that share with almost 88% from the total MSEs employment.
- In terms of Job creation cost, MSMEs show lower cost compared to large enterprises, where costs are estimated to be as follows:
  - Micro enterprises: EGP 1,375
  - Small enterprises: EGP 8,500
  - Medium enterprises: EGP 22,000
  - Large enterprises: EGP 60,000



SMEs contribute by 4% from the total Egyptian exports; yet, this percentage refers to unutilized capacities and considered to be very small compared to 60% for china, 56% for Taiwan, 70% for Hong Kong and 43% for South Korea.

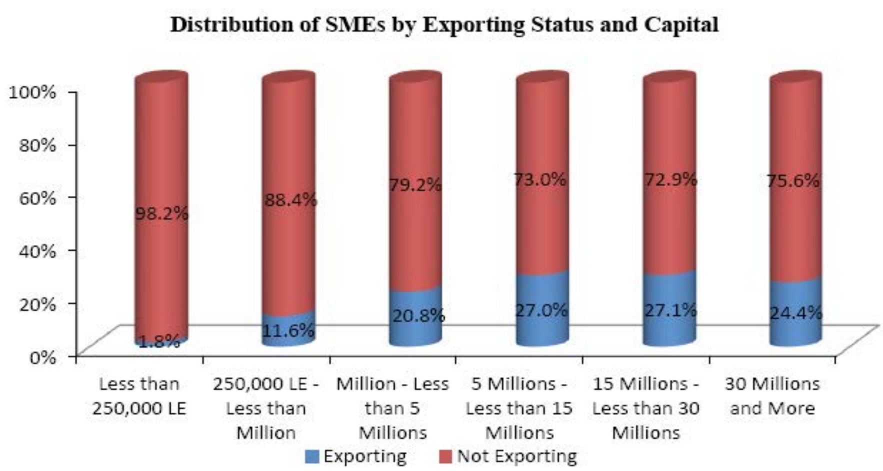
• SMEs contribution to exports increased from FY 2008/09 till 2011/12 as shown in graph (2):



graph (2)

Source: GOEIC & OECD

• Only 6 % from SMEs are exporting, while the remaining serves only the domestic market. Keeping into consideration that the higher the capital, the higher the share of exporting firms as shown below:

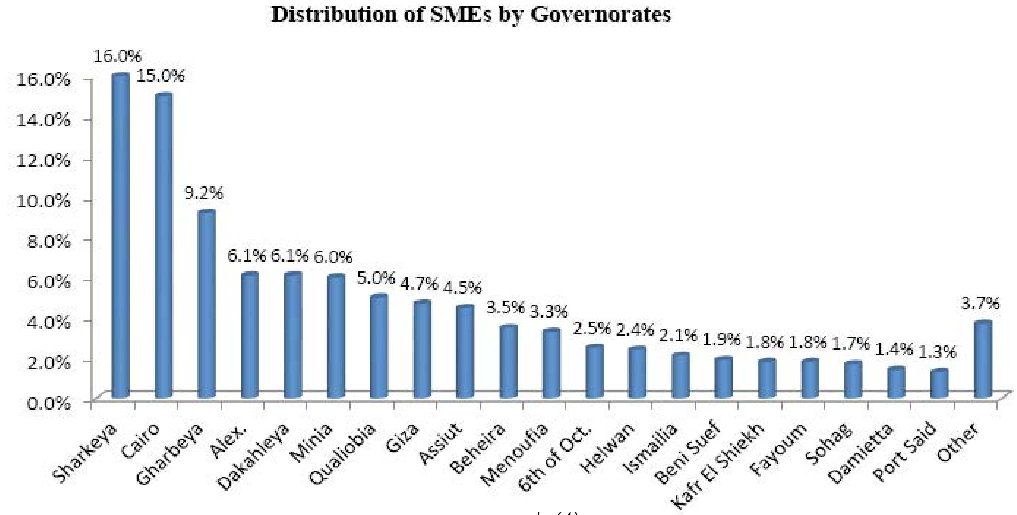


graph (3)

Source: El Said, Hala, Al Said, Mahmoud & Chahir Zaki (2011,), Small and Medium Enterprises Landscape in Egypt: New Facts from a New Dataset

• An average of 43% from SMEs goods and services are imported by Arab countries. It is worthy to note also that the higher the capital, the more a firm can export to more than a destination

• By geographical distribution, almost 40% from SMEs are concentrated in the three governorates of Sharkeya, Cairo and Gharbeya as shown in graph (4)



graph (4)

Source: El Said, Hala, Al Said, Mahmoud & Chahir Zaki (2011,), Small and Medium Enterprises Landscape in Egypt: New Facts from a New Dataset

- From a financial point of view, 53% from total SMEs in Egypt deals with the banking sector, while only 22.4% have banking facilities.
- By factors of production, almost 83% of SMEs are endowed with a capital less than EGP 250, 000.

3 SMEs Development Best Practices

After presenting the above figures, it is important to give more attention towards SMEs by highlighting various worldwide practices and entities focuses on SMEs growth and development as follows:

3-1 Country: Turkey

Small and Medium Enterprises Development Organization (KOSGEB)

Governance

Affiliated to Ministry of Science, Industry, and Technology

Key Initiatives:

1- Thematic Project Support Program

- Encouraging the SMEs to produce more projects to build their businesses up
- Meeting the regional and sectoral needs in designated thematic fields
- Ensuring SMEs conformity with the international legislations and priorities

2- Cooperation-Leaguing Support Program

- Assembling the SMEs and generating "common solutions for common problems" by cooperation – leaguing
- Finding solutions for SMEs problems and difficulties related to supply chain and competitiveness
- Gathering SMEs to transform into the enterprises of high capacity and competitiveness,
- Resource saving by exploiting scale economics
- Improving the partnership and the cooperation culture among the SMEs

3- Entrepreneur Support Program

- Establishing successful and sustainable enterprises
- Disseminating the entrepreneurship culture
- Developing entrepreneurship by establishing the Business Improvement Centers (BICs),
- Raising the employment level
- Supporting the entrepreneurship based on the local dynamics

4- SME Project Support Program

- Developing the project preparation culture and awareness in SMEs
- Enhancing enterprises' project developing capacity
- Need for flexible supporting system

5- Emerging Enterprises Market SME Support Program

- Growing Business Market SME Support Program
- Registeration in the Istanbul Stock Exchange Market (¡MKB) Emerging Enterprises Market
- Procure funds from capital markets
- Funding market counselor consultancy fee, independent auditing service fee, capital markets board, board registry fee, Central Registry Agency (CRA) cost and finder's fee to be paid to the intermediary firm

3-2 Country: Malaysia

1- Ministry of International Trade and Industry

Governance

• Established in April 1956

Role

• Plans, formulates and implements policies on industrial development, international trade and investment

• Provides financial schemes for SMEs (incentives schemes, grants and soft loans)

2- National SME Development Council (NSDC)

Governance

• Established in June 2004

• The Council, chaired by the Prime Minister

Role

Aims to enhance:

• Infrastructure for SME development

• The capacity of domestic SMEs

• Access to finance for SMEs

• Coordinates inter-Ministry and Agency efforts on SME development

3- Small & Medium Industries Development Corp. (SMIDEC)

Governance

• MITI agency

• Secretariat to the National SME Development Council (NSDC)

• Established on 2nd May 1996

Role

• Promotes and coordinate the development of SMEs

• Provides technical and advisory support services

• implements, coordinates and monitors financial assistance schemes provided to SMEs

4- SMIDEC Affiliates

• SMEs Info

  - Provides information on all aspects of SME development, including financing, advisory services, training programs, business and networking opportunities

• Malaysia SME online

  - SME portal that covers relevant news and provides business information and solutions

  - Provides a network for SMEs to facilitate exchange of information, ideas, knowledge

5- Malaysian Industrial Development Finance (MIDF)

Governance

• Agency of Ministry of International Trade and Industry

• Started in 1960

Role

• Ensures access to financing for manufacturing-based small-and-medium enterprises (SMEs)

6- Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN)

Governance

- Non-governmental organization
- Agency under the Ministry of Entrepreneur and Cooperative Development
- Established in 1998

Role

- Ensures small entrepreneurs have access to financial assistance to finance their development

7- Majlis Amanah Rakyat (MARA)

Governance

- Statutory body
- Agency under the Ministry of Entrepreneur and Cooperative Development
- Established in 1966 under an Act Of Parliament, No. 20, 1966

Role

- Creates and increase the number entrepreneurs and upgrade their level of participation in SMEs
- Participates actively in specific commercial and industrial enterprises through investments and management

8- International Network for Small and Medium Sized Enterprises (INSME)

Governance

- Non-profit association open to international membership
- Independent legal entity initially founded by organizations from Italy, Romania, Spain and Switzerland

Role

- Links innovation players worldwide and stimulates the integration of innovation and technology transfer services for SMEs
- Assists SMEs in accessing innovation and technology

3-3 Country: United Kingdom

1- Department for Business Enterprise & Regulatory Reform (BERR)

Governance:

- UK government department
- Created on 28 June 2007 on the disbanding of the Department of Trade and Industry (DTI)
- Established in 1621 as The Board of Trade

Role

- Builds SME enterprise strategy
- Encourages SME growth through business support programs
- Provides information for SMEs including regulations and tax
- Streamlines government support for small businesses
- Provides research and statistics

2- Enterprise Directorate

Governance:

- Agency within BERR
- Launched in 2000

Role:

- Runs support services for start-ups and growing enterprises
- Runs a large number of schemes such as the Small Firms Loan Guarantee (SFLG)
- Acts as an expert policy unit on small business issues throughout Whitehall

3- Regional Development Agencies

Governance:

- Established in 1999 with London Development Agency in 2000
- Non department public bodies sponsored by BERR
- RDA Act 1998

Role:

Provides grants to SMEs to assist their development

4- Confederation of British Industry (CBI)

Governance:

- Not for profit organization incorporated by Royal charter
- Formed in 1965 out of a merger of the Federation of British Industries, the British Employers' Confederation and the National Association of British Manufacturers

Role:

- SME Council within the CBI, identifies and addresses issues of particular interest to small and medium-sized firms
- Provides a voice for them to influence mainstream CBI policy and influence government at home and abroad.

5- Federation of Small Businesses (FSB)

Governance:

- Non-profit making and non-party political
- Formed in 1974

Role:

- Acts as a powerful lobbying group representing the interests of the self-employed and owners of small companies at both local, devolved and national government levels
- Lobbying starts by influencing local matters such as planning, economic development, tourism and retail support, which can be taken up to County or South West level and then up to National level

3-4 Country: Ireland

Enterprise Ireland

Governance

Enterprise Ireland is the government organization responsible for the development and growth of Irish enterprises in world markets. They work in partnership with Irish enterprises to help them start, grow, innovate and win export sales on global markets. In this way, they support sustainable economic growth, regional development and secure employment.

Key Initiatives

- Market Intelligence

  - Manages the country's largest business information centre handling enquiries on markets products, sectors and legal matters.

  - Through its international network (32 offices) it assists companies in entering or developing foreign markets and identify potential buyers.

  - Two other bodies, one for fisheries products (BIM), one for the agricultural products (Irish Food Board) offer the same type of services in their fields of activities.

- Advisory Activities

  - "Enterprise Ireland" provides advice in several matters: marketing strategy; Research and development; capital funding.

- Exporter's Training

  - "Enterprise Ireland" implements a number of export oriented training programs on marketing, selling and strategy. It also offers training in innovation, R & D management, and capital finding as well, for new companies.

  - Overseas Support

  - Enterprise Ireland has 32 representation offices abroad.

- Business Matchmaking

  - "Enterprise Ireland" identifies potential buyers or partners and also organizes trade missions.

  - The "Irish Food Board" organizes contacts with potential buyers (four offices abroad with multi countries responsibilities).

- SMEs Focus:"Enterprise Ireland" supports the development of venture capital funding and particularly seed capital for SMEs.

- R&D

  - R&D stimulation grants to enable small firms to develop their own innovation capabilities and absorptive capacities

The IMC signs a protocol with the Organization of Islamic Cooperation (OIC) to Establish the Arab-African Industrial Enterprise (AAIEN)

Purpose and Objective of the OIC / COMCEC Arab-African Industrial Enterprise (AAIEN)

Major COMCEC Member States (MS)from the Arab states and Africa with strong growth rates represent significant opportunities for the industrial enterprises including SME's in these countries Helping them to better exploit their potentials in these markets is a clear priority to boost competitiveness and create employment

Establishing the Arab – African Industrial Enterprise Network aims at helping SMEs in the participating countries to grow trade, do business together and compete in the global economy.

The overall purpose of the project is to enhance the industrial enterprises in the MS potential for growth by linking them to the Arab African Enterprise Network through a platform of services and information related to business opportunities, innovation, and technology transfer.

The overall objective of the project is to support industrial companies in the MS to make the most of the business and technological opportunities at the national, regional and international levels.

Expected Results

An electronic online network between seven Islamic MS from the Arab and African states namely (Sudan, Cameroon, Egypt, Morocco, Nigeria, Oman, and Saudi Arabia) is establish and functioning.

SMEs access to business opportunities, technology and joint research is facilitated through a systematic mechanism.

Activities

- A corporate image of the network is established and branded in the MS
- Design and implementation of an electronic network
- Build the capacity of focal points through training
- Promote the network through workshops, seminars, and website

Target Group

- Provide the services of the network to the members
- Members of the network
- The project will improve the capacity of members of the network to acquire, analyze and distribute data related to business and technology opportunities with a view to facilitate B2B among SMEs
- SMEs
- The project will provide SMEs in the MS a systematic vehicle to do business and research with the objective to facilities trade among countries participating in the network

Relevance to COMCEC Strategy

The project will contribute to achieve three main outcomes namely "Enhanced communication among private sector institutions of the MS", "Creation of online networks for the interaction of business people" and "Improved export strategy and international marketing capacities of SMEs."

The project will support industrial enterprises in the MS to overcome the problems of lacking a systematic and integrated range of information concerning business and technological opportunities offered in their market thus contributing to economic growth, employment generation, and productivity enhancement paving the way towards growth.

IMC lists Halal Certification to its services portfolio

Industrial Clusters Programme (ICP) has anticipated the process of adding Halal Certification to IMC services portfolio, the demand was originally driven by a cluster in Siwa that needed Halal Certificate as a requirement to participate in one of the international food fairs in Malaysia, accordingly ICP generated the first Letter of Commitment for 5 production units in Siwa.

Saudi Aujan Coca-Cola Plans $100m Fruit-Juice Factory In Egypt.

Saudi Arabia's Aujan Coca-Cola Beverages Company plans to spend $100 million building a fruit-juice factory in Egypt over the next few years, a senior executive said on Monday, despite the challeges facing there after three years of political turmoil.

Meshal Alkadeeb, vice president of strategy and business development, said the money would cover buying the land and setting up the factory in Egypt, which Aujun sees as a North Africa hub, mainly for Algeria and Libya, "The plant will be commissioned between 2016 and 2017. We just started working on it," Alkadeeb said.

"Right now, the biggest challenge for investing in Egypt would be infrastructure. They have realized this and are working seriously on addressing the gaps," said Alkadeeb.

"We're talking about utilities. Water is very important and you need to make sure you get electricity for a food factory. Packaging and wrapping material in our industry is also a challenge as well as the facilities that allow you to export and re-export," he said, noting that getting raw materials into Egypt or even sourcing it from inside is a big challenge also.

Source: Reuters

India, Colombia sign MoU to boost handicraft production.

The Export Promotion Council for Handicrafts (EPCH) of India has signed a memorandum of understanding (MoU) with the Bogota Chamber of Commerce of Colombia with the objective of facilitating bilateral cooperation between the two countries in handicrafts production.

EPCH executive director Rakesh Sharma signed the MoU with Monica De Greiff Lindo, president of Bogota Chambers of Commerce, during the recently held 37th edition of the Indian Handicrafts and Gifts Fair (IHGF) at the India Expo Center and Mart, in Noida.

The objective of the MoU is to enhance friendly relationship between the two countries, as well as promotion of bilateral cooperation, especially in terms of product development and designing of handicraft products, with the aim of diversifying and enhancing handicrafts production.

During the IHGF fair, the First Lady of the Republic of Colombia, Maria Clemencia Rodriguez De Santos also launched the facility 'Mobile Application for IHGF', an initiative introduced by EPCH for visiting buyers to easily access information regarding products and companies of their interest.

The mobile application can be installed on smart phones through app stores and users can access information regarding company-wise exhibitors, product-wise exhibitors, fair facilities, free shuttle, hotels, as well as help-lines about international airlines, Indian Railways, National Bus Transportation and more.

The 37th edition of the IHGF fair saw 4600 buyers including big buying houses from over 45 countries such as the US, UK, Japan, Germany, France, Australia, Spain, Greece, Canada, Italy, Hong Kong, China, Turkey, visiting the show. Deals concluded during the fair are expected to generate business worth Rs. 15 billion for handicrafts exporters from the country.

A total of 2600 exhibitors showcased a wide variety of handicrafts products at the show, including home textiles, textile furnishings, floor coverings, etc.

Source: fibretofashion

Samsung's 'Made in Egypt' monitors exported to Europe.

Tech-Giant Samsung announced that it has begun exporting computer monitors, locally manufactured in its Beni Suef factory, to a number of European countries. Samsung stated that it also aims to export to Asia and Africa.

The company's exports to the Netherlands and Slovakia have totalled over 10,000 sets. In 2014, the company plans to begin exporting to Jordan, Saudi Arabia, Libya, Algeria and Morocco.

"Following the inauguration of the factory in July 2013, we have worked very hard to manufacture state-of-the-art monitors that comply with the highest international quality standards," said Kinam Lee, president of Samsung's Egyptian factories.

Lee stated that the international company chose to invest $1.8bn in the Egyptian market, relying on the fact that the country is one of the largest and most pivotal markets in the MENA region.

Lee highlighted that the company "endeavors to position Egypt as the regional exportation hub for its products".

Samsung said that it is aiming to triple the factory's production volume by the end of 2014, adding that the facility's current annual growth rate is 184%, the company's target production volume is to reach 8 million sets by 2017.

Source: Daily news Egypt

Invista introduces new Lycra bio-derived spandex fiber

INVISTA, one of the world's largest integrated producers of polymers and fibers, and owner of the LYCRA brand, introduces the only commercial offering of a bio-derived spandex available globally and for use in a wide variety of apparel fabrics and garments. Approximately 70% by weight of the new LYCRA bio-derived spandex fiber comes from a renewable source made from dextrose derived from corn. The use of a renewable feedstock in the making of this new LYCRA bio-derived fiber results in a lower CO_2 emissions footprint than spandex produced using traditional raw materials.

With this new LYCRA brand offering, INVISTA is providing retailers and manufacturers of stretch fabrics a spandex fiber option that can impact the overall lifecycle analysis of the fabric and garment. The new fiber is made to INVISTA's high standards and specifications. Therefore, INVISTA does not anticipate a need to re-engineer fabrics and finishing processes, or garment patterns.

Arnaud Tandonnet, INVISTA Apparel global sustainability director, said, "We are very aware that sustainability topics are becoming increasingly important in the textile and apparel value chain, with growing awareness and building education on the subject at the consumer, brand/retail and mill level. In our research facilities we have successfully produced the fiber and evaluated it in fabric applications.

"The production of commercial quantities is planned for the autumn/winter 2015 and spring/summer 2016 collections. We look forward to working with our customers throughout the value chains we expand this new development."

Source: www.fibre2fashion.com

A framework for action: social enterprise and impact investing

Introduction

The combined resources of government and philanthropy alone are insufficient to solve the many development challenges of 21st century. Over the past decade, there has been growing recognition within the private sector of the need to take a greater and more active role in promoting sustainable development globally, through generating employment for youth, empowering women and tackling challenges related to energy, water and hunger.

Corporations and investors understand the long-term benefits of contributing to development, and as such, initiatives to advance the sustainability agenda have gained strength in the recent past and will continue to play an important role in the future. However, in the quest for innovative ways to engage the private sector to bolster global sustainability further, a new approach has gained significant momentum in recent years. It is captured by two themes:

Impact investing, defined as the placement of capital (into social enterprises and other structures) with the intent to create benefits beyond financial return

Social enterprise development, defined as creating and nurturing micro-, small- and medium-sized businesses that aim for positive social or environmental outcomes while generating financial returns. Social ennterprise has a twofold effect:

- **Financial return** potential increases the attractiveness of opportunities that produce a positive impact, drawing more private sector capital to areas that promote development.
- **Private sector participation,** and the opportunity to generate returns, spurs innovation and growth; commercial capital pushes enterprises to experiment with new business models, capture new opportunities and drive for greater impact.

Both private and public entities could benefit from viewing social enterprise development not only as a responsibility but as a financially or strategically valuable investment. Based on this concept, the United Nations Global Compact and The Rockefeller Foundation seek to encourage investors, corporations and policymakers to explore the potential of social enterprise.

They have therefore developed this "Framework for Action" to enable the exploration process. The facets of the Framework are presented through a strategic (and often market-focused) lens, but it is important to note that the philosophy of corporate sustainability – defined as a company's delivery of long-term value in financial, social, environmental and ethical terms – fundamentally underpins the content.

The scope of a discussion centered on social enterprise and impact investing, depending on one's perspective, can be broad. However, this Framework for Action is focused on, but not limited to, the following:

- Activities that provide products or services to individuals in low-income populations;
- Intention to proactively create positive value rather than seeking to avoid negative impact;
- Geographic focus on developing and emerging countries.

This Framework aims to assist three stakeholder groups – investors, corporations and public policymakers – in understanding how to navigate the social enterprise and impact investing space. For each of these groups, the guide outlines three steps: prioritizing the rationale for engaging, defining a strategy, and, finally, choosing specific approaches to execute.

Guide Outlines for Investors, Corporations and Governments

Step 1: Prioritize rationale (Identify and prioritize rationale that support long-term objectives)

Low-income populations in developing countries were once of little interest to investors and corporations. Today, however, there is a growing recognition of the substantial market potential those populations offer.

These "base of the pyramid" markets are attractive for their size and increasing purchasing power. But because these communities' basic needs have gone underserved for so long, either by the market, the public sector or both, they are also attractive for the significant pent-up demand they represent. As operating infrastructures are built out locally, well-run social enterprises will enjoy better chances of succeeding commercially, and will thus present greater investment opportunities.

Moreover, at a broader level, social enterprise development offers an attractive way to accelerate the creation of shared value. Inclusive and sustainable growth promotes economic and social development and subsequently creates a more enabling business environment in which both investors and corporations may prosper.

- **Investors:** Institutional investors, commercial equity funds and philanthropic investors have all made entries, at varying levels, into impact investing. A greater amount of capital is expected to flow into the space for a variety of reasons.
- **Corporations:** In addition to realizing financial returns and bolstering sustainable business activities, corporations have the potential to unlock a significant amount of strategic value on a variety of fronts. This strategic value may easily align with many of the innovation and emerging market growth goals that corporations hold.
- **Governments:** From a public policymaker's perspective, private sector-based social enterprises can be effective in addressing social, environmental and other sustainability challenges that are becoming increasingly costly for governments to tackle alone. However, a number of existing market failures – such as insufficient industry infrastructure and information asymmetry – stand in the way of accelerating corporate and investor engagement with the space.

Customized policy can therefore play a major role in fostering impact investing markets. Such policy ought to be of keen interest to governments, which have multiple incentives to create better enabling environments for the private sector both now and into the future.

Step 2: Define strategy

Once an organization has developed its individualized rationale for engaging with the social enterprise and impact investing space, the investor, corporation or policymaker must then consider the range of strategies that exist for entering the field.

They will need to evaluate not only which strategies they are most capable of adopting but also which would support their goals given the rationale they have prioritized. Each strategy comes with a unique set of opportunities and challenges that stakeholders should seek to understand carefully. While considering the various broad-level strategies at hand, an organization will need to determine the timing and size of its intended engagement.

Investors: Key considerations for investors to take into account when developing an impact investment strategy include transaction costs, approach to structuring and the level of impact an investment manager seeks to achieve through the social enterprise.

Corporations: Many corporations harbor a diverse wealth of resources that could contribute to social enterprise development. A corporation seeking to enter the space ought to encourage collaboration among various internal organizations to pool resources to engage with low-income markets in order to simultaneously capture value from and add value to these communities.

As with the investor-specific strategies outlined previously, the following strategies also entail varying levels of involvement and organizational change. However, all require an entrepreneurial nature and drive for innovation.

Governments: As outlined below, governments can choose to shape impact investing and social enterprise activity either as a direct participant in impact oriented markets or as an outside influence. However, regardless of the strategies it selects, a government must take care to ensure that its interventions are well targeted, transparent and implemented efficiently at a fitting scale and for the appropriate duration.

Step 3: Choose approaches

Once established, an impact investing, social enterprise development or enabling policy strategy can be implemented through one or more approaches. These are the diverse set of options with which an investor, a company or a government can actively engage in the impact investing and social enterprise space; they are the conduits through which social or environmental impact is ultimately achieved. While the list below is by no means exhaustive, it details a number of both common and innovative options for promoting an engagement strategy and its underlying rationale.

Investors	Corporations	Governments
• Debt and Equity Investment in Social Enterprises • Incubation and Seed Funds • Growth-Stage Funds • Loan Guarantee Programmes • Structured Financial Products	• Strategic Investments & Partnerships • Incubation • New Product Development • Procurement • Distribution Realignment	• Targeted Incentives • Capital and Technical Assistance Programmes • Regulation Reform

Case Studies

	Stakeholder Group	Rationale	Strategy	Approach
Investor	A Fortune 100 financial services organization, TIAA-CREF is a retirement system for Americans who work in the academic, research, medical and cultural fields. TIAA-CREF pursues impact investing through its Global Social and Community Investing Department within the company's Asset Management division.	Client interest in social investing was part of the reasoning for creating an impact investment programme supporting areas such as global microfinance, community bank deposits, corporate social real estate and green building technology.	It has committed capital of more than USD 120 million in microfinance through its Global Microfinance Investment Program (GMIP). The programme seeks to make investments in leading microfinance companies and private equity funds. GMIP captures a wide range of microfinance models and products, including small deposits, micro insurance and small and medium enterprise lending. This strategy is funded by the TIAA General Account, which is not available for direct investment but supports the claims paying ability of guaranteed annuities.	As part of the GMIP, TIAA-CREF has invested in the equity fund of Developing World Markets, a commercially-oriented asset manager that focuses on microfinance. TIAACREF has also made a direct equity investment in Pro-Credit Holding AG, which is the parent company of 21 micro banks that operate in Africa, Latin America and Eastern Europe.
Corporate	A Kenya-based corporation, Safaricom is a large mobile network operator. It manages M-Pesa, a mobile money platform enabling the affordable transfer of money between individuals using a network of retail agents. M-Pesa serves customers throughout Kenya and other countries.	The project was initially launched as an experiment in applying a private sector solution to create development impact, but Safaricom then saw the opportunity to extend its service into a completely new business – that is, payment services. M-Pesa offers a substantial new revenue stream, especially given the size of the unmet need in the market, and provides a way for Safaricom to retain customers in its mainstream mobile segment.	Safaricom approached Vodafone to partner on initial concept development. Safaricom offered an expansive and robust market presence and in turn would be able to leverage Vodafone's technology solution. Their complementary assets and competencies offered a high potential partnership	Vodafone and Safaricom, together with other partners, created a pilot programme. Upon successful completion of the pilot and validation of the potential opportunity, M-Pesa was launched as a separate entity to be operated by a dedicated department within Safaricom; the technology is owned and hosted by Vodafone.
Government	Set up under an act of Indian Parliament, SIDBI is a financial institution that promotes the micro-, small- and medium-sized enterprise sector. Its domains of interest include small-scale industrial units, financial services, healthcare and transportation, among others.	SIDBI was created to foster and develop sustainable and scalable companies, including ones that engage the "base of the pyramid". Such enterprises contribute strongly to inclusive growth, a high priority in India's economic development agenda. SIDBI aims to help engage the private sector and increase the capital resources available for development.	As a development bank, SIDBI seeks to invest in target companies and better position them to succeed in private sector markets. SIDBI works to strengthen and build the capacity of microfinance institutions, rural enterprises, energy efficiency projects and other impact initiatives.	SIDBI uses a range of financing tools (including loans and equity) to achieve its goals. However, it also provides innovative forms of non-financial assistance. It offers training and education programs for entrepreneurs as well as local lenders and a nationwide database connecting entrepreneurs to investment packages from potential financiers. It has also led infrastructure-level initiatives, such as developing credit bureaus and creating tool kits and knowledge resources for relevant sectors.

The Global Automotive Industry (Road to 2020)

Introduction

For the last century, the car culture has spread over the entire globe. As much as any other product, the car has shaped not only the global economy but how billions of people live. In Europe alone, the automotive industry accounts for roughly 12 million jobs (including related jobs); in the US, more than 8 million; and in Japan, more than 5 million.

Both McKinsey's "The Road to 2020 and Beyond: What's driving the global automotive Industry" and KPMG's "Global Automotive Survey 2014" are in-depth research's that offer a perspective on where the automotive industry is headed, they are based on many discussions and interviews with the top management of leading automotive original equipment manufacturers (OEMs), The objective was to answer crucial questions:

- How are the industry and the market evolving?
- What are the future challenges and opportunities?
- How can OEMs benefit from these new challenges and opportunities?
- What are the implications for different market segments?

Key Findings

McKinsey's "The Road to 2020 and Beyond: What's driving the global automotive Industry"

Overall, the global automotive industry is in better shape than it was five years ago, especially in the USA, where profits and sales have recovered following the recent economic crisis, and in China, where growth remains strong, this progress will likely continue. By 2020, global profits for automotive OEMs are expected to rise by almost 50 percent. The new profits will come mainly from growth in emerging markets and, to a lesser extent, the USA, Europe, Japan, and South Korea will be stagnant in terms of profit growth.

There are four key challenges that OEMs need to address to get a piece of future profitability. McKinsey's analysis projects these challenges will shape the industry until at least 2025.

- **Complexity and cost pressure:** There will be more platform sharing and more modular systems. At the same time, regulatory pressures will tighten, and prices in established markets are likely to be flat
- **Diverging markets:** OEMs need to adapt to changing regional and segment patterns of supply and demand with respect to their production and supply base footprints, supply chains, and product portfolios.
- **Digital demands:** Consumers want more connectivity, more focus on active safety and ease of use
- **Shifting industry landscape:** Suppliers will add more value in alternative power train technologies and in innovative solutions for active safety and infotainment; Europe needs to restructure and adjust its capacity to better match demand; and competition is emerging from China

KPMG's "Global Automotive Survey 2014"

The impact of the ongoing changes in the global automotive market are profound, as OEMs seek to produce energy-efficient vehicles that meet the demands of megacities and embrace the technological revolution, at the same time, the rapid growth of the emerging nations brings tremendous opportunities but also intensifies competition.

The automotive executives taking part in the survey have some strong views on where manufacturers are heading, eighty-one percent believe that they will gradually lose their dominance in motor expertise, as suppliers take a more involved role in the process. a similar proportion say that OEMs are likely to become pure mobility solution providers, to satisfy evolving patterns of car ownership

Half of the respondents predict that completely new entrants from sectors such as technology and utilities are likely to become important players, gaining greater brand awareness, TRIAD* based survey participants are more likely than their BRICs** peers to hold such a view, as a possible warning against complacency, almost six out of ten say that the traditional OEM business model will remain unchanged, given the emergence of new technology players, and developments such as Google's self-driving car, such an attitude could potentially be shortsighted, as tech firms are demonstrating their ability to move into OEM territory.

Global Forces Shaping the Sector

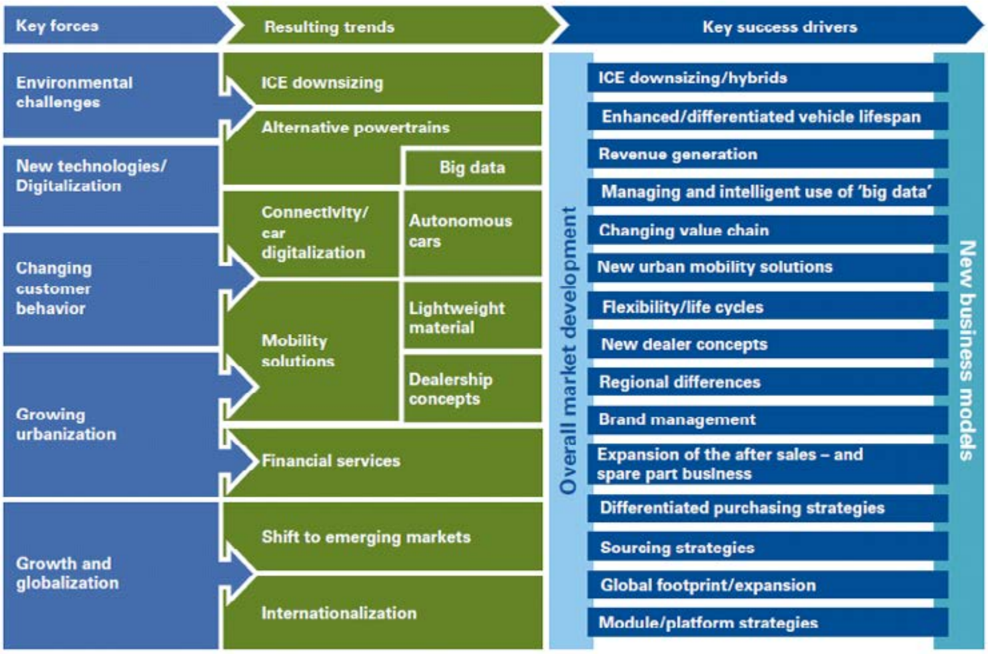
Automotive companies are adapting to a fast-changing competitive landscape. Co2 emissions are becoming a major concern, due to increasingly tough regulations and consumer concern over pollution. Such environmental factors, combined with rising fuel prices, mean that ICE downsizing is becoming a higher priority, as electric battery technology has so far failed to produce a cost-effective alternative.

Digitalization has become virtually an industry in itself. Vehicles are becoming ever more dependent upon software, while the journey to greater connectivity has only just begun, with self-driving cars becoming a probability rather than just a dream.

Meanwhile, automakers are still pondering how to make best use of the huge volumes of customer data, for development, servicing or marketing purposes, manufacturing techniques are also changing rapidly, as modularization reduces the cost and time of assembly, and enables vehicles to be put together and marketed more easily around the world, to swiftly roll out new models that reflect changing consumer tastes, dealers are continuing to transform their business models to cope with the shift to online buying, and assessing where they can build margins.

The continuing urbanization of the world's population is putting unbearable strains on road infrastructure, and calls not just for new vehicles but a new approach to ownership. Mobility-as-a-service (MaaS) is starting to make inroads, but with a whole new generation of city inhabitants possibly never owning a car, the sector needs to find ways to satisfy this segment and build brand loyalty.

Finally, as the BRICs take up a greater share of the global market, auto executives face tough choices on how to expand and who to partner with, as well as having to square up to the growing competition from overseas producers looking to gain a foothold in traditional developed countries.



* TRIAD: Cluster of countries accounting for 50 percent of world GDP

** BRICs: Brazil Russia India China

Evolving Strategies for Market Success

McKinsey's "The Road to 2020 and Beyond: What's driving the global automotive Industry"

Price-cost gap narrows	Price and regulatory pressures mean that OEMs in the established markets have little margin of error when it comes to making the right decisions on how to differentiate themselves, while more and more features and improvements have been added due to competition, customer demands, and regulation, the net effect has been a decline in profit per vehicle, but OEMs have been able to manage this so far because they have been able to make efficiency and quality gains, however, tighter regulations for emissions or safety will add further costs to the average vehicle.
Rising complexity	Well into the 1990s, major brands would build four or five different models off a single platform, but car buyers worldwide continue to be more demanding, most automakers respond to this demand with an increasing number of derivatives subject to markups compared with standard models, the pace of introduction of new derivatives will likely peak, and the number of new models will level off, continuing to create even more derivatives will simply exert pressure on profitability.
Greening	Carbon dioxide regulation is likely to continue to tighten, one immediate result will be higher costs, because the price of cutting future emissions is rising will OEMs will invest more in e-mobility, meaning electrical/hybrid power trains, including batteries, as well as in lightweight and aerodynamic drag-reducing technologies.
After sales market	New car sales growth is slowing, from 18 percent a year between 2006 and 2012 to a projected 6 percent a year between 2012 and 2020, but an even more promising, and less obvious, opportunity is the after sales market, including spare parts, service, used car sales, and financing, which serves as an integral component of brand building and sales funnel management. After sales automotive parts revenues on its own could grow from approximately EUR 20 billion in 2012 by 20 percent a year and reach nearly EUR 100 billion by 2020.
Growth Shift	The automotive industry's economic center of gravity will continue to shift, as sales volumes and market share keep moving toward emerging markets, one major growth opportunity is in smaller vehicles (subcompacts, micro cars, and Super minis); where global sales could reach more than 30 million vehicles in 2020, the majority of this growth will be in urban areas, offering OEMs the opportunity to address a large share of growth with relatively few, focused footprint adjustments. Competition in this segment, however, will be intense, and success requires a low-cost business model, such as a limited number of body types based on one platform
Connectivity	Cars on the road are being equipped with danger-warning applications, traffic information services and increasingly active safety features as well. The number of networked cars will rise 30 percent a year for the next several years; by 2020, one in five cars will be connected to the Internet, these cars will be in the premium segment (approximately 50 percent) and increasingly in the value segment as well, where many of them will have network solutions by 2020, Delivering services through the car – Internet radio, smartphone capabilities, information/entertainment services, driver-assistance apps, tourism information, and the like – is a promising area for future profits and differentiation
Retail of the future	With a few clicks, potential car buyers can already access a tremendous amount of information, and the volume and breadth of the material available on the Internet will only increase, five years ago, customers visited dealers an average of five times before purchasing a car; now they enter the showroom well-informed, giving the dealer one chance to turn the browser into a buyer, dealerships are still important in decision making and in the customer's overall experiences but less so in the research and product comparison phases. This presents OEMs with contrasting challenges. On the one hand, they need to create a state-of-the-art Web presence that provides customers with a digitally supported purchasing experience based on, for example, comparison tools, car configurations, and other online tools, on the other hand, they need to provide an engaging interaction and compelling experience across all touch points on the customer decision making journey and in the post-purchase experience.
Suppliers add more value	OEMs will have to manage rising production volumes – up to 70 percent in Asia by 2020. That means building a local supplier base, designing an enhanced supply chain, and bolstering supplier capacities. This is particularly important because the imperative to improve green mobility means that suppliers will become more important in terms of how much value they add, especially for the constantly improving ICE but also for the various electrified power train alternatives.
OEM battle intensifies	Europe is in a particularly difficult position because it is maintaining significant overcapacity, according to the European Automobile Manufacturers Association (ACEA), moreover, a number of lower-cost brands have recently entered the market, heightening competition further, European OEMs have announced capacity reductions of 750,000 vehicles by 2015, but with regard to how the market is likely to develop, that may not be enough, If OEMs in Europe do not revise their production footprint beyond the announced capacity adjustments, it could be five years before the industry gets back to its pre-crisis utilization rate and related profitability levels, similar challenges apply to OEMs in Japan and South Korea, where capacity adjustments have already been initiated.

KPMG's "Global Automotive Survey 2014"

Organic growth has overtaken joint ventures and alliances as the most common business strategy, as automotive businesses reconsider the benefits of partnerships and internal strengths such as innovation also appear to be critical, in order to retain independence and avoid mergers or alliances.

In the past year, there appears to have been a re-think over the key business strategies. In 2013 survey, respondents placed joint ventures and alliances as the main approach, while in 2014; organic growth tops the list, with 84 percent ranking this option as extremely or very important (up from 65 percent), this change in view is felt most strongly amongst OEMs from the TRIAD countries, with an overwhelming 95 percent voting for organic growth (although 81 percent of BRICs feel the same way), TRIAD suppliers express a similar shift in their focus, whereas BRICs* suppliers favor expansion of the value chain and diversification as the top business strategy. Partnerships are by nature challenging, with each party having to adapt to issues such as cultural differences and non compete clauses. Having already entered into a number of such alliances, many automotive players acknowledge the difficulties in gaining mutual agreement on strategy and realizing synergies.

Another interesting reversal in opinion concerns mergers and acquisitions (M&A's), the 2013 survey showed OEMs from BRIC nations to be far more willing to follow such a course of action; however, 1 year later, it is the TRIAD manufacturers that express the stronger preference, again, this could be a backlash by TRIAD players against what they may see as restrictive or poorly functioning partnerships, the executives involved in this year's survey believe that joint ventures, alliances and M&A are most likely in China, rest of Asia and Central and South America in the 5 years up to 2019, these observations reflect the evolving nature of these geographies, as new and existing players strive to gain leadership positions, three out of ten respondents expect a fall in the number of alliances in Japan.

Business strategies considered important for future success

RK 2014	Business Strategy	Percentage	RK 2013
1 ▲	Organic growth	84%	3
2 –	Expansion of the value chain and diversification	77%	2
3 ▼	Corporate partnerships (JVs and partnerships)	77%	1
4 ▲	Cooperation with players from converging industries	76%	6
5 ▼	Outsourcing of (non-)core activities	55%	4
6 ▼	Mergers and acquisitions	50%	5

Note: Percentage of respondents that rated the strategy as 'extremely important' or 'very important'

Source: KPMG's Global Automotive Executive Survey 2014

The top six tactics for generating growth up to 2019

RK 2014	Business Strategy	Percentage	RK 2013
1 –	Developing new products and/or new technologies	89%	1
2 ▲	Entering new markets	86%	6
3 ▲	Product portfolio diversification	80%	7
4 –	Expansion of the after-sales/spare parts business in BRICs	80%	New
5 ▼	Improving total affordability	78%	3
6 ▼	Offering price and sales incentives	76%	5

Note: Percentage of respondents that rated the strategy as 'extremely likely' or 'very likely' to generate growth

Source: KPMG's Global Automotive Executive Survey 2014