

SMEs last to exit any crisis, says Gulf Finance CEO



By Karen Remo-Listana on Sunday, August 09, 2009

Under normal circumstances, a third of SMEs do not make it in the business world. Now that the world is in crisis, the statistics is expected to be far worse, a top official from Gulf Finance said.

"The problem is the SMEs take the brunt of any recession and they don't get any immediate benefits of any growth," Steve Williams, CEO of the Shuaa Capital subsidiary, said. "We all hear big businesses struggling but the small businesses struggle three to six months later when the big companies stop paying them... small businesses don't have much of resources and consequently they really suffer."

Official figures show that 85 to 95 per cent of the total UAE's businesses sector comprises SMEs. To speed up the recovery of the overall business community, SMEs should be a priority not only by the government but also the banking and financial community, said William.

Gulf Finance is a fully owned subsidiary of Shuaa Capital, which had to walk through rough roads this year. It was fined by DFSA a record \$950,000 (Dh3.5 million) for market manipulation and had to face a big dispute with Dubai Banking Group as regards the Dh1.5 billion bond conversion. How were you affected by those incidents?

Because Gulf Finance is independent, companies look at us as a stand-alone business. They are ultimately our stakeholders so we seek to produce a good return for them as possibly as we can. It's fair to say that some of our financiers ask the question as to what is the relationship between Shuaa Capital and Gulf Finance... Shuaa Capital is an investment bank and they want us to be successful as we possibly can and they have been incredibly supportive to us over what has been a difficult year for them.

So besides equity, are you 100 per cent independent from Shuaa?

Yes, we are a ring-fenced business. They are owners but the

management team and our interactions are direct with the banks and our stakeholders.

You're focusing on small and medium enterprises...

We are a boutique finance company. A boutique store doesn't have every product under the sun. We're focusing at the moment on the headshot concept – when the world or your industry is in trouble, you roll up into a little ball like a headshot and you do the one thing that you do the best and that will help you sustain and survive. That for us is lending to SMEs.

When will you start developing your consumer section?

We have a small consumer section, which we have launched last year. If the market had been stronger, we could have developed it more this year. What we're doing now is mainly on the consumer side where we are focusing on marine finance. We hope things will pick up in the beginning of next year but I think there are far more indicators required for us to see before we lay out our plans.

Official figures show that SMEs in the UAE are the backbone of the country's economy due to their dominance on anywhere between 85 per cent and 95 per cent of the total businesses sector in the country. How badly is this sector affected?

The problem is the SMEs take the brunt of any recession and they don't get immediate benefits of any growth. They feel the pain three to six months after the corporates. We all hear the big businesses struggling but the small businesses struggle three to six months later when the big companies stop paying them. Small businesses don't have much of resources, they don't have huge access to capital, they can't tap into shareholders. It's usually funded by the owners or a few friends and family and consequently they really suffer.

Being the last to go in, they would be the last to go out, then?

Correct. And the problem is that many of them don't make it out as well. The ones we are talking to – they have good products, they have good teams but they are not getting paid on time. That's the issue – the money is not flowing through. This is where we are playing a very big role in the recovery of Dubai. Where there are good small businesses and there is a mismatch in the money going in and money going out – we developed a product called invoice financing – which helps bridge that gap.

How many of UAE's SMEs would not be able to make it?

The statistics has been around for years and it says that in any business under three years old, only a third of it make it. And so you can say that in a recession, even fewer are going to make it through. Dubai is an interesting microscopic environment to see how these SMEs are going to survive. You have a lot of businesses that have been set up at the back of the boom – real estate brokers, professional services – where they do a brokerage role between the buyer and seller. I think those are going to be hit the hardest because their value proposition isn't always incredibly strong. The ones that will survive provide the tangible service to the core industries. But lots of SMEs – those set up in a hurry without proper value proposition will not make it.

You're saying that there is a significant cash gap for SMEs and you can bridge that gap through invoice finance... how much cash do you currently have?

We are incredibly liquid. We are somewhere in the region of 130 per cent covered in terms of our asset book. Other banks have different scenarios to worry about and their liquidity is of significant concern; it is to us as well but we took a very prudent step during the later half of 2008 to ensure that our liquidity is superior.

PROFILE: Steve Williams *CEO, Gulf Finance Corporation*

In January 2008, Steve joined Gulf Finance as CEO. He joined Gulf Finance from Lloyds TSB in Dubai, where he was Chief Operating Officer and a member of the board. He also was a member of the bank's Executive Development Scheme. He originally moved to Dubai with Lloyds TSB in August 2004 as Head of Commercial and Retail Banking. He joined the Lloyds TSB Group in 1989 and, in his last UK posting with the bank before making the move to Dubai, helped develop the customer-treatment strategy for the bank's corporate business.

Active in the British Business Group, Steve is a former director of business development for the association. He is also a Director for a Dubai-based venture capital firm and recently studied finance and accounting at the Executive Education department of the Stanford Graduate School of Business in California.

Keep up with the latest business news from the region with the daily Emirates Business 24|7 newsletter. To subscribe to the newsletter, please [click here](#).

Copyright © 2008 Emirates Business24|7