

Yandraduth Googoolye: Small and medium-sized enterprises in Mauritius

Address by Mr Yandraduth Googoolye, First Deputy Governor of the Bank of Mauritius, on the occasion of the signing of an agreement for a Line of Credit to the Mauritius Leasing Company Limited by the European Investment Bank for SME financing, Caudan, 19 December 2011.

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Ladies and Gentlemen

It is a great honour for me to be among you for this memorable event and I welcome this opportunity to address this forum on a subject that has been much talked about lately, both at the national and international level.

SMEs have played a key role in providing the necessary impetus to the advancement of some of the world's economies like the United States, China, Japan, Taiwan, Korea, Hong Kong as well as many countries in Europe. Ninety-nine per cent of all European businesses are in fact SMEs. They provide 2 out of 3 of the private sector jobs and contribute to more than half of the total value added created by businesses in the European Union. In some countries, such as the UK, Governments have entered into an agreement with major banks to determine how much they will lend to SMEs.

In South Africa, SMEs are said to contribute 40% of GDP and 40% of employment opportunities. There are currently over 100 million SMEs in Africa and this figure is deemed to grow even more. India and countries in South America have been concentrating their efforts in developing the SME sector. In developing countries, SMEs serve as a useful bridge between the informal economy of family enterprises and the formalised corporate sector. As such, most policymakers deem the health of the SME sector to be highly important for an economy Mauritius is not an exception to this. I believe that SMEs are critical for our future economic prosperity given that it has been placed on the national agenda by the Government. Indeed, the Government of Mauritius has endeavoured to bolster the SME sector by providing various incentives, including industrial space and special grants amongst other measures. Some of the former SMEs are now big players in the Mauritian corporate landscape.

A survey conducted by Statistics Mauritius in 2007 revealed that there were around 92,000 SMEs which provided employment to some 209,000 individuals. These numbers are estimated to have reached 94,000 and 250,000, respectively, in 2010. SME jobs represent around 46% of total employment in the economy and are mainly concentrated in the "Wholesale and Retail Trade". SMEs' contribution to Gross Domestic Product amounts to nearly 37% or Rs120 billion. Estimates based on latest figures suggest that SME exports might represent around 20 to 25% of total exports.

With a view to further support the sector, the Honourable Vice-Prime Minister and Minister of Finance and Economic Development had announced in the Budget Speech 2012, that the banking sector would extend credit facilities to SMEs for an amount of Rs3 billion over the next three years at 3 percentage points above the prevailing Key Repo Rate.

Credit facilities granted to the SMEs at end-September 2011 amounted to about Rs16 billion. Following the announcement in the Budget Speech 2012, fourteen banks have been earmarked to grant credit facilities to the SMEs effective 1 December 2011. From that date up to 14 December, 59 applications for facilities by way of loans and overdrafts have been received for an aggregate amount of Rs99 million. The number of applications received for loans was equal to that of overdrafts. However, the amount applied for loan facilities doubled

that of overdrafts. Out of the total applications received for Rs99 million, an amount of Rs17 million has been sanctioned.

Since the announcement of the budgetary measure, banks have promptly taken various steps to promote the scheme by *inter alia* setting up SME desks, assigning a team/department to promulgate the scheme, informing SME customers of the various SME products through letters, communiques, website and advertisement, and personally visiting SME customers to promote key products.

Financing the productive capacity of the economy is critical to long-term economic success. While large businesses have easier access to finance including capital markets, SMEs are heavily dependent on the banking system. Today, it gives me great pleasure to note that Non-Bank Deposit Taking Institutions are also participating in the development of the SME sector in Mauritius. I value this initiative of the Mauritius Leasing Company Limited to support the sector through a line of credit of EUR5 million funded by the European Investment Bank (EIB) with the aim of providing leasing facilities to SMEs.

The EIB, the European Union's long-term lending institution, has been a long-time strategic partner in the development of the Mauritian economy. Since 1975, it has provided more than EUR300 million for the financing projects in the country. We welcome the support of the EIB once more and appreciate that it has recognised the importance of SMEs and their contribution to the Mauritian economy as has been rightly pointed out by the EIB Vice President, Mr Sakellaris, responsible for Africa, Caribbean and Pacific lending operations: *"The European Investment Bank recognises the essential economic role played by small and medium sized companies. We are pleased to be able to continue to facilitate private sector investment in Mauritius through a valuable relationship with the Mauritius Leasing Company Limited."*¹

The Mauritius Leasing Company Limited was the first leasing company to be established in 1987. Since then, it has developed into an innovative and competitive company leading in various fields. Indeed, it was the first leasing company to be granted a deposit taking business licence by the Bank of Mauritius in September 1995, the first leasing company to issue debenture stocks and the first leasing company to be listed on the Stock Exchange of Mauritius. With total assets of over Rs3 billion and market share of 25% of the leasing sector, the company has recently embarked on Islamic Financing being the first leasing company to offer Ijara Financing. Today, another milestone has been achieved with the signing of the line of credit of EUR5 million with the EIB.

I have no doubt that this agreement will give an impetus to the SME sector in Mauritius and will encourage an entrepreneurship culture that will drive the future of our economy. However, it is worth pointing out that financing SMEs is different as market information on family and smaller businesses is not as robust and efficient as it is for larger businesses. Credit providers must have effective risk management practices in place together with an understanding of the nature of business of the small entrepreneur to be able to service the sector in an effective manner. A deep customer relationship and strong knowledge of small businesses are fundamental for the success of the SME sector.

Ladies and Gentlemen, let me end by quoting the words of the Honourable Vice-Prime Minister and Minister of Finance and Economic Development in his Budget Speech 2012: *"In times of crisis SMEs are the most vulnerable. And in a world of rising competition they have to struggle to stay relevant and profitable. Yet when they do succeed, they can make an irreplaceable contribution to the economy"*.

Thank you.

¹ Joint Communiqué issued by the Mauritius Leasing Company Limited and the European Investment Bank on 19 December 2011.