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Mohamed Farid: Plan to attract small and ambitious companies to achieve growth in the Nile Stock Exchange

Mohamed Farid, Chairman of the Egyptian Stock Exchange, said that the Stock Exchange's management has prepared a database through transactions of companies over the counter, the Ministry of Investment and Misr for Central Clearing. He explained that this is aimed at targeting small companies that have ambitious growth plans through being publicly traded or cooperating with international institutions to show how to increase their capital to finance investment plans.

Our Views

- **The Nile Stock Exchange is one of the financing alternatives for small and medium enterprises wishing to increase capital**, in light of the difficulties faced by these enterprises in obtaining bank financing, especially that listing on the Nile Stock Exchange does not require achieving a certain percentage of net profit, **and the enterprise can obtain unlimited financing with no collateral**. Accordingly, the Egyptian Stock Exchange's management has paid special attention to the Nile Stock Exchange recently out of belief in the importance of SMEs in stimulating growth and job creation.
- **The growth of the stock market is not a goal in itself as the headline suggests**, but it is a mean to provide alternative financing, and therefore the goal is to activate the Nile Stock Exchange to benefit small and medium enterprises.
- **The performance of the Nile Exchange has been very modest since its establishment in 2007, both in terms of the number of listed companies, which amounted to only 28 companies until April 2019,¹ or trading volumes, which amounted to an average of EGP 15 million per week**, in addition to the presence of a number of companies whose shares do not

¹ Nile Stock Exchange Awaiting Recovery Plan, Al Mal Newspaper, April 2019.

witness any transactions.² The stock market witnessed only one IPO over the past three years— MB Engineering— in 2016. **The Exchange was not able to complete many IPOs over the last period**, most notably Speed Medical, the largest IPO in the history of the Nile Exchange. Only 46 percent of the IPO was covered, leading to a negative perception of the Nile Stock Exchange and investors' reluctance.

- This is due to many structural problems related to the Nile Stock Exchange itself on the one hand, and structure of the Egyptian economy and the status of this category of enterprises on the other, which can be summarized as follows:

First: Problems related to the Nile Stock Exchange:

- **Difficulty in listing companies**, and the length of time it takes to scrutinize papers.
- **The Nile Stock Exchange's reports to the management of the main stock market.** Many experts have proposed turning it into a separate stock exchange focusing solely on SMEs due to the specificity of the rules required by this category of enterprises.
- **Poor promotion and marketing** compared to the main Exchange.
- **The reluctance of investment banks and fund managers to invest in the Nile Stock Exchange enterprises** as they do not suit their investment policies, which require focusing on large companies in accordance with a number of regulations governing their work.
- **Lack of clarity on trading these companies** to all participants in the market.
- **Most listing sponsors are reluctant to provide sponsorship**, focusing on other activities such as financial counseling.
- **The burden of service and development** fees imposed by the Exchange in 2009 retroactively since the date of listing of each company.
- **Absence of good commodities.**
- **Dealing with small enterprises requires the same procedures as large companies**, which discourages investment funds and individuals from investing therein. This requires the establishment of a system for companies, investors and participants in the stock market to encourage the listing and trading of these enterprises.

Second: Problems related to the structure of the Egyptian economy and the position of SMEs:

² Nile Stock Exchange “Thirsty”, Al Borsa Newspaper, December 2017.

- The weak performance of the stock market in general and the Nile Stock Exchange in particular reflects a number of fundamental problems facing the Egyptian economy that negatively affect investment rates, including: **high land prices and its unavailability, high interest rate and government crowding out of the private sector in borrowing from the banking sector, and the lack of trained technical labor, as well as high energy prices for the industrial sector in a way that makes it uncompetitive, local corruption and tax and customs distortions.**
 - The majority of SMEs operate in the informal economy, where around 60 percent of wage workers work in Egypt.³ The saving of time, effort, lack of benefits for formal work and the desire to avoid paying taxes and insurance are the four main reasons for informality according to the owners of these enterprises.⁴
- The news did not clarify the details of the plan and whether it takes into account all previous problems or not, and accordingly, **improving the performance of the Egyptian Stock Exchange is a joint responsibility among all concerned parties including the stock exchange itself, clearing companies, investment banks and concerned ministries and regulatory bodies and NGOs**, which means the need to complement efforts of the Egyptian Stock Exchange with the efforts of all companies concerned in order to achieve tangible improvement in performance.

Worthy of Note:

- Some suggested that the Egyptian Stock Exchange establish a protocol that requires investors to pump 1 percent of their investments in the Nile Stock Exchange, and 20 percent for investment banks and funds in line with the initiative to finance small and medium enterprises launched by the Central Bank. However, this idea is contrary to the essence of the stock market, which is based on supply and demand and where Investments are directed automatically towards opportunities based on specialized studies and investors' vision and not binding administrative decisions. The solution lies in improving the products available on the Nile Stock Exchange so as to automatically attract investors.

³ Egypt Labor Market Survey 2012.

⁴ Mohamed A. Abd El-Fattah. 2012. A survey-based exploration of satisfaction and profitability in Egypt's informal sector. ECES. Working Paper No.169. May 2012.

- The Nile Stock Exchange was established three years after the adoption of the Small Enterprises Development Law 2004. This law approved many incentives and support for these enterprises through the Social Fund for Development. However, the advantages of the law were limited to medium-sized companies with good solvency in Cairo and Alexandria, and the impact of the law was otherwise limited.⁵
- The government completed the preparation of the draft law for the development of small and medium-sized enterprises and micro-enterprises last September and is expected to be discussed by Parliament during the next parliamentary session. It includes many advantages supporting these enterprises in addition to a chapter on the informal economy.

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⁵ Addressing informality in Egypt. 2016. AfDB.