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Logistic

Companies see strong global growth

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COMPANIES SEE STRONG GLOBAL GROWTH

Most of the successful corporate companies globally engage management-consulting firms to provide problem-solving methods and accelerate decision-making and the implementation of strategies to improve their businesses. In the GCC region, particularly the UAE, Value Partners are driving for innovation to propel several companies' growth. During the week, ***Francesco Pavoni****, the director for Value Partners, spoke to* ***William Faria*** *from* ***The Gulf Today*** *outlining the company's activities in the region and beyond. Francesco mentions that the banking sector in the UAE is highly developed when compared to peers within the region. He also sees an opportunity for the local Islamic banks expanding internationally.*

Here is the full interview:

Q. Can you mention what Value Partners is all about?

A. Thank you for the interview! In a nutshell, Value Partners was founded in Milan in 1993 by Giorgio and it conducts management consulting projects in its offices in Milan, London, Istanbul, Dubai, Sao Paulo, Buenos Aires, Beijing, Shanghai, Hong Kong, and Singapore.

Over the years, it has forged a solid international reputation carrying out projects in over 40 countries for leading companies mainly in the telecommunications & media, financial services, life science, oil & gas, manufacturing and hi-tech.

The value created for clients in the last twenty years has no doubt determined our rapid growth and has strengthened our brand worldwide.

Q. What are the fundamentals provided to corporate companies globally?

A. Value Partners is sought for its turnaround and change management expertise, matured with industrial and service multinationals. We have developed successful strategies, handling change with determination and good sense.

Our projects create value because they strengthen the company's competitive position. We work in all the main sectors of the economy, undertaking projects in portfolio and business strategy; organisation and change management; and operational improvement. Besides methodologies and sector expertise, we help our clients to make the right decisions and to implement our recommendations.

The real judges of our work are our clients: 60 per cent of our clients served have been working with Value Partners for eight or more years.

Q. Do you think that Turkey is ready to start a relationship with top UAE banks?

A. Yes, definitely. The country context is very promising because in Turkey the political situation is strong, the country exhibits steady, consistent economic growth. The government is pro-actively encouraging investments in the country, and this includes the banking industry.

Trade volume between the GCC and Turkey has also been growing at a rapid pace, reflecting the stronger ties that are being built.

Q. How can you describe the current status of the UAE banking sector?

A. Banking in the UAE is highly developed when compared to peers within the region. There are, however, a number of points that need to be taken into consideration.

The first is the high level of competition, which is good for consumers. There are a large number of banks in the country, although the top three or four banks tend to dominate both commercial and retail banking.

Since 2008, these banks have suffered from the lingering effects of the financial crisis — high levels of NPLs that they have had to work out, which has resulted in restricted lending activities.

Now that the economy is picking up again, we see renewed lending activity by the banks. My expectation is for this renewed lending to be less concentrated on loans to large corporate banks and see the value in diversifying their lending portfolios, shifting towards SME and retail lending.

I would worry about renewed concentration in real estate lending, whether on the corporate or retail side.

Q. Do you feel that the country's Central Bank has put adequate regulations?

A. However, I believe that the central bank has put in place new regulations that will keep any problems in the real estate sector from spilling over into the banking sector.

I would also expect to see some consolidation over the next few years as smaller banks that do not develop a sustainable business model get taken over by larger players, bringing a number of banks in the country in line with international averages.

Q. What can you say about the local Islamic banking?

A. I see an opportunity for the local Islamic banks to expand internationally. I also see room for conventional banks with strong business models and innovative customer engagement practices to bring their expertise to other markets.

Q. Can you mention about GCC's FDI outflows after the global financial crisis?

A. GCC FDI outflows, which grew rapidly in correlation with rising crude oil price, were interrupted by the global financial crisis in 2009. During the recovery, FDI outflows reached $20 billion by 2012, and have started to follow a similar pattern when compared with their pre-crisis state. The growth in FDI outflows from the GCC is further strengthened by the strong economic growth of the region and government sponsored planned diversification initiatives. FDI outflows from GCC are dominated by Kuwait, which accounts for 40 per cent of outflows, followed by Saudi Arabia (25 per cent) and UAE (15 per cent).

Q. In reference to Turkey, what can you say about the state of its FDI inflows?

A. FDI inflows to Turkey have also followed a similar pattern.

They contracted abruptly in 2009 and then recovered to the range of $10 billion over the past two years. Several factors led to this recovery, mainly a stable, reform oriented, pro-business government, a high-growth economy (with 4-5 per cent real GDP growth), and favourable demographics with a young and aspiring population that enjoys rising income levels.

These indicators have created an optimistic outlook for Turkey. Therefore going forward, Turkey is expected to achieve healthy growth in FDI with finance, energy and manufacturing being the top sectors attracting FDI.

Q. Have the GCC FDI inflows recovered to pre-crisis levels?

A. Actually, while there has been a significant recovery, most GCC economies have yet to receive FDIs near pre-crisis levels. FDIs to the Kingdom of Saudi Arabia, the largest destination of foreign investment in the region, continue to decline for example. The only notable exception is the UAE, which has grown FDIs by an average of 34 per cent per year since 2008. Again, this is growth after a significant drop of 70 per cent in 2009, but it is there and it is very significant as it indicates the safe-haven status that this economy has within the region. Foreign Direct Investment to the UAE is directed mostly to the real estate, financial services, wholesale/ retail trade and manufacturing sectors, which together account for more than 80 per cent of total FDIs. Sources of FDI reflect the UAE's developed trade ties, with the UK, Japan and France being the top three investors in the nation.

Q. When did the interest of GCC investors for the Turkish banking sector begin?

A. The GCC investments in the Turkish banking sector initially followed the interest of major Western European banking groups in the Turkish banking sector. With the success of these investments, and the opportunities that were made apparent during the first half of last decade, GCC capital entered.

This started with the acquisition of Turkish Bank by the National Bank of Kuwait and Turkey Finans by National Commercial Bank (KSA) in 2007.

The interest of GCC-based banking groups has recently increased significantly, especially over the last 2 years, where approximately 16 per cent of FDI inflow to Turkish banking sector came from this region.

Turkey's banking industry is supported by strong internal drivers — a large population, healthy credit growth and sustainable economic performance. It is therefore is expected to attract investments from those GCC banks that have excess capital and are looking for attractive investment opportunities. In addition, Gulf banks realise that the increasing foreign trade ties between the Middle East and Turkey, and the resulting increase business volumes, represent a unique opportunity.

They are keen to take advantage of trade finance and cross-regional business; therefore GCC-based banks will continue investments in the banking sector.

Q. How about the interest of GCC-based Islamic finance institutions in Turkey?

A. The Islamic finance in Turkey (which has grown substantially within the last 5 years) has already seen substantial interest from the GCC-based banks. Gulf-based investors already have majority stakes in three of the four participation (Islamic) banks in Turkey.

Q. Do you feel that GCC groups have invested only in Islamic banks?

A. GCC investments in the banking sector have been in both conventional and Islamic banks.

Key investments in Islamic banks include Commercial Bank of Qatar's investment in Alternatifbank AS, National Commercial Bank's (KSA) investment in Turkey Finans Katalim. In addition, Kuwait Finance House has an established presence in Turkey.

However, GCC- based banks have also invested in the conventional banks, with Eurobank Tekfin partly owned by Burgan Group (Kuwait) in addition to Turkish Bank, which is majority owned by the National Bank of Kuwait.

Face that MATTERS

Francesco Pavoni

PROFILE

Francesco Pavoni re-joined Value Partners in 2014 as a Director, having worked for the same company some years ago. In the past he managed the Group activities from Turkey to all of the Middle East, coordinating the Istanbul and Dubai offices. He has a long experience in the financial services sector, having previously served as a Partner until 2006. During the last years he worked between Turkey and the Middle East, where he managed the local offices of primary strategic consulting companies.

He holds a degree in Economics from University La Sapienza, Rome, and an MBA from Berkeley University. Before he re-joined Value Partners he was a Partner with The Boston Consulting Group and Roland Berger Strategy Consultants. An expert in the Financial Services sector, Francesco developed M&A, Post Merger Integration and Business Development Projects for Primary Groups, Institutions and Corporations. Over his career in Financial Services, Francesco managed to support global banking groups across Eastern and Western Europe, Turkey, and the Middle East, on strategic, organisational and operational topics both at domestic and cross-border levels. In the past, Francesco also served as a lecturer in some of the most prestigious Universities across the United States, Europe, Turkey, and the Middle East.

He is also the author of important business contributions, and was recently supporting major international events as a global panelist and speaker. Prior to rejoining Value Partners Management Consulting, Francesco was a Partner and Managing Director at Boston Consulting Group and a Senior Partner at Roland Berger Strategy Consultants. Francesco was born in 1968, and has two children.