



Growing Micro and Small Enterprises: Tackling Financing Obstacles in the MENA region

**MENA-OECD Working Group on SME
Policy, Entrepreneurship and Human
Capital Development**

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The top economic priority in the
MENA region is **job creation**

MENA stands out for:

- Low participation rate
- High and persistent unemployment rates
- High demographic growth rate

Country	Participation rate %	Unemployment rate (%)	Annual labor force growth (2005-10)
Algeria	29.4	13.8	3.1
Egypt	29.8	8.9	2.5
Jordan	24.3	13.1	3.3
Lebanon	29.9	9.00	2.5
Morocco	36.1	9.8	2.2
Palestinian Authority	23.5	23.6	3.4
Syria	26.3	8.4	3.7
Tunisia	35.1	14.2	2.7
Source: Blanc 2010 L. Stevenson 2010			

MENA countries are going through the first phase of demographic transition, more than 30% of the population is under 15 and more than 35% is between 15 and 30.

Major impact on the labor market and education

- High and growing number of labor force entrants (from 54,000 in the PA to close to 700,000 in Egypt)
- Labor force entrants have spent more years in education (higher expectations), share of women in labor force is increasing

Precarious status of the labor market:

- New entrants spend long time unemployed or under employed, with decreasing hopes to find a stable job matching their formal qualifications;
- Job security, not job satisfaction or quest for higher income, is the main demand of the new generations;
- , has added further tensions, increasing the number of people queuing up for jobs .

- Even a period of sustained economic growth has not been sufficient to reduce the pressure on the labor market
- Between 2005 and 2008 real GDP growth accelerated from 4 to close to 7% in oil importing MENA, but unemployment was only marginally reduced;
- The impact of the global economic crisis has been modest and limited in oil importing MENA countries, but its has been enough to further unbalance the labor market dynamic.

Surplus labor: unemployment, emigration, out of labor force;

Different combinations of these policies been tried in
tried in the MENA region

Only one alternative sustainable over the medium
term: job creation led by private sector;

SME development central to job creation

	SME density (No. of SMEs per 1000 people)	SME employment
Algeria	18.8	n.a.
Egypt	26.8	73.5
Jordan	26.8	50.0
Lebanon	47.2	n.a.
Morocco	15.2	>50 (private sector)
Oman	2.9	n.a.
UAE	34.2	86.0
Brazil	27.4	67.0
China	6.3	78.0
France	43.3	n.a.
Germany	38.3	n.a.
UK	73.8	39.6
USA	20.0	50.9
OECD	21.8	63 .3

Source: IFC, Micro, Small and Medium Enterprises, A Collection of Published Data and OECD, SDBS. **Data not fully comparable**

Two grand axes for accelerating job creation in the SME sector:

- Increase enterprise creation
- Support growth of existing enterprises

Actions not mutually exclusive, but complementary

- Higher return in terms of employment generation from promoting growth of existing enterprises;

- Current population made largely of self –employed and micro-enterprises, operating between formality and informality
- Small and medium sized enterprises under-represented :

The case of Egypt:

Micro <5 employees: 92%

Micro 5-9 employees: 6%

Small 10-49 employees: 1.3%

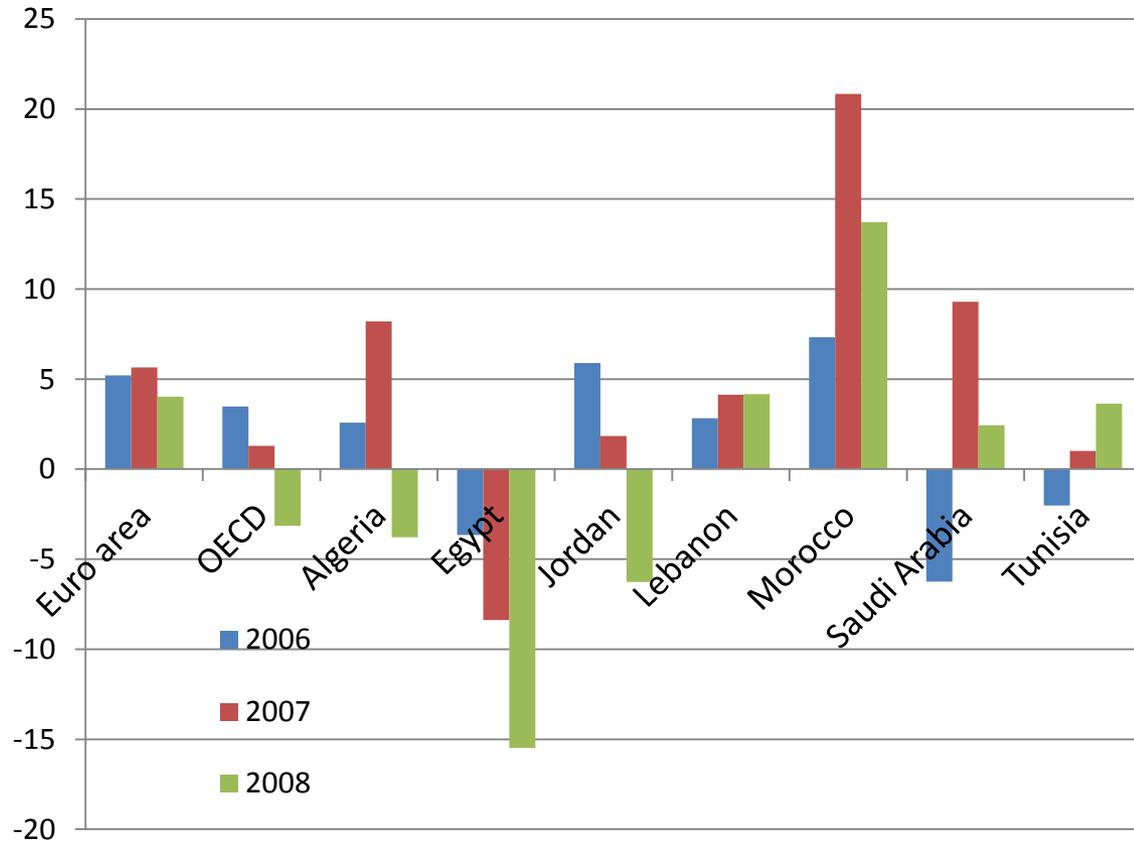
Medium 50-249 employees: <0,20%

- Access to finance is a critical ingredient for enterprise growth;
- Economic growth suffers without the opportunity to leverage company resources through the provision of external finance;
- Better access to finance is a key element of achieving a more leveled playing field, all enterprises deserve equal and fair opportunities for growth and expansion.
- The micro-finance success story in MENA is a good starting point, but without further opening access to commercial bank financing MENA it will be even harder to win the job creation battle.

Credit to the private sector (%GDP) 2008

Euro area	126
OECD	160
MENA (2007)	42
Algeria	13
Egypt	43
Jordan	89
Lebanon	77
Morocco	80
Saudi Arabia	56
Tunisia	67
Romania	39
Turkey	32

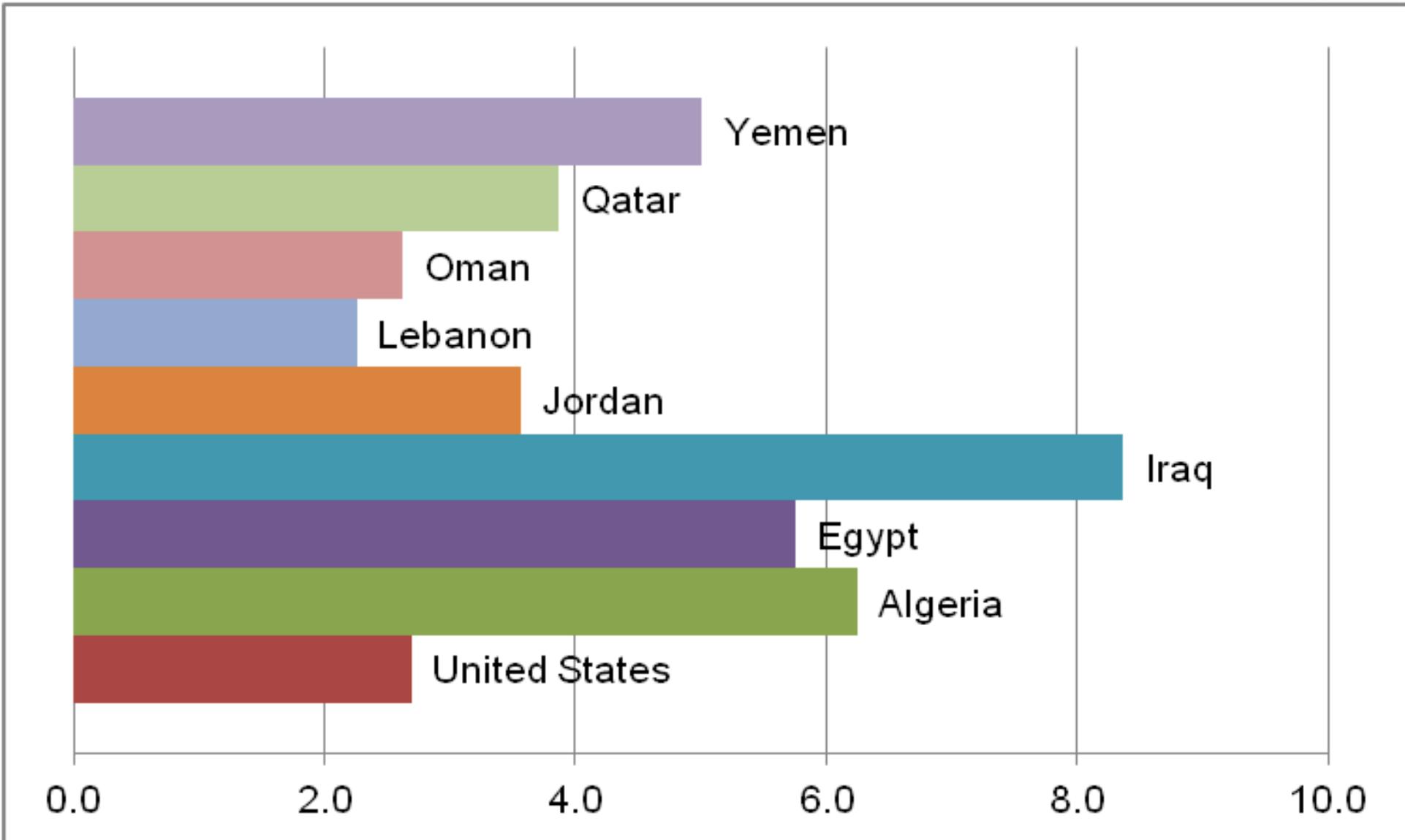
Domestic credit to private sector, annual % change



- **Low ratios of credit to GDP**

- **Contraction of credit to the private sector in some countries**

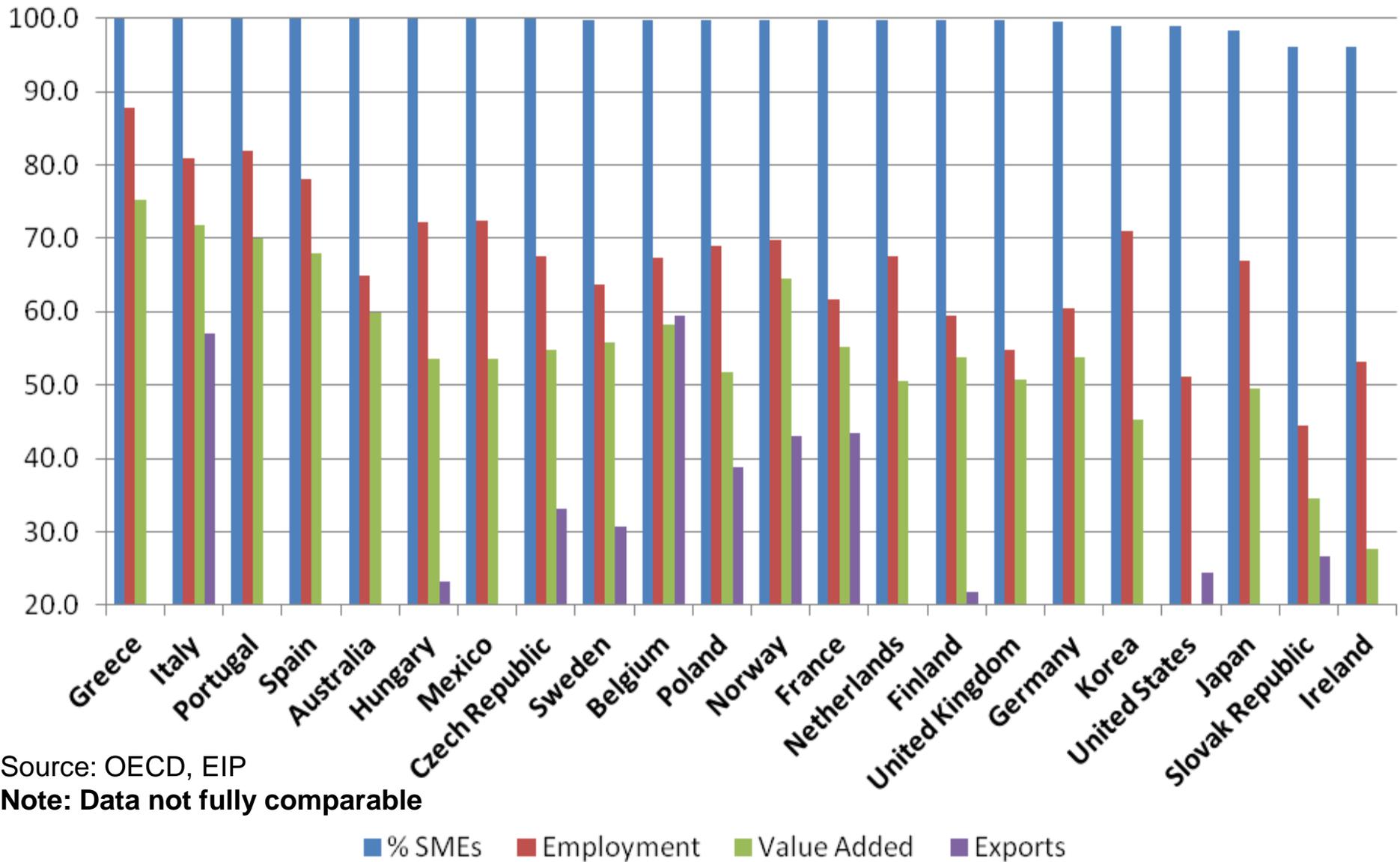
Lending-deposit interest rates spread 2009 or latest available year



SMEs, ENTREPRENEURSHIP AND YOUNG FIRMS

The importance of SMEs in OECD countries

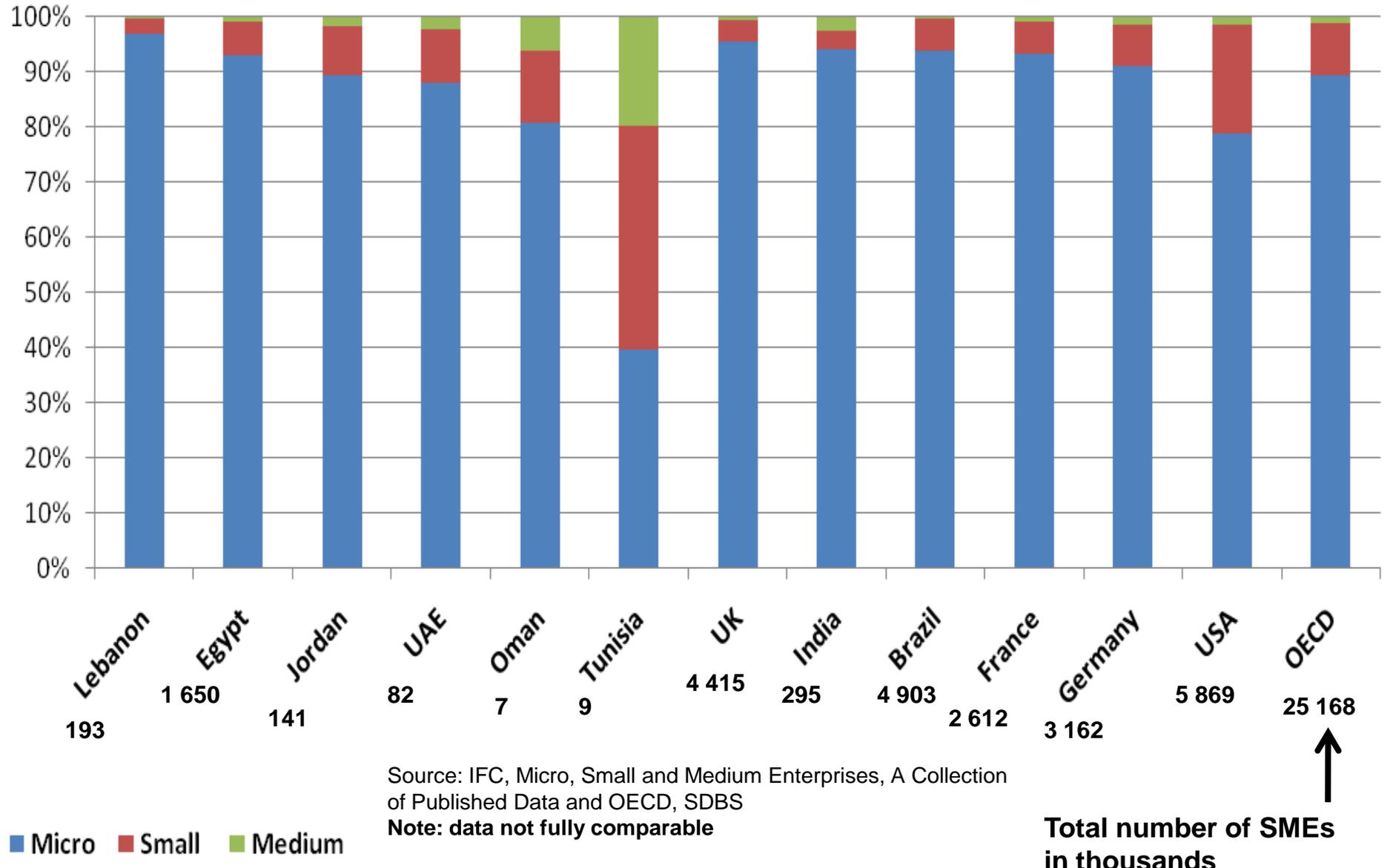
% of total



Source: OECD, EIP
Note: Data not fully comparable

The importance of SMEs in selected countries

SMEs by size class, % of total SMEs



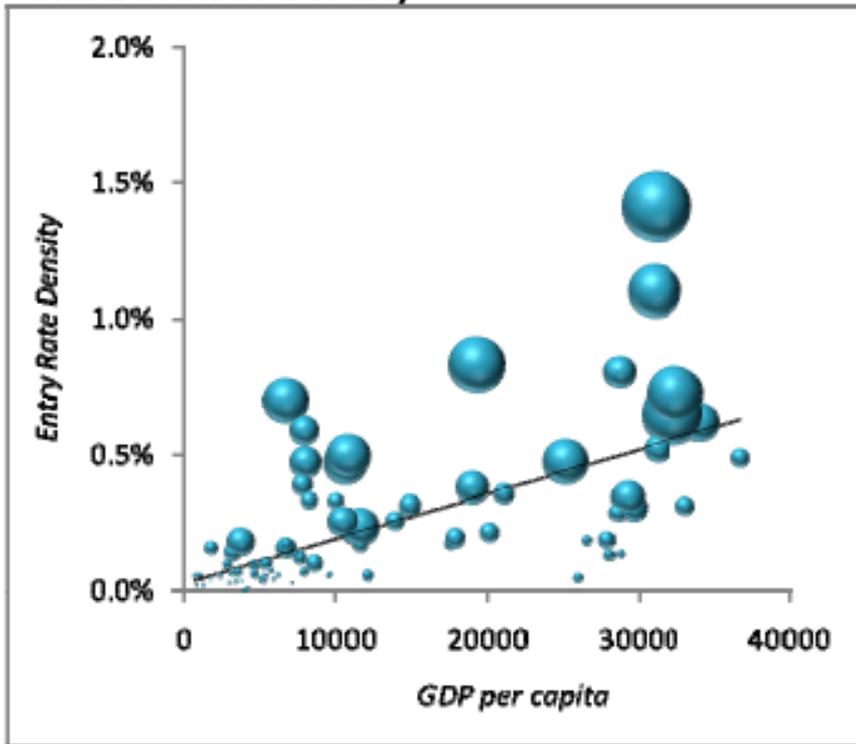
- Business start-ups are important for job creation
 - In the US, from 1980 to 2000 ***nearly all job creation occurred in young firms*** (enterprises less than five years old).
 - 2007 US Census data shows that young firms ***account for two thirds of job creation.***
 - In many countries, large firms account for a sizeable proportion of employment, but if we analyse employment in terms of firm size, it tells us little about job creation. ***It would be more accurate and revealing discuss employment in terms of firm age.***

Source: Kauffman Foundation, *Where will the jobs come from?*

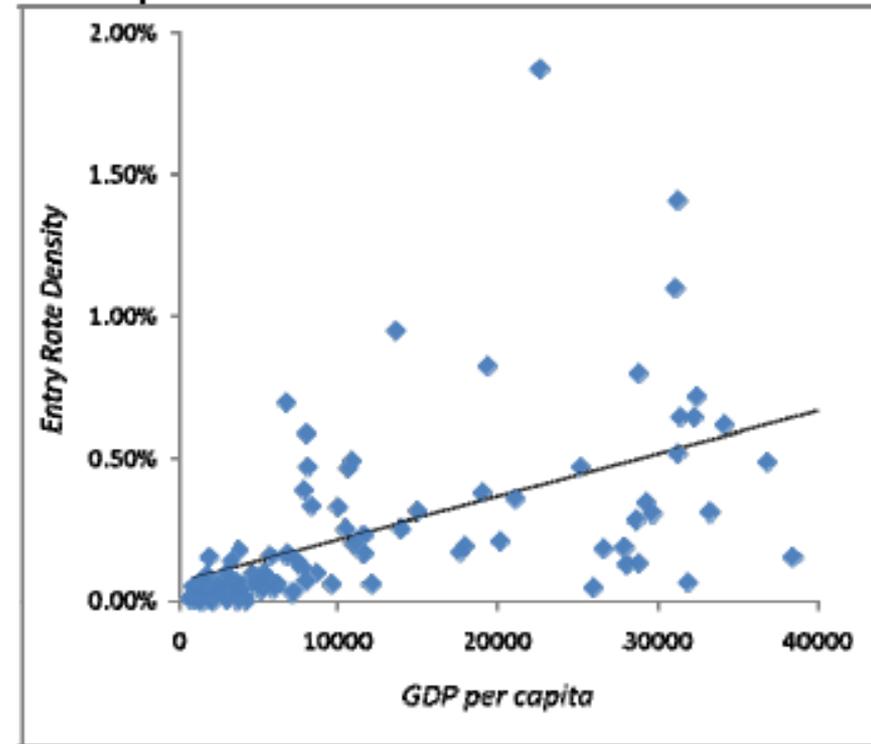
The importance of entrepreneurship and young firms

Research shows that there is a strong and significant relation between firm entry density (i.e. density of new registered companies per 1000 population), business density and GDP per capita.

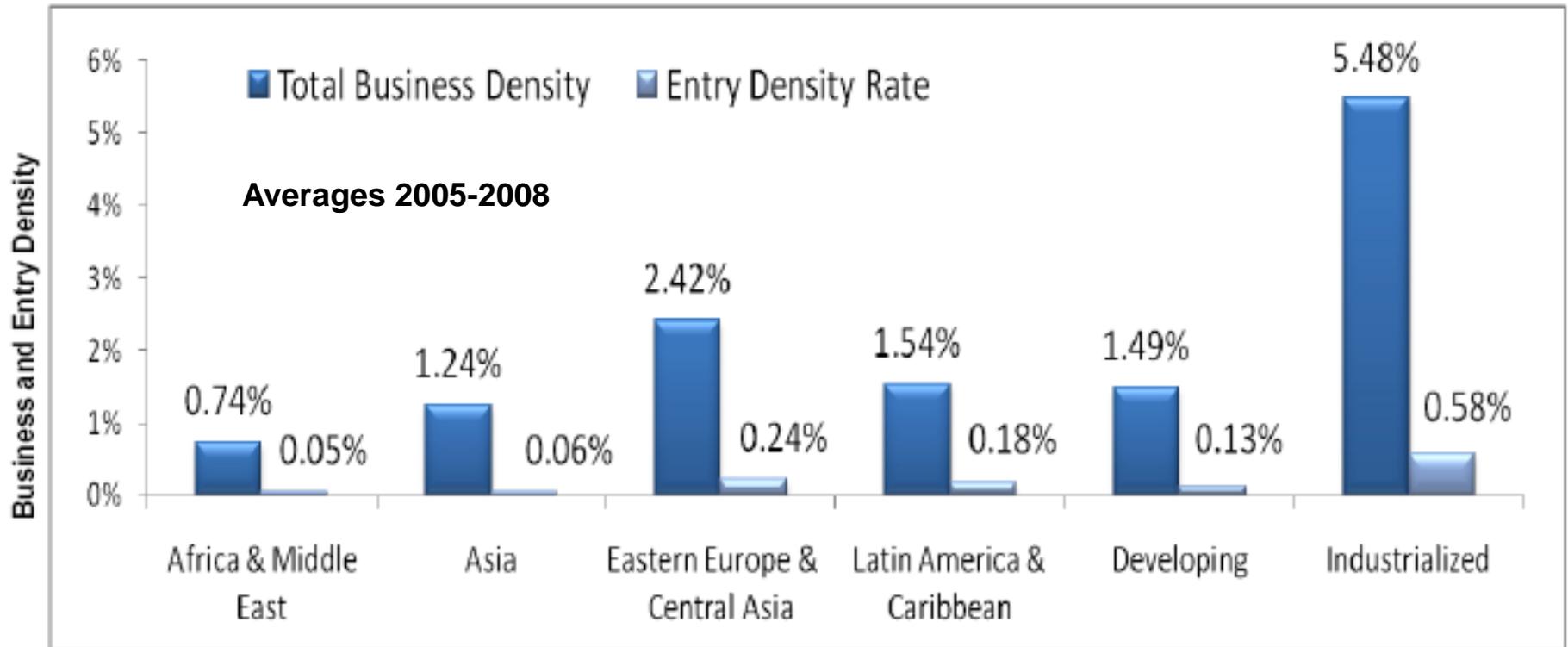
Entry Rate Density, GDP per Capita, and Total Business Density



Entry Rate Density and GDP Per Capita



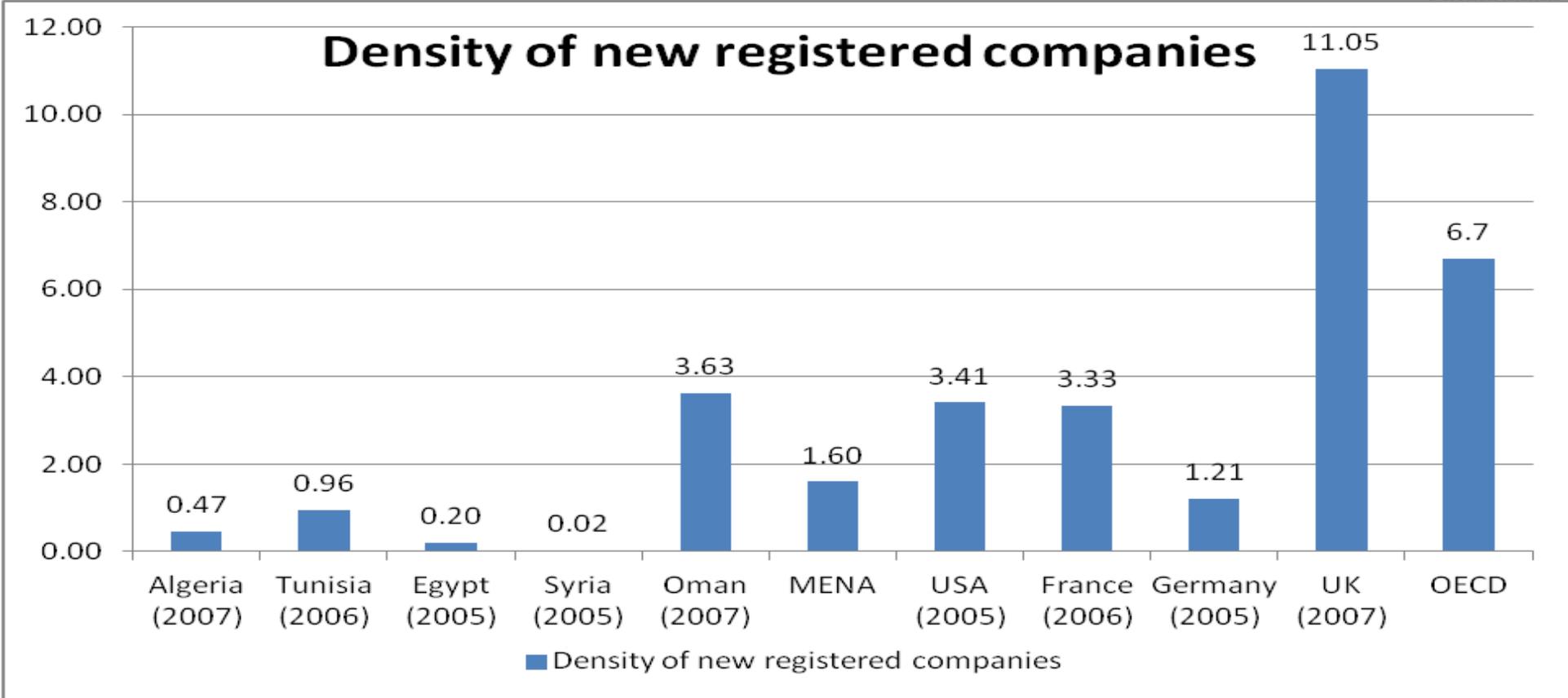
Source: World Bank, Entrepreneurship and Economic Development, An overview of the 2008 World Bank Entrepreneurship Survey



Total business density is the number of total registered corporations divided by total working age population.

Entry density rate is the number of newly registered corporations divided by the number of total registered corporations.

Source: World Bank, Entrepreneurship and Economic Development, An overview of the 2008 World Bank Entrepreneurship Survey



Density of new registered companies is the number of newly registered corporations divided by total working age population.

Source: World Bank Group Entrepreneurship Survey