



# MICRO, SMALL AND MEDIUM SIZED ENTERPRISES DEVELOPMENT IN EGYPT, JORDAN, MOROCCO & TUNISIA

## STRUCTURE, OBSTACLES AND POLICIES

### THE AUTHORS:

Rym Ayadi and Emanuele Sessa (Editors)

Hala Helmy El Said and Rana Hosni Ahmed (Egypt)

Nooh Alshyab, Serena Sandri and Fuad Al Sheikh (Jordan)

Mohamed Larbi Sidmou and Jad Allah Rami (Morocco)

Rim Ben Ayed Mouelhi and Monia Ghazali Ferchichi (Tunisia)

### DISCLAIMER:

The EMNES documents are produced with the financial assistance of the European Union within the context of the EU project “Support to economic research, studies and dialogue of the Euro-Mediterranean Partnership” under contract number ENPI/2014/354-488. The contents of EMNES documents are the sole responsibility of the authors and can under no circumstances be regarded as reflecting the position of the European Union.

# ABOUT THIS STUDY

This study is produced by the team of Research Area 2 on Private Sector Development and Micro, Small and Medium Enterprises of the Euro-Mediterranean Network of Economic Studies (EMNES). The EMNES project is funded by a grant from the European Commission (ENPV/2014/354-488). The project's aim is to provide a renewed vision for socio-economic development in the Euro-Mediterranean region, mainly focusing on employment creation, social inclusion and sustainable development.

This study provides a snap shot of the current status quo in Egypt, Jordan, Morocco and Tunisia regarding the development of their private sectors, with a focus on micro, small and medium enterprises. It will be used as a baseline for the definition of a robust research agenda that ultimately aims at providing sound recommendations for policy makers to improve developmental outcomes and, especially, the contribution of micro, small and medium enterprises to employment creation.

## EMNES Research Area 1 team members who contributed to this report:

**Egypt:** Hala Helmy El Said and Rana Hosni Ahmed

**Jordan:** Nooh Alshyab, Serena Sandri and Fuad Al Sheikh

**Morocco:** Mohamed Larbi Sidmou and Jad Allah Rami

**Tunisia:** Rim Ben Ayed Mouelhi and Monia Ghazali Ferchichi

**Coordinators:** Rym Ayadi and Emanuele Sessa

**The team wishes to thank Willem Pieter de Groen, Najat El Mekkaoui, Giorgia Giovannetti and Chahir Zaki for their valuable comments on this study. The authors have sole responsibility for any claim or mistake contained in the study.**

## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY</b> .....	<b>5</b>
<b>INTRODUCTION</b> .....	<b>8</b>
<b>MSME DEVELOPMENT IN SOUTHERN AND EASTERN MEDITERRANEAN</b> .....	<b>11</b>
METHODOLOGY	14
MAIN FINDINGS	15
<b>MICRO, SMALL AND MEDIUM ENTERPRISES IN EGYPT</b> .....	<b>24</b>
STRUCTURE OF THE MSME SECTOR	24
MAIN CONSTRAINTS TO JOB CREATION IN THE EGYPTIAN MSME SECTOR	27
ACTORS AND POLICIES IN SUPPORT OF THE EGYPTIAN MSME SECTOR	31
<b>MICRO SMALL AND MEDIUM ENTERPRISES IN JORDAN</b> .....	<b>36</b>
STRUCTURE OF THE MSME SECTOR	36
MAIN CONSTRAINTS TO JOB CREATION IN THE JORDANIAN MSME SECTOR	44
ACTORS AND POLICIES IN SUPPORT OF THE JORDANIAN MSME SECTOR	49
<b>MICRO SMALL AND MEDIUM ENTERPRISES IN MOROCCO</b> .....	<b>53</b>
STRUCTURE OF THE MSME SECTOR	53
MAIN CONSTRAINTS TO JOB CREATION IN THE MOROCCAN MSME SECTOR	57
ACTORS AND POLICIES IN SUPPORT OF THE MOROCCAN MSME SECTOR	61
<b>MICRO SMALL AND MEDIUM ENTERPRISES IN TUNISIA</b> .....	<b>64</b>
STRUCTURE OF THE MSME SECTOR	64
MAIN CONSTRAINTS TO JOB CREATION IN THE TUNISIAN MSME SECTOR	71
ACTORS AND POLICIES IN SUPPORT OF THE TUNISIAN MSME SECTOR	74
<b>CONCLUSIONS</b> .....	<b>77</b>
<b>ANNEXES</b> .....	<b>81</b>
<b>REFERENCES</b> .....	<b>84</b>

## LIST OF TABLES

TABLE 1: WORKING DEFINITIONS OF MSMEs IN EGYPT, JORDAN, MOROCCO AND TUNISIA .....	11
TABLE 2: EGYPTIAN INSTITUTIONS INVOLVED IN THE IMPLEMENTATION OF SME POLICIES.....	32
TABLE 3: NET JOB CREATION BY GENDER, NATIONALITY AND SECTOR (IN %) .....	41
TABLE 4: DISTRIBUTION OF JORDANIAN EMPLOYEES BY ECONOMIC ACTIVITY.....	42
TABLE 5: MAIN INSTITUTIONS INVOLVED IN THE IMPLEMENTATION OF MSME POLICIES IN JORDAN .....	49
TABLE 6: PRIVATISATION OF STATE-OWNED ENTERPRISES IN JORDAN .....	50
TABLE 7: FDI AS A SHARE OF GDP IN JORDAN .....	51
TABLE 8: MINISTRIES INVOLVED IN SUPPORT TO MSMEs IN MOROCCO .....	62
TABLE 9: TUNISIA RANKING AMONG 189 COUNTRIES.....	71
TABLE 10: TUNISIAN INSTITUTIONS INVOLVED IN THE IMPLEMENTATION OF MSME POLICIES.....	75

## LIST OF FIGURES

FIGURE 1: SECTORAL DISTRIBUTION OF MSMEs IN EGYPT .....	24
FIGURE 2: SHARES OF EXPORTING AND NON-EXPORTING FIRMS IN EGYPT .....	26
FIGURE 3: EGYPT'S SCORE AND RANK IN INDICES OF REGULATORY EFFICIENCY .....	27
FIGURE 4: EGYPT'S SCORE AND RANK IN INDICES OF MARKET OPENNESS .....	27
FIGURE 5: SHARE OF BANK AND NON-BANK FINANCING FOR PRIVATE INVESTMENT IN EGYPT .....	29
FIGURE 6: SHARE OF FIRMS WITH ACCESS TO BANK LOANS IN EGYPT .....	30
FIGURE 7: FIRMS WITH INTERNATIONALLY RECOGNISED QUALITY CERTIFICATION (%) .....	33
FIGURE 8: FIRM DISTRIBUTION BY SIZE IN JORDAN.....	37
FIGURE 9: AVERAGE SECTOR CONTRIBUTION TO JORDANIAN GDP AT CONSTANT PRICES BETWEEN 2004 AND 2014 .	37
FIGURE 10: ESTABLISHMENTS ENGAGED IN SOCIAL SECURITY BY ECONOMIC ACTIVITY IN 2014.....	38
FIGURE 11: NUMBER OF ESTABLISHMENTS ENGAGED IN SOCIAL SECURITY BY ECONOMIC ACTIVITY IN JORDAN.....	39
FIGURE 12: ESTABLISHMENTS PER JORDANIAN GOVERNORATE IN % .....	39
FIGURE 13: EMPLOYMENT CONTRIBUTION BY FIRM SIZE .....	40
FIGURE 14: AVERAGE OF EMPLOYEES BY ECONOMIC ACTIVITY BETWEEN 2003 AND 2013.....	43
FIGURE 15: RANKING OF TOP BUSINESS ENVIRONMENT OBSTACLES FACING JORDANIAN FIRMS .....	46
FIGURE 16: AVERAGE SECTORAL DISTRIBUTION OF CREDIT FACILITIES BETWEEN 2004 AND 2014 .....	47
FIGURE 17: JORDANIAN EMPLOYEES BY EDUCATION AND WAGE CATEGORY .....	48
FIGURE 18: SECTORAL DISTRIBUTION OF VALUE ADDED BY FIRM SIZE IN MOROCCO .....	54
FIGURE 19: AGE DISTRIBUTION OF MOROCCAN FIRMS.....	55
FIGURE 20: NUMBER OF PERMANENT FULL-TIME WORKERS BY FIRM SIZE IN MOROCCO .....	56
FIGURE 21: EXPORT PERFORMANCE OF THE MOROCCAN MSME SECTOR .....	56
FIGURE 22: 2016 INDEX OF ECONOMIC FREEDOM FOR MOROCCO .....	57
FIGURE 23: MOROCCAN BUSINESSES EXPERIENCING CONSTRAINTS, AS HARD OR VERY HARD .....	58
FIGURE 24: RANKING OF MOROCCO AND BENCHMARK ECONOMIES ON EASE OF GETTING CREDIT.....	59
FIGURE 25: SHARE OF INVESTMENT FINANCED BY BANKS IN MOROCCO .....	60
FIGURE 26: MOROCCAN FIRMS WITH BANK LOANS/LINE OF CREDIT BY SIZE .....	60
FIGURE 27: DISTRIBUTION OF TUNISIAN AND FOREIGN FIRMS BY SIZE IN 2014 .....	65
FIGURE 28: ENTRY OF FIRMS BY SIZE .....	65
FIGURE 29: EXIT OF FIRMS BY SIZE .....	66
FIGURE 30: MEAN TFP BY FIRM SIZE .....	67
FIGURE 31: DISTRIBUTION OF TUNISIAN FIRMS BY ACTIVITY AND BY SIZE IN 2014 .....	69
FIGURE 32: EMPLOYMENT SHARES OF TUNISIAN FIRMS IN 2014 BY SIZE .....	70
FIGURE 33: SECTORS SHARES IN TOTAL GOODS EXPORTS IN 2015.....	70
FIGURE 34: TUNISIAN EXPORT PERFORMANCE BY FIRM SIZE IN 2015.....	70

---

## EXECUTIVE SUMMARY

*Rym Ayadi and Emanuele Sessa*

**E**gypt, Jordan, Morocco and Tunisia, among other Southern and Eastern Mediterranean Countries (SEMCs), stand out for their combination of rather large public sectors and persistently high unemployment rates. This poses the challenge for policy makers in downsizing the role of the state in the economy while enhancing job creation, whereas the policies advocated for the development of market-oriented economies by agenda-setting institutions, come together with important readjustments in terms of employment creation. In the current context of lacking economic opportunities for the region's population of educated yet unemployed youth, which is substantially increasing as a result of demographic trends, these readjustments will hardly be sustainable as countries cannot afford further instability.

The importance of favouring the emergence of a thriving private sector, alongside an efficient public sector for the economy to create a sufficient amount of jobs, is widely acknowledged and, against this background, creating the conditions for Micro, Small and Medium Enterprises (MSMEs) to develop, has become a policy priority in the unemployment-ridden SEMCs.

Against this backdrop, this study aims at preparing the ground for the conduct of further research on MSME development in the SEMCs and for the formulation of policy recommendations. It looks into academic literature, structural characteristics, constraints, actors and core issues inherent in private sectors and the development of MSMEs in Egypt, Jordan, Morocco and Tunisia.

In the four countries under consideration in this study, micro firms with limited growth and job creation potential, translating into low upward mobility, dominate the private sector. Micro enterprises with less than four or ten employees, depending on the definition, constitute approximately 91% of all firms in Egypt, 89% in Jordan, 98% in Tunisia and a similar proportion in Morocco.<sup>1</sup> The predominance of micro enterprises is largely linked to widespread informality in the four countries which, in turn, is an important barrier to their development and internationalisation. In the four countries, micro, small and, in some cases, even medium enterprises depend on imports, but do not contribute much to exports. 95% of small firms and 82% of medium firms do not have any exporting activity in Egypt, while around 46% of small firms and 54% of medium firms depend on inputs of foreign origin. These numbers are slightly better in Tunisia, where 88% of small firms

---

<sup>1</sup> The statistics of this chapter are extracted from the four country studies, which cover Egypt, Jordan, Morocco and Tunisia respectively. The data was collected from relevant surveys conducted by national statistical offices in Jordan and Tunisia, from the World Bank Enterprise Survey in the case of Egypt and from a mix of primary and secondary sources in the case of Morocco.

do not have any exporting activity but a third of medium firms are exporters. Jordan and Morocco are also strongly import oriented, with only 20% of micro, small and medium enterprises exporting directly or indirectly, using an intermediary in the case of Morocco, which tends to increase intermediation costs.

The crucial challenge facing MSMEs in the region remains access to financing. In Egypt, only 6% of MSMEs have access to bank loans, compared to 18% of large firms. In Jordan, only 8.5% of MSMEs have been granted a bank loan, in spite of these being responsible for up to 76% of credit applications. These figures are better for Morocco and Tunisia, with 49.5% and 55% respectively of MSMEs contracting a bank loan, but a majority of MSMEs in both countries still point to access to financing as a major constraint in their development.

Other important constraints include cumbersome regulations and administrative procedures, corruption and other market distortions, as well as limited availability to the skills required by firms to grow and inadequate skills of entrepreneurs themselves. These last two dimensions reflect the problem of skills mismatch. In each country report, these constraints for the development of micro, small and medium enterprises and other barriers inherent to the business environment or the internal management of the latter, are discussed in more detail, building on the findings of a survey conducted in the region by Ayadi and De Groen (2014).

The four countries under investigation progressed in establishing institutions, actors and elaborating policies in support of MSMEs. However, most of them lack a comprehensive strategy for the MSME sector and an institution responsible for the overall coordination of actors involved in MSME development, which proliferated as a result, inevitably leading to partially overlapping mandates and other inefficiencies. Furthermore, in the absence of monitoring and evaluation systems, it is impossible to assess whether the institutions and actors established, or the policies elaborated, are effective in their support for MSMEs.

The institutional ecosystem varies from country to country. In Egypt, ministries and authorities responsible for supporting MSMEs, in one or more dimensions of their development, multiplied in the absence of an umbrella institution capable of ensuring the coherence of the system as a whole. In Jordan, the MSME policy is under the responsibility of the Ministry of Industry, Trade and Supply and a number of entities subordinated to it, but there is no comprehensive strategy to coordinate scattered initiatives and actors supporting the sector. Similarly, Morocco entrusted "Maroc PME" with the overall coordination of MSME policies and instituted inter-ministerial committees, involving representatives from public administrations and private associations for their elaboration. In Tunisia, a number of offices under the supervision of relevant ministries and investment promotion agencies were established and networks providing a platform for MSMEs to grow, such as Diamed, emerged.



With this background in mind, the present study finally discusses three priority areas for further research – entrepreneurship, informality and social business, and global value chains – adopting both a regional and national perspective. These areas are crucial in reaching a better understanding of the employment challenges facing the countries under study and have been under-researched, mostly because of a number of difficulties in the collection of reliable data.

---

## INTRODUCTION

*Rym Ayadi and Emanuele Sessa*

In market economies, where prices and related levels of production are determined by supply and demand and free competition among economic actors, the private sector plays a crucial role in fostering innovation, spurring economic growth and creating employment. On the other hand, the state has an important role to play in shaping the market with regulations, aimed at ensuring fair competition among other fundamentals for the correct functioning of the economy and at preventing market failures that might prove detrimental in economic, social or environmental terms. The active intervention of the state in the economy in different forms can also prove beneficial, although the question is still subject to lively debate.

Southern and Eastern Mediterranean Countries (SEMCs) stand out for the weight of their public sectors,<sup>2</sup> the underdevelopment of their private sectors and the persistence of high unemployment rates, particularly amongst the youth, which characterises their economies.<sup>3</sup> These features are interrelated. The underdevelopment of private sectors is related, at least partly, to the weight of public sectors and is an important determinant of chronic unemployment. The comparative attractiveness of the public sector, compared to the private one, distorts education choices, and explains why private firms willing to grow, struggle to find candidates with the skills they need. The recurrent use of public subsidies, financed at least partly through bank loans and local bonds, results in “crowding-out effects” in the financial markets, limiting the access to much needed finance for private firms and, most particularly, for Micro, Small and Medium Enterprises (MSMEs).<sup>4</sup>

This situation poses the challenge of downsizing public sectors and supporting the development of private sectors while enhancing job creation, whereas the development policies advocated to date by international institutions have come together with important readjustments in terms of employment. The creation of more and better jobs is all the more urgent considering the stabilisation of fertility rates and the decrease of mortality rates is leading to a substantial

---

<sup>2</sup> The World Bank provides cross-country comparisons concerning the size of public sectors based on the compilation of data on government wage bills and employment. The data shows that the SEMCs have the weightiest public sectors worldwide. Dataset and figures available at: <http://www.worldbank.org/en/topic/governance/brief/size-of-the-public-sector-government-wage-bill-and-employment> .

<sup>3</sup> In 2013, unemployment rates in the SEMCs averaged 13% as compared to a global average of 6%. The phenomenon primarily affects the young, faced with unemployment rates two or three times higher than adults, 28% on average for the same year. These figures are based on data from the World Bank Development Indicators

<sup>4</sup> For a discussion on the crowding-out of financial markets, see Ayadi, Arbak, Ben Naceur and De Groen (2013).



increase of working age populations – “crowding-in effect” – further stressing an already delicate employment situation.<sup>5</sup> In order to harness the potential for long-term economic growth represented by expanding working age populations, the development of the private sector is a priority, also considering that overstaffing, combined with increasing budget deficits in public administrations, have limited the room for job creation by the public sector.

The importance given to the emergence of a thriving private sector, when it comes to stimulate job creation in the region, is attested by the flourishing of initiatives in support of entrepreneurship and MSMEs. The latter are under the spotlight for their untapped potential as catalysts of innovation and job creation and the role of the state, when it comes to private sector development, is being reconsidered in relation to the necessities of such companies. In particular, the barriers and bottlenecks hindering the development of MSMEs have attracted the attention of researchers and practitioners.<sup>6</sup>

In the European Union (EU), policy makers consider MSMEs as the backbone of the economy and their support as key to ensure economic growth, innovation, job creation and social inclusion.<sup>7</sup> The European Charter for Small Enterprises, adopted in 2000, defined ten pathways for action in support of MSMEs. These range from mainstreaming education and training for entrepreneurship, streamlining administrative procedures and reducing taxation burdens, to supporting innovation and enhancing access to finance, skills and markets. The Small Business Act for Europe, adopted in 2008, broadened and deepened the scope of the Charter and mainstreamed the so-called “think small principle” in the making of policies, including but not limited to those directly related to private sector development. The Act was complemented with the launching of the SME Initiative, a joint financial instrument of the European Commission and the European Investment Bank Group, focused on stimulating SME financing.<sup>8</sup>

In line with the EU approach, Egypt, Jordan, Morocco and Tunisia, among other SEMCs, adopted in 2004 the Euro-Mediterranean Charter for Enterprise, delineating the common principles on which the SEMCs can base their policies in support of MSMEs. In 2008 and 2014, the Organisation for Economic Cooperation and Development (OECD) was requested by the EU to assess the implementation of policies in support of MSMEs in the SEMCs, structured according to the principles laid down in the Charter. The results highlighted the progress made, in spite of political and

---

<sup>5</sup> For a discussion on the implications of undergoing demographic trends for economic growth in the region, see Ayadi and El Mahdi (2013).

<sup>6</sup> See the work done on the subject by Ayadi and de Groen (2014).

<sup>7</sup> See [https://ec.europa.eu/growth/smes\\_en](https://ec.europa.eu/growth/smes_en).

<sup>8</sup> Referring to [http://www.eif.org/what\\_we\\_do/guarantees/sme\\_initiative/](http://www.eif.org/what_we_do/guarantees/sme_initiative/).

---

economic turmoil, but also the modest nature of such progress, which was considered to be incremental and uneven across economies and dimensions.<sup>9</sup>

The assessment identified limited or lack of access to finance for MSMEs as being one of the main issues for the development of private sectors in the SEMCs. MSMEs in the region face serious impediments in the start-up process and often lack the capacity to sustain costs related to a formal establishment, not to mention navigating through burdensome administrative procedures. In turn, remaining informal precludes access to bank loans among other forms of financing to newly established firms, further hindering their potential to grow. This very fact largely explains the situation of the “missing middle” characteristic of private sectors in the SEMCs, the concept referring to the concentration of private firms at either end of the size spectrum – large firms often connected with the government or transnational corporations on the one hand, and micro firms not formally established on the other hand. Considering the crucial contribution of small and medium firms to economic growth and employment creation in the countries where they flourish, finding policy solutions to address this “missing middle” is of the utmost importance and, therefore, the focus of this study.

This study strives to provide a comprehensive overview of MSME sectors in the region and a more detailed account of the situation in four selected SEMCs. The next chapter of the study presents a comparative overview of the findings of the four country studies and discusses them in light of their relevance to the region as a whole. The following four chapters consist of four country studies focused on Egypt, Jordan, Morocco and Tunisia. Each chapter comprises an initial section in which the structure of the MSME sector is examined, a second section in which the obstacles to the development of MSMEs are discussed and a third section providing an overview of policies and actors dedicated to their support. The aim of the study as a whole is to prepare the ground for a more insightful and targeted research agenda and more comprehensive policies in support of MSMEs in the selected countries, with a particular emphasis on the role of the European Union and other international actors.

---

<sup>9</sup> Referring to <http://www.oecd.org/publications/sme-policy-index-the-mediterranean-middle-east-and-north-africa-2014-9789264218413-en.htm>

# MSME DEVELOPMENT IN SOUTHERN AND EASTERN MEDITERRANEAN

*Rym Ayadi and Emanuele Sessa*

There is no universal definition of Micro, Small and Medium Enterprises (MSMEs). For example, the European Commission considers micro firms to be those with less than 10 workers and with an annual turnover not exceeding EUR 2 million, small firms those with up to 50 employees and an annual turnover of no more than EUR 10 million and medium firms those having up to 250 workers and an annual turnover below EUR 50 million.<sup>10</sup> In the United States, the upper limit defined by the Small Business Administration Office of Advocacy for SMEs, is 500 workers.<sup>11</sup> Parameters related to annual revenue are also used to define firm size, but they vary, depending on the sector of activity and the exporter status of the firm. In countries such as Canada, Australia, New Zealand and Egypt a set of different classification ceilings is used, depending on the firms' economic patterns.

Southern and Eastern Mediterranean Countries (SEMCs) often do not have an official definition and use different working definitions, making the study of MSMEs, and the implementation of targeted policies in their support, somewhat challenging. Table 1, below, provides an overview of the different definitions used in the four countries under study, using either the turnover or the number of employees' criterion. The overlaps between working definitions, used in the countries under study, might result in cross-country inconsistencies in the data on MSMEs presented in the remainder of the chapter, something important to bear in mind when comparisons between countries are made.

**Table 1: Working definitions of MSMEs in Egypt, Jordan, Morocco and Tunisia**

Country	Institution	Definition
<b>Egypt</b>	Central Bank of Egypt	Micro: less than 10 employees Small and medium: between 10 and 200 employees Large: more than 200 employees
<b>Jordan</b>	Jordanian Department of Statistics	Micro: less than 5 employees Small: between 5 and 19 employees

<sup>10</sup> See [http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition\\_en](http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en)

<sup>11</sup> In the United States, government institutions consider different size classifications according to the sector of activity (agricultural, manufacturing, services, etc.).

		Medium-small: between 20 and 49 employees Medium: between 50 and 100 employees Large: more than 100 employees
<b>Morocco</b>	Maroc PME	Micro: less than MAD 3 million in turnover (less than EUR 270.000) Small: between MAD 3 and 10 million in turnover (between EUR 270.000 and EUR 900.000) Medium: between MAD 10 and 175 million in turnover (between EUR 900.000 and EUR 15.715.000)
<b>Tunisia</b>	Registre National des Entreprises	Micro: less than 10 employees Small: between 10 and 50 employees Medium: between 50 and 200 employees Large: more than 200 employees

Source: own elaboration based on information available on the websites of the relevant institutions

MSMEs play a crucial role in economic development, regardless of their various definitions. First, they have an important potential to innovate and initiate technological change (Acs and Audretsch, 1990). Some studies provide evidence that MSMEs are more efficient at innovating than large firms, because they benefit from advantages in terms of flexibility, autonomy and know-how in spurring talent and performance (Zenger and Lazzarini, 2004). Second, MSMEs contribute towards enhancing competition by giving other firms and, in particular established ones, an incentive to cut production costs and boost product quality, ultimately exerting positive effects on national productivity (Levine, 2005). Third, MSMEs are considered as seeds for future large companies (Monk, 2000). MSMEs account for 60% to 70% of jobs in most OECD countries and are broadly considered an important source of job creation and a major channel for poverty alleviation.

In light of these considerations, many international financial institutions and governments, of developed or developing countries alike, have adopted pro-MSMEs policies aimed at subsidising and providing support services to small firms. As early as 1953, the United States created the Small Business Administration, an independent agency of the federal government, to aid, counsel, assist and protect the interests of small business concerns, including providing them with access to financing and ensuring that they are taken into due consideration in policy making. The EU launched the European Charter for Small Enterprises in 2000 and the Small Business Act for Europe in 2008, recognising in the preamble of the latter the difficulties facing MSMEs in the EU, as compared to their US counterparts. The mainstreaming of a “think small principle” in policy-making and the elaboration of a comprehensive strategy and overarching structure in support of MSMEs, based on a number of dimensions inherent to their development regardless of the sector in which they operate, inspired the adoption of the Euro-Mediterranean Charter for Enterprise and other efforts to elaborate MSME policies across the SEMCs.

At the other end of the spectrum, sceptical opinions about policies in support of MSMEs are casting doubts about their expected benefits. First, empirical studies to date do not provide unequivocal support to the views that MSMEs are a relevant source of job creation (Little et al, 1987; Bigsten and Soderbom, 2006). Some researchers see large firms as providers of better quality jobs in terms of stability and wages (Brown et al, 1990), whilst others regard them as more serious boosters of innovation and productivity because in a better position to take advantage of economies of scale and to cope with high fixed costs associated with research and development activities (Levine, 2005). More broadly, several studies emphasise the serious impediments to the creation and development of MSMEs, ranging from limited access to financial markets and appropriate infrastructure, to inefficient legal institutions and business environment (Beck et al, 2003; Kumar et al, 2001; Levine, 2005). Some authors even suggest that MSMEs face such a huge range of barriers and obstacles that they are unable to grow and play a significant role in economic development.

The literature on the topic in the four countries under study – Egypt, Jordan, Morocco and Tunisia – focuses on three core issues for the development of MSMEs. First, the limited access to finance for MSMEs and the importance of fostering those entrepreneurial skills required to access it. Second, the untapped potential for productive interlinkages between small and large firms and the importance of such linkages for the economy as a whole. Third, problems and solutions regarding the internationalisation of MSMEs often cut off from exporting activities.

Al Shaikh (2013), among other studies, pointed to the lack of access to financing as the main challenge, amongst many, facing entrepreneurial firms in Jordan. El Saady (2011) looks into the Egyptian case and argues that the actual issue is not the lack of finance, but the limited ability of entrepreneurs to leverage the variety of existing financial tools and products into innovative and appropriate business plans. The author stresses the importance of developing a single governmental or non-governmental agency, responsible for the overall coordination of efforts to enhance access to finance and others means for the development of the MSME sector in Egypt. Mourji (2001) had reached the same conclusion for Morocco a decade before, based on the identification of cumbersome and opaque administrative procedures and the lack of coordination between entities responsible for such procedures, as the most common problem facing MSMEs in their development. Sandri (2016) focused on the lack and the potential of entrepreneurship education in the development of Jordanian MSMEs.

El Marghabel (2008) reports that only 17% of Egyptian MSMEs have sub-contracting agreements with their large domestic or foreign counterparts and, more broadly, underlines how the relation between the latter and the former is characterised by competition rather than interdependence. The author then discusses the importance of different forms of clusters, sub-contracting and outsourcing linkages, to create a level-playing field between small and large firms and to enable the latter to overcome the technological gap. Batayneh (2005) brings evidence that

---

Jordanian MSMEs are more efficient and productive than larger firms. Furthermore, large companies in Jordan tend to require qualifications that youngsters and workers from disadvantaged, rural areas do not have, whereas MSMEs play an important role in that sense and, thus, contribute to a more inclusive economy. These findings support the claim that encouraging productive linkages between small and large firms, leveraging their complementarities, would benefit the performance of the economy as a whole. Hendy and Zaki (2013) bring evidence on the nexus between informality and productivity of MSMEs, based on cross-country data for the MENA region.

Baghdadi et al. (2016) investigate the effect of non-tariff measures on Tunisian MSMEs and reach the conclusion that these lead to an increase in imports and in performance indicators, such as profitability, productivity and labour costs. The authors emphasise that this impact is greater for larger firms with the technological and financial ability to take advantage of imports-induced technological transfer. Hentati (2010) looks into exports and identifies three variables influencing the decision to engage in international markets: the differential advantage, the organisational predisposition and the discernible risk. The author also highlights the importance of having or not having past experiences in exporting, suggesting that the policies aimed at enhancing the skills of entrepreneurs, discussed above, should focus among other things on conditioning entrepreneurs to export for the first time.

## METHODOLOGY

The explicit aim of this study is to develop a targeted research agenda for the second research area of the Euro-Mediterranean Network of Economic Studies (EMNES), focused on private sector development and, in particular, MSMEs. In concrete terms, this meant bringing together researchers from the four countries under study – Egypt, Jordan, Morocco and Tunisia – in preparing an assessment of the current status quo in MSME development in their respective countries and together delineating a research agenda for the region as a whole, based on the integration of their contributions.

The methodology of the study echoes the overall bottom-up, participatory methodology of EMNES. In the six months of investigation, the four research teams involved in the preparation of the study, compiled and used primary data from available international and national sources<sup>12</sup>, to assess the economic relevance of the MSME sector in their respective countries, the contribution of MSMEs in employment creation and the obstacles they face in their development. Furthermore, desk research was conducted, to complement the analysis of the status quo with a mapping of the

---

<sup>12</sup> The main international source of data is the World Bank Enterprise Survey, while national sources include, but are not limited to, official statistics compiled by National Statistical Offices and National Central Banks.

actors and policies supporting MSMEs in the different countries. Throughout the whole research process, the teams were asked to exchange data and early drafts of the different sections of the study, in order to confront and emulate each other on a continuous basis, which is the very essence of joint collaborative research. The four teams were composed of senior and junior researchers from Egypt, Jordan, Morocco and Tunisia, experts in their fields but who nonetheless benefitted from the building of capacity that conducting joint research entails. This is in line with the stated twin objectives of EMNES; developing new thinking for the region while building research capacity.

This first chapter of the study provides the reader with a regional overview of the status quo in MSME development, based on the literature and the data compiled and presented by the four research teams in the four following chapters, consisting of country reports more descriptive in nature. This chapter also draws a number of conclusions, from which the agenda for further investigation under the second research area of EMNES is then delineated.

## MAIN FINDINGS

### *STRUCTURE, EMPLOYMENT CONTRIBUTION AND EXPORT POTENTIAL OF THE MSME SECTOR*

In the introduction, we highlighted the challenge of simultaneously addressing the issues of oversized public sectors and persistently high unemployment rates which characterise the economies of the SEMCs. Indeed, downsizing the public sector and developing the private sector, normally entails a certain number of sectorial readjustments, with changes in the levels of productivity and competitiveness, possibly resulting in unemployment surges during transition periods.<sup>13</sup> The literature surveyed in the previous section, suggests that MSMEs, as important contributors to employment creation, poverty alleviation and more broadly economic growth, could play a role in counterbalancing these effects.

The actual contribution of MSMEs to these key economic variables depends on structural and conjunctural characteristics of the economy in the countries under study – Egypt, Jordan, Morocco and Tunisia – which are analysed in detail in the country reports which constitute the following chapters of this study. Here, a number of characteristics common to the four countries are discussed, based on primary data extracted from the country chapters. As previously mentioned, there might be inconsistencies between countries in the data presented, resulting from the use of

---

<sup>13</sup> See the work of Goaid and Sassi (2015a and b) on the employment intensity of sectoral output growth in Tunisia and the link between trade liberalisation and employment intensity at the sectoral level. In their papers, the authors analyse sectoral adjustments over time and the relation between these adjustments and trade liberalisation, pointing to the heterogeneity of outcomes in terms of employment at a sector, economic and cross-country level.

different working definitions of MSMEs. As a result, cross-country comparisons must be interpreted with due caution.

In all the countries, the MSME sector is characterised by the dominance of micro enterprises with low upward mobility and, therefore, rather limited growth and job creation potential. Micro enterprises with less than four or ten employees, depending on the definition, constitute approximately 91% of all firms in Egypt, 89% in Jordan, 98% in Tunisia and an indefinite yet similar proportion in Morocco. These firms are mostly subsistence firms, that is, micro enterprises created to meet basic needs, generally remaining small and contributing little to the economy, as compared to the so-called high growth firms, created with the intention of achieving certain aspirations.<sup>14</sup> MSMEs with high growth potential, notwithstanding their limited number, have been the main target of both research and policies in support of MSMEs, because of their potential to create jobs and to contribute to economic growth. The predominance of subsistence micro enterprises is one of the main determinants of informality, which is widespread in the Mediterranean region and broadly considered as a structural element of the four economies under study. In the literature, depending on the context, informality is considered as the consequence of high entry barriers to the formal sector or opportunistic choices.<sup>15</sup>

In spite of the predominance of micro enterprises, MSMEs contribute substantially to employment and value creation in the four countries under study, although the numbers differ from one country to another. According to the data compiled in the country reports, MSMEs contribute to nearly 80% of GDP and 75% of total employment in Egypt, while in Jordan and Tunisia, countries where the public sector employs a large proportion of the working population, they account respectively for 64% and 58% of private sector jobs. These shares are lower but nonetheless considerable in the case of Morocco, where MSMEs account for 38% of GDP and 46% of total employment. These figures must be put into perspective, considering that in Tunisia, for example, large firms represent only 0.1% of the total number of enterprises, but employ up to 42% of private sector jobs.

The sectors in which MSMEs are predominant also vary between the countries under study, depending on the specialisation of the economy as a whole, but also on the importance of national heritages, as in the case of Egypt and the success of its leather products. MSMEs are mainly concentrated in the services sector in Jordan and Tunisia, in the manufacturing sector in Egypt (51% of total enterprises) and in the agricultural and tourism sectors in Morocco (with more than 70% of

---

<sup>14</sup> The Organisation for Economic Cooperation and Development, among other international organisations, retained this distinction between subsistence and high-growth firms to ensure relevance and effectiveness of its recommendations concerning support for MSMEs.

<sup>15</sup> See the working definition of informality introduced in Gatti, Angel-Urdinola, Silva and Bodor (2014).



total enterprises), where MSMEs also represent up to two thirds of total enterprises in construction and real estate services.

Finally, MSMEs in the four countries under study generally do not contribute much to exports but depend more or less heavily on imports, with potential negative implications on their resilience and more broadly the countries' balance of trade, in particular when macroeconomic shocks occur.<sup>16</sup> 95% of small firms and 82% of medium firms do not have any exporting activity in Egypt, while around 46% of small firms and 54% of medium firms depend on inputs of foreign origin. These numbers are slightly better in Tunisia, where 88% of small firms do not have any exporting activity but a third of medium firms are exporters. In Morocco, 75% of the total number of MSMEs depend on inputs of foreign origin while only 20% of them, including all categories, export directly or indirectly using an intermediary. The Jordanian MSME sector is similarly strongly import oriented, with only pharmaceutical industries and textile manufacturers showing positive figures in terms of exports, with textiles alone representing 89% of Jordanian exports.

### **CONSTRAINTS TO MSME DEVELOPMENT**

The basic assumption underlying the analysis of constraints to MSME growth, is that unlocking the growth potential of MSMEs will lead to enhanced job creation, although in some cases the growth of innovative MSMEs can have negative effects on overall employment.<sup>17</sup>

Ayadi and De Groen (2014) conducted a survey on the challenges faced by high-growth MSMEs in Algeria, Egypt, Morocco and Tunisia covering six key areas: regulations, infrastructures, financing, clients and suppliers, availability of skills, informality and corruption. These obstacles turned out to be experienced as equally constraining by the different MSMEs interviewed, the exception being those related to the availability and quality of infrastructures, challenges far beyond their control. Interestingly enough, most MSMEs surveyed had received support from dedicated structures, suggesting that the situation for the average MSME might be even grimmer than what came out of the survey. These results question the effectiveness of the policies supporting the private sector that are being implemented in the SEMCs.

In the same vein and reconfirming these findings, a recent report carried out by the World Bank, the European Bank for Reconstruction and Development and the European Investment Bank (2016), emphasises four specific areas of constraints hampering the dynamism of business in the region: political instability, corruption, unreliable electricity supply and inadequate access to finance. These factors, the exception being corruption, seem to have had a more harmful effect on

---

<sup>16</sup> For a comprehensive assessment of the management of macroeconomic and financial crises in the SEMCs, see the work done by Ayadi et al (2014).

<sup>17</sup> Theoretical and empirical analysis starting with Schumpeter (1934) highlighted the process of creative destruction at the very heart of innovation, entailing not only creation of new jobs but also destruction of existing ones.

---

small firms than their larger counterparts. Other research confirms the persistence of obstacles that hamper the development of MSMEs. Sahar and Rostom (2013) listed the key challenges confronting the sustainability of MSME growth in the SEMCs, which include regulatory burdens, lack of access to financial services and inadequate skills and capacities.

Based on the study of the countries under investigation, the constraints facing MSMEs are grouped in two broad categories. On the one hand, those related to the business environment regarding the external conditions supporting MSMEs in the development of their business. On the other hand, those related to the internal management of individual MSMEs, with a focus on the implications of challenges faced and choices made by managers, on the growth prospects of their businesses.

Regarding the constraints related to the business environment, numerous studies provided evidence that a series of institutional, regulatory and financial obstacles create a climate of uncertainty, discourage investment and result in the increase of firm expansion costs – all factors contributing to encumbering the growth of MSMEs. In fact, private initiatives flourish where there is a supportive business environment, broadly intended as a combination of a stable macroeconomic, political, security and social context, a pro-business policy framework, a reliable judicial system, an effective institutional base and sound market conditions. Ayadi and De Groen (2014) provided evidence that enhancing the business environment did have an important role in promoting private sector development and spurring both economic growth and employment creation in those SEMCs where business-friendly reforms were implemented.

Regarding the constraints related to the management of firms, the crucial challenge facing MSMEs in the four countries under investigation, remains access to financing, in spite of the problem being broadly recognised and efforts to address it having multiplied. In Egypt, only 6% of MSMEs have access to bank loans compared to 18% of large firms. In Jordan, only 8.5% of MSMEs have been granted a bank loan in spite of them being responsible for up to 76% of credit applications. These figures are better for Morocco and Tunisia, where respectively 49.5% and 55% of MSMEs have contracted a bank loan, but these numbers might hide an over-representation of firms that have contracted loans in national surveys, as a majority of MSMEs in both countries still point towards access to financing as a major constraint to their development. For example, in the case of Morocco only 18% of bank credit provided to the private sector was granted to MSMEs.

Hampel-Milagrosa, Loewe and Reeg (2014) showed in a recent research that factors related to managerial competence, entrepreneurial experience, managerial skills, as well as business and social networks, are critical to the growth of MSMEs but rarely mentioned in interviews about growth constraints, because the managers themselves usually answer these surveys. In fact, private businesses in the SEMCs experience a series of challenges related to securing qualified human

resources, inexperience and risk aversion of owners, poor and weak access to finance and lack of market information and market research, as highlighted by Loewe et al (2013) in the case of Egypt.

### ***ACTORS AND POLICIES IN SUPPORT OF MSMEs***

Industrial cooperation has been the most dynamic dimension of the Euro-Mediterranean Partnership since its launching in 1995, as attested by the progress achieved in tariff waiving and, to a certain extent, harmonisation between industrial sectors across the region, as compared to any other dimension of Euro-Mediterranean integration.<sup>18</sup> The launching of a Euro-Mediterranean Charter for Enterprise in 2004 came as an important milestone in the progressive establishment of a Euro-Mediterranean Free Trade Area, due to the impulsion of dedicated ministerial conferences under the auspices of the Union for the Mediterranean since its establishment in 2008. The focus on MSMEs of industrial cooperation under the Euro-Mediterranean Partnership was reinforced with the launching of a Small Business Act for Europe in 2008, which provided renewed guidelines for the elaboration, implementation and monitoring of policies in support of MSMEs in the SEMCs.

Two comprehensive assessments of the progress achieved in implementing the Euro-Mediterranean Charter for Enterprise and the Small Business Act for Europe in the SEMCs were conducted respectively in 2008 and 2014.<sup>19</sup> These assessments were conducted through a collaborative and consultative process involving governments and public institutions, private sector organisations and civil society throughout a number of SEMCs, including Jordan, Egypt, Morocco and Tunisia, under the overall coordination of the European Commission, the European Investment Bank, the European Training Foundation and the Organisation for Economic Cooperation and Development. In 2006, these institutions launched the SME Policy Index, a benchmarking tool designed to assess SME policy frameworks in emerging economies and to monitor progress in policy implementation over time.

Overall, the overview of actors and policies supporting MSMEs in Egypt, Jordan, Morocco and Tunisia presented in the following chapters of this study, echoes the outcomes of the assessment conducted in 2014. The four countries under investigation progressed in establishing actors and elaborating policies in support of MSMEs. However, most countries under investigation lack a comprehensive strategy for MSMEs and an institution responsible for the overall coordination of actors involved in MSME development, which proliferated as a result, inevitably leading to partially overlapping mandates and other inefficiencies. Furthermore, in the absence of monitoring and evaluation systems, it is impossible to assess whether the actors established, or the policies

---

<sup>18</sup> For a comprehensive assessment and forward-looking discussion on the current status quo and future prospects of regional integration in the Euro-Mediterranean, see the first working paper published under EMNES by Ayadi and Sessa (2017).

<sup>19</sup> The 2014 assessment is available at: <http://ec.europa.eu/DocsRoom/documents/8423/attachments/1/translations>

---

elaborated, are efficient in their support of MSMEs. Morocco entrusted one institution, Maroc PME, with the elaboration, implementation, coordination and evaluation of policies in support of MSMEs, but lacks a comprehensive strategy on which the institution can base its authority.

In the country reports, domestic institutions are grouped in two broad categories. On the one hand, public administrations, lobbying associations and other institutions involved in making or influencing policies in support of MSMEs, having a somehow indirect effect on their development. On the other hand, executive agencies, business incubators and other institutions providing direct and explicit services to MSMEs, having a direct impact on their development.

The institutional ecosystem varies from country to country. In Egypt, ministries and authorities responsible for supporting MSMEs in one or more dimensions of their development multiplied, and an umbrella institution – the SMEs Development Agency – to ensure coherence of the system as a whole, was established only recently, meaning that its capacity to coordinate all efforts in support of MSMEs has yet to be built. Recently, the Ministry of Trade and Industry announced the institution of a new entity responsible for coordinating and regulating all entities and efforts dedicated to the MSME sector, which is a step in the right direction. In Jordan, the MSME policy is the responsibility of the Ministry of Industry, Trade and Supply and a number of dedicated entities subordinated to it, but there is no comprehensive strategy to coordinate scattered initiatives and actors supporting the sector. Morocco, besides entrusting Maroc PME with the overall coordination of policies supporting the MSME sector, put in place inter-ministerial committees involving representatives from public administrations and private associations for the elaboration of the MSME sector. In Tunisia, a number of offices under the supervision of relevant ministries and investment promotion agencies were established and networks emerged providing a platform for MSMEs to grow, such as Diamed.

The focus and progress in implementing policies in support of MSMEs, along the lines of the priorities set out in the Small Business Act for Europe and the SME Policy Index, varies from country to country. In Egypt, national strategies to support the internationalisation of MSMEs, through niche marketing and cluster alliances and their innovation efforts, were put in place. The implementation of an innovation strategy is a remarkable progress, considering that the 2014 assessment of MSME policies in the region conducted by the Organisation for Economic Cooperation and Development pointed at the lack of efforts in the field. Since the beginning of the 1990s and the implementation of the economic reform programme, Jordan has put much effort into supporting private sector development and in stimulating SMEs. For this purpose, Jordan focused on the attraction of private investment and, most particularly FDI, through privatisation programmes and the establishment of special economic areas, but these efforts did not yield the expected results, either in terms of absolute investment value (partly because of deteriorating conditions for FDI in the region), or in terms of job creation. Several institutions have been created with the aim of supporting SMEs development. However, in the absence of strong coordination and a comprehensive strategy, the

plurality of actors has often resulted in their efforts being somewhat scattered. In Morocco, sectoral strategies under the responsibility of relevant ministries are the main transmission channel of support for MSMEs. Tunisia progressed in supporting the development of the private sector and in particular the competitiveness of MSMEs, most notably through the formulation and implementation of cluster policies and the establishment of technology parks. However, in the absence of adequate monitoring, it is difficult to assess if these policies are delivering on their expectations.

The policies elaborated and implemented in the four countries under study are not integrated in comprehensive national strategies, with negative implications for the coherent development of labour markets, private sectors and, more broadly, economies as a whole across the region. These comprehensive national strategies should be put under the remit of institutions responsible for the overall coordination of actors involved in MSME development, which is also lacking in most if not all the countries under study, as previously mentioned.

Besides setting standards and providing frameworks for the development of MSME policies and the mainstreaming of a “think small first” mentality in the institutional ecosystem of the SEMCs, a number of other international actors are also directly involved in supporting MSME development in the region.

The European Union allocates a substantial share of the funds allocated to bilateral and regional cooperation programmes in Egypt, Jordan, Morocco and Tunisia, among other SEMCs, to supporting private sectors and, most particularly, developing MSMEs. The first of three strategic priorities for the period 2014-2020 retained for the European Neighbourhood Instrument, the financial instrument backing the implementation of the European Neighbourhood Policy, encompasses investments in infrastructure and private sector development, at 55%, representing more than half of the total funds allocated.<sup>20</sup> This disbursement of funds is conditioned to the implementation of a series of reforms and measures defined in so-called Action Plans, most of which are aimed at laying the ground for trade liberalisation through the enhancement of market conditions and the business environment for MSMEs. Under the framework of the Union for the Mediterranean, established in 2008 to revamp the so-called Barcelona Process, business development was retained among six priority areas and five years later, in 2013, the MED4JOBS flagship initiative launched to advocate for and scale-up concrete initiatives having proved successful in tackling unemployment and developing MSMEs across the Euro-Mediterranean region.

---

<sup>20</sup> Referring to: <http://www.enpi-info.eu/library/content/programming-european-neighbourhood-instrument-eni-2014-2020-regional-east-strategy-paper-201>

---

At present, MED4JOBS accounts for 12 live projects, involving over 100,000 young beneficiaries and 800 MSMEs scattered throughout the region, including Egypt, Jordan, Morocco and Tunisia.<sup>21</sup>

In addition to the funds allocated under the European Neighbourhood Policy and the Union for the Mediterranean, the Mediterranean Basin and the Italy-Tunisia cross-border cooperation programmes bring together countries from both shores of the Mediterranean in a number of cooperation areas, among which stands out the promotion of productive interactions between private businesses. The latter often share a common economic area but with different regulatory and business environments, as well as an imbalance in market access as a result of their establishment in different countries. The consistent share of funding allocated to the support of MSMEs under the two programmes attests to the importance given to their role in the process of regional integration. Furthermore, the European Bank for Development and Reconstruction has been investing in the region since 2012, in line with the provisions of the Deauville Agreement, and bilateral cooperation of EU Member States continues to play a crucial role, with France, Italy, Germany and the United Kingdom channelling a consistent share of their available funds for development aid in the SEMCs.<sup>22</sup>

International organisations contributing substantially to MSME development in the region outside the framework of the Euro-Mediterranean Partnership, include but are not limited to, the World Bank, the African Development Bank, the Islamic Centre for Private Sector Development and the United States Agency for International Development.

In 2013, the World Bank channelled EUR 1.9 billion into 16 projects targeting the region along the lines of a strategy built on four pillars, the first of which consisted of renewing social contracts in the SEMCs, in order to support a stronger private sector conducive to job creation and socioeconomic opportunities for the young. The African Development Bank formulated a private sector development strategy for the period 2013-2017 and channelled a total of EUR 4.3 million in funding for private sector development in the SEMCs. The strategy is built on three strategic pillars, targeting respectively investment and business climate, access to social and economic infrastructure and enterprise development. The Islamic Centre for Private Sector Development disbursed a total of EUR 6.4 billion of financing to develop the private sector in the MENA region, since the inception of its activities, approximately 15% of which has been directly invested into the real economy. The United States Agency for International Development is currently financing 373 projects, focusing on education, economic growth and prosperity in the SEMCs. The funds are allocated along four main

---

<sup>21</sup> Referring to: <http://us5.campaign-archive1.com/?u=f4fcd08cb4876511b070fc25c&id=22e2524d20>

<sup>22</sup> For further discussion, see Ayadi and Gadi (2013).

guidelines of intervention: strengthening education, providing job training and workforce skills, working directly with farmers and businesses and offering a range of services to MSMEs.

Annexed, an overview of the main EU programmes and some flagship initiatives of other international donors in Egypt, Jordan, Morocco and Tunisia, is proposed. The overview is not exhaustive, yet to a certain extent, is representative of the concrete role of international donors play in support of MSMEs in the four countries under investigation.

---

# MICRO, SMALL AND MEDIUM ENTERPRISES IN EGYPT

*Hala Helmy El Said and Rana Hosni Ahmed*

**T**his chapter focuses on MSMEs in Egypt and is divided into three sections looking into structure, constraints and actors and policies inherent to the MSME sector, with emphasis placed on the contribution of employment. The first section looks into structural characteristics of the MSME sector, the employment contribution and exporting potential of MSMEs. The second section looks into the constraints to the growth of MSMEs, in light of a national context characterised by limited economic freedom and a weighty public sector, while taking into consideration a number of conjunctural problems which have had a negative impact on key sectors, such as tourism. The third section provides an overview of the national and international actors giving direct or indirect support to Egyptian MSMEs and, in particular, highlights the main role played by ministries and ministerial strategies, along with the challenges they face.

## STRUCTURE OF THE MSME SECTOR

### *SIZE AND SECTORAL DISTRIBUTION OF THE MSME SECTOR*

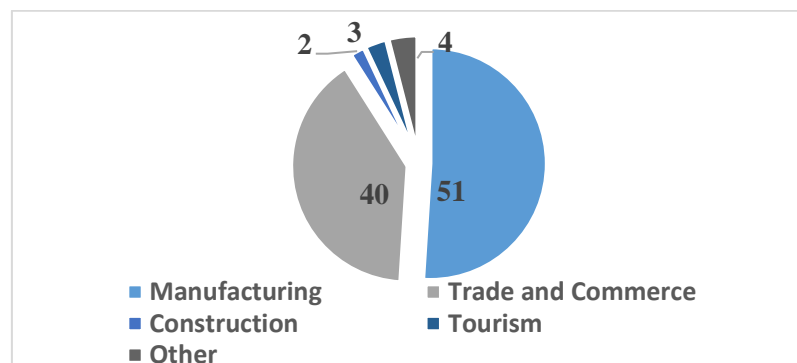
In Egypt, firms are considered micro when they employ less than ten employees, small and medium when they employ between ten and two hundred employees, and large above that according to the definition of the Central Bank of Egypt. In 2017, micro enterprises constituted approximately 91% of all firms, small and medium ones around 8% of the total and large firms less than 1% (Central Bank of Egypt, 2017). This figure points to the predominance of micro enterprises in the country's private sector. Egyptian micro firms have little potential for expansion and suffer from a range of structural weaknesses, including but not limited to the lack of managerial skills and financial resources, intensive competition and low profit margins.<sup>23</sup> Moreover, most micro enterprises are informal and cannot sufficiently benefit from government initiatives in support of their development (Saif and Ghoneim, 2013).

---

<sup>23</sup> The following section of this country report gives an insight into the different types of obstacles facing the MSME sector.



Figure 1: Sectoral distribution of MSMEs in Egypt



Source: International Finance Corporation, 2014.

Figure 1 shows the sectoral distribution of MSMEs in the country in 2014. It is evident that such enterprises are mainly concentrated in the manufacturing and trade sectors, in which operate roughly 51% and 40% of the total number of MSMEs surveyed. However, the distribution of firms by size and employment contribution shows that large enterprises dominate the manufacturing sector, accounting for 87% of total production and 53% of total employment. In turn, MSMEs contribute to nearly 47% of total employment in the sector and account for only 13% of the overall production (Mokhtar and Abdelwahab, 2014).

### EMPLOYMENT CONTRIBUTION OF THE MSME SECTOR

MSMEs are usually more labour than capital intensive and, therefore, can play an important role in the development of economies with a sizeable unemployed youth population (International Finance Corporation, 2014). This is the case of Egypt, where MSMEs contribute to nearly 80% of the national GDP and have a pivotal role in generating employment in both the formal and informal sectors, providing nearly 75% of total employment in the private sector, a share reaching 99% in some non-agricultural sectors.

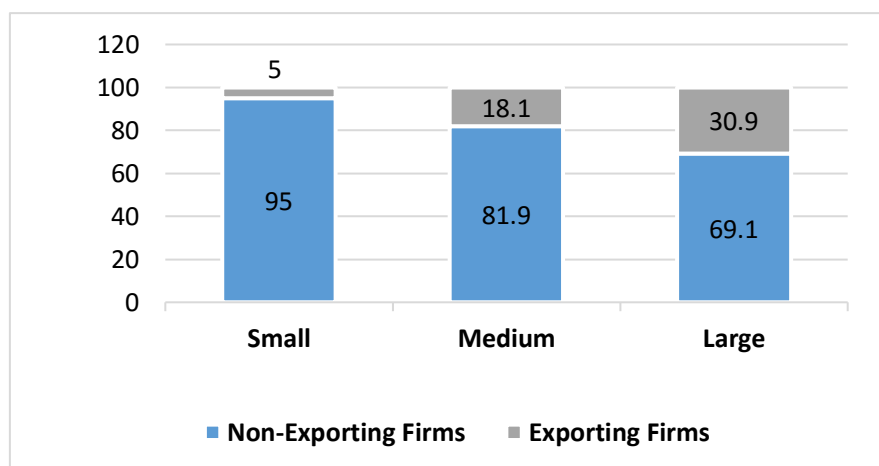
The informal sector represents a large share of national GDP. Informal employment constitutes an important entry point for highly educated workers but is often associated with low wages, poor working conditions and limited mobility to formal sector jobs – for educated or uneducated individuals alike. It is estimated that nearly 58% of total employment in the country is created in the informal sector, a share reaching 70% among rural workers as compared to 43% among urban ones (Angel-Urdinola and Tanabe, 2012).

### EXPORT CONTRIBUTION OF THE MSME SECTOR

The Egyptian MSME sector has seemingly weak exporting capabilities. Figure 2 shows that while nearly 95% of small firms do not have any exporting activity, 18% of medium firms are able to

engage in international markets and export. This share reaches 31% in the case of large firms, characterised by higher levels of exporting activity. On the other hand, the business operations of around 46% of small enterprises and 54% of medium enterprises depend on inputs of foreign origin according to the World Bank Enterprise Survey (2013).

**Figure 2: Shares of exporting and non-exporting firms in Egypt**



Source: World Bank Enterprise Survey (2013)

The majority of firms do not export, regardless of their levels of paid-in capital. For instance, among firms with less than EGP 250,000 (around EUR 14,205) of paid in capital, less than 2% are able to integrate global markets and export. Nonetheless, a relatively higher proportion of firms are able to export among those with higher levels of paid-in capital, suggesting that measures aimed at enhancing export facilities and access to finance for MSMEs do have a positive impact on their internationalisation and, thus, their value creation and employment contribution.

El Said, Al Said and Zaki (2015) provide empirical evidence about the importance of enhancing access to financial services to MSMEs in Egypt. The authors used data from the nationwide census conducted on 36,492 MSMEs, supervised by the Central Bank of Egypt and the Egyptian Banking Institute, to measure the potential positive effect of higher access to finance on the extensive margin of export of the firms surveyed, that is, the probability of becoming an exporting firm and serving more than one market. The analysis shows that there is a positive effect of having bank facilities on the extensive margin of export. These findings corroborate the claims that the banking sector should assume a more pro-active role in lending to MSMEs, under the supervision and coordination of the Central Bank of Egypt, to prevent the negative repercussions of moral hazard problems resulting from targeting the MSME sector (Saif, 2011).

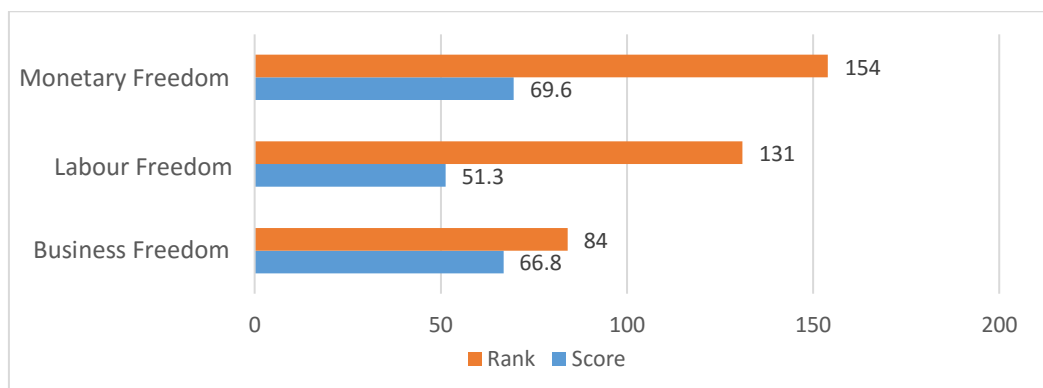
## MAIN CONSTRAINTS TO JOB CREATION IN THE EGYPTIAN MSME SECTOR

### BUSINESS ENVIRONMENT

The Egyptian economy is characterised by a number of structural macroeconomic imbalances hindering the development of MSMEs. These include foreign exchange crunch, high levels of inflation and unemployment rates (11% and 12% respectively in 2016, according to the World Bank Development Indicators), high ratios of domestic and external debt to GDP (87% and 18% respectively in 2015, according to the Central Bank of Egypt) and a significant drop in the tourism sector.

Figure 3 and Figure 4 report indices of regulatory efficiency and market openness, showing that the economy of the country is “mostly unfree”, terminology used in the Index of Economic Freedom published on a yearly basis by the Heritage Foundation.<sup>24</sup>

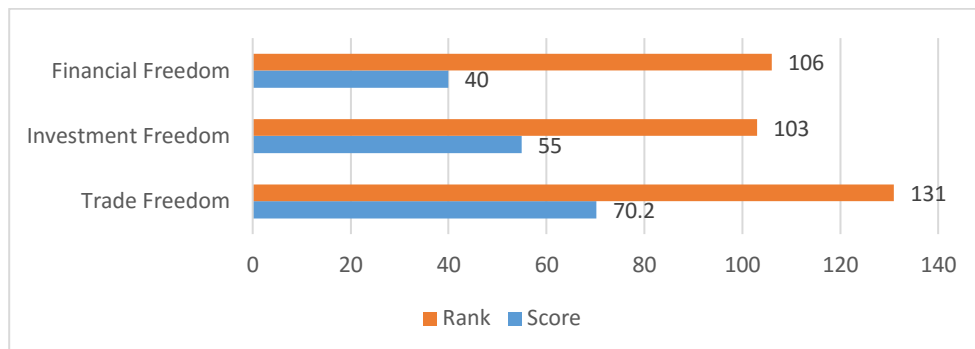
**Figure 3: Egypt’s score and rank in indices of regulatory efficiency**



Source: Index of Economic Freedom, Heritage Foundation.

<sup>24</sup> For more information about the index and its methodology, see <http://www.heritage.org/index/about>.

Figure 4: Egypt's score and rank in indices of market openness



Source: Index of Economic Freedom, Heritage Foundation.

**Note:** each economic freedom is graded on a scale of 0 to 100, with 100 indicating the higher degree of freedom, based on a number of equally weighted factors and related indicators; countries are ranked, based on their score in each economic freedom, meaning that the higher the rank, the lower the economic freedom of the country.

In particular, the absence of a well-functioning labour market and the partly related sprawl of informal labour, prevent on-going reforms from benefitting the real economy, along with the high number of state-owned enterprises and the distortionary effects of the many restrictions imposed on foreign investment in a number of sectors of activity. In addition to these structural imbalances, the political instability and the economic downturn, which accompanied and followed the 2011 uprisings, significantly affected the ability of MSMEs to upgrade and grow.

Egyptian MSMEs face a number of challenges and difficulties in their interaction with public administrations over registration, licensing, customs and taxation matters (International Monetary Fund, 2014). It is essential for the dynamism of domestic markets to facilitate the entry and exit of MSMEs, but small entrepreneurs in the country are forced to go through a number of procedures and approvals, such as the permit of establishment, the location registration or the application for tax holiday.

MSMEs also suffer from the absence of strong and effective linkages to large firms - that is the absence of strategic alliances. Interestingly enough, MSME owners more often than not consider that they suffer from "unfair competition" from large domestic firms, perceived as having enough good connections in the public administration to receive preferential treatment. Saif and Ghoneim (2013) somewhat confirmed the underlining point that large corporations have been the main target of institutional frameworks for private sector development in the country, receiving more benefits from government policies. In addition to that, Loewe et al (2013) pointed towards the unfair competition from small informal firms benefitting from a number of cost advantages and a better

market position, resulting from their informal status. Increasing competition from foreign firms also comes as a challenge for domestic entrepreneurs with, for example, MSME owners in the sewing and weaving sectors usually categorising competition from producers in China and Turkey as one of the major challenges they face.

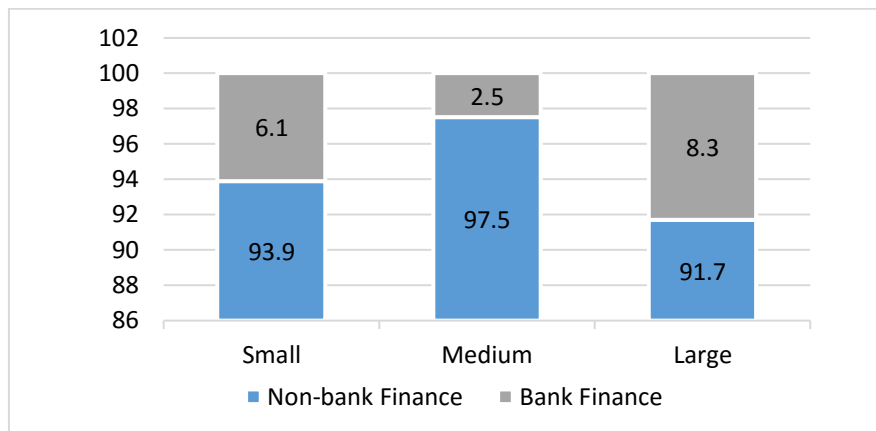
The political roadmap is improving since the adoption of a new constitution and the enactment of the law for presidential elections in 2014. The Government of Egypt recently introduced a number of laws supposed to pave the way for the improvement of market conditions in the country and passed a number of decrees to improve the business environment in the MSME sector, such as the decree facilitating the registration of single-owner enterprises. The competition law, voted in 2015, aims at creating a more competitive market and boosting the regulatory role of the competition authority to benefit the private sector. The Egyptian Ministry of Trade and Industry announced at the 2015 Egypt Economic Development Conference, the establishment of a new entity responsible to coordinate and regulate all entities and efforts dedicated to the MSME sector. These are steps which have the potential to boost the confidence of MSME owners and to encourage their business development.

### **FIRM MANAGEMENT**

In Egypt, the government usually borrows from the domestic financial market at interest rates higher than in international markets, with two notable negative implications. First, the burden on the government budget balance of these future commitments. Second, the crowding-out effect for the private sector, as banks reduce their lending to private businesses in order to accommodate the government. Saif (2011) highlighted that the private sector in the country received only 10% of the available financing from the banking sector, an amount largely insufficient for private businesses to meet their own needs, resulting in an untapped potential for productivity gains.

The situation is particularly problematic for Egyptian MSMEs, lagging behind in terms of access to finance, compared to both their larger counterparts in the private sector and their homologues in other SEMCs. The MSME sector has access to only 5% of the overall domestic finance and suffers from a financing gap of nearly EUR 13.9 billion (Nasr and Reille, 2015). The lack of competition in the banking sector enables banks to be overcautious in lending to private borrowers (International Monetary Fund, 2014), whereas the absence of a clear definition of MSMEs limits their ability to tailor financial services to the needs of these firms (Loewe et al, 2013).

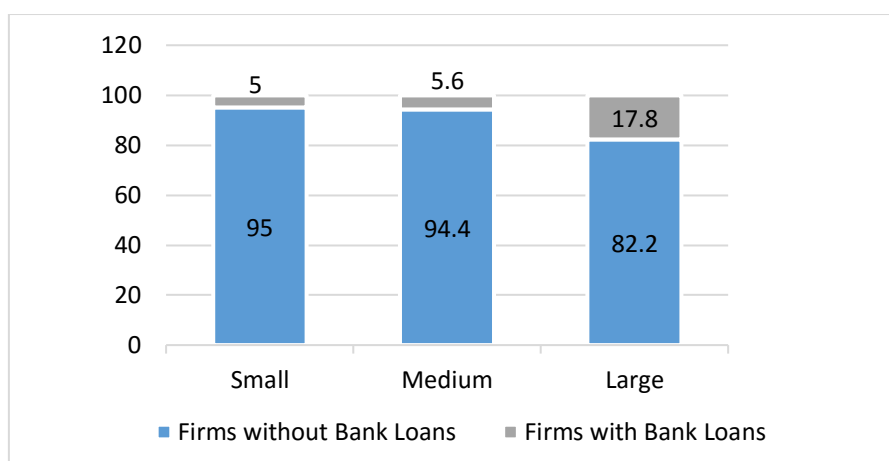
**Figure 5: Share of bank and non-bank financing for private investment in Egypt**



Source: World Bank Enterprise Survey (2013)

Figure 5 shows that bank financing is not the primary source of finance for private businesses, regardless of their size, although large enterprises receive a relatively higher share of bank financing than small and, most particularly, medium sized firms. The latter remain well below 10% of bank financing. Figure 6 shows the share of firms receiving bank loans in the three size categories. The data shows that only 6% of small and medium firms have access to bank loans, compared to nearly 18% of large firms.

**Figure 6: Share of firms with access to bank loans in Egypt**



Source: World Bank Enterprise Survey (2013)

In order to counter the problem of lack of access to finance for MSMEs, the microfinance law was enacted in 2015 to allow licensed entities to provide microfinance loans of up to EUR 5,000 to small firms engaged in production of goods, provision of services or trading activities. The Egyptian Financial Supervisory Authority has a supervisory role over licensed microfinance entities, to ensure their transparency and effectiveness in providing support to the MSME sector.

Besides problems related to financing, MSME owners in Egypt often lack the knowledge and management expertise needed to work efficiently and market profitably the goods and services they produce or provide. The Government of Egypt launched a number of initiatives to address this issue, but MSMEs require more access to market information and support in the formulation and evaluation of business plans, among other avenues of support to improve their management and marketing.

The persistent mismatch between the number and qualifications of young graduates on the supply side of the labour market, and the requirements of employers on the demand side, is an important challenge for the latter in the management of their businesses (El Ehwany and El Laithy, 2001; Galal, 2002). Semlali and Angel-Urdinola (2012) reported that up to 50% of the firms interviewed in enterprise surveys conducted in Egypt, consider issues related to skills mismatches among the five major constraints to their growth.

## **ACTORS AND POLICIES IN SUPPORT OF THE EGYPTIAN MSME SECTOR**

### ***EGYPTIAN INSTITUTIONS INVOLVED IN MSME DEVELOPMENT***

In Egypt, a number of ministries are involved in the making of policies in support of MSMEs. The Ministry of Trade and Industry is responsible for supporting the competitiveness and the internationalisation of MSMEs. The Ministry of Investment with helping the latter in their development, through the elaboration and implementation of cluster policies. The Ministry of Finance is mandated with promoting reforms for a favourable investment climate. The Ministry of Social Solidarity with regulating civil society organisations and other non-governmental organisations providing community development services.

These ministries are not usually involved directly either in the implementation of the policies elaborated, or in their monitoring – something that is particularly problematic in light of the importance of correcting and adapting policies, depending on their effectiveness in supporting MSMEs and changing conditions on the market.

The responsibility over the implementation of policies in support of MSMEs is given to a number of specialised government agencies, backed by financing instruments and related authorities. These include agencies providing advisory services to entrepreneurs and owners of small businesses throughout the various stages of their development with the authorities and financial institutions acting as incubators. Table 2 provides an overview of these institutions.

**Table 2: Egyptian institutions involved in the implementation of SME policies**

INSTITUTION	MAIN AIM
<b>General Authority for Investment and Free Zones</b>	<i>Enhancing the investment climate and facilitating the growth of MSMEs through the establishment of a one-stop shop providing a wide range of services for start-ups.</i>
<b>Industrial Development Authority</b>	<i>Assistance and guidance in relation to establishment procedures and registration plans available to investors in the industrial SME sector.</i>
<b>Egyptian Financial Supervisory Authority</b>	<i>MSME promotion through the establishment of microfinance companies offering products and services to the sector.</i>
<b>Central Bank of Egypt</b>	<i>Creating incentives for banks to lend to MSMEs.</i>
<b>Egyptian Banking Institute</b>	<i>Providing a wide range of capacity building services to SMEs and raising awareness among entrepreneurs about methods and standards to access financing.</i>
<b>Social Fund for Development</b>	<i>Providing a safety net to protect vulnerable groups against the adverse effects of economic programmes and enhancing the development of MSMEs.</i>

**Source: authors**

In 2017, the Social Fund for Development was restructured and became the SMEs Development Authority, established to address the entanglements in the work of the above-mentioned government bodies. The authority should act as an umbrella organisation and coordinate the different policies and tools in support of Egyptian MSMEs and will provide a range of non-financial services, while financial support remains under the responsibility of other institutions.

## **EGYPTIAN POLICIES IN SUPPORT OF MSME DEVELOPMENT**

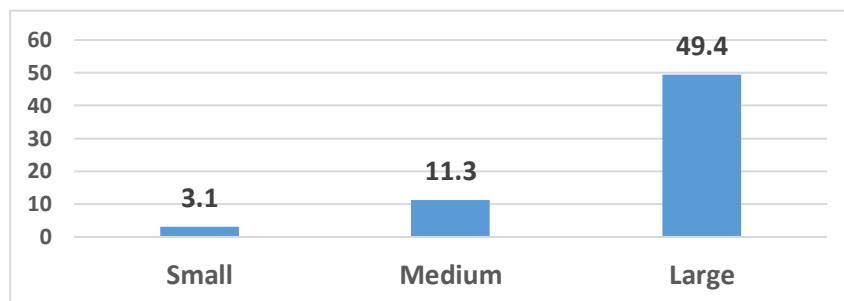
In Egypt, a number of policies in support of the development of MSMEs were formulated under different policy frameworks, including the innovation strategy, the niche strategy and the cluster approach. These frameworks are overviewed below, along with the main economic challenges they aim to address.



The *innovation strategy* is built on the premise that R&D is one of the most important drivers of growth in the private sector and most particularly for MSMEs, notwithstanding that investing in R&D activities might result in a risky and costly option for the latter. This is particularly delicate in the case of Egypt, considering the limited funding available for innovative MSMEs and the absence of innovative financing schemes, in the form of R&D funds. The Egypt Technology Transfer and Innovation Centre made considerable efforts to improve the technological absorption of the MSME sector, but no system of cooperation and coordination among the different institutions dealing with technological innovation, finance, technical standards and vocational training was established to support innovative MSMEs (Organisation for Economic Cooperation and Development, 2010).

Egyptian MSMEs are lagging behind when it comes to meeting the quality standards of international markets. More needs to be done to translate innovative research into industrial applications, in order for MSMEs to enhance the technological content of production processes and to achieve productivity gains. Figure 7 shows how the share of enterprises having an internationally recognised certification is skewed towards large enterprises, 49% of which have such a certification, compared to only 14% of small and medium enterprises.

**Figure 7: Firms with internationally recognised quality certification (%)**



*Source: World Bank Enterprise Survey (2013)*

Furthermore, Egypt suffers from a significant knowledge gap, hindering the competitiveness of MSMEs and hampering their development. This gap reflects a mismatch between education and the competencies required in the labour market, in particular when females are considered in isolation, suggesting that women's education is still oriented towards their role in the household rather than in the economy. The situation with the young is equally alarming, with higher unemployment rates for individuals having higher education degrees, as compared to illiterates.

The *niche strategy* aims at creating opportunities for MSMEs, willing to enhance their market presence to access market segments underserved by large enterprises, in both domestic and

---

international markets (Stachowski, 2012). This strategy was launched in response to the challenges facing Egyptian MSMEs in a context of intense competition, lack of resources and limited managerial capabilities. It builds on the example of Germany, which adopted a niche strategy to enhance the global market share of its so-called Mittelstand enterprises, which now exceeds that of larger companies. In some cases, the latter hold between 70% and 90% of total market shares at a global level for the highly specialised products that they manufacture (Organisation for Economic Cooperation and Development, 2008).

The niche strategy represents an attractive option for Egypt, in particular for shoes, leather products and the garment sector. The sector sustained a massive volume of exports in the period between 2001 and 2005, but then these exports dropped as local manufacturers suffered from intense international competition and failed to produce high quality products at a competitive price, even for the domestic market. The large enterprises dominating the sector, lacked competition in the domestic market and, therefore, the incentives to innovate, preferring to live off their established market shares instead. In other words, the sector reached a saturation point, notwithstanding the broad range of opportunities for niche marketing of products, such as hand-stitched shoes, cotton and leather handbags, camel leather wallets and the internationalisation opportunities related to these products.

As regards to *clusters, networking and alliances*, there is strong evidence that they could prove effective in support of micro and small enterprises, to make the most from competition and cooperation with larger firms and to grow. MSME internationalisation is widely considered as a priority for the development of the Egyptian private sector, but these companies usually lack the size and the knowledge to adapt to rapidly changing consumer preferences, technological developments and competitive conditions in global markets. The formation of clusters and strategic alliances between MSMEs, together with their larger domestic or foreign counterparts, could enable the former to access critical resources and increase their market power over competitors, incentivising them to internationalise, if establishing such alliances has not already pushed them to do so. In more detail, the following advantages can be highlighted:

- Obtaining resources: MSMEs use a local partner to access crucial resources such as local facilities, knowledge and connections through formation of international alliances.
- Controlling market threats: MSMEs can better control the risks related to their business through cooperation with other small or large enterprises and secure a future competitive advantage.
- Improving marketing capabilities: clusters and alliances enable MSMEs to enhance their productive capacities, increase their market share, upgrade their domestic and international reputation and open up extra future investment projects (National Planning Institute, 2008).

---

This policy option is particularly attractive for the palm date sector, which is one of the country's most important agro-industrial sectors. Egypt is the largest palm date producer worldwide, but its international presence in terms of export value is rather scarce, because most MSMEs operating in the sector lack the production know-how, post-harvest technologies and R&D activities needed to achieve economies of scale. Moreover, somewhat volatile prices, weak information systems and high shares of post-harvest losses on the domestic market hamper the development of the sector, while on the international demand side, those MSMEs willing to export, experience difficulties in meeting international quality and food safety standards. These problems confirm the importance of networking activities, to overcome the challenges faced by the sector (United Nations Industrial Development Organization, 2014).

In 2016, the Central Bank of Egypt launched an initiative to facilitate access to bank financing for MSMEs, consisting in the issuing of a number of instructions to the banking sector, aimed at creating an enabling environment for MSMEs. These instructions include:

- Increasing loans to MSMEs to nearly 20% of the total credit provided to the private sector;
- Setting at 75% the risk weight for lending requirements to make it applicable only to micro firms;
- Allowing banks to exclude credit provided to micro firms from the required reserve ratio;
- Not exceeding lending rates of 5%;
- According specific attention to firms in the industrial and productive sectors, import substitution economic activities, labour-intensive enterprises and innovative projects that aim to export their products;
- Establishing specialised units within each bank mandated to provide technical assistance and training opportunities to MSMEs (Central Bank of Egypt, 2016).

---

# MICRO SMALL AND MEDIUM ENTERPRISES IN JORDAN

*Nooh Alshyab, Serena Sandri and Fuad Al Sheikh*

**T**his chapter focuses on Jordan and is divided into three sections, looking into the structure of the country's MSME sector, the constraints Jordanian MSMEs face in their development and the policies and actors involved in their support. The first section looks into structural characteristics, employment contribution and export potential of the MSME sector. The second section looks into the main constraints to the growth of MSMEs, in light of a national context characterised by a liberalised but import-dependent economy. The third section is an overview of the actors and policies that provide direct or indirect support to Jordanian MSMEs.

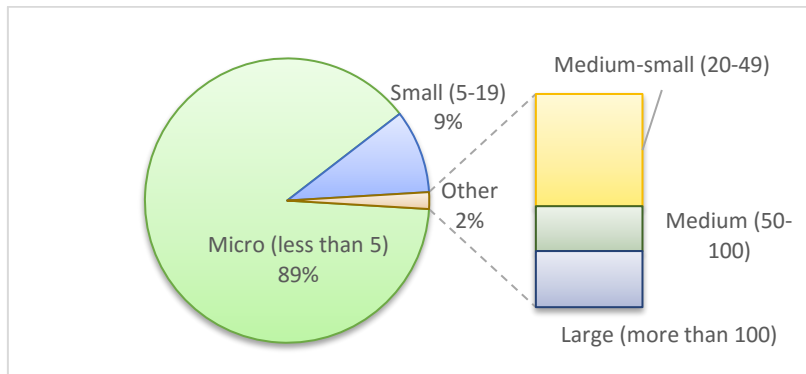
## STRUCTURE OF THE MSME SECTOR

### *SIZE AND SECTORAL DISTRIBUTION OF THE MSME SECTOR*

In Jordan, similar to other countries in the region, the private sector is characterised by a very large number of informal micro enterprises, which represent around 90% of the total, with no more than 5% of high growth businesses, according to the Business Development Centre (2008). The decision to remain informal has negative implications on the growth prospects of, and the quality of the jobs created by, the firm but a number of factors, among which cumbersome administrative procedures stand out, hamper their formalisation. These factors remain largely unaddressed. For example, the 2013 World Bank Doing Business Report indicated that the institutions responsible for supporting MSMEs in establishing their business, failed to facilitate the procedures of enterprise registration.

The Jordanian Department of Statistics defines MSMEs as establishments employing between 5 and 100 workers. The data collected is broken down into companies employing less than 5, between 5 and 19, between 20 and 49, between 50 and 100 and more than 100 employees.

**Figure 8: Firm distribution by size in Jordan**

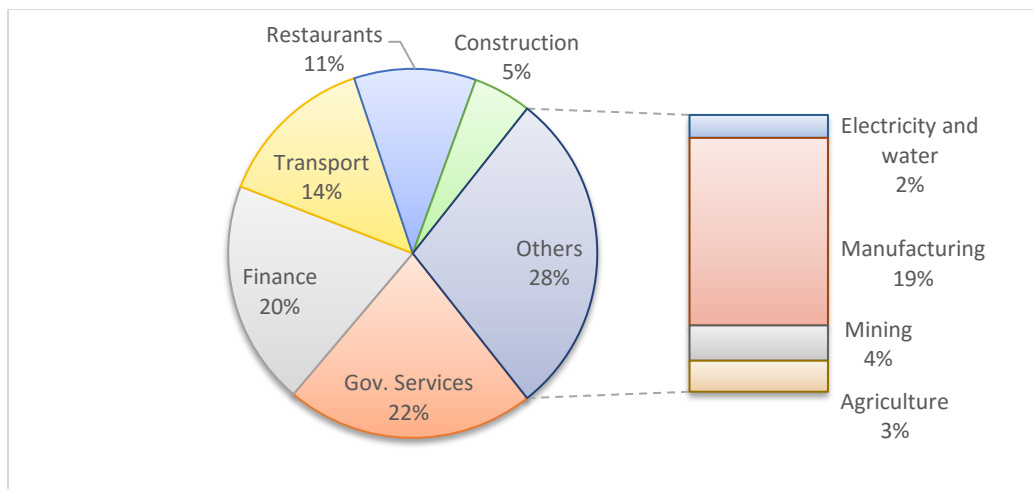


*Source: data from Jordanian Department of Statistics (2014)*

Figure 8 reports the results of the 2014 national employment survey, revealing that 89% of establishments in Jordan are micro enterprises, 9% are small enterprises and the remaining 2% are medium and large establishments employing more than 20 employees.

Figure 9 decomposes the national GDP by sector of economic activity. The data shows that the Jordanian economy is dominated by the tertiary sector, which represented on average 67% of GDP between 2004 and 2014, with government and finance services accounting for the largest shares, 22% and 20% respectively of GDP. The primary and secondary sectors on average represented 4% and 29% respectively of GDP over the same period. The contribution of the different sectors to the national GDP did not change significantly between 2004 and 2014, meaning that economic growth in the period considered was not driven by one or more sectors in particular.

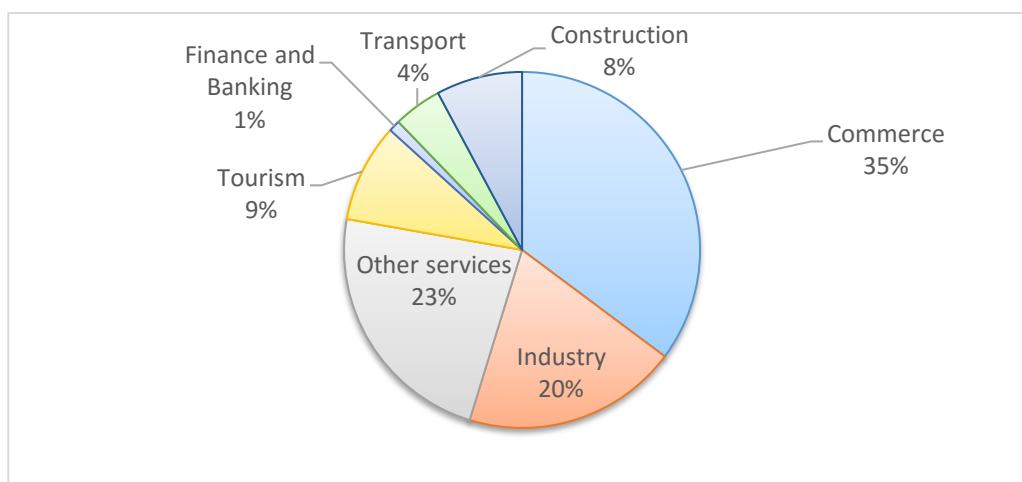
**Figure 9: Average sector contribution to Jordanian GDP at constant prices between 2004 and 2014**



*Source: calculations based on data from Central Bank of Jordan (2014)*

Figure 10 shows the number of establishments operating in the different sectors of economic activity. The largest share is represented by commercial establishments (35%), followed by providers of services other than finance and banking (23%) and firms involved in industrial production (20%). This figure contrasts with the sectoral contribution of financial services to national GDP above, suggesting a concentration of activity in the sector is in the hands of a few establishments with a large turnover.

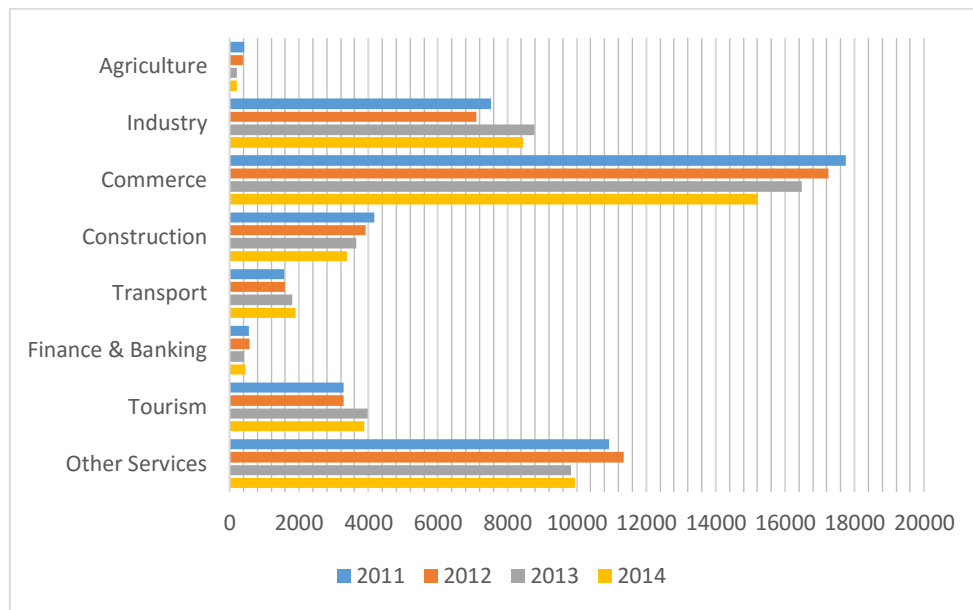
**Figure 10: Establishments engaged in social security by economic activity in 2014**



*Source: data from Jordanian Department of Statistics (2014)*

Figure 11 shows the evolution of the number of establishments in the different sectors of activity between 2011 and 2014. The sectoral distribution did not change substantially in the period considered, but the overall number of establishments altered from 46,251 establishments in 2011 to 43,439 in 2014, a decrease by almost 6.5%.

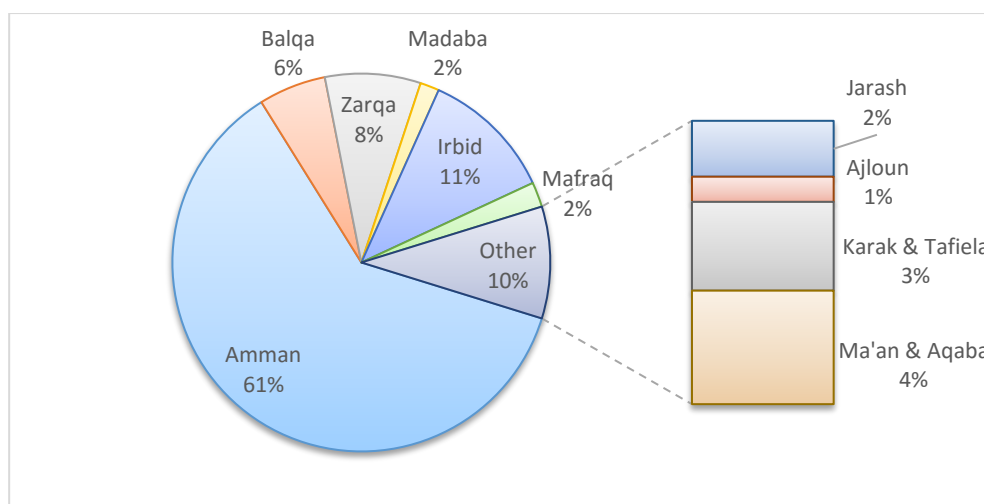
**Figure 11: Number of establishments engaged in social security by economic activity in Jordan**



Source: data from Jordanian Department of Statistics (2014)

Finally, regarding the territorial distribution of private businesses, it is worth noting that almost two thirds of the total number of establishments is concentrated in the governorate of Amman (61%), while the remaining share of establishments is scattered more or less equally in the other eight governorates, with the exception of Irbid (11%) and Zarqa (8%).

**Figure 12: Establishments per Jordanian governorate in %**



Source: data from Jordanian Department of Statistics (2014)

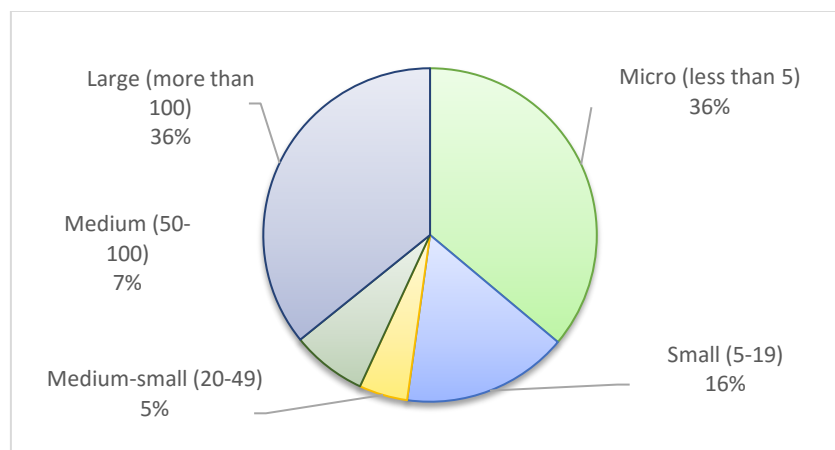
### EMPLOYMENT CONTRIBUTION OF THE MSME SECTOR

The 2014 national employment survey conducted by the Jordanian Department of Statistics indicates an unemployment rate of 12%, with important gender differences. The female unemployment rate averaged twice as much as the male unemployment rate, approximately 21% as compared to 10%. In the same year, youth unemployment topped 30%, with male youth unemployment stabilising at 26% and female unemployment reaching 53%. The data compiled by the Central Bank of Jordan indicates that, in the third quarter of 2015, unemployment increased to 14% and that this increase primarily affected females, whose rate rose from 21% to 25% as compared to males, whose rate only rose from 10% to 11%.

These figures underline the urgency to shift from the current situation, where the state provides jobs to a large share of the population, to an increase in investment in the private sector aimed at unlocking its potential for employment creation. The employment data, produced by the Central Bank of Jordan and reported in the Jordan National Employment Strategy 2011-2020, reports that the public sector employs 38% of the total workforce in the country. However, the results of the 2014 national employment survey, conducted by the Jordanian Department of Statistics, indicate that the private sector provides only 54% of the total number of jobs, suggesting the existence of some inconsistencies between administrative sources of data.

Figure 13, below, breaks down the employment contribution of the private sector by size of firm. The data shows that micro and large enterprises each contribute to 36% of the jobs in the private sector, while small and medium enterprises respectively contribute to 16% and 12% of total jobs.

**Figure 13: Employment contribution by firm size**



*Source: data from Jordanian Department of Statistics (2014)*



The unemployment situation is further aggravated by the high rates of population growth, averaging more than 2% per year over the last decade, according to the Jordan Economy Profile (2015), an unbalanced dependency ratio of 1:4, according to the National Centre for Human Resources Development (2014) and resulting from the massive inflow of refugees mostly arriving from bordering Syria. Furthermore, the cost of labour is relatively high in Jordan, compared to benchmark countries with similar GDP per capita, possibly hampering the creation of additional jobs in the private sector. The labour force is usually highly educated and skilled, translating into a labour productivity measured as value added per worker averaging EUR 12.900, higher than countries with a similar GDP per capita (World Bank, 2013), but the labour market fails to create sufficient highly-skilled jobs.

Table 3 shows data on job creation in Jordan broken down by sector, gender and nationality, bringing evidence of the crucial role of the private sector in terms of employment creation. In 2013, 53,646 new jobs were created, 77% of which were in the private sector, a rate which accelerated from 65% in 2011. This figure indicates that policies in support of the private sector and, more particularly MSMEs, may lead to substantial employment gains. In this sense, one of the positive results of public sector reforms and privatisation programmes implemented in the country is that the public sector has lost its role of main employer. In recent years, job creation has progressively been led by the private sector and the share of jobs created by the public sector has continued to reduce, to 34% in 2011 and to 21% in 2013.

**Table 3: Net job creation by gender, nationality and sector (in %)**

		2011	2012	2013
Gender	Male	64	71	66
	Female	36	29	34
Nationality	Jordanian	90	87	76.5
	Non-Jordanian	10	13	23.5
Sector of employment	Public	34	32	21
	Private	65	67	77
	Non-governmental institutions	1	1	2
<b>Total (in %)</b>		100	100	100

*Source: data from Jordanian Department of Statistics (2014)*

The table shows that there is a pronounced gap between the share of jobs created for male and for female workers, with a ratio of around 1:2. The rate of female labour force participation is

particularly low in Jordan, at 13%, as compared to 60% for males, according to the results of a survey conducted by the Jordanian Department of Statistics in 2015. It is worth noting that this gender gap applies to all age groups considered.

Table 4 shows the relative distribution of employees by sector of economic activity, using data from the household surveys conducted by the Jordanian Department of Statistics.<sup>25</sup> The data shows that the distribution of workers per economic activity did not change substantially between 2003 and 2014. The only changes consist of an increase of employment in public administration and a decrease in agriculture and, to a lesser extent, in wholesale and retail trade.

**Table 4: Distribution of Jordanian employees by economic activity**

ECONOMIC ACTIVITY	AVERAGE 2003-2013	2010	2011	2012	2013	2014
Agriculture, hunting and forestry	2.7	2.0	1.7	2.0	2.0	1.8
Mining and quarrying	0.9	0.9	0.9	0.8	1.0	0.8
Manufacturing	10.9	10.4	10.2	9.7	9.9	10.2
Electricity and water	1.4	1.0	1.1	1.0	0.8	0.9
Construction	6.4	6.4	6.0	6.0	6.4	6.6
Wholesale and retail trade and repair of motor vehicles	16.7	16.1	15.4	15.5	15.7	15.3
Transport, storage and communication	9.5	10.1	9.6	9.1	9.2	9.6
Hotels and restaurants	2.4	2.2	2.4	2.4	2.5	2.5
Financial intermediation	1.9	1.6	2.0	2.0	1.9	2.1
Real estate, renting and business activities	4.1	4.1	4.2	4.5	4.2	4.1
Public administration, defence and social security	20.9	24.1	24.8	25.5	26.2	26.2
Education	11.9	12.1	12.8	12.6	12.1	11.9
Health and social work	5.0	5.1	5.0	5.1	5.0	4.9
Other community, social and personal service activities	4.7	3.0	3.0	2.9	2.5	2.4
Private households and disabled persons	0.4	0.4	0.5	0.6	0.3	0.4

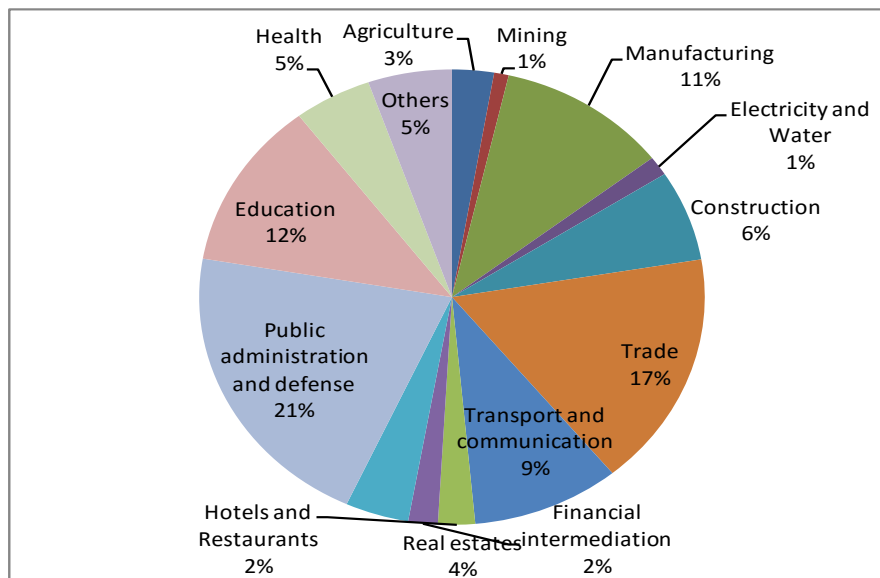
<sup>25</sup> There are minor differences in the classification of data before and after 2009 resulting from the revision of the International Standard Industrial Classification (ISIC). In order to ensure the comparability of data between 2003 and 2013, the corresponding data entries were aggregated according to the previous revision (ISIC 3.1).

Organisations beyond scope of territorial jurisdiction	0.3	0.4	0.3	0.3	0.3	0.4
--	-----	-----	-----	-----	-----	-----

Source: calculation based on Jordanian Department of Statistics (2014)

Figure 14 focuses on the average distribution of Jordanian workers by sector of activity between 2003 and 2013. The data confirms what was previously mentioned concerning the public sector, that it is no longer the most important purveyor of employment in the country, with a share of around 38% of total jobs provided by the public sector. Public administration and defence namely employ up to 21% of the total workforce, education 12% and healthcare 5%. As a comparison, we recall that government services, over roughly the same period, generated around 22% of national GDP (Figure 10).

**Figure 14: Average of employees by economic activity between 2003 and 2013**



Source: own calculation based on Central Bank of Jordan (2013)

In the private sector, the wholesale and retail trades employ around 17% of the total workforce, followed by manufacturing employing almost 11% of the total, transport and communication with 9% and construction with 6%. As a comparison, manufacturing and transport respectively contributed over roughly the same period to 19% and 14% of the national GDP respectively (Figure 10), suggesting an important gap of productivity between the public sector and private sectors. It is worth adding that the financial sector employed only 6% of the total workforce but accounted for up to 20% of the national GDP in the period considered.

The data indicates that the agricultural sector employed 3% of the total workforce and contributed to 3% of national GDP over the period under consideration (Figure 10). However, this figure does not take into account the high number of foreign agricultural workers and, most particularly informal workers, in the sector. In 2014, 324,335 foreign workers held a permit to work in Jordan, 33% of whom were formally employed in the agricultural sector.

Overall, comparing the contribution of the different sectors to employment and value creation shows that in Jordan the more labour-intensive sectors are construction, trade, and agriculture. The low productivity in the public sector, attested by the large number of workers employed to produce a relatively low share of output, is also known as disguised unemployment and it is a phenomenon rather diffused amongst the SEMCs.

### **EXPORT CONTRIBUTION OF THE MSME SECTOR**

The Jordanian MSME sector is strongly import-oriented, resulting in a chronic deficit in the country's balance of trade. The only firms showing a net positive export contribution are in pharmaceutical industries and textile manufacturing, with textile products alone representing 89% of Jordanian exports (Batsakis et al., 2008).

Some analysts linked this state of affairs to the free trade agreements between Jordan and the United States and warned that once this protection may expire, Jordanian companies may export their production to different quota free countries (Batsakis et al., 2008). The urgency to stimulate foreign direct investment and to improve the export orientation of the country led to the creation of qualified industrial zones, but the initiative suffered from a strong imbalance towards the tertiary sector (Alshyab, 2012).

## **MAIN CONSTRAINTS TO JOB CREATION IN THE JORDANIAN MSME SECTOR**

### **BUSINESS ENVIRONMENT**

Jordan's macroeconomic environment is quite stable as compared to other countries in the region. It is built on the principles of a free market economy and, as one of the most open and liberal economies in the region can be considered as business-friendly. The private sector plays an increasingly important role in the economy, partly thanks to a relative re-dimensioning of the public sector, following the privatisation of several state-owned companies.

The country is facing persistently difficult socio-economic conditions from the upheavals caused by the 2011 Arab uprisings and the escalation of conflicts in the region, with inevitable

negative repercussions on the private sector. These upheavals did not affect Jordan as much as other countries in the region, leading some authors to consider it as a case of “transformation without transition” (Harders, 2008) but, nonetheless, there were major implications for Jordan. First, the escalation of internal struggles into international deadlock and the major humanitarian crisis in bordering Syria resulted in a large influx of refugees in Jordan, which put the already scarce resources and limited economic capabilities of the country under further stress. Second, the disruption of gas imports from Egypt resulted in increasing costs and related budgetary difficulties. Third, the country experienced its own waves of protests, resulting in a certain degree of political instability, with several changes to the constitution, cabinets and laws (Alshyab and Khasawneh, 2014).

Jordan's socio-cultural environment is not conducive to the flourishing of entrepreneurial initiatives. The rate of involvement in entrepreneurship activities, around 15%, is lower than in other countries in the region, such as Lebanon or Morocco, according to the International Development Research Centre (2010). The Global Entrepreneurship Monitor 2016 indicates that 26% of entrepreneurs involved in the early stages of their activities are “necessity entrepreneurs.” These are individuals engaging in entrepreneurship as a way of escaping from unemployment. This suggests that the actual rate of involvement in entrepreneurship is even lower than 15%.

According to international indexes, the domestic market can be considered fairly competitive. The 2016 Global Competitiveness Report, compiled by the World Economic Forum, ranked Jordan 63<sup>rd</sup> out of 138 countries in terms of competitiveness, 43<sup>rd</sup> in terms of market efficiency, 38<sup>th</sup> in terms of intensity of local competition and 26<sup>th</sup> in terms of market dominance, that is, whether the economy is dominated by few businesses or not. The Jordanian authorities stand out for their long-standing commitment to defeat unfair competition practices, starting with Law No. 15 of 2000 on Unfair Competition and Trade Secrets, which remains a regulatory reference document to this day. The Jordanian authorities also mobilised efforts to attract foreign investment and stimulate local investors, by providing the private sector with a range of incentives. To this end, the Investment Encouragement Law and the Development Zone Law were introduced and a number of enterprise zones, subject to tax exemption schemes for innovative firms, were launched. The government also embarked on consistent efforts to defeat corruption. The 2015 Transparency International Report improved the country's ranking from 55<sup>th</sup> to 45<sup>th</sup> worldwide making it the third cleanest among Arab countries, after Qatar and the United Arab Emirates.

The number of procedures needed to register a business is lower than the average number of procedures needed in the SEMCs; 7 as compared to a regional average of 8.2, but still substantially higher than other regions, such as Europe, where an average of 4.7 procedures is required (World Bank Ease of Doing Business Report, 2015). The number of days needed to register a business is also lower than the region's average; 12 as compared to 18.8 days. That said, the 2012 Investment

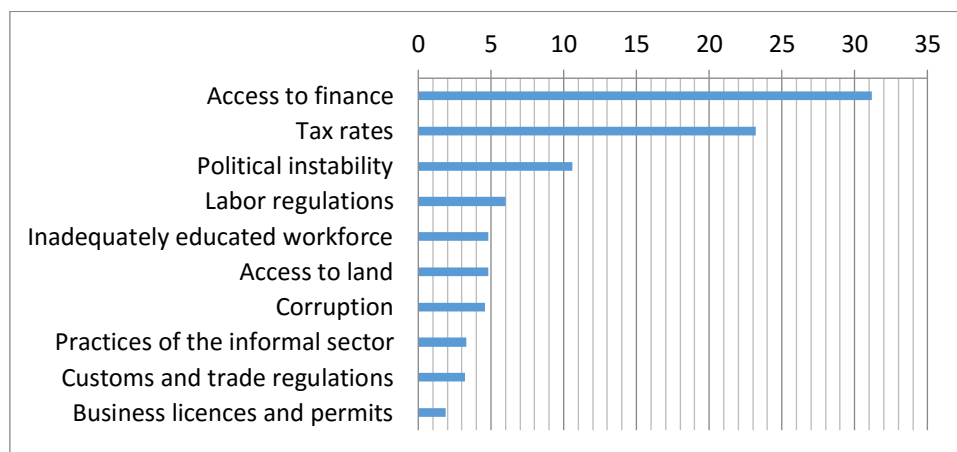
Climate Assessment, commissioned by the World Bank, highlighted the persistence of other bureaucratic constraints, in the form of hidden tax rates and fees, and opaque regulations.

### FIRM MANAGEMENT

In Jordan, as in other countries throughout the region, difficulties in accessing finance hinder the development of MSMEs. Al Shaikh (2013) surveyed entrepreneurial small firms in the country and the lack of finance turned out to be the most important obstacle to their development. The Central Bank of Jordan compiled data on the financing gap suffered by MSMEs, showing that they received a small and shrinking share of credit, from around 11% in 2008 to 8.5% in 2014. The gap is notable, considering that 76% of the total number of credit applications were submitted by MSMEs. The Central Bank of Jordan assessed the determinants of demand for credit and highlighted the main reasons for rejecting applications from MSMEs. These include weak financial position and insufficient funds, non-compliance with the credit policy of the bank, poor solvency and lack of commitment, as well as customer arrears with the banking system.

Figure 15 reports the results of the 2015 World Bank Enterprise Survey, showing that access to finance is the most important constraint facing Jordanian firms in their development, followed by tax rates, political instability and labour regulations. The survey is based on interviews conducted with 573 firms, 46.5% of which were small (employing between 5 and 19 workers), 31.5% medium (from 20 to 99 employees) and 22% large (more than 100 workers).

**Figure 15: Ranking of top business environment obstacles facing Jordanian firms**

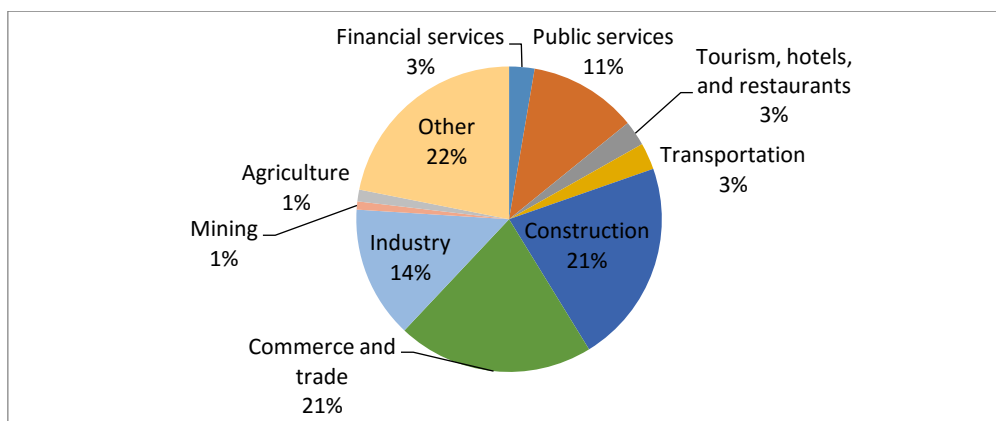


*Source: World Bank Enterprise Survey (2015)*

The banking sector in Jordan is relatively well developed, compared to benchmark economies in the region. In 2014, the assets of licensed banks represented 94% of the country's total financial assets, EUR 58.3 billion out of EUR 62 billion, and 174% of national GDP. The size of the banking sector is also very large in comparison with other countries in the region, except Qatar and Lebanon, which have higher ratios of total bank assets to GDP. The total assets and liabilities of commercial banks increased over the last five years by around 6% and reached EUR 59 billion in 2014. The assets are mostly used for claims on the private sector, including credit facilities, representing almost 40% of total bank assets in 2014, of around EUR 23.5 billion. Altogether, these figures suggest that, in principle, the Jordanian banking system has the size and the capacity to support the development of MSMEs and to promote private investment.

In 2014, the main beneficiaries of credit facilities were private companies with a share of 42%. The share of credit facilities granted to large companies averaged 45% between 2008 and 2013 and witnessed a downward trend throughout the period, with the exception of 2009. However, this downward trend is not compensated for by increasing credit granted to MSMEs, who receive a small but nonetheless decreasing share of credit, from 11% in 2008 to 8.5% in 2014. The allocation of credit facilities, by sector of economic activity, shows that the construction sector received more than 23% of total credit facilities in 2014, followed by trade and commerce with 19%, industry with 13% and public services and utilities with 11%. The overall picture shows that credit predominantly benefits the tertiary sector, with no substantial changes in the sectoral distribution between 2004 and 2014.

**Figure 16: Average sectoral distribution of credit facilities between 2004 and 2014**

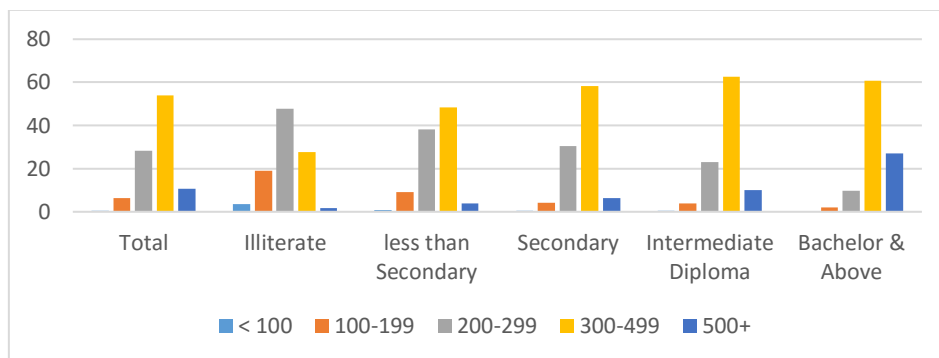


*Source: authors calculation based on data from Central Bank of Jordan, 2014*

In Jordan, the level of education is high compared to regional averages (Khasawneh et al, 2008) as a result of significant progress made over recent years concerning the rate of tertiary level graduation and the mean average years of schooling. In the case of the latter, the country's score is higher than the average in highly developed countries; 9.9 vis-à-vis 8.2. This progress explains the classification of Jordan among highly developed countries in the 2015 Human Development Index, produced by the United Nations Development Programme.

That said, the Jordan National Employment and Technical Vocation and Education Strategy for 2014-2020 (E-TVET) underlines that there are "too many academically qualified Jordanians while the market asks for lower skilled labour and technicians". The results of the 2015 national employment survey, conducted by the Jordanian Department of Statistics, bring to light further evidence that young graduates in Jordan are not equipped with the practical skills required by the labour market. This suggests that returning to education is problematic in the country, also considering the high unemployment rates among graduates and the wage differential across educational levels, and points to the existence of a skills mismatch between the demand and the supply side of the labour market. The E-TVET Strategy explicitly acknowledges such problems, by mentioning that "the education of young graduates does not match with the demands of the industry, even in the corresponding professions, as the skilled learned are too academic and not sufficiently practical."

**Figure 17: Jordanian employees by education and wage category**



*Source: survey data of the Jordanian Department of Statistics (2016)*



## ACTORS AND POLICIES IN SUPPORT OF THE JORDANIAN MSME SECTOR

### JORDANIAN INSTITUTIONS INVOLVED IN MSME DEVELOPMENT

In Jordan, a number of institutions with different legal statuses are involved in regulating, supervising and supporting MSMEs, attesting to the recognition of their importance for the economy. The ecosystem of institutions subordinated to the Ministry of Industry, Trade and Supply include the Jordan Enterprise Development Corporation, mandated to support the development and the internationalisation of MSMEs and the Companies Control Department tasked to create a safe and stable climate for investment in the private sector. The main organisations involved in lobbying activities for the MSME sector and, as such indirectly involved in their support, are the Amman Chamber of Commerce, founded in 1923 to promote best practices in and to provide a platform for trading for the private sector, and the Amman Chamber of Industry, established in 1962 to represent and support the industrial sector.

The Ministry of Industry, Trade and Supply is the main body involved in supervising and regulating the MSME sector, but the absence of a comprehensive national strategy for the sector undermines its potential role of overall coordinator, resulting in somewhat scattered efforts of support for MSMEs. Furthermore, the example of the United States and their Small Business Administration suggests the responsibility of coordinating these efforts should be given to a dedicated institution, rather than a ministry with broader prerogatives. Table 5 provides an overview of the most important institutions providing direct support to MSMEs in the form of provision of funds and facilities, mentoring and training or intermediation and facilitation services.

**Table 5: Main institutions involved in the implementation of MSME policies in Jordan**

INSTITUTION	MAIN AIM
<b>Business Development Centre</b>	<ul style="list-style-type: none"> <li>- Promoting entrepreneurship and innovation;</li> <li>- Creating employment opportunities and individual building;</li> <li>- Managing the creation of public-private partnerships;</li> <li>- Enhancing the competitiveness and export capabilities of MSMEs;</li> <li>- Supporting MSMEs in getting access to credit</li> </ul>
<b>Central Bank of Jordan</b>	<i>Playing a pivotal role in attracting and administering loans to support private sector development</i>
<b>Jordan Enterprise Development Corporation</b>	<i>Supporting the establishment and development of enterprise</i>
<b>Jordan Loans Guarantee Corporation</b>	<i>Supporting SMEs and export credit in providing creditors with loan guarantees to enhance access to finance for MSMEs and exporters.</i>

<b>Jordanian Free Zones Corporation</b>	<i>Providing an adequate environment to attract and develop local and foreign investments.</i>
<b>King Abdullah II Fund for Development</b>	<i>Focusing on the young to encourage innovation and entrepreneurship</i>
<b>Queen Rania Centre for Entrepreneurship</b>	<i>Non-profit organisation providing support for Technology Entrepreneurship</i>
<b>Vocational Training Corporation</b>	<i>Training and preparing the workforce to meet the needs of the labour market</i>

*Source: authors*

The information contained in the table points to the existence of overlapping mandates and, to a certain extent, to the multiplication of sources of financing, attesting to the importance of placing the various efforts of support for MSMEs under the umbrella of a comprehensive strategy and coordinating institution.

### **JORDANIAN POLICIES IN SUPPORT OF MSME DEVELOPMENT**

The Jordanian authorities mobilised considerable efforts to stimulate the private sector along two main lines of intervention: the privatisation of state-owned enterprises and the creation of a suitable investment climate, including the establishment of special economic areas and public-private partnerships.

The country embarked on a series of privatisations, following the financial and economic crisis of 1989 and the subsequent adoption of a comprehensive economic reform programme under the umbrella of the International Monetary Fund. The significant results achieved in macroeconomic stabilisation and trade and financial liberalisation pushed the international community to regard the economic reform process as one of the most successful in the region (Harrigan, Wang and El Said, 2006). Table 6 provides an overview of the most important privatisations of state-owned enterprises under the economic reform programme, completed in 2007.

**Table 6: Privatisation of state-owned enterprises in Jordan**

ENTERPRISE	MILLION JD	MILLION €	DATE OF COMPLETION*
Jordan Telecom Co.	804.3	996.8	2000, 2002, 2006
Jordan Cement Factory Co.	79.8	98.9	1998, 2002
Royal Jordanian	121	150	1999, 2005, 2006
Arab Potash Company	122.9	152.3	2003
Jordan Phosphates Mines Co.	78.7	97.5	2006
Royal Jordanian Air Academy	4.1	5.1	2002
Airport Duty Free Shops	2.4	3	2000
Jordan Aircraft Maintenance Company	8.9	11	2005

*Source: Jordanian Ministry of Finance (2007)*

In an attempt to attract FDI, Jordan implemented a series of measures to improve the investment climate, notwithstanding that FDI had been defined as “sporadic and for the most part externally or privatisation driven, regional in origin and focused on real estate investment” (Mansur, 2008). Some estimates suggest that up to 50% of the FDI stemmed from oil rich Arab countries and targeted the real estate sector (World Bank, 2013).

Table 7 shows data on FDI as a share of GDP, which decreased from 23% in 2006 to less than 5% in 2014, attesting to the fact that the policies which were implemented did not deliver on their expectations.

**Table 7: FDI as a share of GDP in Jordan**

YEAR	FDI AS SHARE OF GDP	YEAR	FDI AS SHARE OF GDP
2006	23.5	2011	5.1
2007	15.3	2012	4.8
2008	12.9	2013	5.2
2009	10.1	2014	4.9
2010	6.3		

*Source: calculations based on Jordanian Department of Statistics (2014)*

The establishment of qualified industrial zone, among other special economic areas and public-private partnerships, count among the main policies implemented with the aim of promoting private sector investment. Notable examples include the Aqaba Special Economic Zone, founded in 2000, which offers a special fiscal regime, no custom duties on imports and several tax exemptions (Aqaba Special Economic Law Zone Law) and the use of public-private partnerships for the expansion of the Queen Alia International Airport and the Disi Water Conveyor. The Development Areas were launched in 2008, with the aim of stimulating investment in specific zones, by making it is easier for investors to obtain permits and to benefit from tax exemptions. The latter include a reduced income tax of 5%, exemptions on import duties related to the establishment, construction and equipment of an enterprise and full tax exemptions on social services, dividends, sales and profits from exports and sales of goods in the area (Development Areas Law). The iPark, a high-tech incubator, was established in cooperation with the Queen Rania Centre for Entrepreneurship, as a flagship initiative aimed at developing the ICT sector and creating employment opportunities for the country’s widely available skilled labour force.

In 2014, the Central Bank of Jordan attracted funding for the MSME sector that reached EUR 407 million in collaboration with the Ministry of Planning and International Cooperation and which

allocated EUR 1 billion in loans at a rate of 1.75% to the manufacturing, tourism, renewable energy and agricultural sectors. (Financial Stability Report, 2014). The World Bank provided a loan of EUR 65 million that resulted in the creation of 2,200 jobs by 2014. The Arab Fund for Economic and Social Development disbursed a total of EUR 46 million in loans by the end of the same year. The authorities signed an agreement for an additional loan of EUR 92 million to be disbursed by the end of 2016. The European Bank for Reconstruction and Development provided special funding for banks to support MSMEs to a total value of EUR 111 million and signed a similar agreement with two banks for EUR 37 million.

More can be done to improve access to finance for MSMEs, such as providing incentives for innovative start-ups. The Jordan Innovation Centre was established to provide incubation and financial services for innovative start-ups, but the country lacks an innovation strategy, while other countries in the region recognised the importance of the latter for the development of high-growth MSMEs.

---

# MICRO SMALL AND MEDIUM ENTERPRISES IN MOROCCO

*Mohamed Larbi Sidmou and Jad Allah Rami*

**T**his chapter focuses on MSMEs in Morocco and is divided into three sections looking into structure, constraints and actors and policies inherent to the MSME sector, with emphasis placed upon employment contribution. The first section looks into structural characteristics of the MSME sector and the employment contribution and exporting potential of MSMEs. The second section looks into the constraints to the growth of MSMEs, in light of a national context of relative stability amid spreading uncertainty in the region. The third section presents an overview of the national actors providing direct or indirect support to Moroccan MSMEs, as well as providing an overview of the strategies supporting MSMEs, implemented by the different ministries.

## STRUCTURE OF THE MSME SECTOR

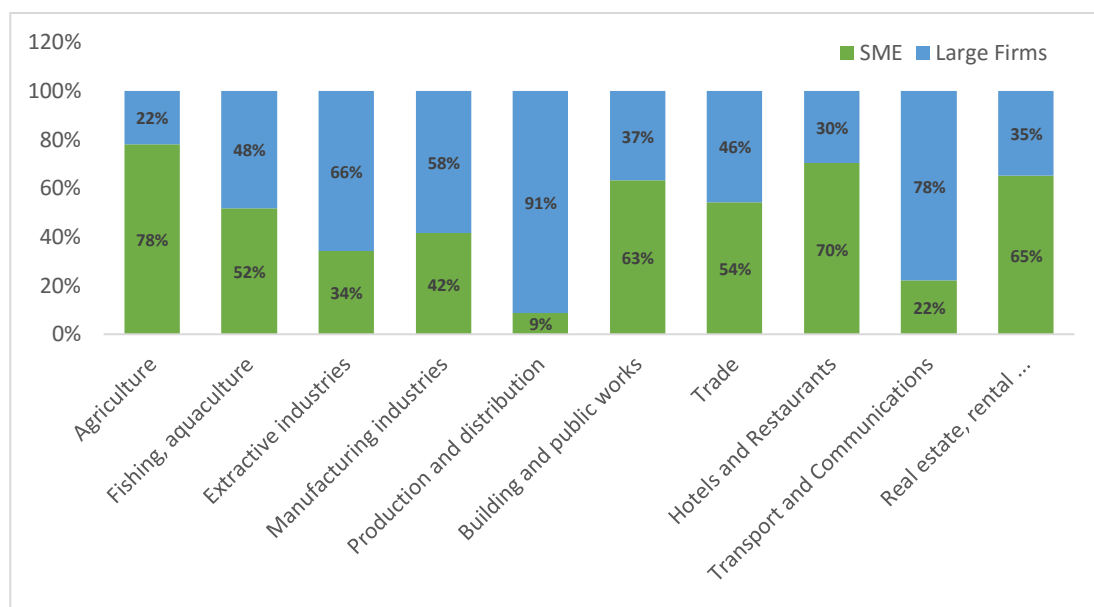
### *SIZE AND SECTORAL DISTRIBUTION OF THE MSME SECTOR*

In Morocco, the private sector is dominated by MSMEs, which represent around 95% of private businesses and contribute 40% of private investment and 30% of exports (Bentaleb and Louitri, 2011). The national institution responsible for the production and dissemination of official statistics, the Haut Commissariat au Plan, does not compile data on MSMEs, making it difficult to have reliable and up-to-date estimates of their contribution to GDP and overall employment, but it is nonetheless broadly acknowledged as being substantial. In particular, the agricultural sector, which contributes to a large share of overall employment, is associated with the predominance of micro and small informal firms.

The absence of an accepted definition further complicates the task of elucidating the magnitude of the contribution of MSMEs to the country's economy and of formulating targeted policies in their support. Maroc PME and the Moroccan General Confederation of Enterprises, the two institutions most involved in supporting the MSME sector, attempted to address the issue by proposing an official definition. The latter takes into account a number of different criteria related to the size, the turnover, the management and the ownership of the firm. However, it has not yet been adopted, notwithstanding the importance of MSMEs was explicitly recognised in the formulation of the Industrial Acceleration Plan 2014-2020.

Figure 18 shows the sectoral distribution of value added by firm size. MSMEs are present in all sectors of economic activity and contribute between a minimum of 9% and a maximum of 79% of the value added, depending on the sector, with the highest shares being found in the manufacturing, tourism and real estate sectors. In the manufacturing sector alone, MSMEs account for almost half of the total 700,000 jobs in the sector, distributed between textiles and clothing (35%), chemicals and para-chemistry (26%), mechanical and metallurgy (12%), and electrical and electronics (3%). Furthermore, MSMEs are predominant in traditional trades of high cultural and social importance (e.g. carpets, leather, traditional sewing) and, most particularly, among individual artisans in urban areas, accounting for 77% of the overall turnover of the sector, compared to 10.5% for individual artisans in rural areas.

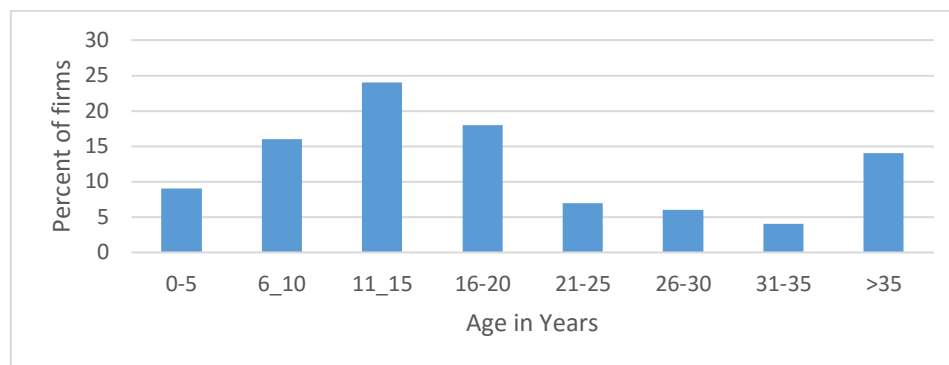
**Figure 18: Sectoral distribution of value added by firm size in Morocco**



Source: INFORISK (2012)

Figure 19 shows the distribution of firms by number of years in activity, which is important considering that a high number of firms do not survive long after establishment, resulting in their contribution to economic variables, such as GDP and employment, not being sustained in the mid-to-long term. The figure shows that firms that have been in existence for less than five years represent almost 10% of the total number of firms, a figure which does not take into consideration informal businesses and might therefore be understated.

**Figure 19: Age distribution of Moroccan firms**



*Source: Morocco country profile (2013)*

### **EMPLOYMENT CONTRIBUTION OF THE MSME SECTOR**

The employment situation in Morocco was assessed in 2014, to prepare the ground for the formulation of the National Strategy for Employment. The assessment shed light on the predominant role of the private sector in providing jobs; 91% in 2011 compared to 87% in 1994. The agricultural sector remains the main provider of jobs in the country but the sectoral distribution of jobs is changing, with employment in the tertiary sector gaining ground on the primary sector.<sup>26</sup> In the assessment, the contribution of MSMEs to the employment figures was not specified, but as previously mentioned, their predominance in the agriculture sector – 70% of the total number of firms according to Figure 21 – suggests a substantial contribution.

The informal sector, where micro and small businesses constitute the overwhelming majority of firms, also contributes substantially to the creation of jobs and plays a major role in absorbing new entrants in the labour market. The Haut Commissariat au Plan recently conducted a survey of the informal sector and found that the informal sector in the country represented 36% of total non-agricultural employment and 11.5% of GDP in 2013.<sup>27</sup> The exclusion of the agricultural sector from the survey suggests that the actual figures are even higher. The quality of the jobs created in the informal sector is low and does not provide access to social protection. Furthermore, the 2012 National Survey on Employment indicates 25% of employees are independent and, thus, less likely to move into formal employment.

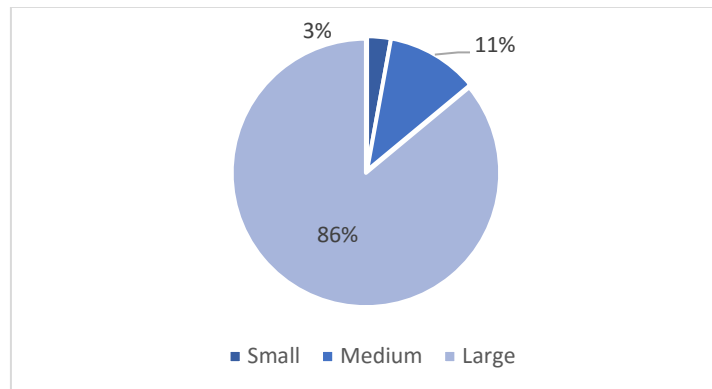
Figure 20 shows that the problem of low quality jobs does not belong exclusively to the informal sector, but is widespread across MSMEs. Only 3% of employees in MSMEs are permanent workers, compared to large firms where nearly 86% are permanent workers. This limits the attractiveness of MSMEs and, most particularly, of entrepreneurship because jobs in both the public

<sup>26</sup> The report of the assessment is available at: <http://www.emploi.gov.ma/attachments/article/433/Rapport.pdf>

<sup>27</sup> See the presentation of survey results available at: [www.hcp.ma/file/183897/](http://www.hcp.ma/file/183897/)

sector and large companies come with more security for new entrants. In this regard, it is important to ensure that labour market regulations are not too stringent and, therefore, prohibitive for MSMEs willing to provide their workers with more permanent arrangements.

**Figure 20: Number of permanent full-time workers by firm size in Morocco**

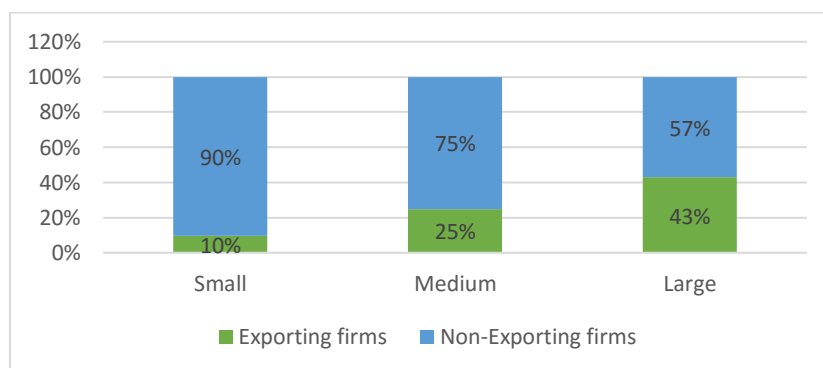


Source: World Bank Enterprise Survey (2013)

### EXPORT CONTRIBUTION OF THE MSME SECTOR

MSMEs reap a number of benefits from internationalisation, including enhanced market access, productivity gains and cheaper import supplies, but they also face a levitation of costs in relation to custom services and trade regulations and export and import licenses, among other things. Figure 21 shows the percentage of firms who export directly or indirectly using an intermediary. Nearly 90% of small firms do not have any exporting activity, while 25% of medium firms and up to 43% of large firms are involved in international trade.

**Figure 21: Export performance of the Moroccan MSME sector**



Source: Morocco country profile (2013)



Moroccan MSMEs face a number of challenges when engaging in international trade, related to the higher costs mentioned above, but also because of substantial difficulties in developing productive interlinkages with the growing number of multinational corporations present in the country. In light of this, a multi-stakeholder initiative involving ministries, chambers of commerce and private sector associations was launched to help potential exporter MSMEs in developing their competitiveness. The initiative foresees, among other things, the establishment of a so-called “guarantee on exports” under the responsibility of the Caisse Centrale de Garantie, consisting of providing the necessary guarantees for banks to grant credit to MSMEs engaged in international trade.

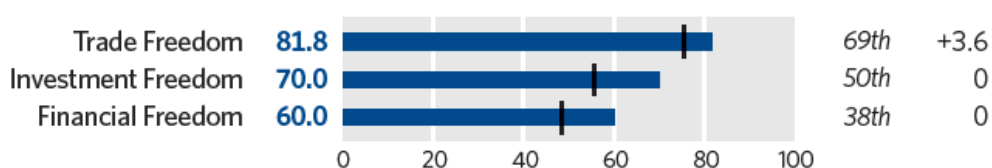
## MAIN CONSTRAINTS TO JOB CREATION IN THE MOROCCAN MSME SECTOR

### BUSINESS ENVIRONMENT

Morocco’s economy remains structurally oriented towards low added-value services and a volatile, weakly productive agriculture. The MSME sector failed to secure the productivity gains needed to gain access and to be competitive in international markets, notwithstanding the possibility of leveraging its proximity to the EU Single Market. It is particularly important to secure such gains, considering the window of opportunity to promote the country as a platform for international investment and trade, represented by its relative stability compared to neighbouring countries.

Morocco receives higher FDI inflows than the regional average; 2.3% in 2016 according to data from the World Bank Development Indicators, with the majority of sectors open to trade. The agriculture sector, closed to FDI and beneficiary of public subsidies, is a notable exception, considering the low productivity and the widespread informality it suffers.

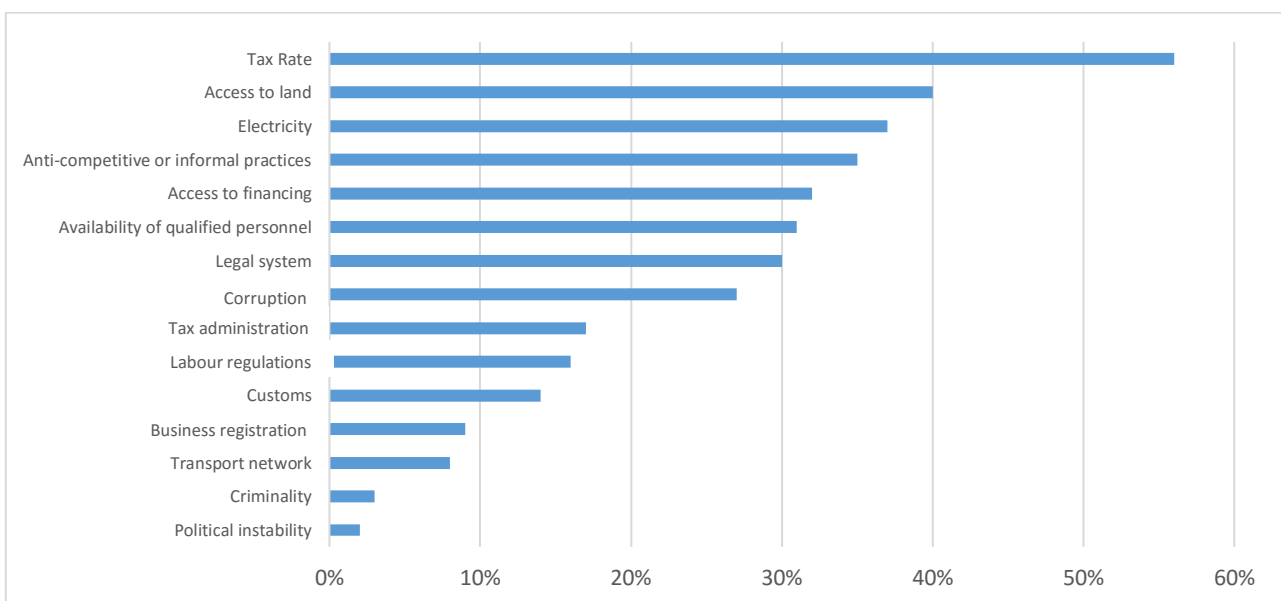
Figure 22: 2016 Index of Economic Freedom for Morocco



Source: Oxford Business Group, 2016

Figure 23 provides an overview of the results of an evaluation of the business environment in Morocco, from the perspective of business owners, conducted by the World Bank in 2012. The results show that tax burden, unfair competition from informal companies, access to financing and availability skills count among the constraints to growth, most notably felt by the businesses interviewed. Interestingly enough, access to land and issues related to electricity also appear among the most keenly felt constraints.

**Figure 23: Moroccan businesses experiencing constraints, as hard or very hard**



*Source: World Bank, Investment Climate Assessment (2012)*

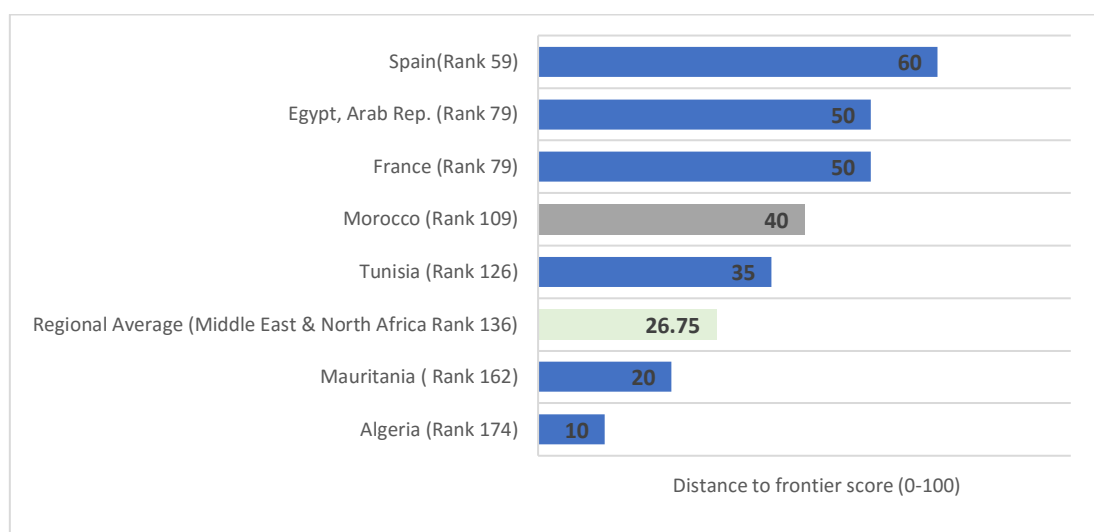
As regards to unfair competition practices, almost half of the businesses mentioned them as a major constraint to their development, pointing at the vulnerability of MSMEs to informal firms and stronger large or foreign firms operating in the market. El Badawi and Loayaza (2008) mention the existence of alternative and informal mechanisms of arbitrage in case of conflict between formal and informal MSMEs, but these offer little protection against abuses.

Other widely acknowledged obstacles related to the business environment, include lacking transparency, lingering corruption and a judicial system susceptible to political influence and interference, something that undermines anti-corruption efforts.

**FIRM MANAGEMENT**

Moroccan MSMEs cannot resort to capital markets as easily as large firms and usually prefer to rely on bank financing. However, the share of credits granted by banks to the private sector that is channelled to MSMEs, is rather low. In 2008, the latter received about EUR 5 billion of the total EUR 28 billion granted in credits to the private sector. That is 18% of the total, according to data of the Bank-Al Maghrib.

**Figure 24: Ranking of Morocco and benchmark economies on ease of getting credit**



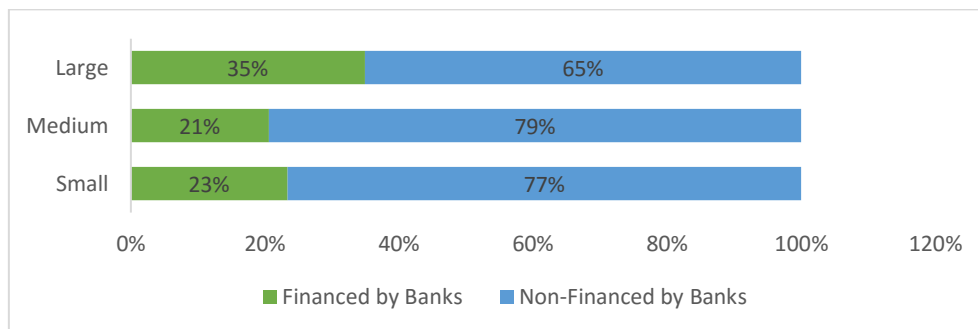
*Source: Doing Business 2016*

Morocco engaged in a series of reforms, aimed at the modernisation of its financial system, but the sector remains in a position where the demand for credit by far exceeds the supply, resulting in banks being very selective in granting credit and often asking for guarantees that are prohibitive to MSMEs. In fact, most banks require creditors to provide prohibitive collaterals, including fixed assets such as real estate, land and machinery. Silva and Benyagoub (2009) argue that MSMEs, especially micro-firms with low capital and human resources, little equipment and or formal land to offer as a form of guarantee, may particularly often fail to fulfil some of these requirements and decide not to go through the application process. In the specific case of real estate collateral, the complex system of land tenure in the country, where ancestral practices and various constraints result in missing registration of real estate assets, does not facilitate the real estate as collateral.

Altogether, these requirements are not just the result of insufficient competition in the banking sector. The conservative and risk averse attitude of banks towards MSMEs is part of the

explanation and constitutes a substantial barrier to access finance for MSMEs. In fact, often entrepreneurs who are eventually granted credit are generally "known" to their bank, attesting to the important role of social capital in the Moroccan banking system and, more broadly, in the economy.

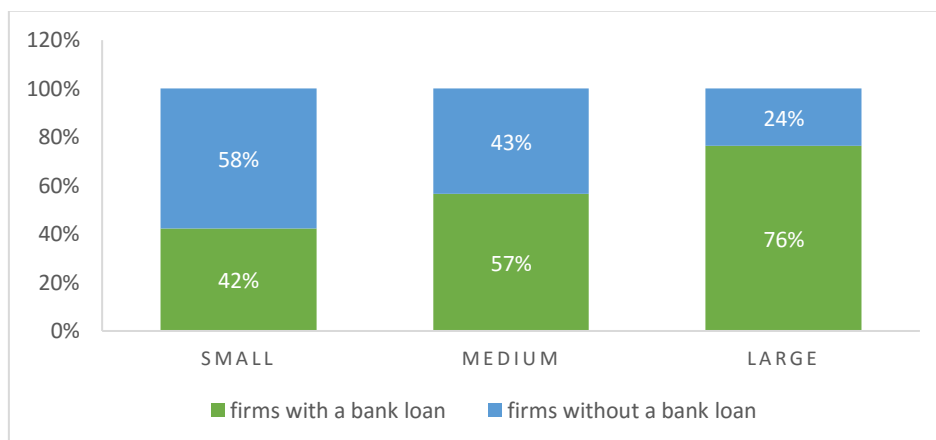
**Figure 25: share of investment financed by banks in Morocco**



*Source: World Bank Enterprise Survey (2013)*

Figure 25, above, shows that bank financing is not the primary source of investment for either MSMEs, or large enterprises. Figure 26, below, shows disparities between the two, with only 42% of small and medium enterprises enjoying access to bank loans, compared to 76% of large enterprises.

**Figure 26: Moroccan firms with bank loans/line of credit by size**



*Source: World Bank Enterprise Survey (2013)*

Regarding the availability of skills, gross enrolment rates in all educational levels experienced a dramatic increase, reaching 69% and 28% in secondary and tertiary education respectively in 2015, compared to 38% and 10% in 2000, according to the World Bank Development Indicators. However, the high rates of unemployment among young graduates suggest that education is not a guarantee against unemployment in the country, hinting at the existence of important skills mismatches.

The majority of students in the Moroccan education system choose to follow studies in social sciences, at the expense of technical sciences, engineering and business, suggesting that they should be provided with opportunities for more diversified orientation in the early stages of their education. At the same time, public spending on education has substantially increased over the past decade, without delivering a better quality of education, as measured by the scores of Moroccan students in international tests.

It is important to develop vocational and educational training, to ensure that young students are provided with the necessary skills and incentives to develop their entrepreneurial skills. The private sector can play a role in creating a bridge between educational institutions and on-the-job training, while leveraging funds to create training centres.

## ACTORS AND POLICIES IN SUPPORT OF THE MOROCCAN MSME SECTOR

### *MOROCCAN INSTITUTIONS INVOLVED IN MSME DEVELOPMENT*

In Morocco, the authorities set up an institutional ecosystem to provide the necessary support for MSMEs, differentiated from larger businesses on account of their higher exposure to hazards related to business environment and market conditions and the resulting higher rates of failures.

The National Agency for the Promotion of MSMEs, Maroc PME, was entrusted with the mandate to coordinate the elaboration, implementation, monitoring and evaluation of MSME policies and to mobilise technical assistance and multi-stakeholder engagement in favour of MSME sector. The National Committee of the Business Environment, bringing together representatives from line ministries and private sector associations, is responsible for identifying measures to strengthen the country's attractiveness for private businesses and investments. The National Human Development Initiative was launched as a methodology of action, aimed at increasing access to basic social services and income-generating activities, for MSMEs operating in both the formal and the informal sector. Regarding the crucial issue of access to finance, the Central Fund of Guarantee was established to provide appropriate responses to the financing needs of MSMEs,

including support for innovation and financial literacy. The Moroccan Institution in Support of Micro Enterprise was mandated to enhance the competitiveness of micro and small enterprises, operating in disadvantaged areas of the country and segments of the population.

The establishment of a structured institutional ecosystem in support of the MSME sector hints at a focus of public action towards the development of the private sector, based on sectoral strategies under the responsibility of given ministries, rather than on developing a comprehensive strategy for the development of MSMEs.

Table 8 provides an overview of the different line ministries and their strategies. The latter are presented in more detail in the next section.

**Table 8: Ministries involved in support to MSMEs in Morocco**

INSTITUTION	STRATEGIES
Ministry of Industry, Trade, Investment and the Digital Economy	<ul style="list-style-type: none"> <li>➤ Industrial Acceleration Plan for 2014-2020</li> <li>➤ “Rawaj” Plan for Trade 2020</li> </ul>
Ministry of Handicrafts and Social Economy and Solidarity	Vision 2015 for the Craft Industry
Ministry of Agriculture and Maritime Fishing	<ul style="list-style-type: none"> <li>➤ “Green Morocco” Plan for Agriculture</li> <li>➤ “Halieutis” Plan for Fishing</li> </ul>
Ministry of Tourism	Vision 2020 for Tourism

*Source: authors*

## MOROCCAN POLICIES IN SUPPORT OF MSME DEVELOPMENT

The Ministry of Industry, Trade, Investment and the Digital Economy brings forwards two distinct strategies, respectively addressing the development of the country’s industrial base and the marketing of the goods produced in domestic and foreign markets. The Industrial Acceleration Plan for 2014-2020 revolves around a number of key measures, including favouring the emergence of productive relationships between large firms and MSMEs and strengthening the contribution of industry to youth employment. The plan also foresees the creation of a fund for industrial development, which primarily targets high-growth businesses and promising sectors, building on the achievements of the National Pact for Industrial Emergence, launched in 2009. The “Rawaj” Plan for Trade 2020 targets the distribution sector, with the aim of improving the conditions for the supply of goods and the living standards of retailers operating in the market, while creating employment opportunities for new entrants.

Morocco has a dedicated ministry to handicrafts and social businesses – the Ministry of Handicrafts and Social Economy and Solidarity – attesting to the importance of the two sectors and their interlinkages for the country’s economy. The Vision 2015 for the Craft Industry aims at

enhancing the access of MSMEs to value chains, distribution channels and market niches, in order to increase their turnover and contribution to employment, which is already substantial. The vision explicitly mentions the issue of informality and sets targets for the formalisation of MSMEs, with a view towards enhancing their internationalisation.

The Ministry of Agriculture and Maritime Fishing is responsible of the implementation of sectoral strategies in two labour-intensive sectors, agriculture and fisheries, where MSMEs are predominant. The “Green Morocco” Plan for Agriculture foresees the creation of six agropoles (Meknes, Berkane, Souss, Gharb, Tadla and Haouz) to enhance the competitiveness of Morocco’s regional agricultural systems. The “Halieutis” Plan for Fishing aims to develop the fisheries sector, based on three strategic pillars. These include ensuring the sustainability of the sector and the resources on which it relies, improving the management of equipment and infrastructure through the establishment of quality control mechanisms and supporting companies in accessing the most promising markets with competitive products.

The Vision 2020 for Tourism implemented by the Ministry of Tourism aims at supporting the dynamism of the tourism sector, following a number of guiding principles. These include shifting to a more integrated approach that recognises and values the diversity of the country’s resources and territories and addresses the structural weaknesses of the sector, whilst mainstreaming sustainability issues.

---

# MICRO SMALL AND MEDIUM ENTERPRISES IN TUNISIA

*Rim Ben Ayed Mouelhi and Monia Ghazali Ferchichi*

**T**his chapter focuses on MSMEs in Tunisia and is divided into three sections looking into structure, constraints and actors and policies inherent within the MSME sector, with an emphasis placed on employment contribution. The first section looks into structural characteristics of the MSME sector and the employment contribution and exporting potential of MSMEs, including some insights into the differentials between domestic and foreign firms and productivity-related matters. The second section looks into the constraints to the growth of MSMEs, in light of the challenges brought about by the 2011 revolution. The third section gives an overview of the national actors providing direct or indirect support to Moroccan MSMEs and briefly discusses MSME policies which have been implemented in the country.

## STRUCTURE OF THE MSME SECTOR

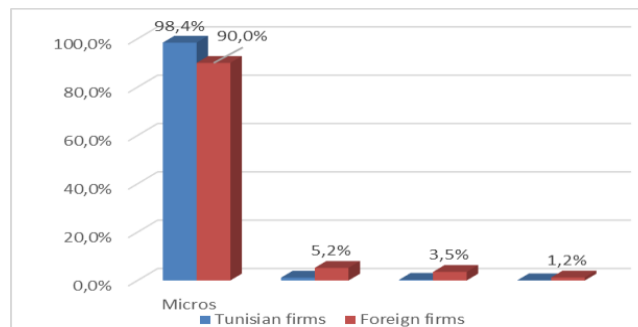
### SIZE AND SECTORAL DISTRIBUTION OF THE MSME SECTOR

In Tunisia, the definition of micro, small and medium enterprises is set by the Registre National des Entreprises (henceforth RNE), the country's business register. Micro firms are those employing less than 10 workers; small firms are those employing between 10 and 50 workers; medium firms between 50 and 200 workers; and large firms more than 200 workers.

Figure 27 shows the distribution of national and foreign firms by size. It shows that micro firms are prevalent even amongst foreign firms. In fact, 90% of foreign firms were micro firms in 2014, compared to the 98% of national firms. These figures are somewhat surprising but converge with the findings of Rijkers et al. (2015), showing that "over the period 1996-2010, one-person firms accounted for approximately 83% of all firms". Micro firms include, among others, those that are no longer economically active, as well as unemployed persons attempting to benefit from social security coverage. Furthermore, micro firms operate mainly in management and engineering consulting activities which do not account for more than 5% of the jobs provided by these firms, whereas large foreign firms cover more than 60% of the employment share.



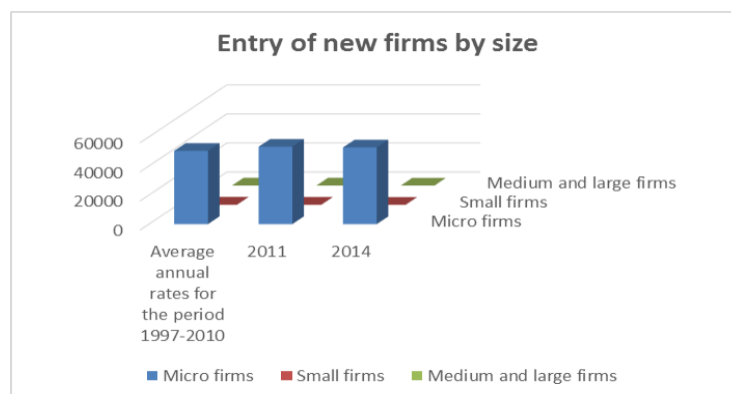
**Figure 27: Distribution of Tunisian and foreign firms by size in 2014**



*Source: own computation using RNE database*

The private sector is characterised by limited upward mobility and limited large firm entry. Figure 28 and Figure 29 show that firms with the highest level of entry and exit over the observation period are micro firms. This figure mirrors the findings of the Tunisia Development Policy Review (2015) of the World Bank, where it is reported that over the period 1996-2010 “aggregate job creation has been highly disappointing and driven mostly by entry of one-person firms, accounting for 74% of all net new job creation”. Inter alia, unemployment stems from limited upward mobility of small start-ups, seemingly unable to grow and the limited entry of firms, in particular large firms. Rijkers et al. (2015) argue that very few enterprises grow and change size of category, even in the long-term, and that firm entry rates in the country are low compared to many developed and developing countries<sup>28</sup>. In fact, only 2% of firms employing between 10 and 50 workers in 1996 employed more than 100 persons by 2010.

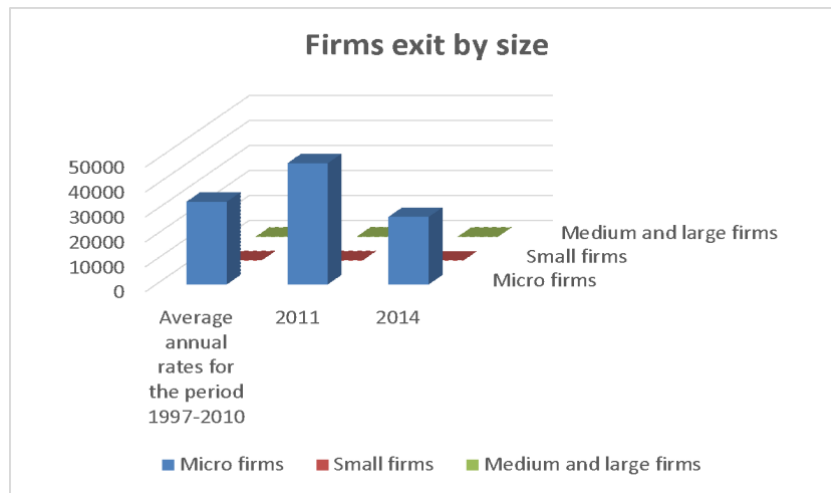
**Figure 28: Entry of firms by size**



<sup>28</sup> The entry rate is defined as the number of newly registered companies per 1000 of working age people. The results are even more striking when the dynamics of large firms are considered.

Source: own computation using RNE database

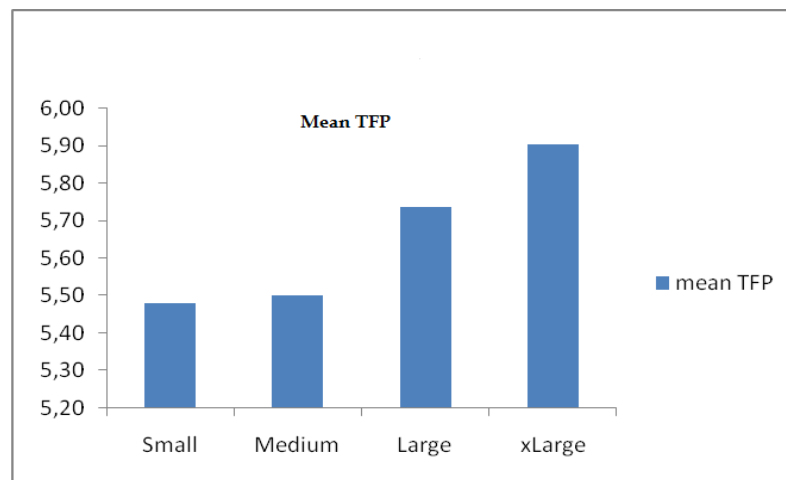
Figure 29: Exit of firms by size



Source: own computation using RNE database

Mouelhi (2012) provides evidence that the distribution of productivity varies according to the firm size. The author uses an unbalanced panel of about 4500 firms, employing more than five persons and operating in the formal manufacturing sector over the period 1997-2007. The extra large and large firms appear to be the most productive, whilst the total factor of productivity in small and medium firms is similar. These results, once again, mirror those of the Tunisia Development Policy Review (2005) published by the World Bank, which shows that the Tunisian private sector is dominated by small and relatively unproductive firms. The World Bank report also points out that firm productivity tends to increase with foreign ownership and offshore status.

Figure 30: Mean TFP by firm size



**Note:** Firms are divided into quintiles depending on their average employment. Firms employing between 6 and 9 workers on average are considered as small firms. Medium firms employ between 10 and 49 workers. Large firms employ between 50 and 199 workers and extra-large firms employ more than 200 persons on average. Mouelhi (2012) uses data from the National Annual Survey report on Firms (NASRF) carried out by the Tunisian National Institute of Statistics (TNIS).

In 2013, a report by the European Central Bank shed light on productivity divergences among firms in the Euro area economy, according to their size. Computing labour productivity as valued added in nominal terms per employee, the report shows that micro firms display the lowest productivity (71% of overall business productivity) while large firms have the relatively highest productivity (131%). The productivity rates of micro firms in Greece, Italy and Portugal are particularly low (around 60% of total business productivity). This divergence in productivity according to firm size might be explained by differences in “labour skills, capital intensity, as well as technological dynamism”.

Unexpectedly, in Tunisia, even the most productive firms fail to grow and to make an effective use of resources. There seems to be no reallocation of resources towards more productive firms, suggesting that productivity and innovation are not rewarded in the country. This is partly related to fears inherited from the Ben Ali regime, under which entrepreneurs were scared of seeing government officials or family members of the president interfering with their businesses. The deliberate choice of remaining small, not recruiting much and limiting capital investments was made to reduce predation risks. It is singular to note how this lack of ambition remained after the revolution. In the annual report of the Tunisian Institute for Competitiveness and Quantitative Studies for 2015, only 45% of firms interviewed declared having made investment in 2014, against 47% in 2013 and 55% in 2012. Furthermore, only 37% of firms which had invested in 2014 had initiated modernisation of their production equipment. This behaviour is most likely related to

---

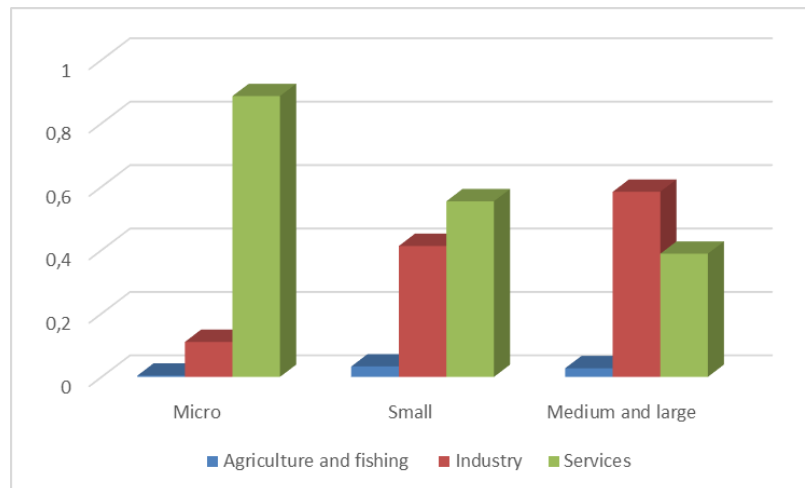
actual or perceived political instability and insecurity, as well as institutional barriers and distorted incentives. Overall, most sectors exhibit average annual productivity growth rates of less than 1%.

Tunisian large firms are the most innovative. The results of a competitiveness survey conducted in 2014 by the Tunisian Institute of Competitiveness and Quantitative Studies show that 50% of large firms engaged in innovation, along with 44% of export-oriented firms and 80% of firms with a R&D department. Innovations concerned organisational changes (26% of the total), procedures (18%), marketing (18%) and product procedures (14%). That said, achievements in innovation have been decreasing since the revolution, decreasing from 70% in 2010 to 51% in 2013 and 39% in 2014.

The report of the Tunisian Institute of Competitiveness and Quantitative Studies highlights the broad variety of mechanisms supporting innovation in Tunisia. These include, besides the Higher Council of Scientific Research, technological parks, business incubators and research centres. According to Thomson Reuters, Tunisia is the country amongst SEMCs with the highest number of scientific and technical publications per million inhabitants, with the number of researchers per million inhabitants averaging 1900, compared to 1131 in Egypt and 1016 in Morocco. That said, in the 2012 report of the African Development, the insufficient contribution of R&D activities to the Tunisian economy is pointed out. The US Patent and Trademark Office and the EU Patent Office granted only seventeen international patents to the country in the period between 2001 and 2010, compared to the 22 granted to Morocco. Furthermore, only 5% of total exports in 2012 displayed a high technological content, against 18% for Morocco.

Elelj (2012) explores the impact of a set of innovation determinants amongst Tunisian firms, using a sample of 586 manufacturing firms surveyed by the Tunisian Ministry of Scientific Research, Technology and Skills Development over the period 2002-2004. The results provide evidence of the positive contribution of R&D, size and cooperation with universities, research centres, and foreign organisations focussed on innovation. The study points out that middle to low technologically intense firms are more motivated to innovate and that, in most cases, managers hamper the innovation process, limiting their activities to operational tasks. Interestingly enough, innovation seems to be negatively correlated with FDI and export intensity, most likely because the firms under scrutiny mainly operate as subcontractors or affiliates. Furthermore, the author underlines that research in Tunisia is mostly carried out by public sector institutions, something that is not surprising given the prevalence of small family-owned firms in the private sector. The country suffers from little inter-connection between public research and the productive sector.

**Figure 31: Distribution of Tunisian firms by activity and by size in 2014**



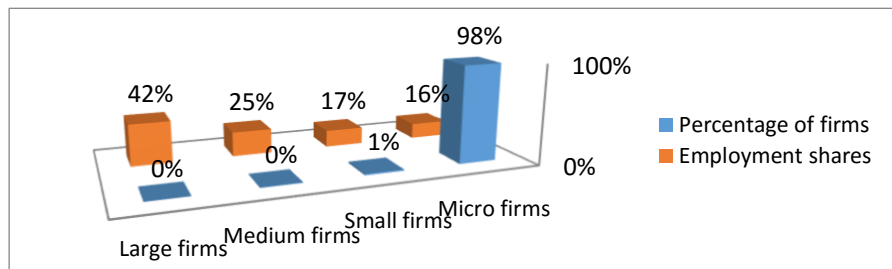
*Source: own computation using RNE database*

Figure 31 above shows the distribution of Tunisian firms by activity. It appears that medium and large firms are mainly operating in industry (58%), while most micro and small firms operate in the tertiary sector (respectively 89% and 56%).

### **EMPLOYMENT CONTRIBUTION OF THE MSME SECTOR**

In 2013, the private sector contributed up to 72% of national GDP and employed 30% of the working population, that is, one million Tunisians. The rate of private investment remained low, around 15% of GDP, compared to the more dynamic and emergent Asian economies (Zitouna and Ghali, 2016). Micro firms, accounting for approximately 98% of all firms, dominate the private sector. Figure 35, below shows that the firm size distribution is biased towards micro firms which, in turn, absorb only 16% of total employment. In turn, large firms employing more than 200 workers, account for only 0.1% of all firms but absorb 42% of total employment. Overall, medium or large firms with more than 50 workers account for more than 50% of total employment.

**Figure 32: Employment shares of Tunisian firms in 2014 by size**

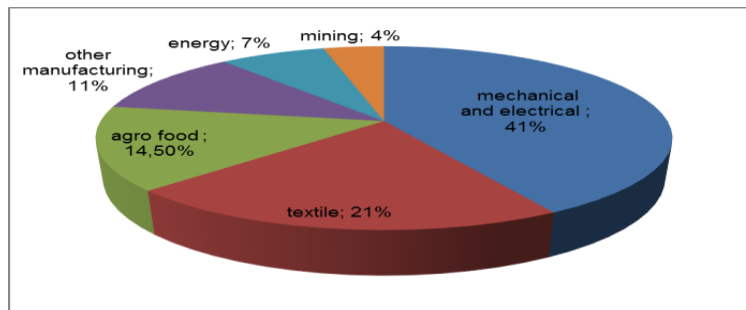


Source: own computation using RNE database

### EXPORT CONTRIBUTION OF THE MSME SECTOR

The Tunisian manufacturing sector, mainly composed of private MSMEs, is the major contributor to exports in Tunisia. It contributed up to 76% of total exports of goods in 2015, according to the computations of the National Institute of Statistics. The best performing sub-sector, is represented in Figure 33 by the mechanical and electrical industries (41%), followed by the textile industries and the agri-food industries (including agriculture goods). Offshore companies' export performance (68%) is better than that of on-shore companies.

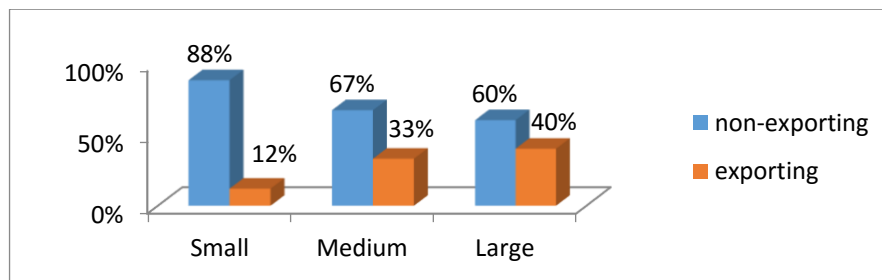
**Figure 33: Sectors shares in total goods exports in 2015**



Source: own computation using INS data.

Meanwhile, large and medium firms achieve better results than small ones, in terms of exports. As shown in Figure 34, 88% of small Tunisian firms are not involved in export activities, whilst 33% of medium sized enterprises, as well as 40 % of large companies, are exporters.

**Figure 34: Tunisian export performance by firm size in 2015**



Source: own computation using RNE database

## MAIN CONSTRAINTS TO JOB CREATION IN THE TUNISIAN MSME SECTOR

### BUSINESS ENVIRONMENT

In Tunisia, 54% of firms consider political instability to be a major obstacle to their growth. Managers and entrepreneurs adopted a “wait and see” attitude since the outbreak of the revolution in 2011, resulting in 41% of firms not investing in 2014 and pointing to political troubles as the main reason for their cautious management. The rather grim security situation in the country is considered the second most important obstacle to the development of firms operating in services, with thefts, road blockages, fires and ransacking in 2011 and 2012 and terrorist acts since 2013 translating into consequences ranging from the suspension of activity to a decrease in investments. Unfair market practices include unfair competition, fiscal evasion and informal networks, as well as low prices. The results of surveys, conducted by the Tunisian Institute of Competitiveness and Quantitative Studies in 2013 and 2014, show an aggravation of such practices after the revolution. In 2014, 37% of firms interviewed considered unfair competition as a major obstacle to business, set against 43% in 2009.

In 2016, the Doing Business annual report ranked Tunisia 74th among 189 countries, according to the composite indicator measuring the ease of doing business. These reports, published by the World Bank, present comparative statistics about the business environment in 189 economies and analyse the evolution of regulations enhancing or constraining business activity. This ranking uses information covering ten areas of business regulation: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. Doing Business reports usually also measure labour market regulations, not included in the ranking for 2016. Table 9 shows that Tunisia lost its position in five areas since the pre-revolution period.

**Table 9: Tunisia ranking among 189 countries**

CRITERIA	2010	2016
Ease of doing business	69	74
Starting a business	47	103
Dealing with construction permits	107	57
Getting electricity	-	38
Registering property	59	86
Getting credit	87	126
Protecting investors	73	105
Paying taxes	118	81
Trading across abroad	40	91
Enforcing contracts	77	81
Closing a business	34	57

*Source: World Bank's Doing Business report (2010 and 2016)*

According to the Doing Business report for 2016, Tunisia is ranked 105<sup>th</sup> among 189 countries with regard to “protecting minority investors”, the criterion measuring the degree of minority shareholders’ rights in related-party transactions and in corporate governance. The country lost 56 places between 2010 and 2015 as far as the “starting a business” criterion is concerned, now ranking 103<sup>th</sup> – way behind Morocco (54<sup>th</sup>). This criterion measures the number of procedures, time, cost and paid-in minimum capital required to start a business. The number of procedures (10) and the number of days (11) for the creation of a firm in Tunisia remain above the average recorded in OECD countries (5 and 9 respectively). Tunisia also ranks poorly (91<sup>th</sup>) in “trading across abroad”, criterion measuring the time and cost of exports and imports.

The report of the International Monetary Fund points out the ineffectiveness of public institutions when it comes to ensuring transparency and accountability. “Tunisia performs poorly, below comparable peers, on corruption, property protection, and judicial independence. Regulatory barriers and anti-competitive practices through excessive requirements for approval, prohibition of investment in certain sectors hamper the private sector development”.<sup>29</sup> The report shows that the country’s labour market regulations are among the most rigid among the SEMCs. The 2014–2015 Global Competitiveness Survey ranks Tunisia poorly on labour market efficiency, 129<sup>th</sup> out of 144 countries, mostly because of rigid wage determination and hiring and firing practices, as well as lack of employer-employee cooperation. These stringent labour regulations lead to informality and low-skilled jobs: “firms unable to meet those regulations slip into informality or keep the labour size

<sup>29</sup> Extract from p.10 of the IMF Country Report 2016, *Tunisia's Growth Potential: Recent Trends, Constraints, and Opportunities for the Future*, N16/47: February).



---

under certain limits. Tunisia has the lowest number of large firms compared to most of its North Africa peers such as Morocco and Egypt<sup>30</sup>.

To conclude, the Tunisian Institute for Competitiveness and Quantitative Studies observes that the opinion of managers about taxation (level of taxation, relationship with fiscal administration, etc.) improved between 2012 and 2013, at least partly as a result of the tax reform initiated in 2014. Their report brings to light other phenomena having a negative impact on the business environment - such as nepotism, tax evasion, bribery or falsification – reporting that 42% of the firms interviewed consider that these elements have worsened since the revolution.

Institutions most affected by corruption are customs administration, public offices in charge of providing authorisation for construction, water, electricity and control and inspection administrations (taxes, health and hygiene, safety). On the other hand, only 26% of managers interviewed perceive corruption as a severe obstacle to business. This figure contrasts with evidence provided by Ayadi and De Groen (2014), who argue that corruption and informality are the most important constraints faced by MSMEs in the country, to the extent that they lead to an increase of costs, uncertainty and unfair competition for formal enterprises.

Many barriers and restrictions to entry dampen competition in Tunisia, particularly in State-monopolised activities, such as public utilities (water, electricity, gas, railways, etc.), as well as within “conventional private sector-areas” where the State is also highly involved, such as telecommunications, air transport, cereals, sugar and tobacco (World Bank, 2013). In addition to that, the Tunisian government controls and fixes the prices of a large number of basic need goods such as sugar, bread and rice. This lack of competition has exerted a negative impact on the productivity of firms and generated high prices for companies and consumers, particularly in telecommunication services (Amri and Mouelhi, 2013).

The new code of investment, adopted by the chamber of deputies at the end of 2016, is planning a set of measures to free up the initiative and to promote the entry and exit of firms in most activities, leading to higher competition. Coming into effect at the beginning of April 2017, this new code of investment is expected to drive more competition and to force firms with low productivity to upgrade or to exit, leading to productivity gains at an aggregate level.

## **FIRM MANAGEMENT**

Tunisia is ranked very poorly in the Doing Business report, according to the criteria "getting credit", namely 126<sup>th</sup> out of 189 countries in 2016, with a continuous deterioration since 2010. This confirms the fact that access to finance is one of the major constraints for the creation and

---

<sup>30</sup> Extract from p.11.

development of firms in the country, where the private sector is mostly composed of micro businesses that are struggling to grow.

As regards to bank financing, the results of a survey run by the Tunisian Institute for Competitiveness and Quantitative Studies shed light on a Tunisian paradox: 55% of interviewed firms declared that they have contracted a loan, a relatively high rate compared to the averages of neighbouring countries (Egypt 6%, Turkey 40%, Morocco 50%), but 27% of managers consider access to bank financing as a major constraint (against 25% in 2009). In addition to that, 40% of them point the finger at the cost of credit (against 43% in 2009). The survey also provides evidence that in 2012, as in pre-revolution years, firms suffer from excessive guarantees requested by banks. The problem with financing reveals a serious shortcoming for these firms, to the extent that the number of firms seeking to finance operating expenditures (42%) is more of a priority than the number of those concerned with investment projects (38%).

In the 2016 country report of the International Monetary Fund, it is shown that access to finance for domestic firms is limited by credit rationing from domestic banks, partly due to the lack of an appropriate and effective legal framework and the related increase of risk perceived by banks. For example, the bankruptcy law, combined with a weak judicial system, prevent banks from recouping collateral from delinquent loans in a systematic and timely fashion.

The annual survey conducted by the Tunisian Institute of Competitiveness and Quantitative Studies on 1200 firms in Tunisia, highlights the unavailability of suitable candidates, the lack of operational diplomas and related long traineeships and the high absenteeism rate, especially among export oriented MSMEs, as constraints dampening their growth perspectives.

## ACTORS AND POLICIES IN SUPPORT OF THE TUNISIAN MSME SECTOR

### *TUNISIAN INSTITUTIONS INVOLVED IN MSME DEVELOPMENT*

The main public administrations involved in the elaboration of policies in support of MSMEs are the Ministry of Training and Employment and the Ministry of Trade and Tourism at a national level and the Regional Development Offices at a regional level. On the private sector side, the main actors influencing the elaboration of such policies through lobbying activities are the Chambers of Commerce, which contribute to the promotion, market expansion and internationalisation of private businesses, together with the Industry, Trade and Handicrafts Federation, the main representative body for the private sector in negotiations and social dialogue.

The Ministry of Training and Employment and subordinated offices, such as ANETI and Espace Entreprendre, are mandated to provide guidance, assistance and training to small business promoters. The National Handicrafts Office and the National Office of Tourism, both under the responsibility of the Ministry of Trade and Tourism, are tasked to coordinate the development of their respective sectors of competence, in which MSMEs are widespread. The Regional Development Offices, operating under the supervision of the Ministry of Economic Development, are mandated to boost the economy of disadvantaged areas in the three development regions where they are located.

Table 10 provides an overview of the agencies involved in the implementation of policies targeting the MSME sector and the provision of support and accompanying services for MSMEs. These include a number of institutions involved in the promotion of investment and the provision of financing.

**Table 10: Tunisian institutions involved in the implementation of MSME policies**

INSTITUTION	MAIN AIM
<b>Industrial Investment Promotion Agency</b>	<i>Promoting private investment through a range of services offered to promoters willing to start a business in industry or industry-related services.</i>
<b>Agricultural Investment Promotion Agency</b>	<i>Same mission as the Industrial Investment Promotion Agency but oriented towards the agricultural sector.</i>
<b>Foreign Investment Promotion Agency</b>	<i>Promoting foreign investment in the country by providing a series of services to foreign investors.</i>
<b>Head Office of SMEs Promotion</b>	<i>Providing necessary services to investors willing to launch their projects including support with legal, tax, financial and commercial operations.</i>
<b>Science Parks of the Higher Education and Scientific Research Ministry</b>	<i>Integrated areas equipped with modern information networks, technological activities and R&amp;D centres.</i>
<b>UTICA-CONNECT</b>	<i>Organisations of employers organising promotional activities and networking events for employers and entrepreneurs.</i>
<b>Arab Institute of the Business Managers</b>	<i>Group of private entrepreneurs promoting the private sector by identifying and addressing constraints to its development and fostering networking and exchange of practices.</i>
<b>Tunisian Solidarity Bank</b>	<i>Bank specialising in financing small projects through direct funding or through microcredit associations.</i>
<b>MSMEs Funding Bank</b>	<i>Bank financing the creation and expansion of MSMEs and supporting promotion in the different phases of project implementation.</i>
<b>Risk Capital Investment Companies</b>	<i>Strengthening firms' ownership fund with a special focus on companies contributing to regional development.</i>
<b>Private and associative structures of microfinance</b>	<i>Providing loans to people excluded from the formal financial system.</i>

*Source: authors*

Tunisia is also benefitting from the emergence of several private company networks, such as the Europe Enterprise Network Tunisia coordinated by the European Commission or Diamed, a network launched as a CONECT initiative and targeting members of the diaspora. These networks allow private companies to benefit from technological and commercial opportunities and have achieved significant results in the promotion of trade and relations between Tunisian companies and their European counterparts. For example, several capacity-building training sessions were organised under the auspices of the Diamed network to encourage members of the diaspora to invest in their home countries.

### **TUNISIAN POLICIES IN SUPPORT OF MSME DEVELOPMENT**

In 1996, a ten-year long upgrading programme was launched to help 1600 MSMEs innovate their technologies and enhance their competitiveness, at an approximate cost of EUR 4 billion. In 2000, the Fund to Access Export Markets was implemented, with the aim of financially supporting the export business plans of small firms. Other programmes, such as the Programme of Incentives for Creativity and Innovation in the ICT Sector and the National Programme of Research and Innovation, were initiated to favour the emergence of innovative MSMEs. The Tunisia Development Policy Review (2015) highlighted how these public subsidisation programmes were carried out, without conducting any rigorous assessments of their scope and usefulness, underlining the importance of developing monitoring and evaluation systems to ensure the effectiveness of policy interventions.

The recognition of the importance of cluster policies for the development of MSMEs has led to the creation of a number of technological parks, areas of competitiveness and so-called *pépinières* to encourage synergies between large companies, new entrepreneurs and higher education institutions and to provide training and assistance to small and innovative enterprises. Tunisian small entrepreneurs benefitted from an increased interest of international donors following the 2011 revolution, with actors such as the Qatar Friendship Fund and the German Cooperation Agency providing high value added MSMEs with strategic assistance and financial support, further reinforcing existing partnerships for the development of the sector.

## CONCLUSIONS

**T**he analysis of the current state of affairs in the MSME sectors of Egypt, Jordan, Morocco and Tunisia, overviewed in the first chapter of the study and detailed in the subsequent chapters, enables the extrapolation of a number of conclusions for the region as a whole.

The absence of an accepted definition of MSMEs between the four countries under investigation and, perhaps more importantly in most of them, makes it difficult for policy makers to target the MSME sector with effective policies, informed by evidence collected and research conducted at the appropriate level of analysis. In the absence of a definition, it is particularly complicated to look more deeply into important issues, such as what differentiates high-growth MSMEs with the potential to develop into large firms, from subsistence firms established by their owners in response to a lack of alternatives.

This last point is particularly important, considering that MSME sectors in the countries under investigation are dominated by micro firms, most of which were established for subsistence reasons and consequently with low growth potential. These micro firms often take the decision to remain informal in order to avoid a number of administrative hurdles and costs that they are not willing or able to sustain, something that in turn further hinders their growth potential. In this sense, the dominance of micro firms, and especially the range of factors underlying their establishment as a subsistence solution, can be considered as the main determinant of widespread informality in the region.

The unfair competition from informal firms operating in the market and, in some cases, from large firms advantaged by government-induced market distortions, is just one among many barriers facing the development of MSMEs in the region. The main and well-documented barrier is access to finance, dramatically lacking for MSMEs in the four countries under investigation, notwithstanding these are responsible of the majority of credit applications. Several factors explain this lack of access, ranging from financial markets skewed towards government borrowing and large firms, to limited financial literacy amongst MSME owners. The other main barriers usually relate to cumbersome and opaque administrative procedures. The public sector has a responsibility and is in the position to act in respect of both of these main barriers, but the absence of national, comprehensive strategies to develop the private sector and to support MSMEs in their development facilitate their persistence.

The absence of comprehensive strategies at a national level goes hand-in-hand with the multiplication of actors and policies responsible for supporting and guiding MSMEs throughout the different stages of their development. This multitude of actors and policies should be subject to overall coordination and systematic assessment, in order to lead to tangible positive results. Hence, national assessments are needed to inform of comprehensive strategies in support of the MSME sector, as part of a bigger picture and not in isolation from broader economic reforms, which aim to develop a thriving private sector that can benefit from sound market conditions and a pro-active business environment.

The aim of this study was to identify a number of areas for further investigation, crucial for the perceived potential to enhance, and more pertinently, to unlock the potential for employment creation amongst MSMEs and, their relevance in the making of effective policies to address the unemployment crisis facing the SEMCs. The areas identified include entrepreneurship, informality and social business and global value chains.

Entrepreneurship has long been considered a prime driver of economic growth and a catalyst for employment creation. Schumpeter (1934) first highlighted the crucial role of entrepreneurs in the process of creative destruction driving economic development. McClelland (1968) eloquently argued three decades later that developing countries do not require a hundred outstanding politicians or economists but a hundred outstanding entrepreneurs instead. Gibb and Li (2003) further stressed the same idea, shedding light on the central role of entrepreneurs in the outstanding development of the Chinese economy. More recently, Nallari et al. (2011) brought evidence of a strong positive correlation between entrepreneurship and employment growth in a large international comparison.

SEMCs are characterised by a relatively low rate of entrepreneurial activity, compared to benchmark market economies. Gatti et al. (2014) identified it as the reason explaining why sustained economic growth did not translate into the creation of an adequate number of jobs in the region and why informal jobs proliferated. This very fact calls for further research into how to create an environment that is conducive to entrepreneurship and how to unlock its potential to lift the young out of unemployment and to prevent young graduates from becoming unemployed after completing their education. In particular, this research should focus on issues related to the link between behavioural aspects of entrepreneurship and growth prospects of MSMEs, an area recognised as crucial for small entrepreneurial firms to thrive yet still understudied.

Informality is widespread in the economies of the four countries under investigation and should, therefore, be a primary concern of any initiative targeting private sectors and, most particularly, MSMEs across the region, considering that this is a phenomenon largely related to the proliferation of subsistence micro businesses. In 2011, the World Bank conducted an important

---

study on informality in the SEMCs, comparing countries with abundant labour and natural resources with countries poor in natural resources and with relatively lower, but nonetheless important unemployment rates. The results show that in the former countries, including Jordan, Morocco and Tunisia, a relatively lower share of the labour force is employed informally, between 45% and 65%, but that they generate a larger share of output, between 35% and 40%, compared to the latter countries. Informality is a difficult topic to research and target with adequate policies incentivising formalisation, considering that by definition informal businesses operate in the shadows, out of reach from public intervention and official statistics.

Interesting developments could arise with the emergence of social businesses across the region.<sup>31</sup> These businesses are not exclusively motivated by profit-making and, therefore in principle, are more aware of a range of problematic issues related to informality, such as lower protection for their employees, possibly translating into a higher propensity towards formalisation. The concept of social business is relatively new and its theoretical underpinnings have not been adequately explored so far, resulting in a lack of an accepted working definition and little clarity as to the actual contribution this type of business could give to the creation of high quality formal jobs, among other things. In some of the countries under consideration in this study, the principles of the “économie sociale et solidaire”, community-oriented economy, were introduced to compensate for this lack of definition. However, these principles revolve around state intervention more than market incentives, possibly limiting the viability of social businesses in a market economy. Further research would enable the devising of an alternative conceptualisation of social business and policies, more appropriate to supporting their emergence in market economies across the region.

Finally, the internationalisation of MSMEs and their integration in global value chains, most notably through the establishment of productive linkages with larger domestic companies already involved in such chains, is a topic of great importance in today's increasingly if not intrinsically globalised marketplace. Integrating global value chains means benefitting from knowledge transfers, productivity gains and access to larger markets, elements that are all crucial for the development of MSMEs and, therefore, to unlocking their potential for employment creation.

Global value chains are an emerging field in economic studies and, as such, suffer from a shortage of data and a number of challenges in the definition of a conceptual approach, as highlighted by Eurostat. The World Bank (2017) recently published a study setting the standard for

---

<sup>31</sup> For a comprehensive discussion on the topic, including country chapters focused on Algeria, Morocco and Tunisia and policy recommendations for Euro-Mediterranean cooperation, see the report “L'économie sociale et solidaire au Maghreb: quelles réalités pour quel avenir?” published by the Institut de Prospective Economique du Monde Méditerranéen (IPEMED). The report is available at the following address: <http://www.ipemed.coop/fr/publications-r17/collection-construire-la-mediterranee-c49/leconomie-sociale-et-solidaire-au-maghreb-quelles-realites-pour-quel-avenir-a2157.html> (in French).



research on global value chains and their impact on economic development. The study sheds light on the transformation of trade, brought about by the emergence of global value chains, while arguing for the importance of maintaining an international system of open trade, whilst lowering non-tariff barriers preventing certain countries and companies within countries from reaping the benefits of these development. In fact, only a limited number of developing countries have deeply integrated global value chains and small firms often face prohibitive difficulties in doing so. Further research on the topic should greatly benefit efforts to support of the internationalisation of MSMEs.



## ANNEXES

### ANNEX A: EXAMPLES OF EU PROGRAMMES IN SUPPORT OF MSME DEVELOPMENT IN EGYPT, JORDAN, MOROCCO, TUNISIA

COUNTRY	PROJECT	DURATION	BUDGET	DESCRIPTION
Egypt	MID-CAP Fund	2017-	€13 million	This project consists of an equity participation in the Egypt Mid-Cap Fund, a generalist private equity fund targeting capital investments in Egyptian MSMEs with above average growth rates.
	Assistance Programmes for Sustainable Economic Development	2016-	€420 million	Egypt and the EU agreed on two assistance programmes consisting in the provision of around EUR 420 million aimed at improving the conditions for business creation and facilitating access to finance for MSMEs.
	Private Sector Support	2016-	€500 million	This programme consists of a loan for MSMEs operating in eligible industrial and services sectors of the Egyptian economy.
	EBE SME and MID-CAP Loan	2016	€27 million	This loan targets Egyptian MSMEs and is guaranteed by the European Investment Bank and channelled through the MID-CAP fund.
	Private Sector Development and Economic Growth	2015-	€160 million	The programme is intended to provide credit lines, long-term funding and foreign currency loans to the Egyptian banking sector with the overall goal of financing MSME projects and so promoting economic growth and employment in the Egyptian private sector.
Jordan	Support to Private Sector Development in Jordan	2017	€6 million	Improvement of technical and management capability of Jordanian MSMEs.
	Skill for Employment and Social Inclusion Programme	2014-2020	€52 million	Increasing the number of people in education including people with disabilities and enhancing the role of civil society organizations in promoting employment and human resource development.
	Action Programme	2014-2017	€135 million	Increasing income and employment, promoting women and youth economic and social inclusion and facilitating economic development in disadvantaged regions.

	Promoting Financial Inclusion	2014-2019	€35 million	Implementing the national microfinance strategy and developing the national financial inclusion strategy.
<b>Morocco</b>	SPRING Programme on Employment and SMEs	2013-2017	€40 million	Support for the reforms undertaken by the Moroccan government in the fight against unemployment and promotion of employment in MSMEs.
	Growth and Competitiveness Programme	2016-2021	€105 million	Supporting the competitiveness and growth of Morocco with an emphasis on sustainable development, decent jobs and shared economic growth.
	Professional Training Programme	2016-2021	€60 million	Supporting the reform of the vocational training system in its ambition to strengthen human capital for sustainable, inclusive, participatory growth, with particular attention to populations excluded from all forms of training and qualification.
<b>Tunisia</b>	Programme de Mise à Niveau	1995-2009		The programme was intended to help Tunisian firms in competing with their European counterparts after the implementation of the Free Trade Agreement with the EU in 1996. The programme was limited to manufacturing industries and targeted three sectors: textiles and clothing, food industry and mechanical and electrical industry.
	Programme d'Appui à la Compétitivité des Entreprises et à la Facilitation de l'Accès au Marché	2011-2016	€23 million	The programme aimed at implementing good practices in production processes, including their monitoring and achieving better quality of the goods produced, with the overall goal of enhancing the productivity and competitiveness in the manufacturing sector. The programme also aimed at helping Tunisian companies meet the regulatory standards required to access the EU single market among other international markets.
	Programme d'Appui à la Compétitivité des Services	2012-2020	€20 million	The programme aims at strengthening the service sector and setting the ground for market liberalisation and integration in the Euro-Mediterranean. The programme targets health services, information and communication technologies, transport and logistics, professional services provided to business, tourism and craft services.
	Projet d'Appui au Système de Recherche et de l'Innovation	2010-2014	€20 million	This project aims at improving the contribution of research and innovation in the socio-economic development and job creation in Tunisia, by means of reinforcing the link between research and production systems. It also provides technical assistance to companies for the establishment of an innovation management system, the training of innovation managers and the realisation of innovation projects.

## ANNEX B: EXAMPLES OF OTHER DONOR PROGRAMMES IN SUPPORT OF MSME DEVELOPMENT IN EGYPT, JORDAN AND MOROCCO

COUNTRY	DONOR	PROJECT	DURATION	BUDGET	DESCRIPTION
Egypt	UNIDO	Support to the Development of Culture and Creative Industries and Clusters in the Southern Mediterranean	2013-2016	€5.5 million	The project aims at creating a conducive and sustainable environment for MSMEs, developing a series of intermediary organisations supporting the development of MSMEs and fostering entrepreneurial cooperation in the cultural and creative industries.
	CIDA	Business Development Services Support Project			The objectives of the project aim at developing non-financial services for Egyptian MSMEs, in collaboration with a range of actors including business owners, youth and investor associations, local universities, non-governmental organisations and government ministries and agencies, with a particular emphasis on marginalised groups, namely women and the young.
	CIDA and IDRC	Small and Medium Enterprise Policy Development Project			This project aims at the establishment of a more coherent policy framework through short-term policy development and building the longer-term capacity of the Egyptian government to support MSME development.
Jordan	USAID	US Tourism Project	2006-2011	€335,000	The project objective is to support the Jordan Tourism Board in increasing the competitiveness and the employment contribution of the tourism sector by diversifying and improving services, products and related skills.
	JICA	Japan Government Loan	2016	€278 million	The loan aims at supporting the development of the private sector in Jordan and establishing relationships between private sectors in Jordan and Japan.
	JICA	Japan Government Grant	2016-2018	€15.2 million	The grant aims at supporting the development of MSMEs and, in particular, buying equipment and facilities for those providing assistance to Syrian refugees.
	UNESCO	Education Projects	2017-		The three projects launched aim at providing essential education and training opportunities for Jordanians and Syrian refugees in the country.
	UNDP	Mitigating the Impact of Syrian Refugees Crisis on the Jordanian Vulnerable Host Communities	2013-	€10.5 million	The project aims at creating short-term employment opportunities for Syrian refugees in the north of the country.
Morocco	GIZ	Sustainable Economic Development			The programme is meant to assist Morocco in creating and safeguarding jobs, with a particular focus on youth employment, and developing the MSME sector.

---

## REFERENCES

- Acs, Z. and Audretsch, D. (1990), *Innovation and Small Firms*, MIT Press, Cambridge, MA.
- Alshyab, N. (2012), *Rent, Rentierism and the Challenge of Economic Reforms: The Case of Jordan*, Shaker Verlag.
- Alshyab, N. and Al Khasawneh, R. (2014), "The Impact of the Arab Spring on Remittances Flows to Jordan", in Alkhawaga, A., Belakhdar, N., Eickhof, I., Elkhawaga, O., Hamada, A., Harders, C. and Sandri, S. (eds), *Arab Revolutions and Beyond: Change and Persistence*, Center for Middle Eastern and North African Politics, Working Paper No. 11.
- Al Shaikh, F. (2013), Opportunities and Challenges of Entrepreneurship in Developing Countries: The Case of Jordan, *Journal of International Business and Entrepreneurship Development*, 7:2, pp. 163-178.
- Amri, F. and Mouelhi, R. (2013), Productivity Growth and Competition in Tunisian Manufacturing Firms, *Région et Développement*, No. 37.
- Angel-Urdinola, D.F. and Tanabe, K. (2012), *Micro-Determinants of Informal Employment in the Middle East and North Africa Region*, Social Protection Discussion Paper no. 1201, World Bank.
- Ayadi, R., Arbak, E., Ben Naceur, S. and De Groen, W.P. (2013), *Determinants of Financial Development across the Mediterranean*, MEDPRO Technical Report, No.29 / February 2013.
- Ayadi, R. and De Groen, W.P. (2014), *Micro-, Small- and Medium-Sized Enterprises with High-Growth Potential in the Southern Mediterranean: Identifying Obstacles and Policy Responses*, CEPS Paperbacks.
- Ayadi, R., Arbak, E., Bakardzhieva, D., De Groen, W.P., Kamar, B. and Mouley, S. (2014), *Macroeconomic and Financial Crisis Management in the Southern and Eastern Mediterranean: Diagnosis and Prospects*, Centre for European Policy Studies, Brussels.
- Ayadi, R. and El Mahdi, A. (2013), *Human Capital, Inequality and Migration in Southern and Eastern Mediterranean Countries: Towards a Coherent Policy Agenda*, MEDPRO Policy Paper, No. 8 / March 2013.
- Ayadi, R. and Gadi, S. (2013), *Access by MSMEs to Finance in the Southern and Eastern Mediterranean: What Role for Credit Guarantee Schemes?*, MEDPRO Technical Report, No. 35 / April 2013.
- Ayadi, R. and Ramos, R. (2017), *Regional Integration and Youth Unemployment in the Mediterranean*, EMNES Policy Paper (forthcoming).
- Ayadi, R. and Sessa, E. (2017), *Regional Integration in the Euro-Mediterranean: Key Dimensions, Status Quo and Prospects Towards Fundamental Rethinking*, EMNES Working Paper N°1 / June 2017.
- Baghdadi, L., Ben Khedher, S., and Harouri, H. (2016), *Impact of Non-Tariff Measures on SMEs in Tunisia*, ITC Working Papers.
- Batayneh, M. (2005), *The Efficiency of Small and Medium Industries in Jordan*, Yarmouk University, unpublished thesis.
- Batsakis, S., Farooqi, S., Kopicka, J., Nishiuchi, K., Van Loon, A. (2008), *Private Sector Development in Jordan: Harnessing Technology to Boost Development*, University of Michigan.
- Beck, T. Asli, D. and Vojislav, M. (2003), *Financial and Legal Institutions and Firm Size*, World Bank Mimeo.

- Bigsten, A. and Soderbom, M. (2006), What Have We Learnt from a Decade of Manufacturing Enterprise Surveys in Africa?, *World Bank Research Observer*, vol. 21, pp. 241–65.
- El Badawi, I. and Loayaza, N. (2008), Informality, Employment and Economic Development in the Arab World, *Journal of Development and Economic Policies*, Arab Planning Institute.
- El Ehwany, N. and El Laithy, H. (2001) “Poverty, Employment E and Policy-Making in Egypt”. Cairo: International Labour Organization.
- El-Magharbel, N. (2008), *Consolidating the Linkages between SMEs and Large Enterprises in the Manufacturing Sector in Egypt*, ECES Working Paper No. 140.
- El-Said, H. Al Said, M. and Zaki, C. (2015), Trade and Access to Finance of SMEs in Egypt: Is There a Nexus?, *Applied Economics*, 47:39, pp. 4184-4199.
- El Saady, R. (2011), *The Role of SMEs in Mediterranean Economies: The Egyptian Experience*, European Institute for the Mediterranean, IEMed Mediterranean Yearbook 2011, pp. 224-227.
- El Elj, M. (2012), Innovation in Tunisia: Empirical analysis for industrial sector, *Journal of Innovation Economics*, 1:9, pp. 183-197.
- Galal, A. (2002), *The Paradox of Education and Unemployment in Egypt*, Cairo: The Egyptian Center for Economics Studies.
- Gatti, R., Angel-Urdinola, D., Silva, J. and Bodor, A. (2014), *Striving for Better Jobs - The Challenge of Informality in the Middle East and North Africa*, Directions in Development: Human Development, Washington DC: The World Bank Group.
- Goaied, M. and Sassi, S. (2015), Trade liberalisation and employment intensity of sectoral output growth: Lessons from Tunisia, *The Economic and Labour Relations Review*, Vol. 26(2), pp. 261-275.
- Goaied, M. and Sassi, S. (2015), Long-term employment intensity of sectoral output growth in Tunisia, *International Labour Review*, Vol. 155(2), pp. 253-263
- Hampel-Milagrosa, A., Loewe, M and Reeg, C. (2014), *Which Factors Determine the Upgrading of Small and Medium-sized Enterprises? Evidence from Egypt, India and the Philippines*, ERF working Paper No. 866.
- Harders, C. (2008), *Autoritarismus von unten: Lokale Politik in Ägypten*, GIGA Focus Nahost Nr. 12/2008, available at: [http://www.giga-hamburg.de/de/system/files/publications/gf\\_nahost\\_0812.pdf](http://www.giga-hamburg.de/de/system/files/publications/gf_nahost_0812.pdf)
- Harrigan, J., Wang, C. and El Said, H. (2006), The Economic and Politics Determinants of IMF and World Bank Lending in the Middle East and North Africa, *World Development*, Vol. 34, No. 2, pp. 242-270.
- Hendy, R. and Zaki, C. (2013), On Productivity and Informality of MSEs: Evidence from MENA countries, *International Journal of Entrepreneurship and Small Business*, 19:4, pp. 438-470.
- Hentati, M. (2010), *Export Intention of Small and Medium Tunisian Entreprises*, Communications of the IBIMA, pp. 16, available at: <http://www.ibimapublishing.com/journals/CIBIMA/cibima.html>
- International Finance Corporation (2014), *MSME Country Indicators*, Washington DC.
- International Monetary Fund (2014), *Arab Countries in Transition: An Update on Economic Outlook and Key Challenges*, document prepared by the staff of the International Monetary Fund.
- International Monetary Fund (2016), *Tunisia's Growth Potential: Recent Trends, Constraints, and Opportunities for the Future*, IMF Country Report, No. 16/47, February.
- International Monetary Fund (2016), *Morocco: Selected Issues*, IMF Country Report, No. 16/36, February.

- Khasawneh, F. E., Bataineh, S. M., Nazer, M. Z., Abu Qudais, M. K. and Al-Akhal, R. K. (2008), *Higher Education at a Glance in Jordan*, Al Manar – Your Path for Tomorrow, Canadian International Development Agency and National Center for Human Development.
- Kumar, K.B., Rajan, R.G. and Zingales, L. (2001), *What Determines Firms Size?*, University of Chicago, CRSP Working Paper No. 496.
- Levine, R. (2005), "Finance and Growth: Theory and Evidence", in Aghion, P. and Durlauf, S. (eds), *Handbook of Economic Growth*, Elsevier Science, The Netherlands.
- Little, I., Mazumdar, D. and Page, J.M. (1987), *Small Manufacturing Enterprises: A Comparative Analysis of India and Other Economies*, Oxford: Oxford University Press.
- Loewe, M., Al-Ayouty, I., Altpeter, A., Borbein, L., Chantelauze, M., Kern, M., Niendorf, E. and Reda, M. (2013), *Which Factors Determine the Upgrading of Small and Medium-Sized Enterprises? The Case of Egypt*, Deutsches Institut für Entwicklungspolitik in collaboration with the Egyptian Center for Economic Studies.
- Mansur, Y. (2008), *Overcoming Barriers to Foreign Direct Investment in Jordan*, Discussion Paper, available at [www.freetheworld.com](http://www.freetheworld.com)
- Mokhtar Y. and Abdelwahab, A. (2014), *Small and Medium Enterprises in Egypt: Current State and Challenges*, Egyptian Center for Public Policy Studies.
- Monk, R. (2000), Why small business fail?, *CMA Management*, 74:6, pp. 12–13.
- Mouelhi, R. (2012), *Productivity in Tunisian Manufacturing*, World Bank mimeo.
- Mourji, F. (2001), *Evaluation of the Small and Medium-Sized Enterprises Sector in Morocco under the Empretec Morocco Program*, study for the UNCTAD Secretariat under the Mediterranean Program 2000.
- Nasr, S. and Reille, X. (2015), *Opportunities and Changing Landscape in SME Business in MENA*, International Finance Corporation, World Bank Group.
- Pianta, M., Lucchese, M. and Nascia, L. (2016), *What Is To Be Produced? – The Making of a New Industrial Policy in Europe*, Rosa Luxemburg Stiftung, Brussels Office.
- Rijkers, B., Arouri, H., Freund, C., Nucifora, A. (2015), *Which Firms Create the Most Jobs in Developing Countries? Evidence from Tunisia*, Policy Research Working Paper, No. 7068, The World Bank Group, Washington DC.
- Sahar, N. and Rostom, A. (2013), *SME Contributions to Employment, Job Creation and Growth in the Arab World*, Policy Research Working Papers, No. 6682, The World Bank Group.
- Saif, I. (2011), *Challenges of Egypt's Economic Transition*, Carnegie Endowment for International Peace, Middle East Center, available at: [http://carnegieendowment.org/files/egypt\\_econ\\_transition.pdf](http://carnegieendowment.org/files/egypt_econ_transition.pdf)
- Saif, I. and Ghoneim, A. (2013), *The Private Sector in Post Revolution Egypt*, Carnegie Endowment for International Peace, Middle East Center, available at: [http://carnegieendowment.org/files/egypt\\_private\\_sector1.pdf](http://carnegieendowment.org/files/egypt_private_sector1.pdf)
- Sandri, S. (2016), The Need for Entrepreneurial Education in Jordan: An Empirical Investigation, *Jordan Journal of Business Administration*, Vol. 12, No. 2, pp. 417-435.
- Semlali, A. and Angel-Urdinola, D. (2012), *Public Employment Services and Publicly Provided ALMPs in Egypt*, Washington DC: World Bank.



- Silva J., Benyagoub M., (2009), *Informality, firm performance and labor market outcomes: Evidence from Matched Employer-employee Data for Morocco*, background paper for the regional study on informality in MENA.
- Stachowski, C.A. (2012), The Niche Marketing Strategy in Internationally-Oriented Small and Medium Enterprises: A Literature Review and Lessons for New Zealand, *Small Enterprise Research*, 19:2, pp. 96-112.
- World Bank (2013), *Small and Medium Enterprises in Jordan: Challenges for Growth, Employment, Exports, and Innovation*, The Hashemite Kingdom of Jordan's Investment Climate, Finance and Private Sector Development, Middle East and North Africa Region, World Bank.
- World Bank (2017), *Measuring and Analyzing the Impact of GVCs on Economic Development*, Washington, D.C.
- World Bank, European Investment Bank and European Bank for Development and Reconstruction report (2016), *What's Holding Back the Private Sector in MENA? Lessons from the Enterprise Survey*.
- Zenger, T. and Lazzarini, S.G. (2004), Compensating for Innovation: Do Small Firms offer High-Powered Incentives that Lure Talent and Motivate Effort?, *Managerial and Decision Economics*, vol. 25, issue 6-7, pp. 329-345



# ABOUT EMNES

The Euro-Mediterranean Network for Economic Studies - EMNES is a network of partners and associates research institutions and think tanks working on the Mediterranean region. EMNES aims to provide a renewed vision for socio-economic development in the Mediterranean region, mainly focusing on employment creation, social inclusion, and sustainable development.

EMNES areas of research include the role of institutions and institutional reforms, macro-economic policies, private sector and micro, small and medium sized enterprises and employment creation, role of education, innovation, skill mismatch and migration, finance, regulation and the real economy and regional integration.

EMNES will produce books, studies, scientific and policy papers and will disseminate through the organization of annual conferences, and workshop meetings in the region bringing together leading senior and junior researchers, academics, policy makers and representatives of the civil society to discuss and debate optimal policies for the future of the region.

EMNES is built on four core principles: independence, excellence, policy relevance and deep knowledge on Euro-Mediterranean affairs.

## EMNES Network Partners

- Centre for European Policy Studies (CEPS) (Belgium)
- Euro-Mediterranean University (EMUNI) (Slovenia)
- Free University of Berlin (FUB) (Germany)
- Institut Tunisien de la Compétitivité et des Etudes Quantitatives (ITCEQ) (Tunisia)
- Institut des Hautes Etudes Commerciales (IHEC) (Tunisia)
- Euro-Mediterranean University of Fes (UEMF) (Morocco)
- Institut Agronomique et Vétérinaire Hassan II (IAV) (Morocco)
- University of Cairo - Faculty of Economics and Political Science (FEPS) (Egypt)
- Yarmook University (YU) (Jordan)
- Euro-Mediterranean Economists Association (EMEA) (Spain)
- Forum for Euro-Mediterranean Innovation in Action (FEMIA) (France)
- Institute of Computers and Communications Systems - E3M lab, National Technical University of Athens (ICCS) (Greece)
- Istanbul Policy Center - Sabanci University (IPC) (Turkey)
- Institute of Studies for the Integration of Systems (ISINNOVA) (Italy)
- University of Barcelona Regional Quantitative Analysis Group (UB-AQR) (Spain)
- Centre International de Hautes Etudes Agronomiques Méditerranéennes - Istituto Agronomico Mediterraneo di Bari (CIHEAM) (Italy)
- Fondazione Eni Enrico Mattei (FEEM) (Italy)
- International Institute for Cooperatives Alphonse & Dorimène Desjardins at HEC Montreal (Canada)

## EMNES FUNDING: European Commission and EMNES partners.

### DISCLAIMER

The EMNES documents are produced with the financial assistance of the European Union within the context of the EU project "Support to economic research, studies and dialogue of the Euro-Mediterranean Partnership" under contract number ENPI/2014/354-488. The contents of EMNES documents are the sole responsibility of the authors and can under no circumstances be regarded as reflecting the position of the European Union.