

“Understanding Entrepreneurship in MENA: Where to go next”

**ICSB Global Entrepreneurship Summit
George Washington University
Washington, DC, April 29, 2010**

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Background

The IDRC has been exploring opportunities to foster growth and development of the private sector, particularly SMEs, in MENA countries. It started with support for the Egyptian Small and Medium Enterprise Policy (SMEPol) Development Project (2000-2008) and then conducted an assessment scoping study in 12 countries, which led to the book, “Private Sector and Enterprise Development: Fostering Growth in the Middle East and North Africa”, Edward Elgar and IDRC, forthcoming 2010. In order to fill a serious gap in the knowledge base about the role of entrepreneurship in the development of MENA economies, IDRC funded a pilot project in 2009 to collect data on entrepreneurial activity levels in seven MENA countries - Algeria, Jordan, Lebanon, Morocco, Palestine, Syria and Yemen - and to invest in capacity-building of a network of MENA researchers to carry out analysis of Global Entrepreneurship Monitor (GEM) data.

¹ This presentation shares some of the results of IDRC’s work in these areas over the past two to three years.

Results of the IDRC scoping study identified a number of critical economic and social challenges facing the developing countries of the Middle East and North Africa (MENA):

1. Job creation and employment challenge
2. Informality challenge – enterprises and workers
3. Education and skills challenge
4. S&T and innovation challenge –
5. Global integration challenge – FDI, export performance
6. Gender challenge, and
7. SME and entrepreneurship challenge

The SME and entrepreneurship challenge is affected by the first 6 challenges; addressing this may help address other challenges. It is important to support SME development for a number of reasons, namely their ability to create employment and absorb excess labour; serve local and underserved markets; create livelihoods for millions of poor families and households; contribute to rural stability; and create wealth for the economy. In addition, SMEs are the runway from which growth firms take off and are critical to private sector development.

The SME Context in the developing MENA Region

The private sector in MENA economies is not large enough to absorb the growing number of job seekers and to reduce high unemployment rates, especially among educated youth and women. SMEs are the major driver of private sector, comprising over 95% of private enterprises – totalling some 12 million SMEs – but the majority of these SMEs have fewer than five workers. The SME sector is characterized by a high level of informality; low involvement of women; and concentration in low-growth sectors, serving local markets, with low use of modern technologies, and a low level of product quality,

¹ The GEM-MENA regional report (2009) is scheduled to be released in June or July 2010. IDRC is currently seeking co-funders for a 4-year project to fund GEM National Teams in several MENA countries.

competitiveness, diversification, and innovation. A pipeline of more and higher quality entrepreneurs is needed as well as an increased supply of growth-potential SMEs. Currently, the SME sector faces a number of barriers to its development: complex and costly administrative procedures affecting entry, operation and exit of enterprises; low access to formal financing; inadequate access to/use of BDS, entrepreneurship/management training, business and market information, and technology; high social security and non-wage labour costs (affects hiring practices); constrained access to some markets; and a weak entrepreneurship culture. The lack of timely, comprehensive and comparable data on the SME sector and inconsistent SME definitions (where they exist) impedes effective policy action.

Self-employment rates across MENA countries average just less than 30%, but few self-employed employ others. The self-employment rate among women is less than half that of men, resulting in a low share of women among the self-employed (from about 3% in Jordan to about 20% in the Sudan). In 10 MENA countries, about 15.8% of the adult population is involved in entrepreneurial activity (and about 7.3% of the adult population is actively trying to start a business). Entrepreneur density rates (proportion of the adult population that owns a business) vary considerably across countries, ranging from as high as 25% in Morocco and Lebanon to less than 10% in Algeria, Jordan, Turkey and Yemen. Some 20 million adults are engaged in early-stage entrepreneurial activity (actively trying to start a business or own a young business less than 36 months old). Entrepreneurial activity levels are highest among adults in the 25-34 age group, people currently working in a full or part-time job, and adults with higher education levels and higher household incomes. There is a significant gender gap in entrepreneurial activity rates. The male entrepreneurial activity rate is 3-4 times higher than the female rate in Palestine, Syria, Egypt and Turkey and about 1.5 times in Algeria, Morocco and Yemen. Women's share of early-stage entrepreneurial activity ranges from around 35% in Algeria to around 18% in Syria. Nascent entrepreneurs receive the majority of their start-up capital and advice from family members and make minimal use of professionals (lawyers, accountants, business development services) for start-up advice, much lower than entrepreneurs in the other GEM countries. Less than 5% have taken courses in starting a business as part of official schooling; less than 10% outside of their formal education.

The enterprises they are starting are mostly in retail and personal services (20% of new enterprises in Yemen and Palestine are in the primary sector). More than 75% of early-stage enterprises have fewer than 6 workers, but the cumulative impact on job creation is significant. About 7% expect to have 20+ workers in five years. The majority is using technologies more than five years old, entering markets with many businesses offering similar products/services, and offering products/services that their customers will not find new or unfamiliar. However, **early-stage enterprises more innovative than established businesses**. These results imply the need to promote more innovative business opportunities and to enable entrepreneurs to access the latest technologies and procedures.

Institutional and policy support for SMEs and entrepreneurship

The focus on SME policy is recent in most countries (since 2000). There are a variety of institutional supports – SME laws, SME policy units, SME agencies, SME delivery organizations (OSSs, BDCs, incubators, MFIs, NGOs). SME policy frameworks (where they exist) are very similar, emphasizing:

- Reforms to reduce the time and cost of starting and operating businesses
- Measures to overcome deficiencies in formal lending and risk capital markets
- Programs to upgrade the management and production capacity and standards of SMEs
- Advancement of technology and innovation infrastructure and support for technology start-ups (e.g. incubators, seed funds)
- Some targeted young entrepreneurs programs
- Some entrepreneurship education initiatives
- Some strategies to reduce informality.

However, SME policy is fragmented and there is little evidence of formal entrepreneurship policies. MENA needs a more robust private sector with more and stronger SMEs to drive private sector growth, deal with youth employment challenge, reduce poverty, and produce sustainable growth. The SME sector is currently fragile, uncompetitive in global markets and underdeveloped (high degree of informality). There is limited access to financing, BDS, information on opportunities, technology and markets, mentoring, and role-models. Most SME owners and new entrepreneurs do not have sophisticated management, production and marketing skills and are exposed to very limited opportunities to gain knowledge on how to start, manage and grow an enterprise. To capture the opportunities presented by growing GDP and populations and access to new markets through Free Trade Agreements, potential and existing entrepreneurs need entrepreneurial ability and knowledge; access to the necessary resources, information and technology; and business friendly environments. A base of entrepreneurs exists that with proper support can produce growth in the economy and other economic and social returns, however, focused policies to foster entrepreneurship are needed.

Recommendations

...to strengthen the SME sector/ role of entrepreneurship

- Target tailored SME and entrepreneurship development programs to foster the entrepreneurial potential of **women and young people**, especially among post-secondary graduates
- Support integration of entrepreneurship at all levels of the education system with links to the private sector entrepreneurs.
- Offer more diverse types and sources of SME financing (e.g. long-term financing, VC, angel networks)
- Provide more widespread, comprehensive and sustainable access to mentoring, training, and business advice directed to entrepreneurs and SMEs
- Remove regulatory and procedural barriers to the entry and growth of SMEs and to dissolution of an enterprise
- Reduce the costs of registering businesses and enforcing contracts
- Implement strategies to encourage the formalization of enterprises
- Reform rules regarding property rights.

...to inform public policy and foster exchange

- Improve the quantity, quality and timeliness of data on entrepreneurs and SMEs; the growth and development of the SME sector, and the level and nature of entrepreneurial activity
- An evidence base needed to formulate effective tailored policies and measure the impact of business environment reforms and support programs and initiatives
- Publish analysis in annual reports for wide dissemination among stakeholders (e.g. regional SME Observatory and Entrepreneurship Monitor involving country-level partnerships)
- Create regional forum for sharing knowledge and experiences of what has worked well and what has not in the various support and program areas.