

MENA-OECD Investment Programme

Conclusions

MENA-OECD Working Group 2: SME Policy, Entrepreneurship and Human Capital Development

Meeting, 18 November 2008
Bahrain, Manama

Countries participating in the MENA-OECD Investment Programme expressed in various meetings their interest in actively supporting initiatives aimed at improving the business environment and building capacities for entrepreneurship and SME development. Hosted by the MENA Investment Center in Bahrain, the MENA-OECD Investment Programme has organised a first meeting of the Working Group on 18 November 2008 on SME Policy, Entrepreneurship and Human Capital Development to constitute the Working Group and determine its work programme leading up to the Programme's 3rd Ministerial Meeting.

Through discussion and presentations from MENA governments, private sector and academia, participants agreed on the following points:

1. **Enhancing** productivity and competitiveness through SME Policy, human capital development, entrepreneurship and innovation;
2. **Linking** financial and non-financial services and tools, including increasing financial education and dispelling perceptions of risk among entrepreneurs;
3. **Highlighting** the importance of coordination bodies responsible for horizontal policies, such as SME Agencies;
4. **Improving** data collection through:
 - a. Adopting common definitions for SMEs which are harmonized across ministries at the national level
 - b. Capture different segments of the SME/enterprise population and break down by sector
 - c. Use of data collection institutions
5. **Balancing** regulations to ease doing business and **establishing** a proper legal framework to ease doing business (i.e. company laws, bankruptcy and insolvency, collateral laws, etc.)
6. **Improving** access to information thereby encouraging companies into formalization; and **increasing** transparency with regard to credit information.
7. **Exploring** means for alternative financing;
8. **Acknowledging** that the financial crisis may present an opportunity for SMEs signalling a paradigm shift in favour of SMEs as banks seek to diversify their portfolios; also **acknowledging** that the financial crisis has a real impact on the real economy and that SMEs may continue to face a financing gap; and,
9. **Developing** standards for quality in order to increase competitiveness and improve access to international markets.

Going forward participants from MENA governments, private sector and academia agreed on a number of activities for Working Group 2:

Activity 1 – High growth enterprises

Participants received presentations on SME policy measures including with a focus on High Growth Enterprises. There was agreement that SMEs are affected by a specific set of entry and operational barriers which require specific policy responses. However, government responses should target different segments

of the SME population with different policy measures. A special focus was given to high growth enterprises and the need for a horizontal SME definition across government ministries was underlined. It was agreed that the high growth segment of SMEs in the MENA region needs special policy attention, including, but not only regarding access to finance.

Action: The MENA-OECD Programme's proposal to create one activity of the newly established WG 2 on high growth enterprises was supported by participants. Regional Guidelines for Linkages between FDI & SME Development.

Activity 2 - Improving Access to Finance for SMEs in times of financial crisis

Participants received presentations stressing the need to focus attention on SME's access to finance in times of financial crisis. Country representatives introduced their particular SME support schemes and particular challenges faced by SMEs. Interventions stressed the need to encourage the use of alternative sources of financing, namely equity participation from private or government funds and angel investors. Careful use of credit guarantee schemes and fiscal incentives to business service companies was mentioned as well as the importance of the basic legislative framework and financial education. Barriers for the formalization of companies were discussed (lack of information/know-how, administrative obstacles, inspections, tax) as well as government institutions and international financial institutions' measures in supporting SMEs. Banks can potentially diversify their portfolios by investing further in SMEs.

Action: Include financial education and special activity on access to finance in the work programme of the Working Group. Prepare a set of regional guidelines for the next Ministerial meeting on access to finance for enterprises (especially for meso-financing), solutions to ease financing such as leasing and factoring and access to investment in capital goods.

Activity 3 - Fostering entrepreneurship and bridging the skills gap through human capital development

Participants acknowledged that a large volume of empirical evidence demonstrates that a country's human capital – the knowledge, skills and attitudes embodied in workers - is critical to economic growth. Better educated employees are generally more productive (and may also raise the productivity of co-workers). Higher stocks of human capital facilitate investments in physical capital and accelerate the development and diffusion of new technologies. The twin forces of globalisation and technological change are raising demand for, and returns to, workers with higher skills. Furthermore, various strands of research show that human capital is fundamental to the quality of entrepreneurship.

Action: Developing a draft Evaluation grid and background paper for human capital development. Use an assessment framework for the evaluation of human capital development applied to 1-2 pilot countries. Develop a diagnosis of the level of human capital development and developing practical solutions to Human Capital Development in select MENA countries in preparation for the next Ministerial meeting.

Activity 4 - Business law in support of enterprise development

Participants and panellists during the meeting highlighted the importance of, inter alia, sound collateral, leasing, bankruptcy and competition laws for securing access to finance for enterprises as well as the importance of an overall sound business law framework. Business laws in MENA countries are currently revised or considered for revision in the areas of business transactions, laws regarding business organizations, sales of goods, contracts, credit transactions, secured transactions, debtor and creditor remedies, intellectual property, real estate and land transactions, mortgages, leasing and other financing mechanisms. Capacity building programmes in support of more efficient commercial conflict resolutions through commercial courts as well as alternative dispute resolution have been set up. Participants agreed that the soundness and availability of these legal frameworks and its enforcement institutions are key factors for the ability of enterprises, in particular SMEs, to start up, get financing, operate and eventually close their business efficiently.

Action: Identify strengths and proposals for improvements in the business legislative framework in MENA countries in order to define priority activities. This should include an examination of possibilities to exit

the market, with an emphasis on insolvency and bankruptcy legislation.

The meeting recommended focusing mainly on country pilots to develop sound SME policies with a special focus on access to finance. The outputs will include a set of regional guidelines which will be presented at the next meeting of the working group scheduled for May 2009 (tbc) and leading up to the 3rd Ministerial meeting of the MENA-OECD Investment Programme.