Beyond the crisis: SME and Entrepreneurship outlook in the MENA region

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

Tunis, 29 March 2010
MACROECONOMIC OVERVIEW
A structurally diverse region
GDP in the MENA countries, 2009

Resource poor, labour abundant
Resource rich, labour abundant
Resource rich, labour importing

Source: IMF
GDP PPP in MENA sub-regions, 2009

Total MENA GDP: 2.5 trillion

North Africa: 41%
Gulf: 47%
Levant: 12%

Source: IMF
Merchandise exports in the MENA region (% of total merchandise exports), 2006

Source: WB, WDI
Economic growth in the MENA region: an intermediate performance between the OECD and the BRICS

Source: IMF
2009 estimate

GDP constant prices, annual % change (weighted averages)

Weighted average growth 2000-2009
MENA: 4.9%
OECD: 1.9%
BRICs: 7.5%

Source: IMF
2009 estimate
2010-2014 IMF forecast
Economic Performance in the MENA region

Oil sector and commodity trends fuel volatility

Source: IMF

- Resource poor, labour abundant
- Resource rich, labour abundant
- Resource rich, labour importing

Average GDP growth 2000-2009

Volatility in GDP growth (proxy st. dev. of average growth 2000-2009)

Source: IMF
Oil prices (yearly basket price) US$ / b

Source: OPEC
Value of oil exports as % of value of exports

Source: OPEC
The impact of the crisis was felt later and had a milder impact than in the OECD region, except for the Gulf.

Source: IMF
Foreign Direct Investment inflows 1990-2009

Source: UNCTAD
### Credit to the private sector (%GDP)

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</tr>
</thead>
<tbody>
<tr>
<td>Euro area</td>
<td>126</td>
<td>160</td>
<td>42</td>
<td>13</td>
<td>43</td>
<td>89</td>
<td>77</td>
<td>80</td>
<td>56</td>
<td>67</td>
<td>32</td>
</tr>
</tbody>
</table>

#### Domestic credit to private sector, annual % change

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

Source: WB, WDI
Lending-deposit interest rates spread
2009 or latest available year

Sources: IMF, IFS and EIU
Government balance (% of GDP)

Source: EIU, Country Profiles, March 2010
Conclusions

• Growth has resumed, albeit at a lower rate than in the expansion phase previous to the crisis.
• The shape of recovery in OECD countries is not clear; but persistent weak demand in the OECD countries may reduce growth in the MENA countries with large manufacturing exporting sectors.
• This will have an impact on employment as the number of entrants in the labour market is expected to continue to expand.
• Fiscal constraints do not allow for further expansion of the public sector. Most of new jobs should come from the private sector.
SMEs, ENTREPRENEURSHIP AND YOUNG FIRMS
The importance of SMEs in OECD countries

% of total

Source: OECD, EIP

Note: Data not fully comparable
The importance of SMEs in selected countries

SMEs by size class, % of total SMEs

Source: IFC, Micro, Small and Medium Enterprises, A Collection of Published Data and OECD, SDBS

Note: data not fully comparable

Total number of SMEs in thousands
## The importance of SMEs in selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>SME density (No. of SMEs per 1000 people)</th>
<th>SME employment</th>
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</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>18.8</td>
<td>n.a.</td>
</tr>
<tr>
<td>Egypt</td>
<td>26.8</td>
<td>73.5</td>
</tr>
<tr>
<td>Jordan</td>
<td>26.8</td>
<td>50.0</td>
</tr>
<tr>
<td>Lebanon</td>
<td>47.2</td>
<td>n.a.</td>
</tr>
<tr>
<td>Morocco</td>
<td>15.2</td>
<td>n.a.</td>
</tr>
<tr>
<td>Oman</td>
<td>2.9</td>
<td>n.a.</td>
</tr>
<tr>
<td>UAE</td>
<td>34.2</td>
<td>86.0</td>
</tr>
<tr>
<td>Brazil</td>
<td>27.4</td>
<td>67.0</td>
</tr>
<tr>
<td>China</td>
<td>6.3</td>
<td>78.0</td>
</tr>
<tr>
<td>France</td>
<td>43.3</td>
<td>n.a.</td>
</tr>
<tr>
<td>Germany</td>
<td>38.3</td>
<td>n.a.</td>
</tr>
<tr>
<td>UK</td>
<td>73.8</td>
<td>39.6</td>
</tr>
<tr>
<td>USA</td>
<td>20.0</td>
<td>50.9</td>
</tr>
<tr>
<td>OECD</td>
<td>21.8</td>
<td>63.3</td>
</tr>
</tbody>
</table>

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

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

Source: Kauffman Foundation, Where will the jobs come from?
Research shows that there is a strong and significant relation between firm entry density (i.e. density of new registered companies per 1000 population), business density and GDP per capita.

**Business density and entry density rate**

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

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

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

Source: World Bank Group Entrepreneurship Survey
Challenges for the MENA region

For labour abundant countries:

• **Job creation**: Labour force is growing at an average of 3.4% per year, and just to maintain 2003 levels of employment, an additional 100 million jobs need to be created by 2020.

For resource dependent countries:

• **Economic diversification**: The recent crisis has highlighted the need to implement structural reforms to reduce MENA countries’ vulnerability and improve their flexibility to respond to future shocks. This requires diversification away from reliance on oil resources and public works.

*Promoting entrepreneurship and SME development are key in this regard.*