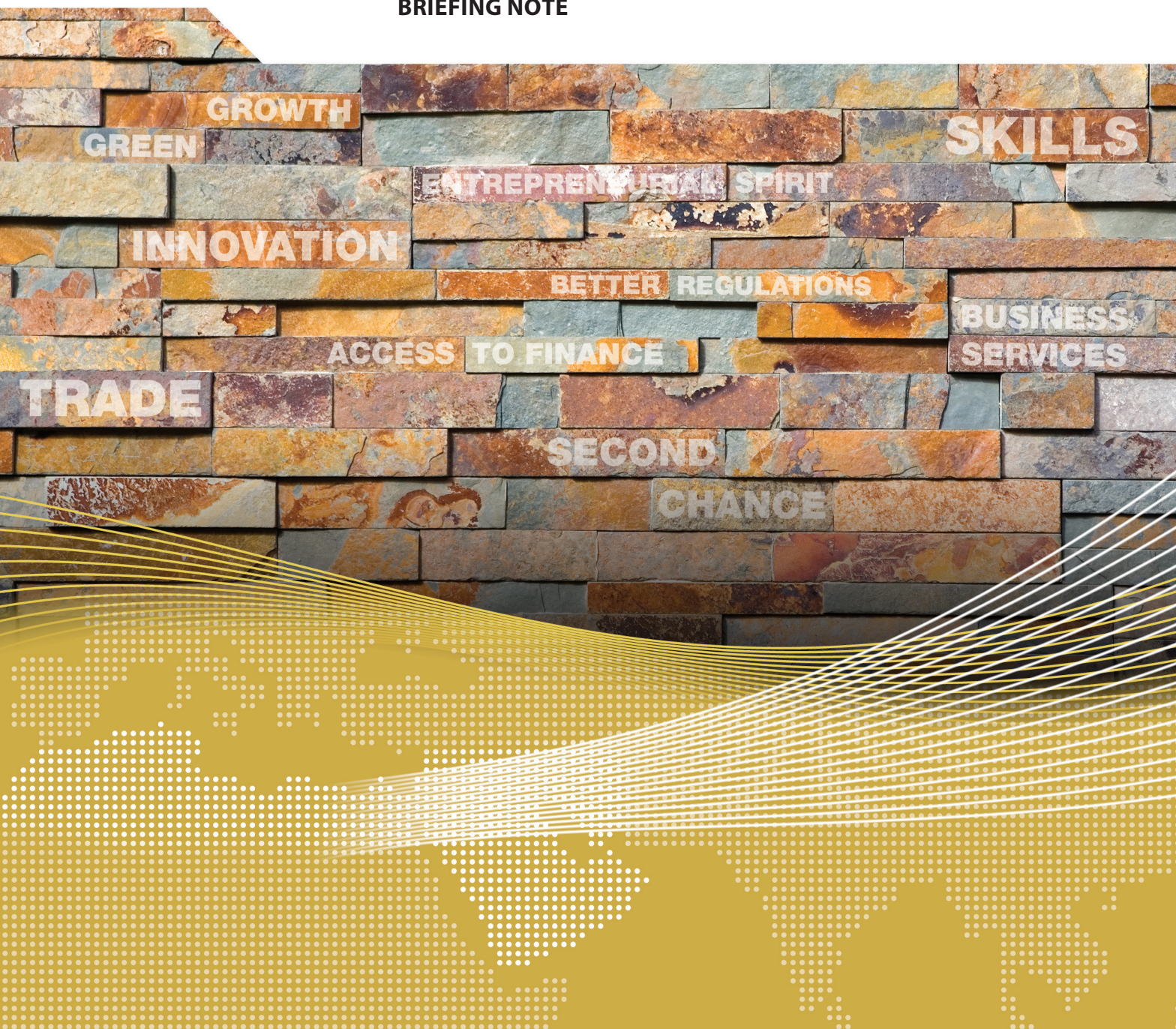




SME POLICY INDEX

# Implementation of the “Small Business Act” for Europe in the Mediterranean Middle East and North Africa 2014

BRIEFING NOTE



**The opinions expressed and arguments employed herein do not necessarily reflect the official views of the OECD or of the governments of its member countries.**

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**IX UNION FOR THE MEDITERRANEAN MINISTERIAL MEETING ON  
EURO-MEDITERRANEAN INDUSTRIAL CO-OPERATION**

**19 February 2014**

**IMPLEMENTATION OF THE “SMALL BUSINESS ACT” FOR EUROPE IN THE  
MEDITERRANEAN MIDDLE EAST AND NORTH AFRICA 2014**

**Briefing for Ministers**



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## INTRODUCTION

This briefing presents the key findings and conclusions of the report on the **implementation of the “Small Business Act” for Europe in the Mediterranean Middle East and North Africa 2014**. The report provides an assessment of SME policy in Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, PA and Tunisia (the MED economies), and a policy overview for Libya.<sup>1</sup>

The assessment was conducted in 2013 within the framework of the Euro-Mediterranean process of industrial co-operation and is based on the policy framework of the Small Business Act for Europe (SBA). It builds on the methodology of the SME Policy Index, which allows international policy comparisons and the identification of good practices and areas where progress is needed.<sup>2</sup> The report is an update of a similar exercise carried out in MED economies in 2008, based on the Euro-Mediterranean Charter for Enterprise.<sup>3</sup>

The assessment was performed through a highly collaborative and consultative process involving MED governments and public institutions, private sector organisations and civil society. Each of the participating MED economies contributed to the collection of data and information on SME policies under the supervision of a national coordinator and with the participation of independent local experts.

The assessment was undertaken by the European Commission (the Commission), the European Investment Bank (EIB), the European Training Foundation (ETF) and the Organisation for Economic Co-operation and Development (OECD). The exercise was coordinated by the OECD and was financially supported by the Commission and the OECD.<sup>4</sup> The ETF and the EIB provided contributions in the form of staff time.

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<sup>1</sup> For the OECD, “PA” is an abbreviation of Palestinian Authority and defines either the territories in the West Bank and Gaza under the administration of the Palestinian Authority, or the Palestinian Authority itself, according to the context. For the European Commission and the EU institutions contributing to the report, PA stands for Palestine and its institutions.

<sup>2</sup> See [www.oecd.org/investment/psd/smallandmedium-sizedenterprisessmepolicyindex.htm](http://www.oecd.org/investment/psd/smallandmedium-sizedenterprisessmepolicyindex.htm)

<sup>3</sup> European Communities and OECD (2008). *Report on the Implementation of the Euro-Mediterranean Charter for Enterprise*. Brussels.

[www.oecd.org/investment/psd/reportontheimplementationoftheeuro-mediterraneancharterforenterprise2008enterprisepolicyassessment.htm](http://www.oecd.org/investment/psd/reportontheimplementationoftheeuro-mediterraneancharterforenterprise2008enterprisepolicyassessment.htm)

<sup>4</sup> The Swedish International Development Co-operation Agency (SIDA) contributes financially to the work of the OECD in the region through the MENA-OECD Investment Programme.

### **The policy framework and methodology**

Adopted by the EU in 2008, the Small Business Act for Europe (SBA) recognises the central role of SMEs in the economy and puts into place a comprehensive SME policy framework. The SBA is set to guide Euro-MED co-operation towards SME development, updating the 2004 Euro-Mediterranean Charter for Enterprise. The SBA is structured around ten principles that constitute policy dimensions under this assessment. Those dimensions are:

1. Education and training for entrepreneurship, including women's entrepreneurship.
2. Efficient bankruptcy procedures and "second chance" for entrepreneurs.
3. Institutional and regulatory framework for SME policy making.
4. Operational environment for business creation.
5. Support services for SMEs and public procurement.
6. Access to finance for SMEs.
7. Supporting SMEs to benefit from Euro-MED networks and partnerships.
8. Enterprise skills and innovation.
9. SMEs in a green economy.
10. Internationalisation of SMEs.

The assessment is based on the methodology of the SME Policy Index, a set of policy indicators covering the dimensions above. The indicators were jointly defined with the national coordinators and comprise five levels of policy making, broadly ranging from the absence of a specific policy or measure (level 1), to full compliance with good policy practices (level 5).

Given the general lack of evidence on policy results, the assessment focuses on policy making rather than policy implementation.

## REGIONAL OVERVIEW

MED economies are engaged in pro-active policies to support small enterprises and to improve the business environment. This is a relatively recent development and a significant shift from past policies which focused on supporting strategic enterprises and sectors.

An important factor behind this shift has been the unrelenting pressure to generate more and better jobs: the region's labour supply is rapidly expanding while the new entrants in the labour market have higher education levels than those of previous generations. This certainly represents a major opportunity for development, but also a potential liability for social and political stability if that opportunity does not materialise.

Up to the end of the last decade, the MED economies expanded at an average rate of 5% per year, having escaped most of the negative impact of the global financial and economic crisis. Over the last three years, however, the region's economic performance has been hit by a series of political and economic shocks: GDP expansion has been halved, except in Israel, Morocco and Algeria, while unemployment has risen, particularly among the youth, women and graduates.

More and better jobs can only be generated by sustained economic growth driven by a dynamic private enterprise sector. SMEs are a vital component of the economy and account for a large proportion of job creation, given that they generally operate in labour intensive sectors.

The report views SME policy as a key instrument to generate structural changes in the economic fabric. In this light, the main objective of SME policy is to foster growth by increasing enterprise productivity: stronger growth should lead to more jobs. Higher productivity should lead to better jobs.

The report focuses both on horizontal policies directed at improving the business climate as well as targeted policies for SME support conducted by the central government authorities. The assessment benchmarks those policies against the ten principles of the Small Business Act for Europe. It compares results across economies and with the results of a similar assessment conducted in 2008. It is therefore possible to track progress across time and policy dimensions.

### Main macroeconomic indicators, 2013

	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	PA	Tunisia
GDP (current USD, bn)	215.7	262.0	272.7	34.1	43.5	104.8	9.8	48.4
GDP constant prices % change	3.1	1.8	3.8	3.3	1.5	5.1	9.9	3.0
GDP per capita (current USD)	5,668	3,113	34,651	5,207	10,708	3,190	2,489	4,431
Total population (in mn)	31.5	80.7	7.9	6.3	4.4	32.5	4.0	10.8
Unemployment rates (youth unemployment rates)	10.0 (22.4)	12.7 (22.8)	6.8 (12.1)	12.9 (29.9)	6.2 (16.8)	8.9 (17.9)	23.0 (38.8)	13.0 (30.7)

Notes: Data for 2013 are estimates. 2012 for data on total population. 2011 for data of PA. Youth unemployment refers to the share of the labour force ages 15-24 without work but available for and seeking employment.

Sources: IMF (2014), *World Economic Outlook Database*, Washington DC; World Bank (2014), *World Development Indicators*, Washington DC; and Palestinian Central Bureau of Statistics (2014), *National Accounts*, Ramallah.

## KEY MESSAGES AND FINDINGS

### Challenges and opportunities for SME development in the MED region

The analysis conducted by the OECD, the Commission, the ETF and the EIB in this assessment points to significant constraints for SME creation and development in the MED region. Although those constraints are also present in other regions, they are particularly intense in MED economies and result in low numbers of SMEs operating in the economy and a very fragmented productive sector mostly made of micro enterprises.

The most noticeable constraints are:

- The ***quality of the regulatory and business environments***, which is characterised by relatively poor incentives for entrepreneurship; high entry barriers to new enterprises, including cumbersome registration and licencing procedures; restrictive market access, rigid regulations favouring incumbents and high levels of economic informality.
- Limited access to ***external sources of finance*** due to a combination of weak creditor rights, underdeveloped collateral registries, significant information asymmetries and weak banking competition (bank credit is the main source of external funds for SMEs).
- ***Lack of adequate vocational and managerial skills*** to support SME growth and limited access to training facilities.
- ***Insufficient development of enterprise support networks and services***, such as business centres, incubators, innovation support schemes and limited participation in international SME networks.
- ***Weak policy understanding and co-operation*** among stakeholders (governments, businesses, civic interest groups, etc.) to integrate entrepreneurship across the education system.

Those constraints are counterbalanced by significant opportunities, among them:

- ***Growing domestic markets*** as a result of demographic growth and the consequent decreasing dependency rates.
- Progressive ***integration and opening up*** of MED economies to the Euro-MED region and the global economy.
- ***New prospects for entrepreneurship*** derived from the opening up of societies and demand for transparency and economic participation, including for women.
- Progressive improvements in ***literacy rates and education levels***.

The intensity of these challenges and opportunities significantly differs among MED economies. Challenges are stronger in the economies with lower levels of institutional and economic development and less diversified economic structures.



The report analyses how MED governments have responded to those opportunities and challenges by structuring policy support to SMEs and creating incentives to foster dynamic growth and job creation. Some of the most significant initiatives undertaken by MED governments are listed below.

#### *Improving business environments for enterprise creation and development*

- Morocco’s National Committee for the Business Climate (CNEA), in partnership with the private sector, provides a coordination and follow-up platform for horizontal reforms to improve the business environment.
- Lebanon’s Improving Business Environment Initiative (IBEL) sets an ambitious legislative and regulatory reform agenda to facilitate enterprise creation, operations and growth.

#### *Enhancing policy coherence and coordination*

- Morocco has made SME policy a key component of its overall competitiveness and economic policy through a number of strategic initiatives: the National Pact for Industrial Emergence, the CNEA, Vision 2020 to promote Morocco as a tourist destination and *Maroc Numeric 2013*.
- Israel established a Small Business Agency to spearhead the coordination of actions and raise advocacy for small enterprises.
- Algeria aims to increase the coherence of policy elaboration by designating the Ministry of Industrial Development and Investment Promotion as a lead agency for SME policy.
- PA’s Private Sector Council works to improve policy coordination among government agencies, NGOs and private sector organisations.
- Jordan is in the process of adopting a National Strategy for Micro, Small and Medium-sized Enterprises for 2014-2018.

#### *Improving access to finance*

- PA’s three guarantee schemes increased their coverage and support levels. PA also introduced a state-of-the-art credit bureau and a new regulatory framework for micro finance.
- Egypt and Morocco introduced private credit bureaus which extend SME coverage. Jordan has new legislation allowing the establishment of private credit bureaus.
- Algeria, Jordan, and Tunisia have introduced registries for moveable assets, although not all of them are fully operational.

#### *Enhancing enterprise support services promoting business networks, entrepreneurship and skills development*

- Egypt provides targeted support to the differing needs of SMEs through dedicated institutions such as the Social Fund for Development, the General Authority for Investment and Free Zones and the Industrial Modernisation Centre.

- Tunisia facilitates internationalisation through a virtual one-stop-shop to deal with the formalities of foreign trade and promotes the development of innovative and technology oriented enterprises through science parks and technological centres.
- All MED economies have developed good practices in entrepreneurial learning for youth, especially in informal learning and at university level. The availability of training for SMEs has also been reinforced.

### **The Euro-MED SBA Agenda**

In the light of the challenges and opportunities outlined above, and taking into account the progress made by MED economies since the last assessment in 2008, the agenda for MED governments and Euro-MED partners and stakeholders is summarised below.

#### ***MED economies need to step up their efforts to improve the business climate...***

- Improving business environments should be a continued exercise to facilitate enterprise creation, growth, and ultimately job creation.
- Diagnostics such as business climate assessments and regulatory impact analyses should therefore be an integral part of the policy making process.

#### ***... And adopt comprehensive and coherent approaches to SME policy***

- Most MED economies need to increase their efforts in terms of strategic SME policy making by elaborating and adopting complete and articulate sets of programmes and measures in key policy areas (access to finance, innovation, skills development, trade facilitation, etc.).
- The assessment of the principles of the “Small Business Act” for Europe (SBA) indicates that most MED economies have a wide number of initiatives targeting different SME needs. However, these initiatives are often disparate and are not part of a wider approach to SME policy making.
- The identification of concrete SME policy objectives, targets, milestones, responsible agencies and bodies, as well as the establishment of coordination, monitoring and evaluation mechanisms is essential to better respond to the development needs of the private sector. The business community should play a more proactive role as a partner of government agencies.

#### ***Monitoring and evaluation should be an integral part of policy making in the MED region***

- As in 2008, the assessment indicates the existence of a significant number of SME initiatives by governments, donors, the private sector and other organisations. However, evidence on their levels of implementation and effectiveness remains very scarce. This indicates a lack of monitoring and evaluation of policies.
- MED governments should therefore significantly increase their efforts to measure the effectiveness of their policies and measures. This is essential to enhance policy effectiveness and improve the allocation and use of scarce resources, especially in times where government finances are under increasing stress.

- Consultation and coordination with the private sector should be an essential element to strengthening policy monitoring and evaluation.
- The collection of more and better data on private enterprises is also an area where there is significant scope for improvement. This is essential to achieve better diagnoses of the needs and performance of the private sector, including SMEs.

***Euro-MED partners could support this process through:***

- Promoting the exchange of good practices in all SBA policy domains and including Euro-MED (“north-south”) and intra-MED (“south-south”) exchanges. The SBA database of good practices could be an important instrument and starting point in this regard.
- Contributing to capacity building and strengthening SME policy institutions, for instance by transferring experiences on institutional development and staff training.
- Reinforcing and extending networks such as the Europe Enterprise Network and bilateral and sectoral networks.
- Intensifying business-to-business dialogue to strengthen co-operation among Euro-MED enterprises.

## **1. EDUCATION AND TRAINING FOR ENTREPRENEURSHIP, INCLUDING TRAINING FOR WOMEN'S ENTREPRENEURSHIP**

*To what extent are students taught to be entrepreneurial while at school or attending training courses? Are universities collaborating with the business community to help promote competitiveness? Do women entrepreneurs receive the support they need?*

The analysis points to limited progress in policy development since the 2008 assessment, in particular on how education systems address entrepreneurship as a key competence.

- The first challenge for policy makers is to see lifelong learning models of entrepreneurship promotion as critical to building and sustaining a more entrepreneurial culture. The second task is to ensure the necessary interfaces between the various levels of education are in place to generate an entrepreneurship continuum from primary to higher education. This has significant implications for curriculum reform, teacher training and qualifications' development - critical pillars of a system-based approach to entrepreneurial learning.
- System solutions require better partnerships and co-operation across the various levels of education and between education and the world of enterprise. This is particularly relevant for upper secondary and tertiary education, where better structured education-enterprise co-operation is important to bring value added to local economies and promote the employability of school leavers and university graduates.
- In relation to women entrepreneurs, some economies have made substantial progress either through top down coherent policy development or through the establishment of bottom up national support networks. The need for coherent planning and delivery of education and training for women entrepreneurs is especially important given the absence of established provision and networks.

As in the 2008 exercise, the assessment identified excellent examples of good practice in entrepreneurial learning. However, many of them are driven by non-governmental organisations and are outside formal education.

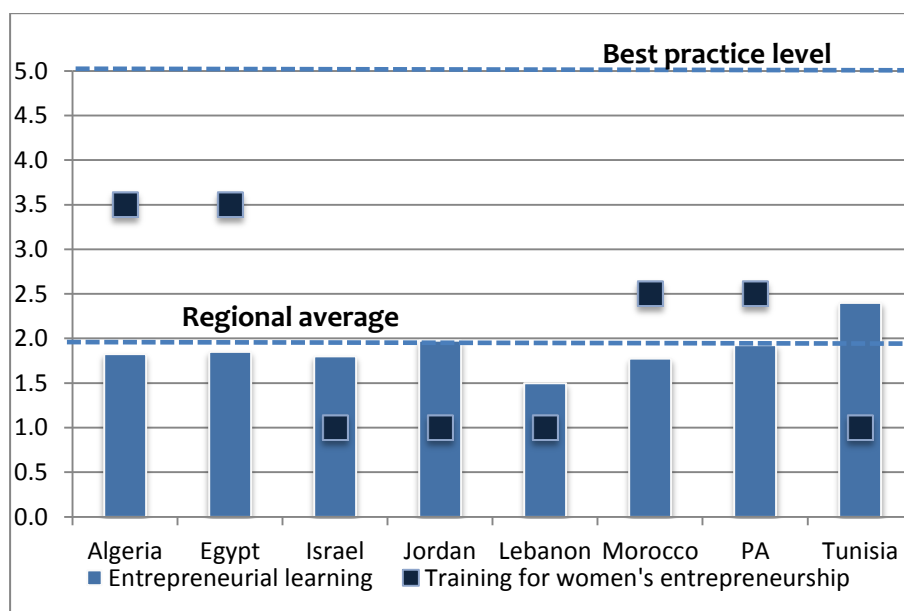
- More could be done to systematically identify and share good practices within the education and training provision communities. This would help them to adopt innovative approaches to promote entrepreneurship.
- Good practice should be a reference point for policymakers in the bid for workable and affordable solutions adapted to cultural and institutional circumstances of the countries concerned.

The context for promoting women's entrepreneurship remains limited given the lack of concerted efforts by governments, business and civic society. Improved training and more developed mentoring services are required to ensure women are better placed to contribute to the wider competitiveness drive in each MED economy.

## Priority actions

- *Establish inter-ministerial commissions for entrepreneurial learning*, led by education authorities and including private sector and civic interest groups.
- *Establish a platform for the identification and exchange of good practices*, which could provide reference and inform and inspire policy-making.
- *Strengthen co-operation* among higher education institutions and promote links with businesses to foster entrepreneurship. Teacher networks with interest in entrepreneurship promotion should be encouraged and supported.
- *Establish an accredited Southern Mediterranean Women’s Entrepreneurship Network* to ensure the quality of mentoring services.

Figure 1. Education and training for entrepreneurship, including women’s entrepreneurship



Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.

## 2. EFFICIENT BANKRUPTCY PROCEDURES AND “SECOND CHANCE” FOR ENTREPRENEURS

*Are bankruptcy laws and procedures in place? How effective is their implementation? How fast and costly are insolvency procedures? Are there any efforts to promote a fresh re-start for entrepreneurs having failed in the past?*

As in the 2008 assessment, laws on distressed companies and bankruptcy are in place in all MED economies. However, evidence on effective implementation is absent or very scarce.

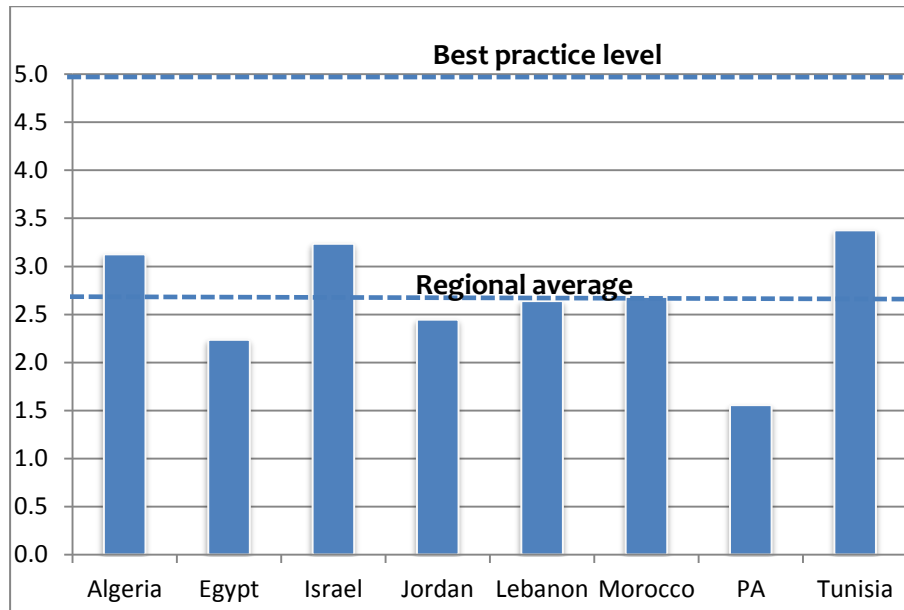
- The World Bank's Doing Business indicators on resolving insolvency are used as a proxy for assessing the effectiveness of insolvency frameworks. They indicate that Israel and Tunisia have relatively effective bankruptcy mechanisms, with relatively fast (and in Tunisia also inexpensive) bankruptcy processes and good recovery rates.
- Evidence from Egypt indicates that only a few companies recur to formal bankruptcy procedures. The country is working towards the completion of a new insolvency law and training judges to deal with restructuring distressed companies.
- Algeria, Jordan and Morocco have laws stipulating bankruptcy procedures but lack evidence on implementation. In Lebanon and PA laws are outdated and rarely used. Lebanon is revising its legal framework and drafting a new bankruptcy law under the initiative to improve the business environment.

No MED economy implements informative campaigns to disseminate the concept of “second chance” and there is no evidence of training schemes for entrepreneurs to start afresh after bankruptcy.

### **Priority actions**

- *Strengthen the monitoring of insolvency and bankruptcy cases* in all economies, in order to better assess the efficiency of the legal and procedural framework.
- *Modernise bankruptcy laws and procedures and step up efforts to enhance their implementation*, for instance by establishing single windows or one-stop-shops for insolvency procedures, training judges, establishing specialised courts and exchanging good practices.
- *Launch information campaigns to promote a “second chance”* for entrepreneurs starting afresh and assess the extent to which they face hurdles such as accessing bank credit.

**Figure 2. Efficient bankruptcy procedures and “second chance” for entrepreneurs**



Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.

### 3. INSTITUTIONAL AND REGULATORY FRAMEWORK FOR SME POLICY MAKING

*How sophisticated and well-coordinated is the institutional SME policy framework? Do governments undertake legislative and administrative simplification? Are SME needs taken into consideration when developing legislative and administrative initiatives? Are public-private consultations inclusive and effective?*

Although most economies have in place institutional coordination mechanisms, the lack of comprehensive SME strategies limits the scope and opportunity for developing synergies among implementing agencies and bodies.

- Only Israel and Morocco have put in place all building blocks of a comprehensive and coordinated SME policy (delegation, strategy, coordination, implementation agency).
- Jordan has made significant progress in terms of institutional and strategic development. All other economies do not yet have a well-defined SME strategy, but rely on a set of action plans or general policy guidelines.

Since the 2008 assessment, MED economies have launched initiatives for legislative simplification and regulatory reform. However, the range of activities and their results vary across the region.

- Algeria, Lebanon and Morocco have established inter-ministerial committees for the improvement of the business climate, including by promoting administrative simplification. Israel was already operating these types of committees in 2008.
- Tunisia and Jordan are at early stages of preparing programmes for administrative simplification, while Egypt has suspended its programme of initiative on regulatory reform.
- No MED economy applies systematic assessments of the costs and benefits of new regulations on SMEs (regulatory impact analysis).
- While in a number of MED economies channels of public private consultation on SME policy are well established (Israel, Morocco and PA), in other economies consultations are mostly conducted on an ad-hoc basis.

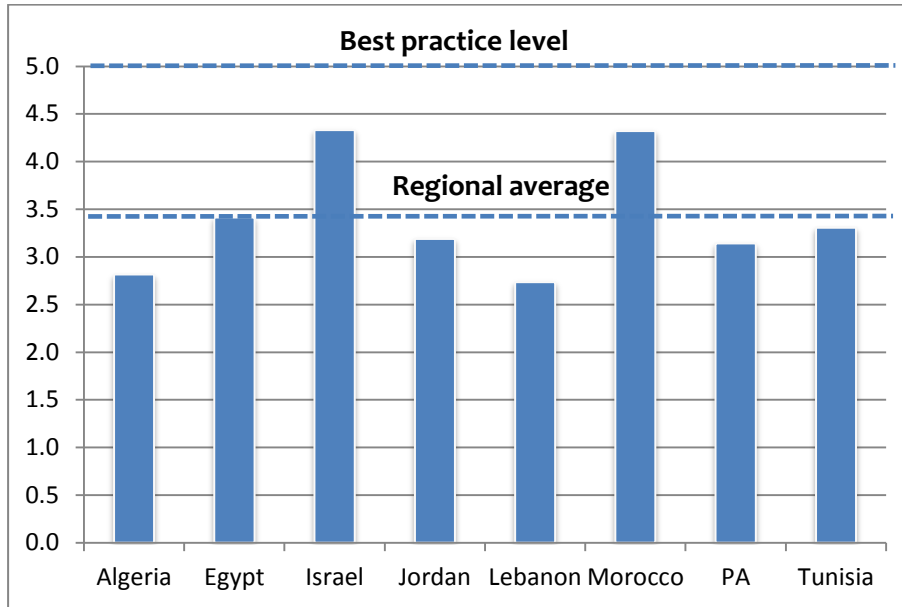
#### **Priority actions**

- *Develop comprehensive SME strategies* that are well-integrated into wider economic development schemes. This should be based on participative processes engaging public institutions, the private sector and all relevant stakeholders.
- *Establish well-defined action plans and objectives, measurable targets, and clear reporting lines.* This is especially important for countries with articulated enterprise support programmes managed by various agencies and specialised funds (Algeria, Egypt, Jordan and Tunisia). Monitoring and evaluation of the results of programmes should also be an integral part of the policy making process.



- *Promote administrative simplification and regulatory impact analysis* as a permanent element of SME policy making and ensure that the *private sector is associated in all policy phases*, from elaboration to implementation and monitoring.

**Figure 3. Institutional and regulatory framework for SME policy making**



Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.

#### 4. OPERATIONAL ENVIRONMENT FOR BUSINESS CREATION

*Have regulations been simplified to reduce the costs and procedures for starting an enterprise? Do MED economies make use of e-government tools to facilitate company registration?*

The administrative procedures to create a business can be divided in three main phases, registration, notification and compliance with licensing and permit requirements.

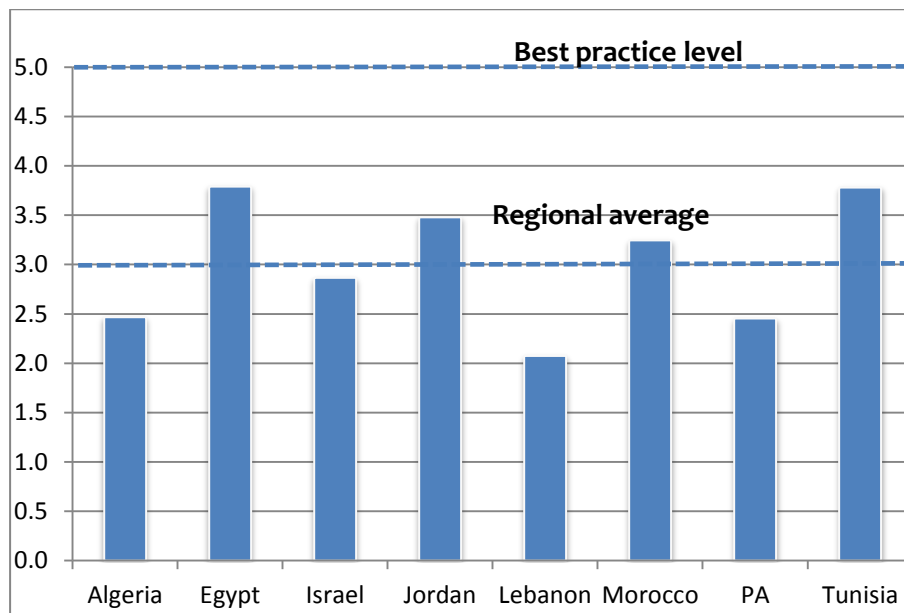
In general, since 2008, MED economies have progressed in this area due to a reduction of company registration costs, the introduction of a single identification number in dealing with the public administration, the introduction or expansion of a one-stop shops network, or better compliance processes.

- On company registration, Algeria has extended its network of one-stop shops while Egypt has three one-stop shop networks covering an important part of its territory.
- Jordan and Tunisia have introduced single identification numbers and Morocco has reduced costs related to starting a business by eliminating minimum capital requirements.
- Company registration processes in Israel and Lebanon are still relatively costly whereas in PA the process is still relatively lengthy.
- The provision of e-government services, including online registration, remains limited. Egypt is the only economy with on-line registration facilities, while Tunisia has recently launched a pilot project.

##### **Priority actions**

- *Establish one-stop-shops to facilitate company registration*, and expand the functions of existing ones.
- *Transform company registration bodies into government agencies* providing a wide range of services (such as managing other registries) to the business community and public administration.
- *Introduce measures* such as the principle of “silence is consent”, on-line registration and notification facilities and the simplification of the registration process for the most common form of businesses. This would help to improve the efficiency of the registration and notification phase.
- Use company registration databases as *systems to collect information on SMEs and entrepreneurs*. Apart from having the purpose of registering companies, these data sources could provide valuable information on entrepreneurs and SME characteristics (gender and levels of education of entrepreneurs, geographical distribution of SMEs, sectors of activity, etc.).

Figure 4. Operational environment for business creation



Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.

## 5. SUPPORT SERVICES FOR SMEs AND PUBLIC PROCUREMENT

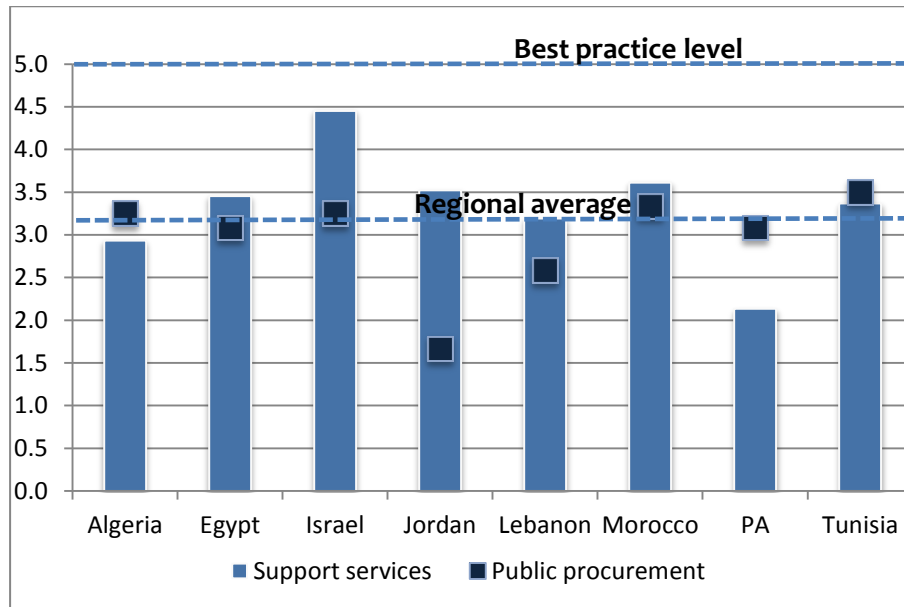
*What kind of support services for SMEs and start-ups are available and accessible? What are the measures in place to support the participation of SMEs in public procurement?*

- As in 2008, a range of business services is provided in all MED economies, in particular in Egypt, Israel, Jordan and Morocco, which offer a well-developed market for tailored services.
- There has been slight overall progress since 2008 regarding the provision of support services and public procurement for SMEs, particularly in Algeria, Lebanon, Jordan and Morocco. Start-up support and incubators are now present in all economies. However, MED economies continue to perform poorly in the collection, analysis and dissemination of relevant information for SMEs through both traditional and online channels.
- All economies, except Jordan, cut tenders into lots to facilitate SME access to public procurement. Algeria, Egypt, Morocco and Tunisia have minimum quotas for SMEs in public procurement.
- With the exception of Tunisia, e-procurement is not a practice in the region.
- Almost all economies have rules on late payments, but application remains patchy.

### **Priority actions**

- *Improve access to information on services for enterprises*, which is currently scattered through different sources. The creation of a single SME web portal and better institutional coordination can improve the quality and availability of such information.
- *Continue the provision of tailor-made support services for SMEs* and extend them to currently unserved or underserved enterprises.
- *Design business support services in a comprehensive way and not only as part of ad-hoc initiatives*. This would reduce overlaps and increase the offer of personalised and comprehensive packages covering different SME needs, from skills development to access to finance and access to markets.
- *Increase efforts to facilitate SME access to public procurement* by effectively enforcing regulations on late payments, cutting tenders into lots and implementing e-procurement systems.

Figure 5. Support services for SMEs and public procurement



Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.

## 6. ACCESS TO FINANCE FOR SMEs

*What are the types and availability of external sources of finance for SMEs? How effective is the legal and regulatory framework for access to finance? Are there measures to promote financial literacy?*

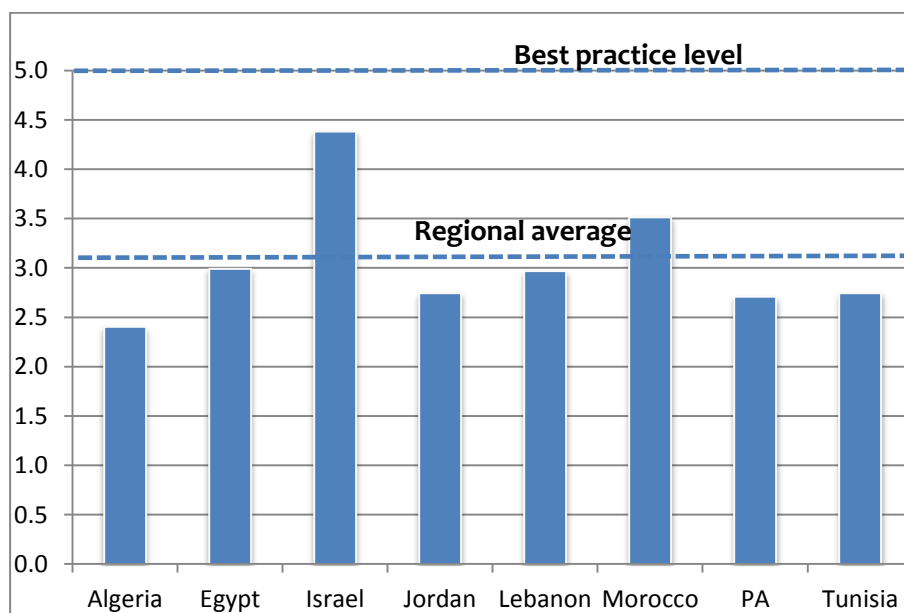
Bank loans are the main source of external finance for SMEs, yet access to bank credit remains limited in the MED region. Furthermore, alternative sources of finance (leasing, factoring, equity capital) are still marginal and the political and economic instability of the last three years have further reduced the availability of external finance for the private sector, particularly in transition countries.

- The regulatory framework for access to finance is still weak and, as a consequence, collateral requirements remain high.
- Credit guarantee schemes are important tools to facilitate SME access to credit. These schemes are present in all MED economies. However, elements that are important for their effectiveness differ.
  - In Algeria, Jordan, and PA, schemes are exclusively funded by public institutions, state banks or foreign donors. Egypt, Israel, Lebanon, Morocco and Tunisia have schemes funded by public organisms and private banks.
  - Across the region, governance rules are not clearly defined and there is little use of risk management tools.
- Microfinance institutions are present in all MED economies and have a reportedly good sub-national coverage. However, most of them are NGOs or state-owned institutions providing a limited range of micro-finance products.
  - Morocco provides the most advanced example of a regulatory framework conducive for microfinance institutions.
  - Jordan reviewed and updated in 2011 its national microfinance strategy adopted in 2005 and is currently reviewing the legal framework governing microfinance institutions.
- With the exception of Israel, business angel networks are mostly underdeveloped and informal. Public support remains limited, although there are pilot projects and policy awareness plans in Jordan, Lebanon, Morocco, and Tunisia.
- Significant progress has been achieved by all MED economies since 2008 in terms of the coverage and quality of credit information systems. Algeria, Jordan, and Tunisia have also introduced registries for moveable assets, although not all of them are fully operational. However, the legal framework for creditor rights is weak in all economies except for Israel.
- Egypt, Lebanon and Morocco are now undertaking efforts to strengthen financial literacy.

## Priority actions

- **Strengthen legislation on secured transactions and creditor rights.** Without stronger creditor rights, supported by law enforcement and effective credit registries, collateral requirements will remain excessively high, contributing to credit rationing access for SMEs.
- **Improve the reliability and access to cadastres and registries of movable assets,** while at the same time extending the coverage of the public and private credit bureaus or establishing them where they are not yet in place.
- **Strengthen bank competition,** as the banking sector remains highly concentrated and banks have few incentives to tailor financial and lending products to SME needs. Upgrading the regulatory framework and promoting the development of alternative financial products, such as leasing, discounting and factoring, should also be a priority.
- **Foster the development of alternative financial facilities,** including business angel networks for firms with high growth potential, seed funds for innovative enterprises and equity financing for more established SMEs.
- **Enhance financial literacy** among SMEs owners and managers to increase the ability of SMEs to effectively assess their financing needs and options.

Figure 6. Access to finance for SMEs



Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.

## 7. SUPPORTING SMEs TO BENEFIT FROM EURO-MED NETWORKS AND PARTNERSHIPS

*How active are MED economies in promoting business partnerships and networks in the Euro-Mediterranean region? What are the initiatives in place?*

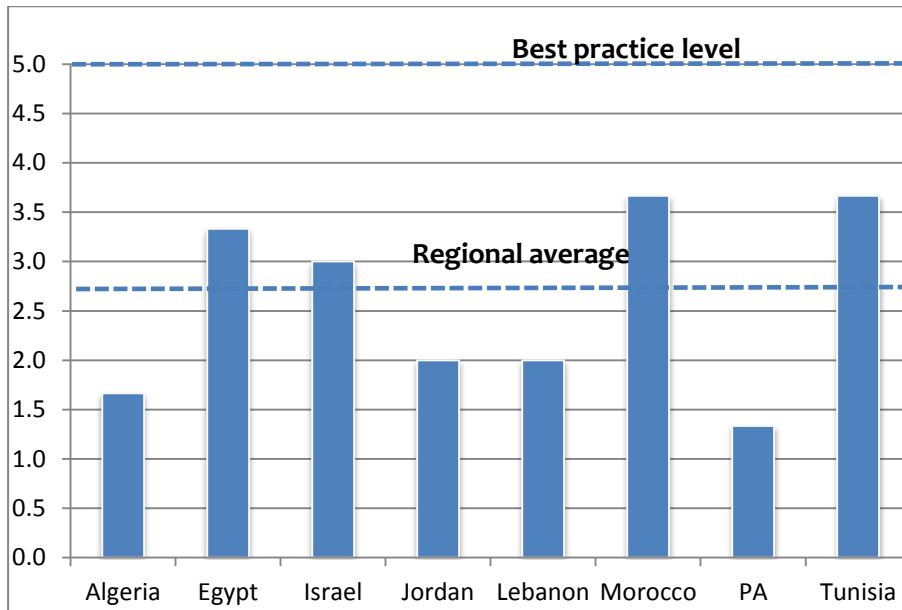
- There has been modest progress since 2008 in the promotion of Euro-MED enterprise networks and partnerships. All MED economies have at least one pilot project to promote the development of clusters and networks, although a connection to Euro-MED initiatives is missing in all cases except for Egypt, Lebanon, Israel, Morocco and Tunisia.
- Morocco and Tunisia have introduced relevant initiatives to promote Euro-MED enterprise co-operation although their sustainability and impact will need to be monitored and evaluated.
- In Israel the emphasis is on the promotion of co-operative projects and partnerships for R&D, while Egypt has a number of initiatives to promote partnerships between Egyptian and EU enterprises.
- The rest of the MED economies have no specific initiatives for the promotion of Euro-MED networks and partnerships. These economies have partially or fully donor-funded programmes aimed at the development of domestic clusters, with no obvious Euro-MED connection.

### Priority actions

- ***Promote intra-MED enterprise networks and partnerships.*** The assessment reveals that most measures in MED economies are focused on the promotion of networks and partnerships with EU countries, and that there are a limited number of initiatives on intra-MED enterprise co-operation.
- ***Support enterprise networks and partnerships in key activities.*** The assessment shows that there is significant focus on the promotion of R&D and technology-based networks and partnerships, with a limited attention to other areas. Without denying the relevance of R&D and technology promotion initiatives, support for Euro-MED enterprise co-operation in other economic activities could also prove fruitful for enterprise development and job creation.
- ***Better monitor and evaluate initiatives to promote networks and partnerships.*** All information on measures in this area is rather descriptive of objectives and tasks, while there is almost no evidence on the effectiveness of the initiatives. Monitoring and evaluation of initiatives in these areas, as in all other policy areas, should be therefore strengthened.



**Figure 7. Supporting SMEs to benefit from Euro-MED networks and partnerships**



Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.

## 8. ENTERPRISE SKILLS AND INNOVATION

### a) Enterprise skills

*Are training and advisory services widely available to SMEs? How do MED economies assess the quality of training and learning outcomes?*

- Some improvement has been made in bringing forward skills promotion for SMEs notwithstanding the political turmoil of the region in recent years. Nevertheless, greater commitment and responsibility is required from national governments, the business community and training providers for greater national coordination.
- The availability of training for SMEs has increased, especially in the area of internationalisation. However, data and information are lacking to assess the effectiveness of initiatives.
- Evidence on the needs of SMEs in terms of skills is not consistently collected and analysed which hampers better tailoring support for start-ups and SME growth.

### Priority actions

- *Secure reliable and systematic data* intelligence on the skills requirements of SMEs and training availability and uptake. Without this data it is difficult to gauge the impact of any policy and to adopt actions for sustainable improvement.
- *Develop national quality assurance systems for enterprise training* especially for businesses seeking to operate internationally. Linking up and building upon the many successful initiatives within each economy would be an effective starting point.
- *Promote awareness and understanding of the mutual interest for providing small business support*, for instance by organising an annual event such as a platform for Public Private Partnership. The event would provide an opportunity for exchanging ideas from various stakeholders including training providers, sector specific associations, educational institutions, public institutions and other stakeholders which could give feedback on applied policies and help to formulate further recommendations for amendments or additions.
- *Organise South-South peer review exercises* to analyse good practices, share expertise, celebrate successes and expedite the reform process. Such initiatives could be adopted by governments as an integral part of the national enterprise skills development strategy.

### b) Innovation

*Is innovation policy coherent and strategic in supporting SME growth? What policy tools have been implemented to support technology transfers to SMEs?*

Innovation was identified as a relatively weak area in the 2008 assessment:

- Among all MED economies, only Israel had an advanced innovation policy geared towards the enterprise sector, while Egypt and Tunisia had put in place some key policy instruments, such as

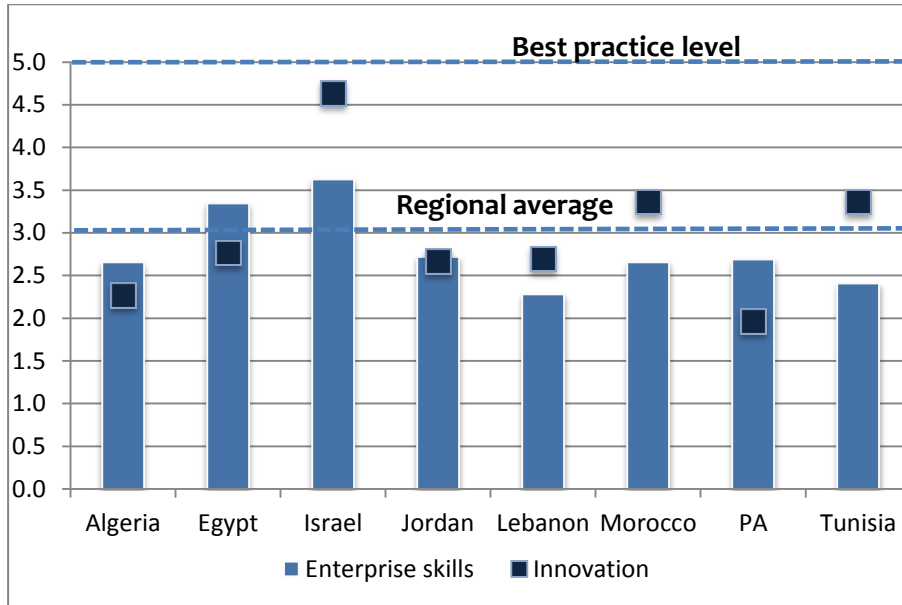
technological centres and science/technological parks. All other economies were at an early stage of development, with projects mostly at a pilot stage.

- In 2013, MED economies have made progress in developing an innovation policy framework. Promoting innovative enterprises is now a stated objective of SME policy. All economies have today an innovation strategy covering SMEs or are currently developing one, with the exception of PA and Algeria.

### **Priority actions**

- ***Build a complete framework to support innovation in SMEs.*** The MED economies have taken steps to improve the innovation policy framework and to increase the non-financial and financial service provision for SMEs. Yet, with the exclusion of Israel, none of the MED economies has built up a solid framework supporting innovation, particularly in SMEs.
- ***Establish an innovation coordination body,*** chaired by a high political authority and supported by a well-structured secretariat. This will ensure that widespread policy exchange, coordination and consultation with stakeholders and civil society are carried out effectively.
- ***Carefully monitor and evaluate measures to promote innovation*** in order to gauge their impact and enable prioritisation in the future. This is especially important for economies that have started to introduce public policy measures supporting innovation in SMEs, such as Egypt, Jordan, Morocco and Tunisia. Improved data collection and regular follow-up are a precondition for this.
- ***Better inform SMEs about the financial and non-financial services*** provided by the government, NGOs, associations and private organisations to increase awareness of those services and participation. This could be achieved through the establishment of an interactive and centralised online database. All public and private service providers could use this website as a tool to promote their services and regularly update and check the information.
- ***Support the creation and expansion of networks and clusters*** for the introduction of new technologies, products and processes, as well as access to advanced business and financial services and technical laboratories. National and international research and development networks, cluster co-operation and linkage programmes should be clearly targeted, in order to promote knowledge and technology spill-overs among SMEs.

Figure 8. Enterprise skills and innovation



Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.

## 9. SMEs IN A GREEN ECONOMY

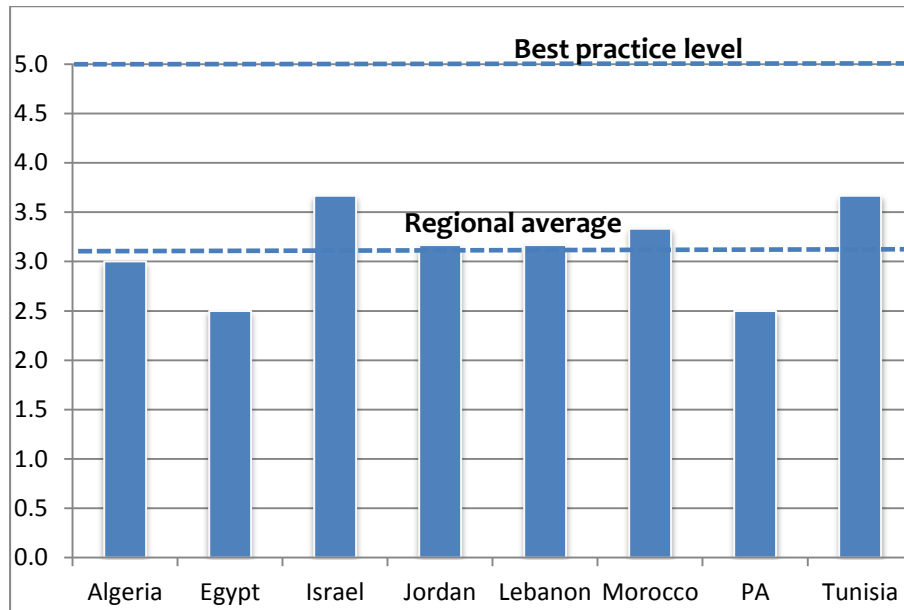
*What do MED economies do to promote eco-innovation and eco-efficiency among SMEs? Are SMEs aware of those initiatives?*

- All MED economies have developed strategic documents or laws to promote sustainable development, green growth and cleaner production. However, the degree to which these documents refer to the SME sector varies across economies and in several cases their application to SMEs remains a key challenge.
- Conversely, the integration of actions to promote eco-innovation and eco-efficiency in SME policy frameworks remains scarce.

### **Priority actions**

- ***Include eco-efficiency and eco-innovation as elements in enterprise policy*** (particularly in SME strategies) and associate them with clear measures and targets in action plans for greening SMEs.
- ***Facilitate access to information for SMEs*** on relevant existing and forthcoming legislation, tools to enhance environmental management, and funding opportunities for green innovations and best practices.
- ***Support the implementation of effective environmental management systems (EMS)***. This should include disseminating information about EMS and standards and when relevant, providing financial or fiscal incentives for companies wishing to acquire environmental certifications. Cost sharing schemes, such as voucher schemes or partial reimbursement of consultancy fees could prove useful. Eventually, governments could make EMS a requirement by public procurement rules.

Figure 9. SMEs in a green economy



Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.

## 10. INTERNATIONALISATION OF SMEs

*To what extent do MED economies implement a pro-active trade policy? What are the efforts in terms of the simplification of procedures for foreign trade?*

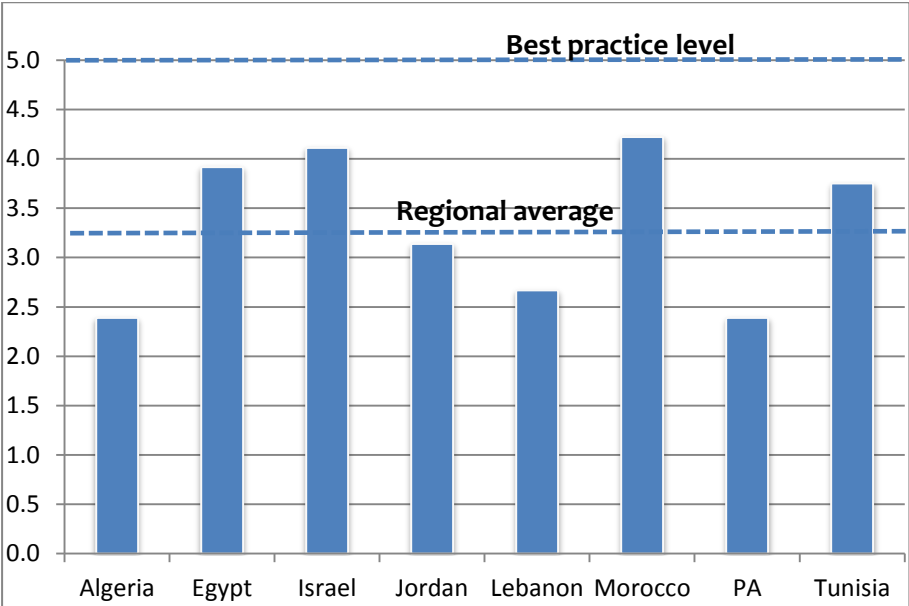
Trade is a complex policy area needing well-articulated export promotion measures linking trade policy and simplification of procedures, the reduction of transaction costs and export promotion activities, among others.

- Since the 2008 assessment, MED economies have accomplished progress in terms of promoting access to foreign markets. Among the most important developments are the establishment in Morocco of a National Pact for Industrial Emergence, which sets priorities and targets to promote exports and competitiveness and to better integrate the country in the global economy.
- Algeria, Jordan, Tunisia and PA have also progressed through the signature of new co-operation and trade agreements, whereas Egypt, Israel, Morocco and Tunisia have fostered the simplification of trade procedures by electronic means.
- MED governments have export promotion agencies and other trade-specialised institutions (such as export credit guarantees and import-export banks) to support exporters and implement export promotion strategies.
- The most active export promotion agencies (Egypt, Israel and Tunisia) provide a wide range of services to exporters, including personalised services of market intelligence, market research, and search of trade partners, and to maintain a presence in all the most important export markets through commercial offices.

### Priority actions

- *Update or adopt strategic approaches towards export promotion* by developing or implementing clear strategies in this area.
- *Increase efforts for the facilitation of trade through electronic procedures and virtual one-stop-shops*. Promote greater acceptance of electronic forms and procedures among users.
- *Efforts to promote and facilitate trade have yet to yield results*. Despite the existence of a number of bilateral and regional trade and cooperation agreements, intra-regional trade remains limited: MED economies exports are mostly destined to countries outside the region.

Figure 10. Internationalisation of SMEs



Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.



## EURO-MED SBA FACT SHEET: ALGERIA

Over the last five years Algeria has pursued a strategy of economic diversification, through pro-active private sector development policies. As part of this process, it has allocated significant resources to the promotion of entrepreneurship and to SME support. Many building blocks of a comprehensive SME policy are now in place. This represents significant progress compared with the evidence resulting from the 2008 assessment. However, there are still relevant gaps in the policy framework, particularly in relation to institutional coordination and the lack of strategic guidelines.

- An ambitious programme of enterprise upgrading was launched in 2010, supported by a large budget, but its implementation is slow and demand for services from local enterprise remains subdued.
- Actions have been taken to improve the business environment, starting with the simplification of company registration procedures, but progress remains slow and impaired by complex institutional coordination issues.
- Availability of training for SMEs has considerably increased since 2008, however no evidence of uptake is provided. Entrepreneurial learning lacks the necessary policy support to be promoted at all education and training levels.

### Priority Actions

- ***Elaborate a multi-year SME development strategy*** coherent with the country economic diversification plans. The strategy elaboration should be preceded by an in-depth and participatory diagnostic study on the constraints and opportunities associated with entrepreneurial activity, including a comprehensive analysis of the business climate and a review of the current incentive system and financial support schemes. The current SBA assessment should be an essential starting point for the development of the in-depth diagnostic study and SME strategy.
- ***Introduce programme monitoring and evaluation tools***, and strengthen consultation mechanisms to balance the current top-down approach to policy making and address the issues of policy coordination and policy efficiency. This could be done while extending the scope of current policy instruments and allocating additional resources to the promotion of entrepreneurship and SME development.
- ***Design and test market oriented mechanisms*** supporting innovative enterprises and promoting technological transfers, FDI investment in small ventures and the integration of Algerian enterprises in international supply chains.
- ***Develop a comprehensive policy framework to ensure entrepreneurship is recognised as a key competence*** taught from primary to tertiary school level. Set-up mechanisms for systematic analysis of SMEs skills needed to better tailor training services.

## Profile: Algeria

### Key SME and entrepreneurship facts

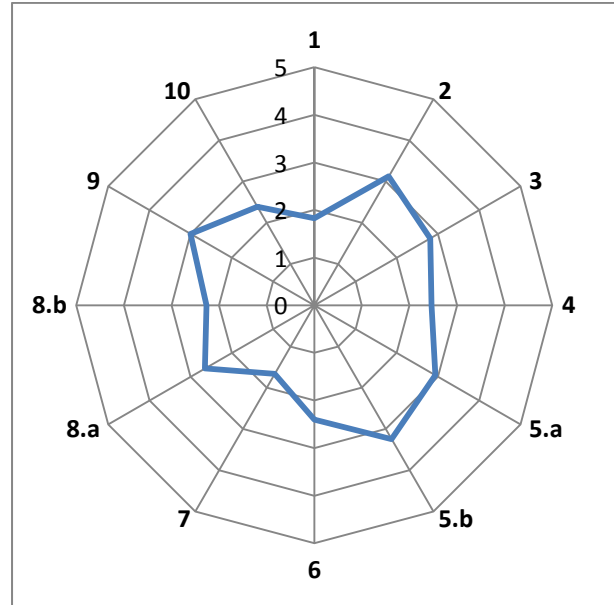
- New enterprises per 1 000 working age people: 0.44 (compared to 4.75 in the OECD).<sup>(1)</sup>
- SMEs per 1 000 inhabitants: 18.2 (compared to an average of 31 in 131 countries).<sup>(2)</sup>
- SMEs employ 13.9% of the total workforce (compared with an average of 45% in upper-middle-income economies).<sup>(2)</sup>
- 96% of new SMEs created in 2012 were micro firms.<sup>(3)</sup>
- 48.6% of SMEs operate in services, compared to 16% in manufacturing activities.<sup>(3)</sup>

1. Newly registered companies with limited liability per 1 000 working-age people (those ages 15-64). Average for 2004-2012. OECD countries for which data is available. Source: World Bank (2014), *Entrepreneurship Database*, Washington DC.

2. 2009. Source: IFC (2014), *MSME Country Indicators*, Washington DC.

3. Source: Ministère du développement industriel et de la promotion de l'investissement (2013), *Bulletin d'information statistique de la PME ; Données du 1<sup>er</sup> semestre 2013*, Number 23, November. Algiers.

### SBA Scores



1. Education and training for entrepreneurship, including women's entrepreneurship.
  2. Efficient bankruptcy procedures and "second chance" for entrepreneurs.
  3. Institutional and regulatory framework for SME policy making.
  4. Operational environment for business creation.
  - 5.a Support services for SMEs and 5.b public procurement.
  6. Access to finance for SMEs.
  7. Supporting SMEs to benefit from Euro-MED networks and partnerships.
  - 8.a Enterprise skills and 8.b innovation.
  9. SMEs in a green economy.
  10. Internationalisation of SMEs.
- Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.

## EURO-MED SBA FACT SHEET: EGYPT

Over the last five years there have not been significant changes in the overall SME policy framework or in the introduction of new SME policy instruments. The momentum driving horizontal policy reforms has been partly lost, due to the phase of political transition following the events of 2011. At the same time the 2013 assessment shows that the institutions in charge of SME policy have continued to operate and coordination has improved at the operational level.

- The overall operational environment for SMEs has recently deteriorated, mostly due to the impact of macro-economic and social factors.
- The institutional framework remains fragmented with the SME policy mandate assigned to several institutions with limited institutional coordination. A comprehensive medium term SME strategy is lacking and support for innovative enterprises is at an early implementation phase.
- Egypt has made incremental progress on simplifying company registration procedures, now close to international good practices.
- A new innovation strategy has been elaborated and new schemes have been developed to support innovation in SMEs, although most of those schemes are in the initial implementation phase. There have been improvements in the regulatory framework for access to finance, notably with the extension of the activities of the credit bureau, but private enterprises, already suffering from a limited access to bank financing, are increasingly crowded-out by public borrowing at high interest rates. There is high availability of training for SMEs, but more efforts are needed to better know SMEs' skills needs. The education and training system still lacks a comprehensive policy framework promoting entrepreneurial learning at all levels.

### Priority Actions

- ***Complete the elaboration of a new SME development strategy***, currently under the coordination of the Social Fund for Development, in order to develop a common vision, set an official and unified SME definition, support enterprise development through the entire business life cycle and to introduce monitoring and impact evaluation tools.
- ***Resume initiatives aimed at improving the operational environment***. In particular, it is vital that the wealth of information and skills developed in the initial phase of the ERRADA (administrative simplification and reform) programme are not lost and regulatory reform continues to advance.
- ***Strengthen creditor rights and secured lending***. This will open the way to reduce high collateral requirements and will induce banks to increase SME lending.
- ***Develop a comprehensive policy framework to ensure entrepreneurship is recognised as a key competence*** taught from primary to tertiary school levels. Set-up mechanisms for the systematic analysis of SMEs skills needed to better tailor training services.

## Profile: Egypt

### Key SME and entrepreneurship facts

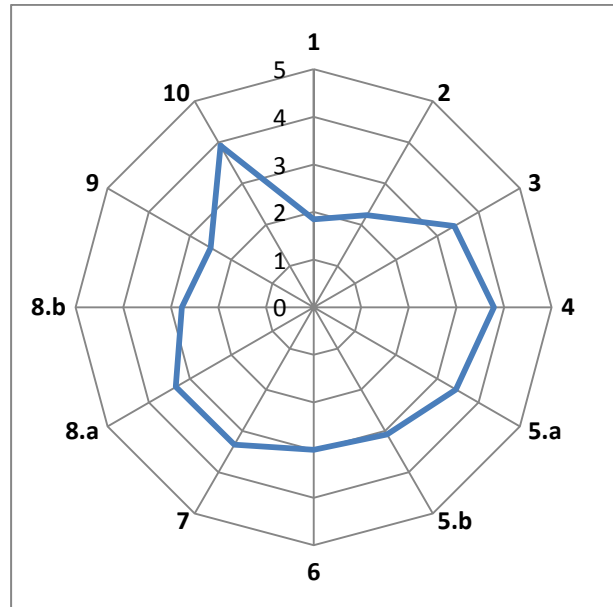
- New enterprises per 1 000 working age people: 0.13 (compared to 4.75 in the OECD).<sup>(1)</sup>
- 2.5 million SMEs, representing 99% of non-agricultural private sector establishments and 75% of the total employed workforce.<sup>(2)</sup>
- SMEs have a small capital base: 82.6% have capital of 250 000 Egyptian pounds (EUR 26 540) or less.<sup>(2)</sup>
- 51% of SMEs are in manufacturing, and 40% in trade.<sup>(2)</sup>
- 6% of SMEs export<sup>(2)</sup> (compared to 12.5% in OECD countries).<sup>(3)</sup>

1. Newly registered companies with limited liability per 1 000 working-age people (those ages 15-64). Average for 2004-2012. OECD countries for which data is available. Source: World Bank (2014), *Entrepreneurship Database*, Washington DC.

2. Source: El-Said, Hala, Al-Said, Mahmoud & Chahir Zaki (2011). *Small and Medium Enterprises Landscape in Egypt: New Facts from a New Dataset*. Cairo.

3. 2010 or latest year for 23 OECD countries for which data is available. Source: OECD (2013) *Entrepreneurship at a Glance*. Paris.

### SBA Scores



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- Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.

## EURO-MED SBA FACT SHEET: ISRAEL

Israel has developed a solid framework for SME policy, broadly in line with the principles of the Small Business Act for Europe. Over the last five years, Israel's overall performance has not substantially changed. The most important developments have been the establishment of a SME development agency, the creation of a new SME development strategy and a new Law for Supporting Small Business.

- The new SME development agency (the SMBA) has extended its activities to facilitate access to services and to finance for entrepreneurs based in relatively less developed regions or belonging to less favoured groups.
- Regulatory reform and administrative simplification remain weak. Company registration is relatively costly. The administrative burden for SMEs is heavy while regulatory reform is proceeding at a relatively slow pace and regulatory impact analysis is progressively introduced.
- There is excellent provision of training for SMEs through cohesive policies and support programmes. Entrepreneurship as a key competence still lacks a comprehensive policy framework to be promoted at all school levels.

### Priority Actions

- ***Accelerate the regulatory reform process***, starting with areas with the highest level of administrative burden, such as property registration, the issuance of construction permits and paying taxes.
- ***Improve the company registration and notification process*** through the establishment of an on-line registration system and the extension of the network of one-stop-shops. Cut the time required to register with different branches of the public administration.
- ***Promote equity investments in non-technological companies***. While the equity finance ecosystem for technological oriented companies is well developed, there are few funds and facilities for equity investments in non-high-tech companies.
- ***Develop a comprehensive policy framework to ensure entrepreneurship is recognised as a key competence*** taught from primary to tertiary school level. Set-up mechanisms for systematic analysis of SMEs skills needed to better tailor training services.

**Profile: Israel**

**Key SME and entrepreneurship facts**

- New enterprises per 1 000 working age people: 3.33 (compared to 4.75 in the OECD).<sup>(1)</sup>
- SMEs per 1 000 inhabitants: 30 (compared to an average of 31 in 131 countries).<sup>(2)</sup>
- Share of persons employed by SMEs in the manufacturing sector: 58% (similar to the OECD average of 60%).<sup>(3)</sup>
- Share of persons employed by SMEs in services: 67% (similar to the OECD average of 70%).<sup>(3)</sup>
- Of the total population of enterprise (501,676), 99% are SMEs, of which 86% are micro firms.<sup>(4)</sup>
- 80% of SME credit is provided by banks.<sup>(4)</sup>

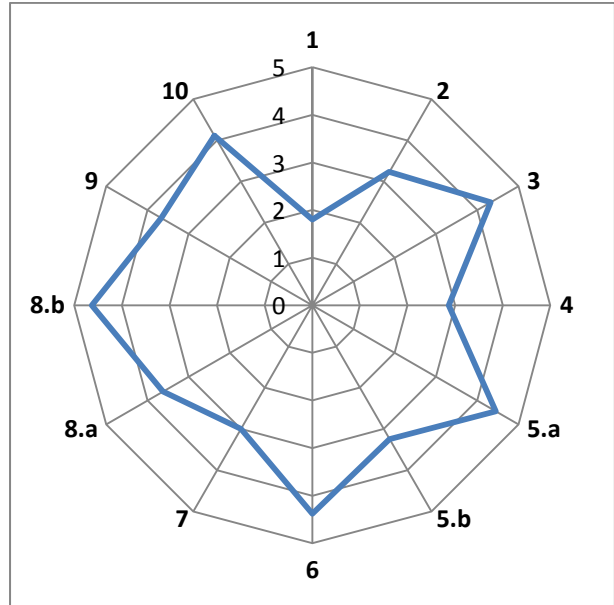
1. Newly registered companies with limited liability per 1 000 working-age people (those ages 15-64). Average for 2004-2012. OECD countries for which data is available. Source: World Bank (2014), *Entrepreneurship Database*, Washington DC.

2. Data for 2008. Source: IFC (2014), *MSME Country Indicators*, Washington DC.

3. Source: OECD (2013). *Entrepreneurship at a Glance*. Paris.

4. Share for 2013. Source: OECD (forthcoming). *Financing SMEs and Entrepreneurs 2014: An OECD Scoreboard (Draft Report)*. OECD, Paris.

**SBA Scores**



1. Education and training for entrepreneurship, including women's entrepreneurship.
  2. Efficient bankruptcy procedures and "second chance" for entrepreneurs.
  3. Institutional and regulatory framework for SME policy making
  4. Operational environment for business creation.
  - 5.a Support services for SMEs and 5.b public procurement.
  6. Access to finance for SMEs.
  7. Supporting SMEs to benefit from Euro- MED networks and partnerships.
  - 8.a Enterprise skills and 8.b innovation.
  9. SMEs in a green economy.
  10. Internationalisation of SMEs.
- Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.

## EURO-MED SBA FACT SHEET: JORDAN

The 2013 assessment shows that Jordan's overall performance in the SME policy has remained largely unchanged since 2008, even if incremental improvements have been made in a limited number of policy indicators.

- On the institutional framework, the most significant development is the elaboration of a new SME development strategy for 2014-2018, which sets a new range of medium term objectives, organised by enterprise groups, and puts emphasis on enterprise growth.
- The implementation of the new strategy should facilitate policy coordination and contribute to make public policy towards SMEs more effective. The Jordan Enterprise Development Corporation (JEDCO), the main public enterprise development agency, is expected to play a more prominent role on policy advocacy, coordination and policy implementation.
- There has been limited progress on regulatory reform, except for the introduction of a single company identification number and the approval of legislation regulating the establishment of private credit bureaus.
- Progress is registered at project level in the promotion of entrepreneurial learning and good practices have been developed and shared among schools. The skills needs of SMEs are not yet systematically analysed to improve the relevance of training offered.

### Priority Actions

- ***Focus on further improving the regulatory framework.*** As a relatively small open economy without significant natural resources, Jordan should facilitate and develop a business environment facilitating inward investment and enterprise growth, particularly in technologically advanced sectors. It will also be useful to introduce regulatory impact analysis in order to evaluate the impact of new regulations.
- ***Strengthen creditor rights and address information asymmetries between lenders and borrowers*** by reforming the bankruptcy law, introducing credit information and credit ratings bureaus. This will contribute to reduce collateral requirements and open access to bank financing to a larger number of SMEs, particularly those with intangible assets and growth potential.
- ***Increase support to innovative enterprises***, particularly those operating in high value added sectors. This could be done by expanding the network of business incubators and by developing financial assistance tools during the expansion phase, through seed equity financing or through combining a credit guarantee facility with a credit line facility.
- ***Develop a comprehensive policy framework building on good practices to ensure entrepreneurship is recognised as a key competence*** taught from primary to tertiary school level. Set-up mechanisms for systematic analysis of SMEs skills needs to better tailor training services.

**Profile: Jordan**

**Key SME and entrepreneurship facts**

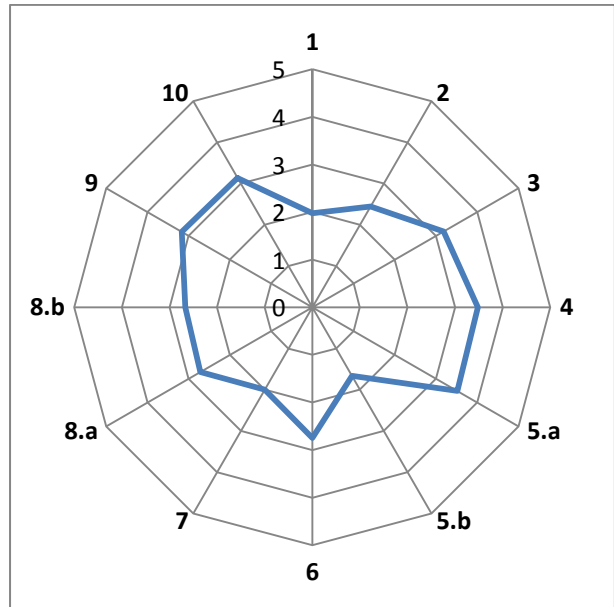
- New enterprises per 1 000 working age people: 0.69 (compared to 4.75 in the OECD).<sup>(1)</sup>
- SMEs per 1 000 inhabitants: 25.6 (compared to an average of 31 in 131 countries).<sup>(2)</sup>
- SMEs employ 31% of the total workforce (compared with an average of 45% in upper-middle-income economies).<sup>(2)</sup>
- SMEs account for 40% of total GDP.<sup>(3)</sup>

1. Newly registered companies with limited liability per 1 000 working-age people (those ages 15-64). Average for 2004-2012. OECD countries for which data is available. Source: World Bank (2014), *Entrepreneurship Database*, Washington DC.

2. Data for 2007. Source: IFC (2014), *MSME Country Indicators*, Washington DC.

3. Source: Jordan Department of Statistics (2011), *Establishment Census*, Amman.

**SBA Scores**



1. Education and training for entrepreneurship, including women's entrepreneurship.
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  3. Institutional and regulatory framework for SME policy making
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- Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.



## EURO-MED SBA FACT SHEET: LEBANON

Lebanon has made incremental progress in a number of policy dimensions over the last five years. However, the institutional framework for SME policy remains relatively weak and under-developed. A specific feature of Lebanon is the presence of a number of independent initiatives and institutions operating according to high international standards, such as the three regional business development centres, the technological incubators, the equity funds and the Kafalat credit guarantee institution.

- The main achievement over the last five years has been the beginning of the elaboration of a new national SME development strategy.
- In 2010 the government launched a programme aimed at improving the business climate and the regulatory framework. On access to finance, the most noticeable development has been, with the support of the European Union, the introduction by Kafalat of a scheme combining a credit line with a credit guarantee facility for innovative companies.
- The quality of the business environment is affected by old regulations, while well organised professional organisations resist reforms, as is the case with the reform of the company registration process.
- Entrepreneurial learning has been piloted in a number of schools given the lack of a comprehensive policy framework. No progress has been registered in the supply of training to SMEs in comparison to the previous assessment.

### Priority Actions

- ***Improve inter-ministerial coordination***, particularly between the Ministry of Industry and the Ministry of Economy and Trade, as their affiliated agencies have mandates related to the SME policy. It will be particularly useful to introduce a consultative committee on SME policy open to all stakeholders, including independent experts, donors and private sector representatives.
- ***Complete the reform of the company registration process*** which is the most expensive in the region. In addition introduce one-stop-shops across the country, in line with the reform plans designed with the support of IFC.
- ***Simplify foreign trade procedures*** including through the introduction of computerised procedures for customs clearance. This would be a particularly important initiative given Lebanon's high reliance on international trade.
- Building on good practices, ***develop a comprehensive policy framework to ensure entrepreneurship is recognised as a key competence*** taught from primary to tertiary school level. Set-up mechanisms for systematic analysis of SMEs skills needed in order to better tailor training services.

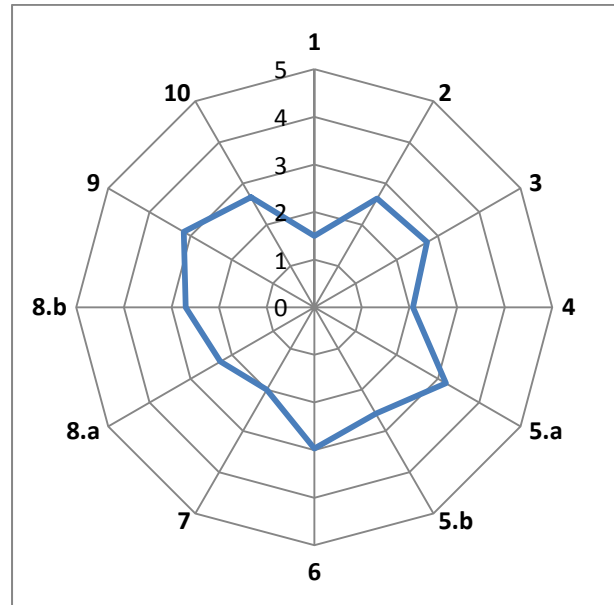
## Profile: Lebanon

### Key SME and entrepreneurship facts

- 97.5% of SMEs are micro-enterprises.
- SMEs employ 12% of the total workforce (compared to 45% in upper-middle-income economies).
- 62.6% of SMEs operate in the trade sector, 21.4% in services and 11.2% in manufacturing.

Source: Data for 2004. Source: IFC (2014), *MSME Country Indicators*, Washington DC.

### SBA Scores



1. Education and training for entrepreneurship, including women's entrepreneurship.
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- Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.

## EURO-MED SBA FACT SHEET: MOROCCO

Morocco has made substantial progress in implementing policies promoting entrepreneurship and supporting SMEs. Progress has been achieved across most of the dimensions of the Small Business Act for Europe. Working in a systematic manner over the years, Morocco has developed a solid institutional framework for SME policy, improved the quality of its institutions and introduced a wide range of supporting schemes, covering all segments of the SME population, from new entrepreneurs to well established companies, and from micro to high growth enterprises.

- The quality of its policy framework is approaching those of the EU-12 countries and the level of convergence towards EU policies in the SME area is quite advanced. There are areas that still require action, such as bankruptcy and “second chance”, access to finance and skills development. There is at the same time an increased capacity to tackle complex reforms.
- One of the main developments over the last five years has been the establishment of a national committee for the improvement of the business environment and the launching of an action plan tackling regulatory reform and the upgrading of business legislation. A new dedicated strategy for micro-enterprises has been elaborated, while the national SME development agency (ANPME) has launched a first impact evaluation of its main support schemes. A new enterprise innovation strategy is under implementation.
- Universities have progressed in their collaboration with business. However, entrepreneurship as a key competence still lacks the comprehensive policy framework to ensure it is promoted at all school levels. Training for SMEs should be better adapted to their skills needs.

### Priority Actions

- *Extend the ability to collect timely and comprehensive data and information* on SME performance through the implementation of the SME Observatory. This would also allow better monitoring and evaluation of the different policy instruments.
- *Speed-up the introduction of a single company identification number*, given that the preparatory work is well advanced. The introduction of a single identification number will allow for more efficient communication between enterprises and the public administration and will contribute to the production of better business statistics, including data on business demography.
- *Enhance creditor rights* in order to reduce collateral requirements, and to diversify the sources of external finance for high growth SMEs, for instance by developing networks of business angels. Given the progress achieved in other areas related to access to finance and in particular with the establishment of a public-private credit information bureau, this may contribute to the reduction collateral requirements.
- *Develop a comprehensive policy framework to ensure entrepreneurship is recognised as a key competence* taught from primary to tertiary school level. Building on the existing good practices set-up mechanisms for systematic analysis of SMEs skills need in order to better tailor training services.

## Profile: Morocco

### Key SME and entrepreneurship facts

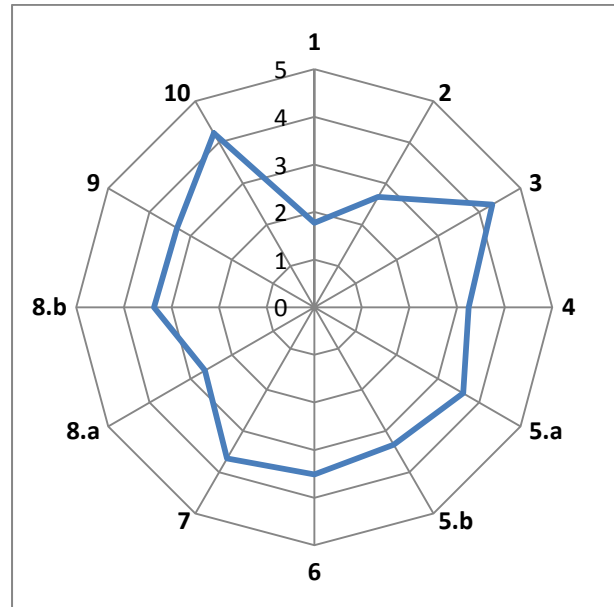
- New enterprises per 1 000 working age people: 0.96 (compared to 4.75 in the OECD).<sup>(1)</sup>
- SMEs per 1 000 inhabitants: 25.4 (compared to 31 in other countries).<sup>(2)</sup>
- SMEs employ 21.6% of the total workforce (compared to 45% in upper-middle-income economies).<sup>(2)</sup>
- 44.4% of SMEs operate in services, 37.2% in manufacturing sectors and 17.6% in trade.<sup>(2)</sup>
- SMEs account for 40% of total GDP and 31% of total exports.<sup>(3)</sup>

1. Newly registered companies with limited liability per 1 000 working-age people (those ages 15-64). Average for 2004-2012. OECD countries for which data is available. Source: World Bank (2014), *Entrepreneurship Database*, Washington DC.

2. Data for 2002. Source: IFC (2014), *MSME Country Indicators*, Washington DC.

3. CDVM (Conseil déontologique des valeurs mobilières), (2011), *Le financement des PME au Maroc*, Royaume du Maroc, May 2011.

### SBA Scores



1. Education and training for entrepreneurship, including women's entrepreneurship.
  2. Efficient bankruptcy procedures and "second chance" for entrepreneurs.
  3. Institutional and regulatory framework for SME policy making
  4. Operational environment for business creation.
  - 5.a Support services for SMEs and 5.b public procurement.
  6. Access to finance for SMEs.
  7. Supporting SMEs to benefit from Euro- MED networks and partnerships.
  - 8.a Enterprise skills and 8.b innovation.
  9. SMEs in a green economy.
  10. Internationalisation of SMEs.
- Note: Indicators are structured around five levels of policy reforms, with 1 being the weakest and 5 the strongest.

## EURO-MED SBA FACT SHEET: PA

PA has made incremental progress in a number of policy dimensions, particularly access to finance. However, the support of public policy to private enterprises remains limited compared to other MED economies. Many initiatives are directly conducted by NGOs and private sector associations supported by donors.

- PA launched two credit guarantee schemes, improved the regulatory framework for micro-finance institutions, set up equity funds covering SMEs and established a state of the art credit bureau. The Palestinian Monetary Authority has substantially contributed to the improvement of the regulatory framework and provided technical support for the implementation of the different projects.
- The institutional framework remains incomplete due to the lack of a SME development strategy. However, progress has been made on policy coordination with the establishment of a Public Sector Coordination Council. Work on administrative simplification and regulatory review is still at a very early phase, but some limited progress has been achieved with the elimination of the minimum capital requirements in the company registration process.
- Some progress has been registered in promoting entrepreneurial learning in secondary schools. However the country needs a comprehensive policy framework to ensure entrepreneurship is taught at all school levels. A better knowledge of the skills needs of SMEs would improve the relevance of the training offered.

### Priority Actions

- ***Strengthen the institutional framework and elaborate a multi-year SME development strategy.*** This will allow setting objectives shared by all SME stakeholders and establish a common platform integrating projects currently conducted by a variety of actors, from NGOs, donors, private sector organisations and government agencies. In addition, it may encourage stakeholders to share experiences.
- ***Modernise business legislation and introduce a new company and bankruptcy law.*** Extensive preparatory work has been conducted, but the blockage of legislative activity has hampered the finalisation of new legislation. The cost of operating on the basis of an outdated legislation is considerable, as most of the business disputes end up being settled outside the court system.
- ***Complete the reform of the company registration and business start-up process,*** currently ongoing with the support of the IFC. The reform should aim at cutting the time and cost for the establishment of new enterprises, contributing to reduce informality, and to the establishment of a reliable company register.
- ***Develop a comprehensive policy framework to ensure entrepreneurship is recognised as a key competence*** taught from primary to tertiary school level. Building on the existing good practices set-up mechanisms for systematic analysis of SMEs skills needed in order to better tailor training services.

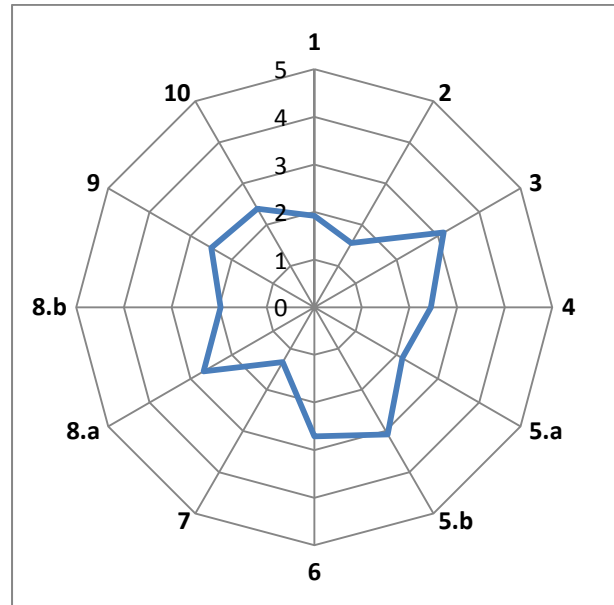
## Profile: PA

### Key SME and entrepreneurship facts

- 96.9% of SMEs are micro-enterprises.
- SMEs employ 82% of the total workforce (compared to 45% in upper-middle-income economies).
- SMEs mostly operate in the services (49.6%), manufacturing (35.5%) sector, with smaller shares in trade (13.8%).

Source: Data for 2007. Source IFC (2014), *MSME Country Indicators*, Washington DC.

### SBA Scores



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## EURO-MED SBA FACT SHEET: TUNISIA

The 2008 assessment showed that Tunisia already had an established policy framework for private sector development. The 2013 assessment confirms these results. However, over the last five years, Tunisia has made only incremental improvements on a few selected indicators, while its performance has remained broadly unchanged in most of the policy dimensions.

- The phase of political transition that started in 2011 has constrained government activity and has put the focus on short-term support for SMEs, many of them going through a period of financial distress. However, Tunisia has managed to carry on with the implementation of previously planned initiatives and programmes and institutions continued to operate through the political transition phase. Policy dialogue with private sector organisations has become significantly more open, but it has also been disrupted by the process of political transition.
- The main achievements over the last five years have been in the area of regulatory reform and administrative simplification with the improvements of the company registration process, the introduction of a single identification number, the establishment of an electronic one-stop-shop for import-export operations and the expansion of the network of business incubators and technological parks. In addition, the government has launched a multi-year regulatory reform programme.
- A number of good practices to promote entrepreneurship in schools has been developed and the availability of training for SMEs remains high. The implementation of the comprehensive law on entrepreneurial learning still lacks an action plan. Skill needs of SMEs are not sufficiently known.

### Priority Actions

- ***Develop a comprehensive multi-year SME developing strategy***, including a review of the current institutional framework and an evaluation of the existing programmes and support schemes. This will contribute to improve coordination among the various institutions and funds providing support to SMEs.
- ***Move forward with the regulatory reform programme*** started with the support of IFC. A national committee, including representatives from private sector organisations, could help steer the programme's implementation and develop the necessary steps for the introduction of regulatory impact analysis on new legislation. The experience from Morocco could be a useful guidance in this regard.
- ***Improve creditor rights to reduce collateral requirements*** and create incentives for the expansion of the SME credit activity of commercial banks. This will allow the public institutions operating in the area of access to finance to focus on companies with a higher risk profile, but also higher growth potential.
- ***Develop an action plan to implement the comprehensive policy framework for skills and entrepreneurship available in the country***. Building on the existing good practices set-up mechanisms for systematic analysis of SMEs skills needed in order to better tailor training services.

**Profile: Tunisia**

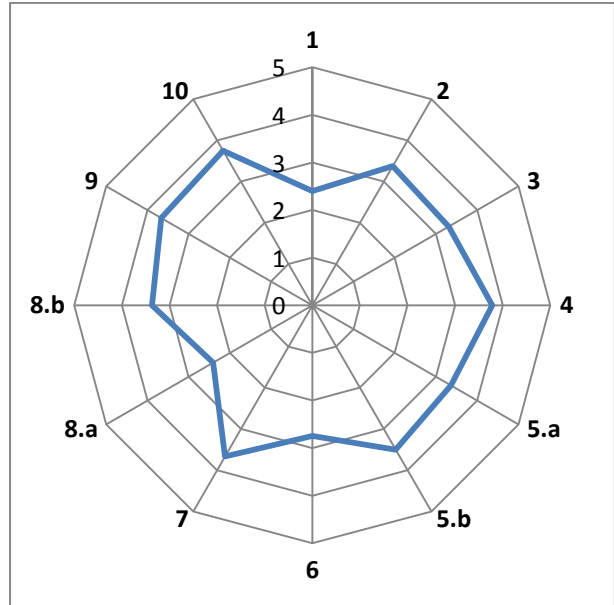
**Key SME and entrepreneurship facts**

- New enterprises per 1 000 working age people: 1.15 (compared to 4.75 in the OECD).<sup>(1)</sup>
- SME established in 2011: 53,367 .<sup>(2)</sup>
- A total of 601 416 SMEs employed 59% of the total labor work in 2011.<sup>(2)</sup>
- Most SMEs are micro-enterprises employing only 10.4% of the workforce in the private sector.<sup>(2)</sup>
- 33.5% of SMEs are active in retail trade, 17.4% in transportation and telecommunications and 11.9% in industry.<sup>(2)</sup>

1. Newly registered companies with limited liability per 1 000 working-age people (those ages 15-64). Average for 2004-2011. OECD countries for which data is available. Source: World Bank (2014), *Entrepreneurship Database*, Washington DC.

2. Source : Statistiques Tunisie (2012), *Statistiques issues du répertoire national des entreprises : Dynamique des entreprises du secteur privé durant la période de 1996 à 2011*. Institut national de la statistique.

**SBA Scores**



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