SME Policy Index

The Mediterranean Middle East and North Africa 2014

IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE

OECD

European Commission

ETF Working together Learning for life

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Please cite this publication as:
OECD/The European Commission/ETF (2014), *SME Policy Index: The Mediterranean Middle East and North Africa 2014: Implementation of the Small Business Act for Europe*, OECD Publishing.
http://dx.doi.org/10.1787/9789264218413-en

ISBN 978-92-64-21840-6 (print)
ISBN 978-92-64-21841-3 (PDF)

European Union
Catalogue number: NB-02-14-600-EN-C (print)
Catalogue number: NB-02-14-600-EN-N (PDF)
ISBN 978-92-79-38250-5 (print)
ISBN 978-92-79-38248-2 (PDF)

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Revised version, December 2014
Details of revisions available at: *http://www.oecd.org/about/publishing/Corrigendum-SME-Policy-Index-MENA.pdf*

Corrigenda to OECD publications may be found on line at: *www.oecd.org/about/publishing/corrigenda.htm*.

Organisation profiles

Organisation for Economic Co-operation and Development (OECD), MENA-OECD Initiative on Governance and Investment

The OECD is a forum in which governments compare and exchange policy experiences, identify good practices in light of emerging challenges, and promote decisions and recommendations to produce better policies for better lives. The OECD's mission is to promote policies that improve economic and social well-being of people around the world.

The MENA-OECD Initiative on Governance and Investment for Development is a regional effort, initiated and led by countries in the Middle East and North Africa (MENA). It promotes broad reforms to enhance the investment climate, modernise governance structures and operations, strengthen regional and international partnerships, and promote sustainable economic growth throughout the MENA region.

European Commission, Directorate-General for Enterprise and Industry

Enterprise and Industry DG helps enterprises and industry to be competitive and SMEs to grow, so that they can generate economic growth and more jobs. It develops policies and actions for the re-industrialisation of Europe aiming at an innovative, modern and sustainable economy.

It is tasked with ensuring a fair level playing field for business in exploiting opportunities of the European Union (EU) single market for goods and it supports the expansion of their economic activities outside the EU. To achieve its policy goals and promote innovation and entrepreneurship, it develops and manages EU support programmes.

European Training Foundation

The European Training Foundation (ETF) is a specialised EU agency that supports 30 partner countries to harness the potential of their human capital through the reform of education, training and labour market systems in the context of the EU's external relations policy. The ETF's vision is to make vocational education and training in the partner countries a driver for lifelong learning and sustainable development, with a special focus on competitiveness and social cohesion.

The ETF's added-value comes from its neutral, non-commercial and unique established knowledge base consisting of expertise in human capital development and its links to employment. This includes expertise in adapting the approaches to human capital development in the EU to the context of the partner countries supporting the development of home-grown solutions.

European Investment Bank

The European Investment Bank (EIB) is the financial investment arm of the European Union (EU) and was created by the Treaty which established the European Community. Its role is to finance investments consistent with EU policy objectives and to take initiatives that complement the corresponding EU assistance policies, programmes and instruments in the different regions of the world, always adapting its activities to developments in EU policies.

The EIB manages the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), which aims to foster private sector activities in Mediterranean Partner Countries, for instance through the creation of core economic and social infrastructure and by providing funding to micro, small and medium enterprises (MSMEs), as a way to underpin growth and generate employment opportunities. EIB offers credit lines to MSMEs through partner banks as well as equity investments and operations in the microfinance sector. The Bank is consistently seeking to broaden the range of its instruments for MSMEs in order to ensure that its offering addresses gaps over the whole value-chain in view of the greatest possible development impact.

Foreword

Small and medium-sized enterprises (SMEs) are essential drivers of job creation and inclusive economic growth worldwide. In the Mediterranean, North Africa and Middle East Region, SMEs represent the vast majority of firms, account for between half to three quarters of total employment, and contribute substantially to innovation and value creation. In addition, governments of the region have been working to build a more conducive business environment and have implemented targeted policies to support SME development.

This publication, *SME Policy Index, The Mediterranean Middle East and North Africa 2014, Implementation of the Small Business Act for Europe*, provides policy makers with a framework to improve their national SME policies. The report helps identify strengths and weaknesses in policy design and implementation, compare experiences and performance, set priorities, and measure convergence towards implementation of the policy principles promoted by the Small Business Act for Europe.

The report comes at a crucial time. Over the last three years, several of the economies located on the Southern shore of the Mediterranean have undergone a process of political and economic transition. Among other social demands, there is a pressing need for stronger economic growth and sustained job creation. Several countries within the European Union are also facing slow growth and persistent unemployment with the crisis.

The Organisation for Economic Co-operation and Development (OECD) and the European Commission have been working together with countries in the region to promote SME development. In particular, EU members and their Mediterranean neighbours refer to the same policy guidelines to improve the business climate and spur entrepreneurship. Since the signing of the Euro-Mediterranean Charter for Enterprise by the Euro-MED Industry Ministers in 2004, Euro-MED economic co-operation in the enterprise policy domain has made significant progress. The Small Business Act for Europe, adopted by the EU in 2008, has provided additional inspiration to guide reforms and improve SME policy. The assessment results point to a growing convergence in the SME policy domain between both shores of the Mediterranean. Steps have also been taken to integrate economies in the Mediterranean North Africa and Middle East into the global economy and to shape a Euro-Mediterranean area where SMEs can start, expand, create jobs, export, import, invest and build business partnerships for their own benefit and the benefit of all.

This report is the outcome of a combined effort by the European Commission and the OECD, in co-operation with the European Training Foundation and the European

Investment Bank, and was carried out within the framework of the Euro-Mediterranean industrial co-operation process. The report has been produced with the active co-operation of the governments in the Mediterranean North Africa and Middle East and involved extensive consultation with experts, stakeholders and organisations representing the SME sector. We look forward to continuing this close and fruitful co-operation on SME policies in favour of growth, jobs and social cohesion in the Mediterranean North Africa and Middle East Region.

Angel Gurría
Secretary-General,
OECD

Antonio Tajani
Vice-President of
the European Commission

Preface

The report on the implementation of the Small Business Act for Europe in the Mediterranean Middle East and North Africa 2014 provides an assessment of SME policy in Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, PA and Tunisia (the MED economies or the MED region), and a policy overview for Libya. The assessment was conducted in 2013 within the framework of the industrial co-operation process of the Union for the Mediterranean and is based on 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. The report is an update of a similar exercise carried out in MED economies in 2008, based on the Euro-Mediterranean Charter for Enterprise.

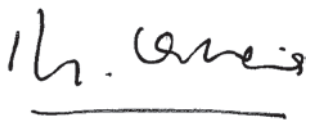
The assessment was performed through a highly collaborative and consultative process involving MED governments and public institutions, private sector organisations and civil society. Each of the participating MED economies contributed to the collection of data and information on SME policies under the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

The assessment was undertaken by the European Commission (the Commission), the European Training Foundation (ETF) and the Organisation for Economic Co-operation and Development (OECD), in consultation with the European Investment Bank.

The report concludes that the region as a whole has made progress in key SME policy dimensions. However, that progress has consisted more of gradual improvements of policies and less on the introduction of structural, institutional or policy reforms. Furthermore, progress has been more marked in the economies that have developed a solid and well-structured institutional framework for SME policy. There is a close correlation between the quality of the institutional policy framework, strategic approaches to SME policy making and constructive consultations, on the one hand, with the private sector and policy performance on the other hand.

Looking forward and based on these results, MED economies would benefit from stepping up their efforts to improve the business climate and adopt comprehensive, coherent and participatory approaches to SME policy making. They could also usefully increase their efforts to measure the effectiveness of policies through monitoring and evaluation and mainstream lessons learned and successful pilot projects. Euro-MED partners could support this process by exchanging experience and good practice, at both Euro-MED (north-south) and intra-MED (south-south) level. Partners could

also contribute to build the capacity of SME policy and wider partner institutions (e.g. education); and reinforce and extend enterprise networks (for instance Europe Enterprise Network), business-to-business and government-to-business dialogue.



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Acknowledgements

The assessment leading to this report was based on 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 co-ordinator and with the participation of independent local experts. MED economies also contributed to the formulation of the results of the assessment.

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The assessment was undertaken by the European Commission (the Commission), the European Training Foundation (ETF) and the Organisation for Economic Co-operation and Development (OECD), in consultation with the European Investment Bank. The exercise was co-ordinated by the OECD and was financially supported by the Commission and the OECD. The ETF provided contributions in the form of staff time. EU delegations in MED economies also provided valuable support and inputs to the preparation of the assessment and this report.

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 OECD team involved in the preparation of the report included Antonio Fanelli, Jorge Galvez Mendez, Fares Al-Hussami, Rayann Koudaih, Juliane Stolle, Yvonne Giesing, Parmjeet Bouffay and Lutz Sager. The ETF team included Mounir Baati, Olena Bekh, Elena Carrero Perez, Filippo del Ninno, Marie Dorleans, Aziz Jaouani, Eva Jimeno Sicilia, Mariavittoria Garlappi, Anthony Gribben, Gavril Lasku, Denise Loughran, Pasqualino Mare, Sabina Nari, Rafaa Taher Ragebi and Kristien Van Den Eynde. The Commission team included Christos Kyriatzis and Marie Corman. And the EIB team comprised Joyce Liyan, Sabina Zajc and Pedro de Lima.

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Abbreviations and acronyms

AAPEX	Algerian Agency for Export Promotion
ACI	Achieving Compliance with Environmental Regulation in Industry, Egypt
ADETEF	French overseas development agency
AFEM	Association of Women Entrepreneurs, Morocco
ALGEX	National Agency for Foreign Trade Promotion, Algeria
AMDI	Moroccan Investment Development Agency
ANAPEC	National Agency for Employment Promotion, Morocco
ANDI	National Agency for Investment Development, Algeria
ANDPME	National SME Development Agency, Algeria
ANETI	National Employment Agency, Tunisia
ANGED	National Agency for Waste Management, Tunisia
ANGEM	National Agency for Microcredit Management, Algeria
ANIREF	National Agency of Land Regulation and Intermediation, Algeria
ANPME	National SME Development Agency, Morocco
ANPR	National Agency for the Promotion of Research, Tunisia
ANSEJ	National Agency for Youth Employment, Algeria
API	Agency of Industrial Promotion and Innovation, Tunisia
AQAC	Accreditation and Quality Assurance Commission, PA
ASYCUDA	Automated System for Customs Data
AULE	Al Urdonia Lil Ibdaa, non-profit organisation administering incubators in Jordan
BDCs	Business Development Centres, Israel and Jordan
BDL	Central Bank of Lebanon
BEBA	British Egyptian Business Association
BFPME	State Bank for the Financing of SMEs, Tunisia
BOAL	Official Bulletin for Legal Notices, Algeria
BusinessMED	Union of Mediterranean Confederations of Enterprises
CACI	Algerian Chamber of Commerce and Industry

CAFE	Egyptian-French Business Club
CAFTA	Complete and Thorough Free Trade Agreement
CAGEX	Algerian Insurance and Export Guarantees Company
CAPMAS	Central Agency for Public Mobilisation and Statistics, Egypt
CCG	Central Guarantee Fund, Morocco
CDVM	Moroccan financial market authority
CEPEX	Export Promotion Centre, Tunisia
CFPTI	Vocational education, training and self-employment centres, Tunisia
CGC	Credit Guarantee Company, Egypt
CGCI-PME	Investment Credit Guarantee Fund for SMEs, Algeria
CGEM	General Confederation of Moroccan Enterprises
CGMP	Guarantee Scheme for Public Procurement, Algeria
CIDT	Centre for Innovation and Technological Development, Tunisia
CIT	Centre for Innovation and Technology, Lebanon
CITET	Centre of Environmental Technologies of Tunis
CMPP	Moroccan Centre for Clean Production
CNAC	National Unemployment Insurance Fund, Algeria
CNEA	National Committee for the Business Climate, Morocco
CNFCE	National Chamber of Women Entrepreneurs, Tunisia
CNFCPP	National Centre for Adult Education and Professional Development, Tunisia
CNIS	National Statistical Information Council, Morocco
CNRC	National Centre of the Commercial Register, Algeria
CNRS	National Council for Scientific Research, Lebanon
COCOES	Coordination and Statistical Studies Committee, Morocco
COMCEC	Standing Committee for Economic and Commercial Co-operation of the Organisation for Islamic Co-operation
CONECT	Confederation of Tunisian Enterprises and Citizens
CRDP	Centre for Educational Research and Development, Lebanon
CRI	Regional Investment Centres, Morocco
DFID	Department for International Development, United Kingdom
DGPPME	General Directorate for the Promotion of SMEs, Tunisia
DGRA	General Directorate for Administrative Reform, Tunisia
EBN	European Business Network
EBRD	European Bank for Reconstruction and Development

ECCP	European Cluster Collaboration Platform
ECEI	European Cluster Excellence Initiative
ECO	Environmental Compliance Office, Egypt
EEA	Egyptian Environmental Affairs Agency
EEN	Europe Enterprise Network
EIB	European Investment Bank
ELCIM	Euro-Lebanese Centre for Industrial Modernisation
EMAS	EU Eco-Management and Audit Scheme.
EMDC	Euro-Mediterranean Development Centre for Enterprises
EMS	Environmental management systems
ENCPC	Egyptian National Cleaner Production Centre
ENP	European Neighbourhood Policy
EOS	Egyptian Organisation for Standardisation and Quality Control
EPCGF	European-Palestinian Credit Guarantee Fund
Errada	Egyptian Initiative on Regulatory Reform and Development Activity
ESC	Economic and Social Council, Jordan
ESDF	Economic and Social Development Fund, Libya
ESP	Environmental Sector Programme, Egypt
ETF	European Training Foundation
ETTICs	Technology Transfer and Innovation Centres, Egypt
E-TVET	Employment-Technical Vocational Education and Training
FCE	Forum of Business Leaders
FGAR	Credit Guarantee Funds, Algeria
FICC	Federation of Israeli Chambers of Commerce
FNAC	National Fund for Learning and Training, Algeria
FONOPROM	Fund for the Promotion of Crafts, Tunisia
FOPRODEX	Export Promotion Fund, Tunisia
FOPRODI	Fund for Promotion and Industrial Decentralisation, Tunisia
FOTIC	Fund for Information and Communications Technology, Algeria
FP7	EU's R&D Framework Programme for Research and Technological Development
FTA	Foreign Trade Administration, Ministry of Economy, Israel
GAFI	General Authority for Investment, Egypt
GAFTA	Greater Arab Free Trade Area

GCC	Co-operation Council for the Arab States of the Gulf (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates).
GIAC	Inter-professional Associations of Aid for Consultancy
GIZ	German Society for International Co-operation
GPBM	Moroccan Group of Banks
HCP	High Planning Commission, Morocco
HCST	High Council for Science and Technology, Jordan
IACE	Arab Institute of Business Leaders, Tunisia
IARD	Algerian Institute of Renewable Energy and Energy Efficiency
IBEL	Improving the Business Environment in Lebanon Initiative
IDA	Industrial Development Authority, Egypt
IDAL	Investment Development Authority of Lebanon
IEICI	Israel Export and International Co-operation Institute
IEIMA	IMP^{3}rove-European Innovation Management Academy
IFC	International Finance Corporation
IFIs	International Financial Institutions
ILO	International Labour Organisation
IMANOR	Moroccan Institute of Standardisation
IMC	Industrial Modernisation Centre, Egypt
INFE	International Network on Financial Education
INS	Tunisian National Statistics Institute
IPCO	Intellectual Property Commercialisation Office, Jordan
IRDD	Research Institute for Sustainable Development, Algeria
IRI	Industrial Research Institute, Lebanon
ISCED 2	Lower Secondary Education
ISCED 3	Upper Secondary Education
ISERD	Israel-Europe R&D Directorate
ISET	Higher Technical Education Institute, Tunisia
JBA	Junior Business Association, Egypt
JCI	Jordan Chamber of Industry
JEDCO	Jordan Enterprise Development Corporation
JIB	Jordan Investment Board
JICs	Jordan Innovation Centres Network
JSMP	Jordan Services Modernisation Programme
JUMP	Jordan Upgrading and Modernisation Programme

JUMP II	Support to Enterprise and Export Development Programme, Jordan
KIEDF	Koret Israel Economic Development Fund
LAHAV	Independent Businesses Association, Israel
LCPC	Lebanese Cleaner Production Centre
LEPAP	Lebanon Environmental Pollution Abatement Project
LEPC	Libyan Export Promotion Centre
LIIDF	Libyan Internal Investment and Development Fund
LIRA	Lebanese Industrial Research Achievement
LSM	Libyan Stock Market
MAOF	Small Business Development Centres, Israel
MAS	Palestine Economic Policy Research Institute
MATI Centres	Small business development centres, Israel
MATIMOP	Agency for Industrial R&D Co-operation, Israel
MDIPI	Ministry of Industrial Development and Investment Promotion, Algeria
MED economies	Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, PA and Tunisia
MEII	Middle East Investment Initiative
MENA	Middle East and North Africa
MICNT	Ministry of Industry, Commerce and Digital Economy, Morocco
MIFT	Ministry of Industry and Trade, Egypt
MoET	Ministry of Economy and Trade, Lebanon
MOPIC	Ministry of Planning and International Co-operation, Jordan
NCCTP	National Centre for Cleaner Technologies Production, Algeria
NDP	National Development Plan, PA
NEDB	National Economic Development Board, Libya
NILEX	Nile Stock Exchange, Egypt
OCS	Office of the Chief Scientist, Ministry of Economy, Israel
OECD	Organisation for Economic Co-operation and Development
OFPPT	Office for Professional Training and Promotion of Work, Morocco
OMSAR	Office of the Minister of State for Administrative Reform, Lebanon
ONDEFC	National Office for Adult Education, Algeria
OPIC	Overseas Private Investment Corporation, United States
PACEIM	Multilateral support programme for the creation of innovative enterprises in the Mediterranean
PALTRADE	Palestine Trade Centre

PASRI	Research and Innovation System Support Project, Tunisia
PCMA	Palestinian Capital Market Authority
PDRP	Palestinian Development and Reform Plan
PEX	Palestine Exchange
PIB	Privatisation and Investment Board, Libya
PIPA	Palestine Investment Promotion Agency
PMA	Palestine Monetary Authority
PNEI	National Pact for Industrial Emergence, Morocco
PPPs	Public-private partnerships
PPSI	Private Public Sector Industry Project, Egypt
PROMEX	Office for the Promotion of Foreign Trade, Algeria
PSI	Palestinian Standards Institute
PTR	Innovation and Technological Development Support Programme, Morocco
QIZ	Qualifying Industrial Zones, Egypt
QRAEE	Queen Rania Al Abdullah Award for Excellence in Education, Jordan
REME	Network of Maghreb Enterprises for the Environment
RIA	Regulatory impact analysis
RMIE	Moroccan Incubation Network
RNPE	National Network of Business Incubators, Tunisia
RNQFP	National Repository on Vocational Training Quality, Tunisia
RSS	Royal Scientific Society, Jordan
RTVIE	Intelligence and Economic Surveillance Network, Tunisia
SA	Public limited liability company
SABEQ	Jordan Economic Development Programme
SARL	Private limited liability company
SBA	Small Business Act for Europe
SFD	Social Fund for Development, Egypt
SMBA	Small and Medium Business Agency, Israel
SOTUGAR	Tunisian Guarantee Company
STEP	Student Training for Employment Project, Egypt
TASE	Tel Aviv Stock Exchange
TNA	Training-needs analysis
TTN	Tunisia Trade Net
TVET	Technical Vocational Education and Training

UfM	Union for the Mediterranean
UNECA	United Nations Economic Commission for Africa
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNIDO	United Nations Industrial Development Organisation
UTICA	Tunisian Union of Commerce, Industry and Crafts
VRR	Development of Research Results Project
WTO	World Trade Organisation
YML	Young Mediterranean Leader

Executive summary

Economies in the Mediterranean Middle East and North Africa (MED economies) are engaged in proactive policies to support SMEs. This is a relatively recent development and a significant shift from past policies that 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 new entrants to 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.

SME policy is a key instrument for economic growth and development through enterprise creation, expansion and increased productivity. This report points to significant constraints for SME development in the MED region such as poor incentives for entrepreneurship; high entry barriers for new enterprises; restrictive market access; lack of quality vocational and managerial skills to support SME growth; rigid regulations favouring incumbents; high levels of economic informality and limited access to finance due to weak creditor rights, underdeveloped collateral registries and weak bank competition.

Constraints are counterbalanced by significant opportunities, notably growing domestic markets resulting from demographic growth and decreasing dependency rates; a 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; and progressive improvements in literacy rates and education levels. The intensity of these challenges and opportunities differs among MED economies. The challenges are stronger in economies with lower levels of institutional and economic development and economic diversification.

MED governments have responded to those opportunities and challenges by structuring policy support for SMEs and creating incentives for growth and job creation. Some of the most significant initiatives introduced by MED economies since the past assessment in 2008 are:

- Improving business environments through comprehensive initiatives involving key partners – including the private sector, providing coordination platforms and including legislative and regulatory reforms to facilitate enterprise creation, operations and growth (Lebanon and Morocco).
- Enhancing policy coherence and coordination by including SME policy as a key element of wider economic and competitiveness policies (Morocco), developing SME strategies (Jordan) and designating lead agencies or bodies for policy coordination (Algeria, Israel and PA).
- Improving access to finance by increasing the coverage and support of credit guarantee schemes (PA), introducing or strengthening credit bureaus (PA), including

private ones (Egypt and Morocco) and introducing registries for movable assets (Algeria, Jordan and Tunisia).

- Enhancing enterprise development through targeted services and specialised institutions (Egypt), facilitating foreign trade procedures (Tunisia), enhancing the availability of training for SMEs and women entrepreneurs and developing good practices in entrepreneurial learning for young people (all economies).

Looking forward, the agenda for MED governments, partners and stakeholders, including the private sector, could include stepping up efforts to improve business environments through diagnostics such as business climate assessments, skills' requirements analyses and regulatory impact analyses as an integral part of the policy making process. Algeria, Israel, Lebanon and Morocco have achieved progress in this area through the establishment of inter-ministerial committees for the improvement of the business climate. The rest of the MED economies should undertake similar initiatives.

MED economies should also adopt comprehensive and coherent approaches to SME policy based on complete and articulate sets of programmes and measures in key policy areas (access to finance, innovation, skills' development, trade facilitation, etc.). This is especially important for countries with enterprise support programmes managed by various agencies and specialised funds (Algeria, Egypt, Jordan and Tunisia). 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. Only Israel and Morocco have put in place all building blocks of a comprehensive and coordinated SME policy. 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. This should be based on participatory approaches to policy making, taking into consideration the participation of the private sector and civil society.

Evidence on the implementation and effectiveness of SME initiatives by governments, donors, the private sector and other organisations remains scarce. MED economies should therefore incorporate policy monitoring and evaluation as an integral part of policy making and to enhance policy effectiveness and improve the allocation and use of resources. Consultation and coordination with the private and civic sectors should be an essential element in this regard. To achieve better diagnoses of the needs and performance of the private sector, including SMEs, MED economies should collect more and better data on private enterprises.

Euro-MED partners could support this process through:

- Promoting the exchange of good practices in all policy domains, including Euro-MED and intra-MED exchanges. The European Commission's 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 sharing experiences on institutional development and staff training.
- Reinforcing and extending networks such as the Europe Enterprise Network, the European Network of Mentors for Women Entrepreneurs and bilateral and sector specific networks.
- Intensifying business-to-business dialogue to strengthen co-operation among Euro-MED enterprises.

This report is divided into three parts. The first part consists of an introductory section including a summary of the main findings of the assessment by policy dimension, a description of the assessment process and the methodology used, and an economic and SME overview of the MED region. The second part is a comprehensive analysis of the results of the assessment for each of the ten policy dimensions of the SBA. The last part is a complete analysis of the assessment by MED economy and includes a country profile for Libya.

Key findings for the Mediterranean Middle East and North Africa region

Context

This report assesses the status of elaboration and implementation of SME policy in eight Middle East and North African economies of the southern Mediterranean shore and having association or co-operation agreements with the European Union. Those economies, henceforth the MED economies, are: Algeria, Egypt, Israel,[1] Jordan, Lebanon, Morocco, PA[2] and Tunisia. The report also includes an SME policy profile for Libya, which is in the process of establishing a coherent strategy and institutions for SME development.

The assessment was conducted in 2013 by the European Commission (the Commission), the European Training Foundation (ETF) and the Organisation for Economic Co-operation and Development (OECD), in consultation with the European Investment Bank (EIB) (the partner organisations) in the framework of the Euro-Mediterranean Process of Industrial Co-operation. The exercise is an update of a similar assessment conducted by the partner organisations in 2008, based on the Euro-Mediterranean Charter for Enterprise, a set of policy guidelines for private sector development endorsed by all of the Euro-Med economies in 2004.

As in 2008, the assessment is based 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. The 2008 and 2013 assessments share a number of policy indicators, resulting in a relative level of comparability between the two exercises. This allows tracking progress since 2008 across economies and policy dimensions.

The 2013 assessment is structured around the ten policy principles covered in the "Small Business Act" for Europe (the SBA), a set of guidelines and directives driving European Union policy towards small and medium-sized enterprises and inspiring SME policy in all MED economies.

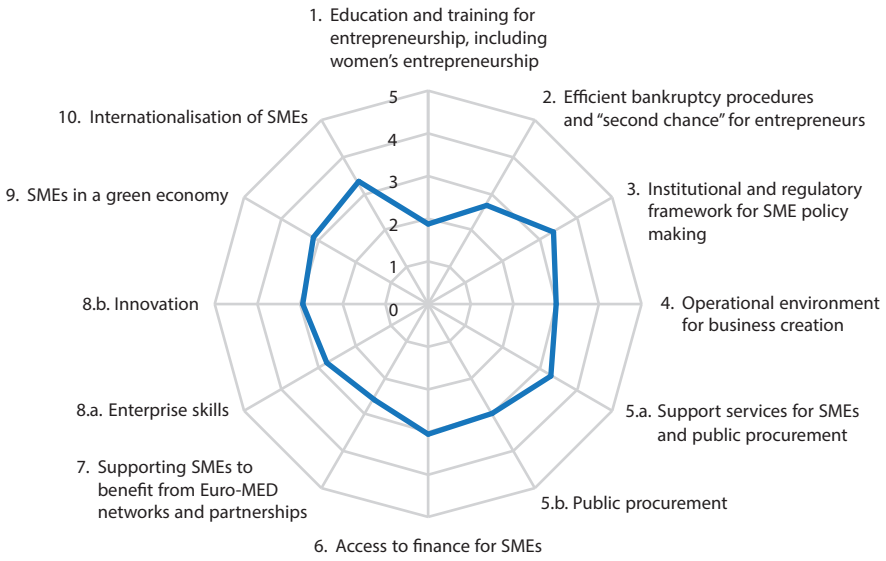
This section summarises the regional results of the assessment for each principle/policy dimension of the SBA. Key points or messages are followed by regional priority actions for each dimension. The following section describes the policy framework of the SBA and the methodology of the SME Policy Index. Figure 1 shows the regional, average results for each policy dimension.

Dimension 1: Education and training for entrepreneurship, including training for women's entrepreneurship

This dimension is based on principle 1 of the SBA: "Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded." In broad terms, the dimension analyses the extent to which students are taught to be entrepreneurial while at school or attending training courses; the levels of collaboration between universities and the business community to promote competitiveness; and whether women entrepreneurs receive the support they need.

Figure 1. **Overview of the assessment results by dimension**

Average regional scores



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

Source: Government and independent assessments.

Key findings

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 promoting entrepreneurship.
- Good practice should be a reference point for policy makers in the bid to find workable and affordable solutions adapted to the 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, businesses 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. The main objective of the commissions should be establishing comprehensive frameworks where entrepreneurship is taught from primary to tertiary level.
- **Establish a platform for the identification and exchange of good practices**, which could provide reference and inform and inspire policy making. The challenge for the region is to step from a wealth of isolated islands of excellence (good practices) to a system promoting entrepreneurial learning (standard practices).
- **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 at national and cross-country levels.

Dimension 2: Efficient bankruptcy procedures and "second chance" for entrepreneurs

This dimension focuses on principle 2 of the SBA: "Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance". It analyses the existence of bankruptcy laws and procedures and their effectiveness in terms of speed and cost of insolvency procedures. The dimension also looks into the existence of efforts to promote a fresh start for entrepreneurs having failed in the past.

Key findings

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 use 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.

Dimension 3: Institutional and regulatory framework for SME policy making

The focus of this dimension is on principle 3 of the SBA: "Design rules according to the 'think small first' principle." Broadly, the dimension analyses the level of sophistication of the SME policy framework and institutional co-ordination; whether governments undertake legislative and administrative simplification; whether SME needs are taken into consideration when developing legislative and administrative initiatives; and if public-private consultations are inclusive and effective.

Key findings

Although most economies have in place institutional co-ordination 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 co-ordinated SME policy (delegation, strategy, co-ordination, 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.

Dimension 4: Operational environment for business creation

This dimension is based on principle 4 of the SBA: "Make public administration responsive to SME needs." It analyses whether regulations have been simplified to reduce the costs and procedures for starting an enterprise; and whether MED economies make use of e-government tools to facilitate company registration.

Key findings

The administrative procedures to create a business can be divided into 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 shop 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 online 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", online 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 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.).

Dimension 5: Support services for SMEs and public procurement

This dimension builds on principle 5 of the SBA: "Adapt public policy tools to SME needs." It analyses the types, availability and accessibility of support services for SMEs and start-ups; and the measures in place to support the participation of SMEs in public procurement.

Key findings

- 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 of 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 on public procurement, 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 co-ordination 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 availability 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.

Dimension 6: Access to finance for SMEs

This dimension is based on principle 6 of the SBA: "Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions." It looks into the types and availability of external sources of finance for SMEs; the effectiveness of the legal and regulatory framework for access to finance; and measures to promote financial literacy.

Key findings

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 countries undergoing political transition processes.

- 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 microfinance products.
  - Morocco provides the most advanced example of a regulatory framework conducive to microfinance institutions.
  - In 2011 Jordan reviewed and updated 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 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.

Dimension 7: Supporting SMEs to benefit from Euro-MED networks and partnerships

This dimension focuses on principle 7 of the SBA: "Help SMEs to benefit more from the opportunities offered by the single market." It analyses how active MED economies are in promoting business partnerships and networks in the Euro-Mediterranean region.

Key findings

- 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 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 initiatives. Monitoring and evaluation of initiatives in these areas, as in all other policy areas, should therefore be strengthened.

Dimension 8: Enterprise skills and innovation

This dimension builds on principle 8 of the SBA: "Promote the upgrading of skills and all forms of innovation." The dimension first looks into the availability of training and advisory services for SMEs; and how MED economies assess the quality of training and learning outcomes. It then focuses on whether innovation policy is coherent and strategic in supporting SME growth, and the policy tools that have been implemented to support technology transfers to SMEs.

Key findings

On enterprise skills

- There has been some improvement in developing skills promotion for SMEs. Nevertheless, greater commitment and responsibility is required from national governments, the business community and training providers to achieve greater national co-ordination.
- 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 in terms of access for SMEs and quality and relevance of training offered.
- 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.

On innovation

- 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/technology 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 now have an innovation strategy covering SMEs or are currently developing one, with the exception of PA and Algeria.

Priority actions

On enterprise skills

- **Promote skills development for SMEs** as key to the growth and competitiveness agenda within a reinforced collaboration between governments and business communities. Business should ideally take leadership.
- **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 partnerships.
- **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.

On innovation

- **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 provision of non-financial and financial services 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 co-ordination body**, chaired by a high political authority and supported by a well-structured secretariat. This will ensure that widespread policy exchange, co-ordination 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 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 spillovers among SMEs.

Dimension 9: SMEs in a green economy

This dimension focuses on principle 9 of the SBA: "Enable SMEs to turn environmental changes into opportunities." It looks into the actions of MED economies to promote eco-innovation and eco-efficiency among SMEs and whether SMEs are aware of those initiatives.

Key findings

- 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.

Dimension 10: Internationalisation of SMEs

This dimension is based on principle 10 of the SBA: "Encourage and support SMEs to benefit from the growth of markets." It analyses the extent to which MED economies implement a proactive trade policy, and their efforts in terms of the simplification of procedures for foreign trade.

Key findings

Trade is a complex policy area needing well-articulated 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 made 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 market intelligence, market research and the search for trade partners, and to maintain a presence in all the most important export markets though 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 co-operation agreements, intra-regional trade remains limited: MED economies' exports are mostly destined to countries outside the region.

Notes

1. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
2. 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. This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the EU Member States on this issue.

The policy framework, methodology and assessment process

The "Small Business Act" for Europe

The "Small Business Act" for Europe was adopted in 2008 with the aim to put in place a comprehensive SME policy framework for the EU and its member states. It aims to improve the overall approach to entrepreneurship, anchor the Think Small First principle in policy making from regulation to public service, and to promote SME growth by helping them tackle the problems which hamper their development.[1] The term "Act" in the SBA is of a symbolic (rather than legal) character.

The SBA applies to all independent companies that have fewer than 250 employees (99% of all EU businesses) and is based on 10 principles that guide the design and implementation of policies both at EU and national level. Those principles are:

1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded.
2. Ensure that honest (i.e. non-fraudulent) entrepreneurs who have faced bankruptcy quickly get a second chance.
3. Design rules according to the Think Small First principle.
4. Make public administrations responsive to SMEs' needs.
5. Adapt public policy tools to SME needs: facilitate SMEs' participation in public procurement and make better use of available state aid for SMEs.
6. Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions.
7. Help SMEs to benefit more from the opportunities offered by the single market.
8. Promote the upgrading of skills in SMEs and all forms of innovation.
9. Enable SMEs to turn environmental challenges into opportunities.
10. Encourage and support SMEs to benefit from the growth of markets.

The SBA integrates previous enterprise policy instruments and builds in particular on the European Charter for Small Enterprises, which was approved by the EU in 2000. By using the SBA, the assessment updates the policy framework of the 2008 assessment: the Euro-Mediterranean Charter for Enterprise (see Box 1).

Box 1. **The 2008 enterprise policy assessment and the Euro-Mediterranean Charter for Enterprise**

The previous (2007-08) assessment for the MED region was based on a pilot project assessing the status of implementation of the Euro-Mediterranean Charter for Enterprise in Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, PA, the Syrian Arab Republic and Tunisia.

The Euro-Mediterranean Charter for Enterprise was adopted by Euro-MED industry ministers in 2004. Since then it has been a key document guiding MED governments' policies towards the private enterprise sector. At the same time it is also a platform for Euro-Mediterranean co-operation, as the Charter has been generated within the process of Euro-Mediterranean industrial co-operation conducted within the framework of the Barcelona process.* The Charter is structured in 10 policy dimensions and incorporates several features of the European Charter for Small Enterprises.

*Now the Union for the Mediterranean.

Source: European Commission, OECD and ETF (2008), Report on the Implementation of the Euro-Mediterranean Charter for Enterprise, Office for Official Publications of the European Communities, Luxembourg.

The SME Policy Index

The SME Policy Index is a tool to support policy makers in tapping the full potential of SMEs as drivers for job creation and economic growth. The index covers areas of key relevance for enterprise development and builds on a set of policy indicators measuring the performance of participating economies in each of those areas. The main objectives of the SME Policy Index are:

- Identifying strong and weak points in policy design and implementation to provide a list of priority actions for reform;
- Analysing and debating key thematic issues on SME policy, elaboration and implementation;
- Facilitating dialogue and programme co-ordination between policy makers, private sector organisations, NGOs and other stakeholders;
- Providing a monitoring and evaluation aid for governments and the enterprise community. The tool, however, is no substitute for comprehensive, deep and robust evaluation of policies and measures.

The SME Policy Index aims at providing a structured and comparative evaluation of SME policies and initiatives by defining a country's position on a set of key SME policy dimensions (e.g. access to finance, business development services, administrative simplification, etc.). To facilitate the measurement, dimensions are further broken down into sub-dimensions (e.g. sources of finance, legal and regulatory framework for access to finance, financial literacy) and policy indicators (credit guarantee schemes, business angel networks, microfinance facilities, etc.). Each indicator (and by extension sub-dimensions and dimensions) uses a scale of 1 to 5, where 5 broadly corresponds to good practice. The breakdown of dimensions, sub-dimensions and indicators is shown in Figure 2.

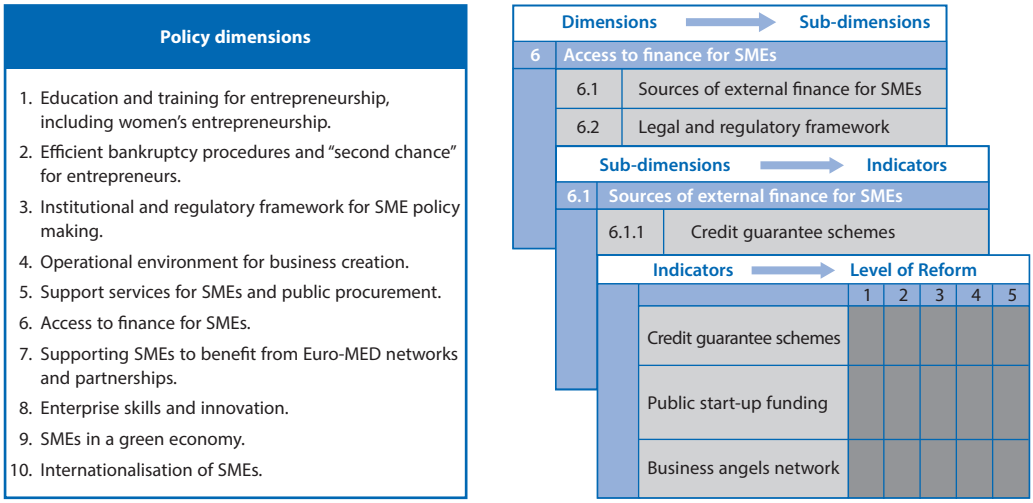
The results are aggregated at the dimension level, through a system of weighted averages, taking into consideration the importance of each indicator in policy formulation or implementation. By assigning scores to levels of policy implementation, the index

transforms qualitative information into numeric information, facilitating cross-country comparison and allowing for systematic monitoring of policy developments.

This methodology helps in the identification of weaknesses and strengths in the development of policies and initiatives for SME support, allowing a better targeting of government and SME stakeholder action, a more efficient allocation of resources and a more effective dialogue with the private sector.

Figure 2. **The SME Policy Index based on the Small Business Act for Europe**

Examples of sub-dimensions and indicators



The indicators and scoring criteria

There are two types of indicators: quantitative and qualitative. The *quantitative indicators* give a score based on a specific numeric value. For example, several indicators in dimension 4 (operational environment for business creation) are based on numeric values such as the number of days to obtain a company registration certificate or the number of administrative identification numbers needed in dealing with the public administration.

Qualitative indicators give a score based on the level of policy development in a certain area and convert qualitative information into quantitative values to measure progress in reform and implementation. Qualitative indicators are *broadly* structured along the following lines:

Level 1: There is no action (e.g. law, institution, project, initiative) in place to cover the area concerned.

Level 2: There is a draft or pilot action and there are some signs of government activity to address the area concerned.

Level 3: A formal action or framework is in place for this specific policy area.

Level 4: Level 3 plus concrete indications of effective policy implementation of the framework.

Level 5: Level 4 plus abundant records of concrete and effective policy implementation of the framework. This level broadly corresponds to good policy practices.

Annex A includes the full list of indicators and their five levels used in this assessment. It also includes the results (scores) for each MED economy and a description of the weighting criteria.

The SME Policy Index is a flexible tool. The analytical indicators can be structured in accordance with the policy framework taken as reference. As noted before, the policy framework for structuring the indicators in the 2008 assessment was the Euro-Mediterranean Charter for Enterprise. In the current assessment, the SME Policy Index indicators are derived from the ten principles of the Small Business Act for Europe.

In addition to the MED region, the SME Policy Index has been used for the Western Balkans and Turkey, Eastern Europe and Central Asia, and the Association of South East Asian Nations.

Description of the assessment process

The assessment was based on 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 co-ordinator, with the participation of independent local experts and in close consultation with private sector organisations.

The assessment process was launched in November 2012 on the sidelines of the SME Assembly of the EU. During that meeting the national co-ordinators discussed and finalised an "assessment grid" including all indicators and five levels for each indicator (see Annex A). The assessment grid was validated in December 2012.

An initial set of country visits took place during January and February 2013 by the partner organisations (OECD, ETF and EC) to present the methodology and work plan of the assessment to government, private sector and civil society stakeholders in each MED economy. The objective of those presentations was to facilitate the evaluation process and engage key stakeholders in the assessment. The country visits also served to interview and identify a number of experts/research organisations to support the partner organisations in the execution of an independent assessment.

The independent experts gathered information and data to fill out the assessment grid and provided an initial assessment. Information was collected from private sector and government organisations to assign scores to each indicator. National co-ordinators, in parallel, filled out the grid in collaboration with relevant government organisations and in consultation with the private sector. The bulk of this process took place during the period March-June 2013, after which the partner organisations collected the information and scores gathered by the consultants and national co-ordinators. For dimensions 1 and 8.1 the assessment was carried out by ETF country teams in collaboration with national counterparts such as government agencies, the business community and civil society (no independent experts were involved).

"Bilateral meetings" were organised by national co-ordinators in each MED economy to compare the independent and government assessments and discuss and clarify any major differences. Those meetings took place during May-June 2013. National co-ordinators and independent consultants collected further evidence when necessary.

The preliminary results of the assessment were presented and discussed by the partner organisations and all national co-ordinators in Brussels in June 2013. The meeting took

place in the context of the Working Party on Euro-Mediterranean Industrial Co-operation. A subsequent co-ordination meeting was organised by the OECD in collaboration with the Secretariat of the Union for the Mediterranean and hosted in the Secretariat's premises in Barcelona in November 2013. The meeting was attended by national co-ordinators, partner organisations and the Secretariat of the UfM. Its objective was to agree on the final scores of the assessment, discuss outstanding issues and hold bilateral meetings with each national co-ordinator to obtain comments and observations on the first draft of the report. Participants in this meeting also examined topics relevant to the promotion of financial literacy in the MED region, in a special, thematic session that was organised by the Federation of Mediterranean Accountants.

The main findings and messages from the assessment were presented to ministers and participants of the ninth ministerial meeting on Euro-Mediterranean industrial co-operation in Brussels in February 2014. This report is available in English and French and is to be widely disseminated and presented in MED economies and other Euro-MED regional fora.

Note

1. The "Think Small First" principle consists of taking into account the needs and characteristics of SMEs when designing legislation. It also promotes the simplification of the regulatory environment (European Commission, 2008).

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Economic and SME overview of the Mediterranean Middle East and North Africa region

Introduction

The MED region is composed of a group of heterogeneous countries in terms of population, territory, resource endowment, and stage of economic and institutional development. The region's young and increasingly educated population and its strategic geographic location at the crossroads of Europe, Africa and Asia, result in strong economic and trade potential.

The MED economies have undertaken important reforms in the past decades to open up the economy to trade and investment, promote the role of the private sector and foster economic diversification. This helped to increase economic growth rates to nearly 5% and a rise in FDI inflows by more than 40% during the first decade of the 21st century (IMF 2013b; UNCTAD 2013). Furthermore, economic growth was less affected by the 2008 global economic and financial crisis than in other regions.

However, increased economic uncertainties connected to political and economic shocks since 2011 have caused an economic slowdown halving GDP growth, except in Israel, Morocco and Algeria (see Figure 3). This has undermined job creation, which remains the main challenge for the region, particularly for youth, which make up approximately one third of the regional population.

If the MED region succeeds in providing job prospects for its young people, it will benefit from a dynamic labour force and significant growth potential. Failing to realise this opportunity, however, would be potentially damaging to social and political stability. In this sense, private sector development in general and improved SME policies in particular can help the region on its way to more sustainable and inclusive development.

A diverse region with a common challenge: inclusive growth and job creation

The MED region has a total population of 185 million, but encompasses several rather small economies such as Israel, Jordan, Lebanon and PA, whose population is less than 8 million. With over 80 million inhabitants, Egypt is the only large country, representing 43% of the region's total population. The remaining economies have populations ranging between 10 million (Tunisia) and 38 million (Algeria). Geographically, the region stretches over 4 million square kilometres, with Algeria covering 58% of the total territory (Table 1).

Table 1. **Population and territory of MED economies, 2012 or latest available data**

	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	PA	Tunisia
Population (in millions)	38.5	80.7	7.9	6.3	4.4	32.5	4	10.8
Area (square km)	2 381 740	995 450	21 640	88 780	10 230	446 300	6 020	155 360

Source: World Bank (2014), *World Development Indicators*, World Bank, Washington, DC.

Most MED economies are middle income according to the World Bank classification based on gross national income (GNI). Egypt, Morocco and PA are lower-middle-income economies with a GNI per capita of up to USD 4 085; Algeria, Jordan, Lebanon, Tunisia are considered higher-middle-income economies, with GNI per capita ranging between USD 4 086 and USD 12 625 (in 2012). Israel is the only high-income economy in the region, with a GNI per capita of USD 28 380 in 2011.

Table 2. **Main macroeconomic indicators, 2013 or latest available data**

	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	PA	Tunisia
GDP (current USD, billion)	215.7	262.0	272.7	34.1	43.5	104.8	9.8	48.4
GDP per capita (current USD)	5 668	3 113	34 651	5 207	10 708	3 190	2 489	4 431
Current account balance (% of GDP)	1.8	-2.6	2.3	-9.9	-16.7	-7.2	-28.9	-8.1
General government primary net lending/borrowing (% of GDP)	-2.2	-14.7	-5.1	-10.5	-10.5	-5.5	N.A.	6.8
Inflation, consumer prices (annual average increase, %)	5.0	6.9	1.6	5.9	6.3	2.3	23.0	6.0
Foreign direct investment, net inflows (current USD, millions)	1 484	2 797	10 414	1 403	3 787	2 836	N.A.	1 918
General government gross debt (% of GDP)	10.8	89.5	70.4	83.9	143.0	61.8	N.A.	45.5

Sources: IMF (2013b), *World Economic Outlook database 2013*, October, Washington, DC, www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx; World Bank (2014), *World Development Indicators*, World Bank, Washington, DC.

The services sector plays a significant role in all MED economies, contributing around 60% of GDP on average (World Bank 2014). In terms of industries, the eight economies can be divided into three groups; the first group is dominated by natural resources, the second one by low value-added manufactured goods and light industries and the third has significant high-technology industries.

Most MED economies lack the natural resource abundance of other Middle East and North Africa (MENA) economies – Algeria is the only oil rich economy, and hence the only one in the first group, with mineral fuels and oil products representing 97% of all exports. The second group – more diversified economies, but operating mainly in lower value-added sectors – comprises the majority of MED economies, namely Egypt, Jordan, Lebanon, Morocco, Tunisia and PA. Some of these economies still have relevant petroleum and gas exports, e.g. in Egypt they contribute 27.9% of total exports. Manufactured goods make up 13.8% of total exports on average in these economies and are driven by textile and paper exports. Chemicals contribute 16.2% of total exports on average, and food and live animal products 10.9%. Machinery and transport equipment play relevant roles in Lebanon and Tunisia, representing 12.8% and 31.1% of total exports, respectively (United Nations, 2014).[1]

Israel is the only economy with a well-developed high-technology industry – high-tech exports contribute 9.6% of GDP (World Bank, 2014). Diamonds are, however, the biggest export item, representing 30.6% of all exports, followed by chemical products, particularly pharmaceuticals and electrical and electronic equipment.

During the past five years the MED region has been exposed to repeated external and internal shocks, which have affected their macroeconomic environments to differing

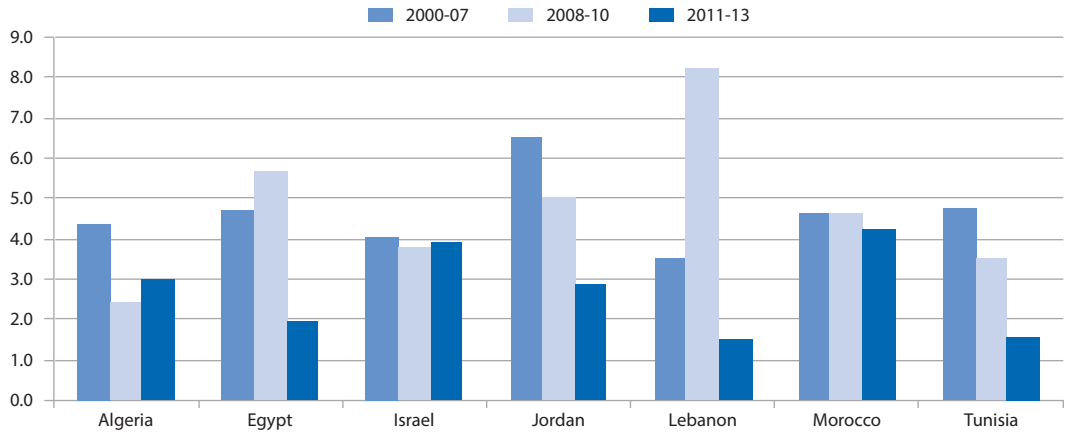
degrees. These include significant inflationary pressures, reaching an average of 7.7% in 2008, resulting in part from the commodity price surge; the impacts, though limited, from the global financial crisis starting in 2008; and notably, the uncertainty and disruption of economic activity caused by the significant social and political changes beginning in 2011.

Initially, the MED economies weathered the 2008 global financial crisis relatively well, mainly due to their limited exposure to structured financial products and limited financial integration (Moriyama 2010). Real GDP expanded at an average rate of around 4.9% in the seven years prior to the global economic slump, and continued to grow at 4.2% during the period 2008-10, compared to an average world GDP growth rate of 2.5% in the same years (IMF, 2013b).[2] Nevertheless, the region was affected by spillovers from the crisis in advanced economies – particularly from neighbouring European economies – in the form of demand shocks, a sharp decrease of FDI inflows and a significant decline in remittance inflows.[3] Hence, Algeria and Tunisia witnessed a deceleration in average GDP growth of 2% and 1.3%, respectively, in the period 2008-10 compared with 2000-07.

Since 2011, the economic slowdown in the region has intensified and GDP has grown at half the pace of the period up to the beginning of the financial crisis. The Egyptian and Tunisian economies have registered negative effects derived from their political transition processes. Jordan and Lebanon have also experienced economic pressures derived from the conflict in the neighbouring Syrian Arab Republic. Heightened political risks have weighed on confidence, undermining consumption and investment (IMF, 2013a). FDI inflows decreased further to an average of USD 21 billion in 2011 in the MED region, while Egypt experienced disinvestment, meaning that foreign investors removed more capital than they invested in that year (UNCTAD, 2013). To counteract the crisis, MED governments have increased public spending, leading to surging public deficits of up to 7.6% in 2013 (IMF, 2013a and 2013b). Public debt has increased, especially in Egypt, Jordan and Lebanon. In the near to medium term, however, there could be some relief for public finances, provided that cuts in energy subsidies and other measures announced by governments are enacted.

Figure 3. **GDP constant prices**

Percent change

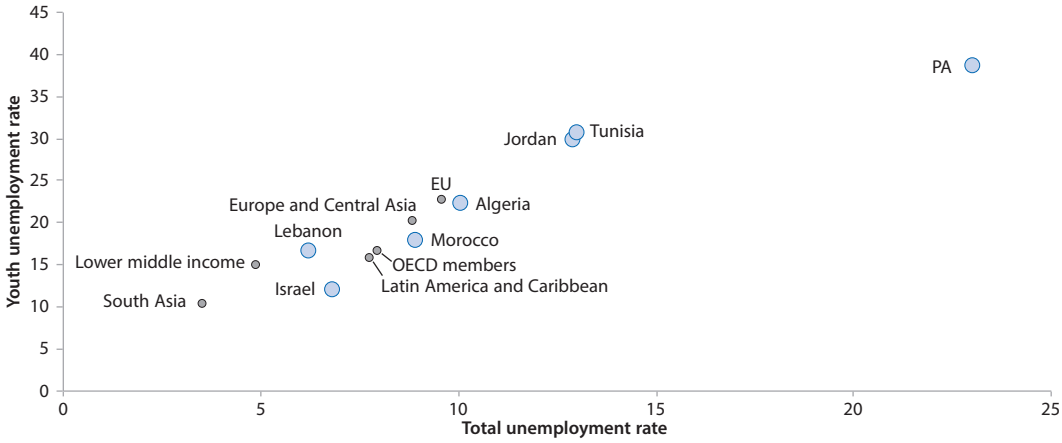


Source: IMF (2013b), World Economic Outlook database 2013, October, Washington, DC, www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx.

Job creation is the most pressing challenge for the region, which has one of the highest unemployment rates in the world (Figure 4). In Egypt, Jordan and Tunisia, 13% of the labour force is unemployed, whereas in Algeria and Morocco the rate is around 10%. The situation for young people is even more worrisome: in the majority of MED economies, between 15% and 35% of people aged 15-24 are unemployed, a factor often stated as a key reason triggering social unrest and dissatisfaction with the political system.

Figure 4. **Unemployment rates in Euro-MED economies, compared with different regions**

Percent, 2013 or latest available data



Sources: IMF (2013b), *World Economic Outlook database 2013*, October, Washington, DC, www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx; World Bank (2014), *World Development Indicators*, World Bank, Washington, DC.

Moreover, the sharp decrease of FDI inflows described above not only concerned the level of investment but also its composition. A recent World Bank study argues that political turbulence in some MED economies skewed FDI towards activities that create the least jobs or that create jobs in non-tradable sectors, while discouraging FDI in non-resource, tradable manufacturing and services (World Bank, 2013a). The latter are the sectors crucial for export growth and diversification and have high job creation potential.

Promoting SMEs in the MED region as engines of jobs and growth

The role of SMEs in economic growth and development is widely acknowledged. In high-income countries, SMEs account for around 50% of GDP and 60% of employment (Ayyagari et al., 2003). In low- and middle-income economies these shares are generally lower (although still significant) due to factors such as large informal sectors, a predominance of micro enterprises (generally with less than 10 employees) and large public sectors.

There are some indications pointing to the role of SMEs in job creation across countries. For instance, Ayyagari et al. (2011) found that SMEs (with 250 employees or fewer) play a significant role, generating 86% of jobs in 99 developing countries surveyed. Other studies, however, indicate that it is enterprise age and not size that matters for job creation, and that start-ups and young firms are the main drivers of new jobs (for instance, Stangler and Litan, 2009; Kane, 2010 and Haltiwanger et al., 2010).

Data on SMEs and their role in MED economies is very scarce and generally outdated, but existing evidence shows that SMEs have an important development potential. The average number of SMEs per 1 000 people in the MED region is 23 (excluding Tunisia, for

which there is no data available), compared to 45 in high-income OECD countries and 31 in developing countries. Furthermore, the share of SMEs in formal employment is generally lower than that of developing (33%) and high-income OECD countries (45%) except in Israel, Tunisia and PA (Table 3). This is partly due to the prevalence of micro enterprises in the enterprise population: micro firms (1-9 employees, depending on the definition) represent 82% of the SME population, while medium-sized firms are only approximately 5%. SMEs in the MED region are mostly active in trade, services and manufacturing – trade is the most important sector for micro enterprises, while small and medium-sized enterprises dominate in the services sector (IFC 2011 and OECD-IDRC 2013).

Table 3. **Overview of SMEs**

	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	Tunisia*	PA
SMEs per 1 000 people	18.2	31.2	30.3	25.6	3.4	25.4	---	26.8
SME employment (% of total)	13.9	31.2	57.8	31	12	21.6	59	82

SMEs definitions vary among economies.

*Data for Tunisia is not fully comparable with the other MED economies.

Sources: IFC (2014), *MSME Country Indicators*, Washington, DC, www.ifc.org/wps/wcm/connect/Industry_EXT_Content/IFC_External_Corporate_Site/Industries/Financial+Markets/msme+finance/sme+banking/msme-countryindicators; Republic of Tunisia (2012), *Répertoire national des entrprises*, National Institute of Statistics, Ministry of Development and International Co-operation, www.ins.nat.tn/.

Box 2. **Defining SMEs**

SMEs are generally firms that are relatively small in size in terms of employment, turnover and total assets. Despite a generally common concept of what SMEs are, each country has its own definition of enterprise size categories. The way it is defined depends on the economic environment, the size of the country and the economic importance attached to a certain grouping of companies (OECD, 2011). In the EU, in particular, the definition of SMEs is based on three criteria: employment, turnover and balance sheet total (see below).

Enterprise category	Headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ EUR 50 million		≤ EUR 43 million
Small	< 50	≤ EUR 10 million		≤ EUR 10 million
Micro	< 10	≤ EUR 2 million		≤ EUR 2 million

In the MED economies, definitions of the SME sector differ, and sometimes there are even several country-specific definitions. Some definitions are entirely based on annual turnover, while most definitions also include the number of employees. Depending on the respective definition, SMEs are seen as enterprises employing between 10 and 250 people, with an annual turnover of around EUR 20 million. Some definitions also look at the amount of registered capital. In this report the term SMEs refers to micro, small and medium-sized enterprises, which includes the entire small business sector as defined by the national legislation of each country.

Source: European Commission (2003), "Commission Recommendation 2003/361/EC", *Official Journal of the European Union*, L 124, Brussels, 20 May 2003, p. 36.

A further problem is to account for enterprises operating in the informal sector, which plays a major role in several MED economies. For instance in Morocco, Egypt, Lebanon and Jordan the informal economy represents 25 to 45% of GDP according to estimates of the IMF (2011), with micro enterprises often operating informally or partially informally. This puts a large section of the enterprise population out of the direct reach of public policy.

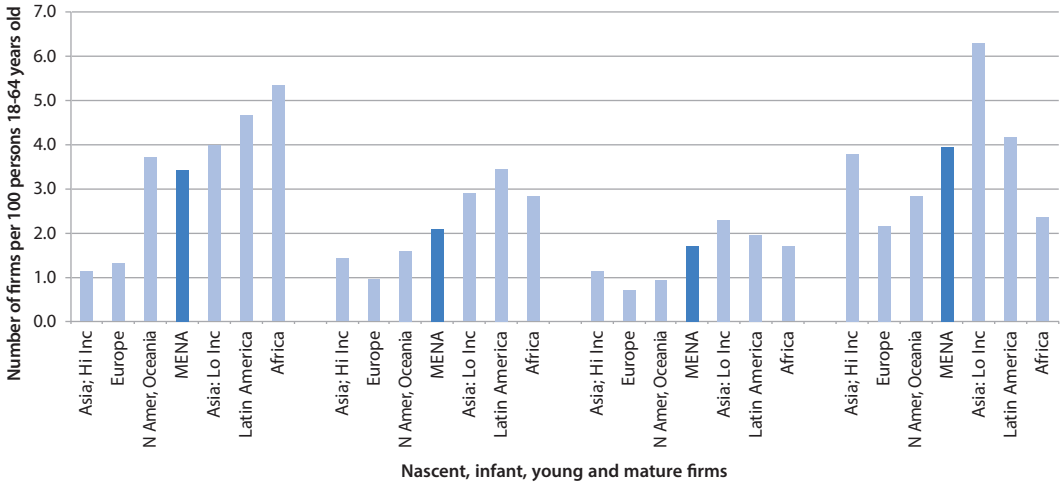
Enterprise creation in the MED region is low – only 1.31 limited liability companies were established per year and per 1 000 working-age resident between 2004 and 2009, on average, compared to an average of 4.75 in OECD countries (World Bank, 2012). With an average enterprise creation of 3.3, Israel is the only economy approaching the OECD rate.

Moreover, a 2013 OECD-IDRC study found that in the MENA region there are comparatively fewer (formal and informal) enterprises in the young stages of the business life cycle (between four months and five years) than in the "nascent" (less than four months) and mature (more than five years) phases. The shares of young enterprises in MENA are also lower than in other emerging regions (Figure 5). This evidence implies that there are comparatively higher enterprise mortality rates in the MENA region, and matters because, as mentioned above, evidence points to the important role of young and expanding firms in job creation.

Low enterprise creation and development also limit the scope for high growth enterprises in the region.[4] The relevance of these enterprises in the economy is crucial, however, contributing to significant shares of new jobs (over 50% according to some research), productivity, innovation and economic growth.

Figure 5. **Enterprise prevalence in MENA**

Prevalence of enterprises by stage in the business life cycle



Note: **Nascent**: profits for less than three months. **Infant**: profits for four months or 2.5 years. **Young**: profits for over 2.5 years and up to 5.5 years. **Mature**: profits for over 5.5 years. **Asia, high income**: Hong Kong (China); Japan; Korea; Singapore and Chinese Taipei. **Europe**: Austria; Belgium; Bosnia and Herzegovina; Croatia; Czech Republic; Denmark; Finland; Former Yugoslav Republic of Macedonia; France; Germany; Greece; Hungary; Iceland; Israel; Ireland; Italy; Kazakhstan; Latvia; Netherlands; Norway; Poland; Portugal; Romania; Russia; Serbia; Slovenia; Spain; Sweden; Switzerland; Turkey; and United Kingdom. **North America, Oceania**: Australia; Canada; New Zealand and the United States. **MENA**: Algeria; Egypt; Jordan; Lebanon; Morocco; PA; Saudi Arabia; Syrian Arab Republic; Tunisia and United Arab Emirates. **Asia, low income**: China (People's Republic of); India; Indonesia; Iran; Malaysia; Philippines and Thailand. **Latin America**: Argentina; Bolivia; Brazil; Chile; Colombia; Dominican Republic; Ecuador; Jamaica; Mexico; Peru; Uruguay and Venezuela. **Africa**: Angola; South Africa and Uganda. Data from the Global Entrepreneurship Monitor.

Source: OECD-IDRC (2013), *New Entrepreneurs and High Performance Enterprises in the Middle East and North Africa*, OECD Publishing, Paris.

Most SMEs in the MED region operate in lower-value-added sectors, such as retail trade. There are various reasons why business owners may choose to focus mostly on trade and services, including resource constraints, lack of skilled labour, high risk aversion of business owners and limited ability to compete effectively in productive industries (OECD, 2012a). Moreover, in labour-intensive sectors, SMEs have the potential to generate a relatively large number of jobs with limited capital requirements. This may make SME support attractive to governments facing strong pressure from growing unemployment rates, and particularly youth unemployment. However, it is important to stress that SME policy is in essence a structural policy. Its primary objective should be to increase the efficiency and productivity of micro, small and medium-sized enterprises by addressing structural market and co-ordination failures.

In contrast to larger firms, small firms in particular struggle with market frictions such as transaction costs and information asymmetries and hence strongly depend on an enabling business environment (Beck and Demirguc-Kunt 2006). In this regard SMEs in the MED region face a number of specific obstacles, hampering their growth and productivity. The World Bank enterprise surveys identify political instability, practices of the informal sector, tax rates, access to finance and inadequately educated workforces as the biggest obstacles for private-sector SMEs in MED economies (World Bank, 2013b).[5] Corruption is seen as among the main issues in Egypt, and Lebanon and PA struggle with electricity provision. As a general observation, a combination of cumbersome regulations, inconsistent application of the rule of law and an widespread level of corruption tend to discourage entrepreneurial activity, reduce competition and protect incumbent firms.

Intense competition from informal enterprises and corruption hamper the performance of formally registered SMEs and their contribution to the economy. High entry barriers and a rigid labour market are recognised in the literature as drivers of activities in the informal economy (Sharma, 2009). Skills mismatches and lack of entrepreneurial learning limit the entrepreneurship potential in the MED region as shown in this report.

With less than a third of women in employment, access to the labour market in the MED region remains the lowest in the world, although the level of education of young women has been steadily increasing in recent years. This low female labour participation limits the scope for entrepreneurial activity in the region. A better policy framework, institutional support and public-private dialogue would help create an environment conducive to female entrepreneurship (OECD, 2012b).

Data on access to finance from the enterprise surveys conducted by the World Bank shows that only 20% of SMEs in the region, excluding Israel, have a loan or a line of credit, which represents the lowest share in the world (World Bank, 2013b). Moreover, only 10% of SME investment expenditures are financed by a bank loan, a share that is higher only in the Sub-Saharan Africa region. This "financing gap" strongly constrains enterprises in the region, by limiting their working capital, causing gaps in their cash-flow cycles and restricting their expansion.

Conclusion

As in other countries, SMEs in the MED region play a significant role in growth and job creation. However, SMEs face several obstacles which limit their capacities and prevent them from fully realising their potential. By addressing these challenges, MED economies would benefit from making SMEs more competitive and better using their potential as an important source of growth and job creation. Policies which seek to create

a level playing field for SMEs through regulatory reform, the removal of administrative burdens and upgrading of the technology and skills of SMEs would improve the conditions for the largest possible number of enterprises. This is particularly relevant in the light of the undergoing transition processes in several MED economies, which have highlighted the need to include all spheres of society in economic growth and the labour market for the sake of future stability and sustainable development.

Notes

1. No data available for PA.
2. This comparison does not include Lebanon due to outlying high GDP growth rates in 2008-10 (average of 8.2%). Data for PA is not available.
3. FDI decreased from an aggregate USD 35 billion in 2008 to USD 24 billion in 2009 (UNCTAD 2013). Data for PA is not available.
4. Enterprises growing at 20% or more in terms of employment or turnover over period of three or more consecutive years, according to the OECD-Eurostat definition.
5. Data on Israel and Tunisia is not available.

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Part I

Results of the assessment by Small Business Act for Europe dimension

Chapter 1

Education and training for entrepreneurship, including training for women's entrepreneurship

SBA principle: Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded

This chapter considers how MED economies promote entrepreneurship through education and training. It includes a focus on entrepreneurship in higher education and training for women entrepreneurs, neither of which were covered in the 2008 assessment.

The analysis underlines limited progress in policy development since the 2008 assessment, in particular on how education systems address entrepreneurship as a key competence. As in the 2008 exercise, the assessment identified excellent examples of good practice in entrepreneurial learning, many of which lay outside formal education and where non-governmental organisations are important players. More could be done to systematically identify and share good practice, within education and training-provider communities Good practice should be a reference point for policy makers in the search for workable and affordable solutions adapted to the cultural and institutional circumstances of the countries concerned.

The policy context to women's entrepreneurship remains very much undeveloped in the region. More concerted efforts by government, business and civic society are needed to ensure women's entrepreneurship finally gets the policy recognition it deserves. Improved training and more developed mentoring services are required to ensure women are better placed to contribute to the wider competitiveness drive in each economy.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

The response of governments and the private sector to the recent global economic downturn has been a search for solutions to re-establish economic growth and employment. Particular attention has focused on the potential of more systemic approaches to entrepreneurship promotion through education (World Economic Forum, 2009). The European Commission, in particular, has underlined the importance of education systems taking a more concerted approach to developing entrepreneurial skills (European Commission, 2012), with an Entrepreneurship Action Plan giving specific attention to education's role in entrepreneurship promotion and its potential for return on investment (European Commission, 2013). The action plan also highlights how women represent a pool of untapped entrepreneurial potential in Europe and includes specific measures to develop mentoring and training for women entrepreneurs.

While a wave of political reforms initiated in the MED region in 2010 paralleled the global financial crisis, economic malaise, poverty and high youth unemployment in the region have been identified as primary contributors to the accompanying civic unrest (Hoffman and Jamal, 2012). Governments in the region have been encouraged to give greater policy attention to entrepreneurial learning (World Economic Forum, 2010) and women's entrepreneurship (OECD, 2012) in the bid for jobs, growth and stability.

This chapter considers developments in entrepreneurial learning in the MED region. The chapter provides recommendations on how entrepreneurial learning and training for women entrepreneurs could be improved.

Assessment framework

The assessment focused on lifelong entrepreneurial learning and training for women entrepreneurs. For the purposes of the assessment, entrepreneurial learning is defined as "all forms of education and training, formal, informal and non-formal, which contribute to an entrepreneurial spirit and behaviour, with or without a commercial objective".[1] The set of indicators for the entrepreneurial learning assessment aims to support governments, the private sector and civic interest groups in building an entrepreneurial learning ecosystem in which all levels of education (from primary to tertiary), including, non-formal learning,[2] are addressed.

A critical factor in the assessment was how each MED economy promotes entrepreneurship as a key competence (European Union, 2006). This goes beyond the traditional notion of entrepreneurship as a purely business or commercial phenomenon. The key competence in entrepreneurship involves a set of behavioural and cognitive traits (e.g. creativity, risk taking, team-working skills) associated with an entrepreneurial character. The challenge for education systems is to help develop these traits through the broad curriculum as opposed to being confined to a separate subject such as business or economics. The crux of the issue is that the entrepreneurship key competence will be critical in preparing future generations to behave more entrepreneurially, making for a more productive workplace.

Table 1.1 displays the sub-dimensions and individual indicators in this dimension. Figure 1.1 shows the results of the 2013 assessment and Figure 1.2. compares progress with the 2008 assessment.

As in 2008, the assessment focused first on policies to support lifelong entrepreneurial learning with a more specific analysis of entrepreneurship promotion in lower and upper secondary education. New to the 2013 assessment were indicators specifically addressing

entrepreneurship in higher education, including university-business co-operation. Second, the assessment looked at how entrepreneurship is promoted in non-formal education settings where considerable efforts are particularly made by non-governmental organisations as well as institutions outside the national education system (e.g. small business agencies). A third area in the assessment was good practice in entrepreneurial learning. Finally, and new to the assessment framework, was how training for women entrepreneurs was addressed by MED economies.

Table 1.1. **Assessment framework dimension 1: Education and training for entrepreneurship, including women's entrepreneurship**

SBA Principle: Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded

Sub-dimension 1.1: Policy framework for entrepreneurial learning	Sub-dimension 1.2: Secondary education	Sub-dimension 1.3: Tertiary education	Sub-dimension 1.4: Training for women's entrepreneurship
1.1.1. Policy framework 1.1.2. Good practice exchange 1.1.3. Non-formal entrepreneurial learning	1.2.1. Lower secondary education (ISCED2) 1.2.2. Upper secondary education (ISCED 3)	1.3.1. National higher education policy on entrepreneurial learning 1.3.2. Good practice in higher education 1.3.3. Higher education co-operation with the world of business	1.4.1. Women's entrepreneurship

A detailed description of these indicators is included in Annex A.

Analysis

This section considers the overall results of the assessment for the MED region. The economy profiles in the third part of the report include more details on entrepreneurial learning and training for women entrepreneurs.

As context, a key conclusion of the 2008 assessment was that policy to support lifelong entrepreneurial learning was underdeveloped while the concept of entrepreneurship as a key competence was little understood. That assessment recommended that key stakeholders (relevant government ministries, private sector and civic interest groups), and particularly key representatives of different parts of the education and training system, work in partnership and elaborate a coherent strategy for lifelong entrepreneurial learning. The 2008 assessment also recommended that all countries build awareness and understanding of entrepreneurship as a key competence and consider implications for curriculum, teacher development and school governance.

Policy framework for entrepreneurial learning

Overall, the primary issue from the assessment is that a joined-up policy framework to promote lifelong entrepreneurial learning remains a challenge for most countries. With an established legislative framework for entrepreneurship promotion in education, governed by a tri-partite consultation arrangement, ***Tunisia*** continues to lead the region on entrepreneurial learning policy (Figure 1.1). Tunisia's performance on policy framework is mirrored in the remaining batch of indicators underlining the importance of policy as an enabler in building the entrepreneurial learning ecosystem.

Figure 1.1. **2013 results dimension 1: Education and training for entrepreneurship, including women's entrepreneurship**

Weighted scores

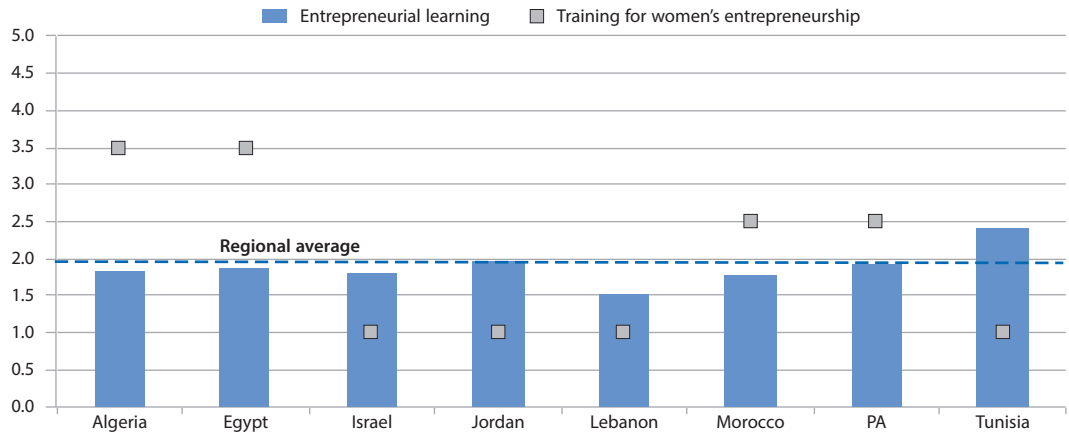
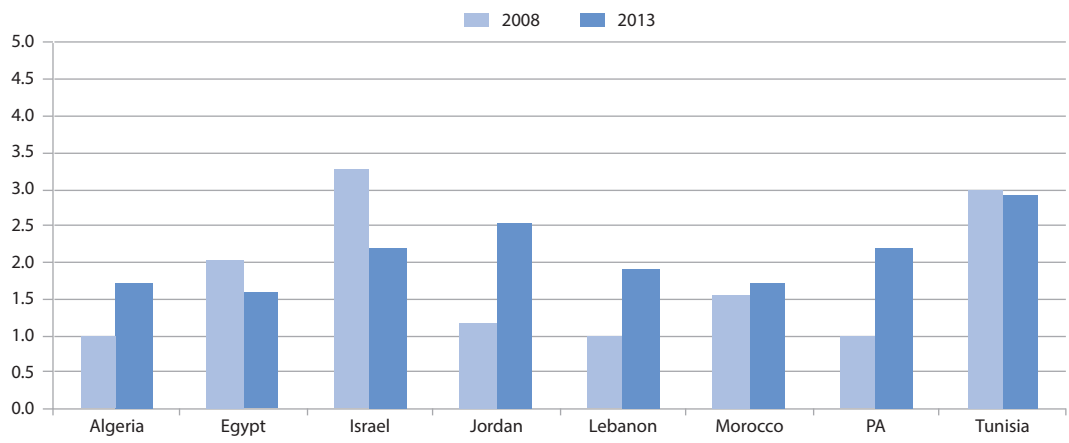


Figure 1.2 shows results comparable for both, the 2008 and 2013 assessments.

Source: Government and independent assessments.

Figure 1.2. **2008 and 2013 results dimension 1: Education and training for entrepreneurship**

Weighted scores



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework used in 2013. This excludes indicators on tertiary education and training for women's entrepreneurship.

Source: Government and independent assessments.

To move forward on entrepreneurial learning policy, education ministries, including ministries with responsibility for higher education, will need to demonstrate leadership and policy initiative on entrepreneurial learning. This will involve engaging with other public, private and civic stakeholders, as a policy partnership, to build the necessary policy linkages essential for a coherent lifelong entrepreneurial learning system. The policy partnership paradigm should be coupled with an "internal partnership" arrangement (Gribben, 2013). This will involve all key agencies within the national education framework (e.g. curriculum and qualifications authorities, teacher development bodies, rectors conference) co-operating

in building a sequenced entrepreneurial learning delivery framework from primary to tertiary education. Donor organisations working with separate pillars of each country's education system could make considerable impact by co-ordinating their support to ensure the necessary interfaces are established, particularly in terms of curriculum and assessment arrangements.

Lower and upper secondary education

Entrepreneurship promotion in lower and secondary education is considered together given commonalities in the indicators for each level, particularly on the entrepreneurship key competence.

Since the 2008 assessment, overall progress in promoting entrepreneurship in lower secondary education has been modest due in large part to a weak understanding by policy makers in particular of entrepreneurship as a key competence. Nonetheless, ***Jordan*** and ***PA*** stand out for work in integrating the key components of the entrepreneurship key competence into the national curriculum while particular efforts in ***Lebanon*** in strategic piloting of the key competence provide a good basis for broader curriculum reform.

More comprehensive teacher engagement and training on entrepreneurship as a key competence will be critical for all countries. The challenge here is to ensure that all lower secondary schools are engaged in a staff development drive focusing on curricula, pedagogy and assessment. A phased development plan could be considered with a gradual roll-out across the school network set against a defined timeframe. Addressing entrepreneurship in pre-service teacher training will also be important. ***PA's*** inclusion of entrepreneurship in pre-service teacher training is a good reference for other teacher-training environments.

Turning to entrepreneurship promotion in upper secondary education, the same concerns as regarding the key competence in lower secondary education apply. The assessment points to good efforts in promoting entrepreneurship skills (e.g. business planning, finance management, loan negotiation) at upper secondary level. Invariably these developments are specific to vocational education. The question is, could the knowledge and expertise from the vocational teaching community be harnessed to build understanding and capacity for entrepreneurship promotion in general secondary education?

Non-formal learning

An implication of the lifelong learning agenda is the recognition that non-formal learning is a source of valuable learning opportunities and experience and most entrepreneurial learning is non-formal i.e. is not subject to the rigours of assessment and examination. Non-governmental and non-statutory education and training providers play an important part in promoting entrepreneurial learning in all countries, although this effort is rarely connected back to developments in the formal education system. There is mutual advantage for formal education and non-formal entrepreneurial learning providers, including business, to co-operate in sharing expertise and to maximise the value of networks in promoting awareness and understanding of entrepreneurial learning for competitiveness and employment.

Good practice exchange

Since the 2008 assessment, most countries have improved their sharing of good practice (see Table 1.2). This is considered important in terms of contributing to efficiency in design and delivery of entrepreneurial learning. However, good practice sharing is far from strategic. The challenge is to create a framework whereby initiatives, once identified, can be taken to scale through the system. A more structured approach to good practice identification would additionally allow for critical peer review and quality improvements, important for sustainability and impact.

The good practice indicator generated a host of inspiring examples with policy and practitioner learning value. An example from ***Lebanon*** particularly underlines the potential of good practice in informing policy where a key competence development project provides a road-testing framework for curriculum and teacher development. Additional factors making up good practice include a collective effort of civic society and the education authorities in co-working developments as well as a commitment from a number of donors to co-support the pilot schools involved.

Table 1.2. **Results for dimension 1:**
Education and training for entrepreneurship, including women's entrepreneurship
Scores for individual indicators

Indicators		AL	EG	IS	JO	LE	MO	PA	TU
1.1.1. Policy framework	2013	2.0	1.5	1.0	2.0	2.0	2.0	2.0	3.0
	Change since 2008	+1.0	0.0	-1.0	+1.0	+1.0	0.0	+1.0	0.0
1.1.2. Good practice exchange	2013	2.0	2.0	4.0	4.0	2.0	2.0	2.0	4.0
	Change since 2008	+1.0	-0.5	-1.0	+2.5	+1.0	+1.0	+1.0	+0.5
1.1.3. Non formal learning	2013	1.5	1.5	1.5	1.5	1.5	1.5	1.5	2.0
	Change since 2008	+0.5	-2.5	-3.5	+0.5	+0.5	0.0	+0.5	-0.5
1.2.1. Lower secondary education	2013	1.5	1.5	2.5	3.5	2.0	1.5	2.5	2.5
	Change since 2008	+0.5	+0.5	0.0	+2.5	+1.0	0.0	+1.5	-0.5
1.2.2. Upper secondary education	2013	1.5	1.5	2.5	2.0	2.0	1.5	3.0	3.0
	Change since 2008	+0.5	0.0	0.0	+0.5	+1.0	0.0	+2.0	0.0
1.3.1. National higher education policy on entrepreneurial learning	2013	1.0	1.5	1.5	1.5	1.0	1.5	1.0	2.0
1.3.2. Good practice in higher education	2013	2.0	2.5	2.5	2.0	1.0	2.5	2.0	2.0
1.3.3. Higher education co-operation with the world of business	2013	1.0	1.0	1.0	1.0	1.0	1.0	1.0	2.5
1.4.1. Women's entrepreneurship training	2013	3.5	3.5	1.0	1.0	1.0	2.5	2.5	1.0
Weighted averages 2013*		***1.8***	***1.9***	***1.8***	***2.0***	***1.5***	***1.8***	***1.9***	***2.4***

*Excluding 1.4.1. Women's entrepreneurship training.

Source: Government and independent assessments.

The ORT vocational school network in ***Israel*** stands out for its structured approach for teachers to share entrepreneurship curriculum, new pedagogic approaches and assessment techniques across a range of education levels. Meanwhile, the Queen Rania Foundation in ***Jordan*** provides an excellent support framework for schools, training centres and universities to share their best entrepreneurship work. The "Queen Rania Award for Excellence in Education" recognises schools with excellence in entrepreneurial learning.

Promoting entrepreneurship in higher education

In most MED economies, higher education policy is addressed separately from wider education policy. Ensuring the necessary policy connections across education has already been addressed above.

An important principle behind all three higher education indicators within the assessment (policy, good practice and university-business co-operation) is that entrepreneurship is no longer the sole responsibility of the economics faculty or business school. Getting entrepreneurship addressed across all faculties is considered essential in generating commercial potential from university graduates and the academic community and as part of the wider drive by the country for competitiveness and growth. A particular concern for MED economies is the potential of more developed entrepreneurship promotion in higher education for graduate employability.

The assessment underlines that entrepreneurship remains very much outside higher education policy developments. Apart from Tunisia, ***all MED economies*** have yet to establish a policy position on "cross campus" entrepreneurship development. In ***Tunisia***, a ministerial circular requires the teaching of entrepreneurship modules across all three years of a degree programme, progressively consolidating student knowledge and competence on graduation.

Part of the difficulty is that the higher education community is generally resistant to prescriptive policy lines from central government and is determined to preserve its independent status. Reluctance or reticence is best addressed through open dialogue and direct engagement of higher education into the national policy debate in critical areas such as economic competitiveness, innovation and employment.

The more entrepreneurial universities should take a more proactive position on entrepreneurship promotion by informing policy debate. ***Egypt*** provides a good example of policy opportunity. While a national "cross-campus" approach to entrepreneurship in higher education remains to be developed, an initiative by the Supreme Council of Universities to promote graduate employability (STEP: Student Training for Employment Project), that includes entrepreneurial skills, could be leveraged to generate the necessary policy reflex demanded by the policy indicators. Overall, more could be achieved by systematic identification and dissemination of good practice. This requires a co-ordination framework for universities to engage directly with the private sector. Students also should have space through the curriculum to build their own entrepreneurship networks nationally, regionally and beyond. In ***Morocco***, the National Forum for University Entrepreneurship and the National Student Organisation for Innovation and Entrepreneurship are good examples of how networking and good practice exchange is supported.

University-business co-operation remains undeveloped in the region. While there are good examples in all countries of university-businesses joint ventures, and some excellent results through university-based incubators (***Israel's*** experience is particularly well developed in high-tech sectors), only ***Tunisia*** provides an overarching framework

to promote co-operation between third-level education and business. This is linked to the country's broader strategic drive to promote entrepreneurial learning in higher education. Legislation requires that all universities host a business centre facilitating university-business co-operation.

Box 1.1. **Good practice:**
Queen Rania Al Abdullah Award for Excellence in Education

Launched in 2005, the Queen Rania Al Abdullah Award for Excellence in Education fosters innovation in teaching. Success stories of teachers work are given visibility and shared widely. Criteria for the award define the core traits of an entrepreneurial teacher, including bringing creativity and effectiveness into the teaching and learning process and developing partnership with local economies.

The awards are presented on competitive and transparent basis. The educational skills of teachers across the country are assessed after they complete their application to the award. In the period between 2006 and 2012, the award has helped 45 distinguished teachers receive university scholarships to pursue higher education. The association which administers the awards also contributes to broader systemic developments in education and linkages with the private sector. It has built partnerships with the Ministry of Education and public-private sector companies to support its mission. It currently works with 43 education directorates, more than 800 supervisors from the Ministry of Education, 3 500 school principals and 73 000 teachers from across the Kingdom.

Sources and further information: Queen Rania Award for Educational Excellence Association (2014), www.queenraniaaward.org/ and www.facebook.com/QueenRaniaAward/info, accessed 28 May 2014.

Training for women's entrepreneurship

In terms of training for women's entrepreneurship, the assessment underlines how in all MED economies a range of measures are available to prepare women for entrepreneurship careers, including follow-up support through mentoring and advisory services. However, policy contexts specifically addressing women's entrepreneurship are weak while support structures lack co-ordination and synergy. The outcome of this is little scale and impact of women on the enterprise environment and national economies.

Algeria, Morocco and ***PA*** already demonstrate the potential for more strategic developments on women's entrepreneurship policy with networks and structures playing a policy dialogue or policy-lobbying function. ***Egypt***'s National Women's Council provides a good example of co-ordinated policy action at national level backed up with a network of business centres at governorate level providing micro enterprise support. Once policies are in place, the challenge for all countries is implementation. This will require access to education, training and finance for women entrepreneurs with targets designed to achieve national scale and coverage.

A consistent theme emerging from the assessment in all countries is the importance that women place on informal networks and advisory support; and particularly the importance of mentoring. This is considered crucial across all phases of business (start-up, early phase, growth) and where women's self-confidence and efficacy are critical determinants in a woman's decision to start and develop a business. A good example of this service is provided by ***Moroccan*** Women Mentoring and Networking – a dedicated mentoring network for women entrepreneurs which also provides inputs to national policy discussions.

To bring forward this policy area, a more concerted effort is needed by government, business and civic interest groups to build a policy-supportive environment that will allow women to realise their entrepreneurial potential. This includes awareness-raising amongst children and young people that addresses the cultural constraints facing many young women in relation to their business interests and potential (Bekh, 2013). Consideration could also be given to developing a regional women's mentor network. This could borrow on the knowledge and know-how of the European Network of Mentors for Women Entrepreneurs supported by the European Commission.

Box 1.2. **Good practice: Women's entrepreneurship in PA: a partnership for change**

In PA just over 5% of all enterprises are owned by women. To improve women's entrepreneurship, a significant step forward was made in 2013 thanks to the efforts of a committed working group composed of stakeholders from government, civic society and the business community. The group has set itself the challenge of overcoming the constraints on women's entrepreneurship with a focus on *a)* fostering a cultural understanding of women's contributions to an entrepreneurial economy, *b)* addressing the lack of training geared towards women's entrepreneurship, and *c)* access to finance.

The Ministry of National Economy leads the working group and is elaborating a strategy the pillars of which are: *a)* the enabling environment; *b)* building awareness of women's entrepreneurship and the role of schools in generating the necessary cultural shift for greater understanding and acceptability of women as entrepreneurs; *c)* enhancing women's interpersonal skills and technical capacity for business start-ups and growing businesses through training and mentoring; and *d)* the development of tools and business services with an effective outreach programme. International donor support will also be sought to follow up on the strategy.

A national network of women entrepreneurs furthers the partnership drive. Leading organisations such as the Business Women's Forum and Birzeit University are connecting up with similar networks at international level for mutual learning and where knowledge and know-how feed into the national policy debate.

Sources and further information: Palestine Economic Policy Research Institute-MAS (2014), Policies to Promote Female Entrepreneurship In the Palestinian Territory website, www.mas.ps/2012/node/113, accessed 28 May 2014; Association of Organisations of Mediterranean Businesswomen (AFAEMME), Women Entrepreneurship Day – Ramallah webpage, afaemme.org/present/news/women-entrepreneurship-day-ramallah, accessed 28 May 2014; BiD Network (2014), Palestine webpage, www.bidnetwork.org/en/countries/palestine, accessed 28 May 2014.

The way forward

A number of areas are proposed here to bring forward developments in entrepreneurial learning and training for women entrepreneurs.

- The primary issue to be addressed is to reinforce the culture of entrepreneurship. Key to this aim is the establishment of a comprehensive, integrated framework to promote lifelong entrepreneurial learning in a continuum from primary to tertiary education. Governments should set up a cross-ministerial commission for entrepreneurial learning, to include private sector and civic interest groups. Leadership by the education authorities will be important. Teacher training and teacher networks with an interest in entrepreneurship promotion should be encouraged and supported.

- Each country has implemented various successful projects (mainly with the support of external donors) and improved the supply of entrepreneurial learning. It is important to consolidate and scale up these good practices to system level and use them as a reference tool to inform and inspire policy. As a starting point, a platform for identification and exchange of quality-assured good practice could be considered. A number of universities have invested in reinforcing the entrepreneurial skills of their students through curriculum development and teacher training. Co-operation among higher education institutions on entrepreneurship development and their links with business should be further strengthened across all faculties (not only focused on management and economic studies).
- While initiatives to support women entrepreneurs are many, policy measures in most countries are weak and cultural obstacles to women setting up in business remain a challenge. More efforts are therefore required to build on good practices and improve the availability of specific training services for women. A southern Mediterranean women's entrepreneurship network could be considered with the objective of promoting mutual learning and peer co-operation. An accreditation framework to ensure quality of mentoring services for women entrepreneurs would bring value, visibility and recognition to women's entrepreneurship in the region.

Notes

1. This is a framework definition and was agreed on 18 January 2012 in Geneva by an international working group comprising ETF, ILO, UNESCO, UNEVOC and GIZ. Non-formal entrepreneurial learning refers to education, training and other forms of developing entrepreneurial knowledge and skills that are not subject to formal assessment by the education system.
2. Non-formal entrepreneurial learning refers to education, training and other forms of developing entrepreneurial knowledge and skills that are not subject to formal assessment by the education system.

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Chapter 2

Efficient bankruptcy procedures and "second chance" for entrepreneurs

SBA principle: Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance

This chapter focuses on the existence and efficiency of insolvency frameworks as well as on the ease with which previously bankrupt and non-fraudulent entrepreneurs can restart a business or get a second chance. The assessment, as that of 2008, shows that all MED economies have in place laws and procedures to deal with enterprise insolvency and bankruptcy. However, there is almost no data and information on the implementation of those laws and procedures. The results of the assessment indicate that MED economies need to establish mechanisms for monitoring and evaluating the effectiveness of bankruptcy laws and procedures, promote their implementation and introduce the principle of second chance in SME policy making.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Well-functioning frameworks for resolving insolvency are an important element in the efficient allocation of resources in the economy by incentivising the reorganisation of viable firms facing financial distress and by liquidating unviable ones at low cost. They are also important for balancing the interests of the stakeholders of a company (creditors, owners, managers, employees, customers and suppliers) and ensuring that entrepreneurs and creditors will be able and willing to engage in new ventures and take risks in the future (Cirmizi et al. 2011).

Business failure is an intrinsic characteristic of entrepreneurship. Many successful entrepreneurs and company founders have previous experiences of bankruptcies and financial distress. Such experiences are an important source of learning and an essential element in current and future business success. However, many legal and cultural norms judge business failure in a negative way, often because of a perception of mismanagement or fraud. According to the European Commission (2011), only 50% of businesses survive for five years after they are created. Of all business closures, bankruptcy represents approximately 15%, and of these only 4% to 6% are fraudulent bankruptcies.

In general terms, a bankruptcy process can be divided into four consecutive sub-areas from the time a company starts experiencing financial problems until it is eventually reorganised or liquidated (OECD, 2006):

- As a first step, ***early-warning systems*** must be in place to identify financially distressed companies at a stage where providing additional support might help avoid filing for bankruptcy. Entrepreneurs will often not act in time and seek help only when there are no more alternatives. This may partly reflect fear of losing control over their company. Seeking support means admitting defeat and questioning the owner's entrepreneurial capacity.
- In a second step, ***out-of-court settlements*** should be available as a less expensive and less burdensome alternative to filing for bankruptcy, especially for micro enterprises. A necessary condition, however, is that all creditors must agree to keep the company going. They must be assured that their rights are adequately secured during the entire process.
- ***Court procedures*** are the right option if neither of the previous steps has been successful. Both creditors and debtors have the right to file for bankruptcy. This includes drafting a re-organisation plan and allowing the discharge of part of the debt through a court ruling, leading either to the re-organisation and survival of the company or to its liquidation. Once started, bankruptcy proceedings should be fast and cost-efficient so that a reasonable proportion of the assets can be saved and any potential restart will not be overly delayed.
- ***Post-bankruptcy treatment*** including liquidation, discharge and its consequences should be structured in a non-discriminatory manner. This enables the entrepreneur to achieve a quick restart. Long debt repayments, a lack of discharge or non-automatic removal from bankruptcy registers and national credit rating black lists can prevent an entrepreneur from accessing the finance needed for a second chance.

This chapter assesses the efficiency of bankruptcy procedures in MED economies and the extent to which insolvency laws, procedures, costs and cultural norms and attitudes are favourable to resolving business failures and restarts. The analysis of early warning systems, out of court settlements and company reorganisation are outside the scope of the chapter.

Assessment framework

The chapter focuses on the existence and implementation of effective bankruptcy laws and procedures in MED economies. It is based on principle 2 of the *Small Business Act for Europe* "Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance". The term "honest entrepreneurs" refers to company managers and founders who have faced non-fraudulent bankruptcy procedures.

The chapter analyses two sub-dimensions: "Bankruptcy procedures", which looks at the existence of laws and procedures dealing with distressed companies, receivership and bankruptcy, as well as a number of indicators on "resolving insolvency" from *Doing Business*. The section on "Second chance" looks into the existence of initiatives to support entrepreneurs starting afresh and into legal/regulatory or *de facto* impediments to those entrepreneurs accessing credit, public procurement and support schemes. Table 2.1 gives an overview of the indicators covered. Figure 2.1 shows the results of the 2013 assessment and Figure 2.2 shows a comparison between the 2008 and 2013 assessment results.

Table 2.1. **Assessment framework dimension 2: Efficient bankruptcy procedures and second chance for entrepreneurs**

SBA Principle: Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance

Sub-dimension 2.1: Bankruptcy procedures	**Sub-dimension 2.2: Second chance**
2.1.1. Laws and procedures on distressed companies, receivership and bankruptcy	2.2.1. Promoting positive attitudes towards giving entrepreneurs a fresh start
2.1.2. Bankruptcy time (*Doing Business*)	2.2.2. Discharge from bankruptcy
2.1.3. Cost of bankruptcy (*Doing Business*)	2.2.3. Access to credit
2.1.4. Recovery rate (*Doing Business*)	2.2.4. Discrimination against restarters

A detailed description of these indicators is included in in Annex A.

Figure 2.1. **2013 results dimension 2: Efficient bankruptcy procedures and second chance for entrepreneurs**

Weighted scores

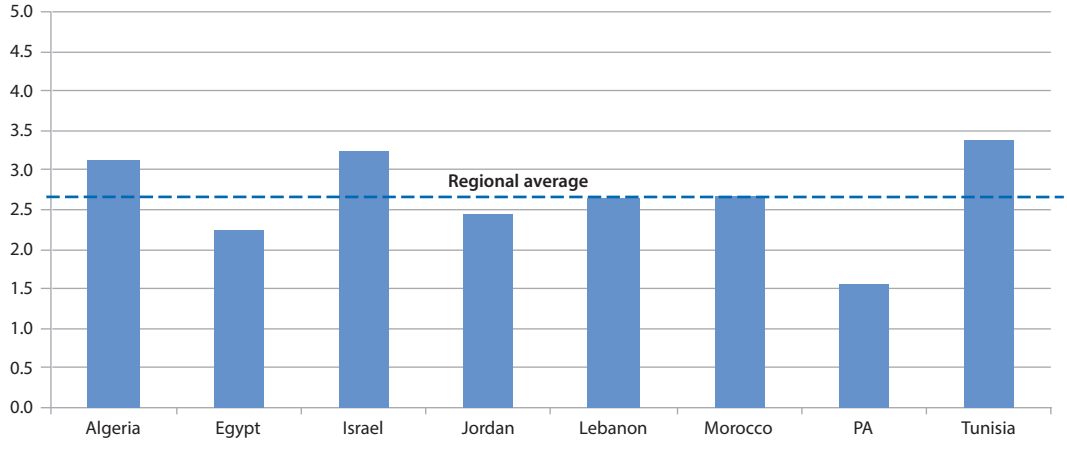


Figure 2.2 shows results comparable for both, the 2008 and 2013 assessments.

Source: Government and independent assessments.

Table 2.2. **Results for sub-dimension 2.1: Bankruptcy procedures**

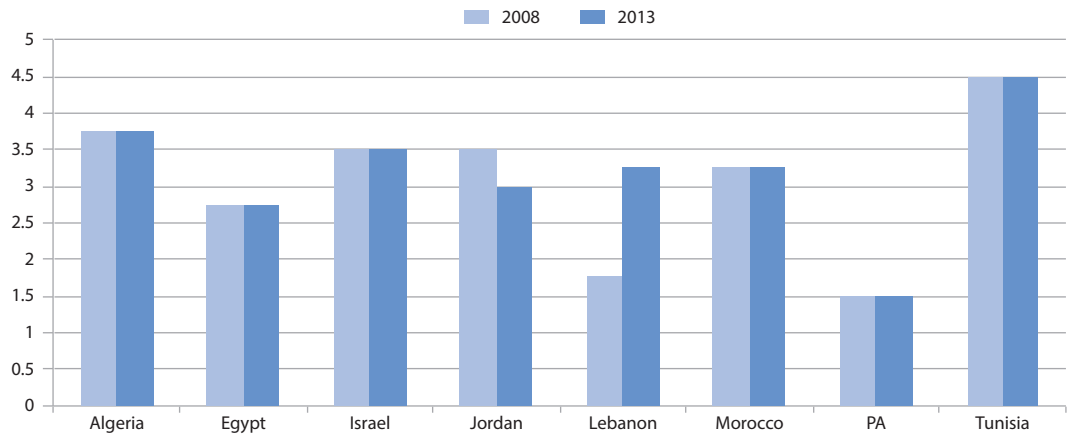
Scores for individual indicators

Indicators		AL	EG	IS	JO	LE	MO	PA	TU
2.1.1. Laws and procedures on distressed companies, receivership and bankruptcy	2013	3.0	3.5	4.0	3.0	3.0	3.0	2.0	4.0
	Change since 2008	0.0	0.0	-1.0	-1.0	+1.5	0.0	0.0	0.0
2.1.2. Bankruptcy time	2013	4.0	2.0	5.0	4.0	4.0	5.0	1.0	5.0
	Change since 2008	0.0	0.0	+2.0	+2.0	+2.0	0.0	0.0	0.0
2.1.3. Cost of bankruptcy	2013	5.0	2.0	1.0	2.0	3.0	2.0	1.0	5.0
	Change since 2008	0.0	0.0	0.0	-2.0	+1.0	0.0	0.0	0.0
2.1.4. Recovery rate	2013	3.0	1.0	4.0	2.0	2.0	2.0	1.0	3.0
Weighted average		***3.5***	***2.2***	***3.7***	***2.7***	***2.8***	***2.8***	***1.3***	***4.0***

Source: Government and independent assessments and IFC-World Bank (2013), Doing Business website, www.doingbusiness.org, accessed 11 November 2013.

Figure 2.2. **2008 and 2013 results dimension 2: Bankruptcy procedures**

Weighted scores



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013. This excludes indicators on second chance.

Source: Government and independent assessments.

The results of the analysis in this chapter are not fully comparable with the 2008 assessment since they include a number of new indicators (all indicators on second chance and the recovery rate indicator from *Doing Business*). Moreover, the structure of the current assessment is different to that in 2008.

Analysis

Bankruptcy procedures

The first indicator of this sub-dimension analyses the existence of laws and procedures on bankruptcy and examines their effective implementation. The rest of the indicators of this sub-dimension are directly obtained from the 2014 edition of *Doing Business* and

complement the information on bankruptcy laws and procedures by shedding further light on the effectiveness of resolving insolvency.

As in 2008, a review of bankruptcy legislation shows that laws on distressed companies and bankruptcy exist in all MED economies. However, evidence on the degree of implementation is absent or very scarce, which may reflect a preferred use of out-of-court settlements but also a generalised absence of systems to track insolvency cases and their outcomes.

In ***Israel***, the bankruptcy order of 1980 has been implemented for decades. According to the assessment, receivership and bankruptcy processes are generally transparent and every citizen can read the court verdicts on the court management web-site. Along the same lines, in ***Tunisia***, the 1995 law on the "restructuring of companies in economic difficulties"[1] is ostensibly in line with international standards. It is worth mentioning that, according to anecdotal evidence from the independent assessment, since the start of the process of political transition in Tunisia, there have been an increasing number of firms in economic difficulties, which may reflect the slowdown of economic activity in certain sectors (tourism and textiles).

The ***Egyptian*** *Trade Law* of 1999 includes articles related to company bankruptcy.[2] The independent assessment points to data from the Central Agency for Public Mobilisation and Statistics (CAPMAS) on the number of declared bankruptcy cases classified according to economic activity. The total figures presented are 242 in 2009, 212 in 2010 and just 4 in 2011, which suggests that the implementation of the law is very low and possibly reflects the large number of companies operating informally and an important number of out-of-court settlements. To improve the situation, the Ministry of Justice is working with national and international experts on the completion of a new draft insolvency law, based on the adoption of several standards and principles in insolvency disputes. In November 2012 the Egyptian government also signed an agreement with the International Finance Corporation (IFC) to train Egyptian judges to deal with restructuring distressed companies, and to use amicable methods to settle bankruptcy disputes. Furthermore, the single-window system of the Social Fund for Development (SFD) serves as a focal point for companies in distress to liaise with relevant government agencies.

Algeria, ***Jordan and Morocco*** also have laws stipulating bankruptcy procedures, but they lack evidence on levels of implementation. In Jordan the Commercial Code, Civil Code and Companies Law collectively govern bankruptcy and insolvency, and a new Reorganisation, Bankruptcy and Liquidation draft law is currently pending parliamentary review. The new law aims at instituting a legal framework for distressed companies.

Bankruptcy laws in ***Lebanon*** and ***PA*** are outdated and there is no evidence of their systematic, consistent and effective implementation. Under the Improving the Business Environment (IBEL) Initiative, Lebanon is revising its legal framework for insolvency and drafting a modern bankruptcy law (currently part of the Code of Commerce that dates back to 1942).

Given the lack of evidence on the implementation of bankruptcy laws in MED economies, the *Doing Business* indicators on resolving insolvency can help, to some extent, to shed light on the effectiveness of bankruptcy laws and the main procedural and administrative bottlenecks in the bankruptcy process (IFC-World Bank, 2013). The indicators analysed here are based on the most recent round of data collection for *Doing Business*, which was completed in June 2013 and published in October of the same year. Those indicators look in particular at:[3]

- The ***average time***, in calendar years, to close a business. The period of time measured by *Doing Business* is from the company's default until the payment of some or all of the money owed to the bank. Potential delay tactics by the parties, such as the filing of dilatory appeals or requests for extension, are taken into consideration (IFC, World Bank, 2013).
- The ***cost of the proceedings***, measured as a percentage of the value of the debtor's estate. The cost is calculated on the basis of responses to a questionnaire and includes court fees and government levies; fees of insolvency administrators, auctioneers, assessors and lawyers; and all other fees and costs (IFC-World Bank, 2013).
- According to the description in *Doing Business*, the ***recovery rate*** is recorded as cents on the dollar recouped by creditors through reorganisation, liquidation or debt enforcement (foreclosure) proceedings (IFC, World Bank, 2013).

It is important to highlight that, as with other indicators in *Doing Business*, these are very specific in order to facilitate international comparisons. Among other assumptions, they focus on the case of a domestically owned limited liability company, having real estate in the economy's largest city and employing 201 people. Despite the fact that those assumptions may not necessarily apply to the majority of SMEs in MED economies, the indicators are useful as an approximate gauge of the effectiveness of bankruptcy laws and procedures in the MED region (see Table 2.3).

Table 2.3. **Doing business indicators on resolving insolvency**

Economy	Ranking*	Time (years)	Cost (% of estate)	Recovery rate (cents on the dollar)
Algeria	60	2.5	7	41.7
Egypt	146	4.2	22	16.9
Israel	35	2	23	60.6
Jordan	113	3	20	27.2
Lebanon	93	3	15	32.4
Morocco	69	1.8	18	38.3
P.A.	189	no practice	no practice	0
Tunisia	39	1.3	7	52

*Out of 189 economies.

Source: IFC-World Bank (2013), Doing Business website, www.doingbusiness.org, accessed 11 November 2013.

The indicators for ***Tunisia*** point to a well-functioning system for handling bankruptcies. The average time of bankruptcy is 1.3 years, the lowest among MED economies and below the OECD average of 1.7 years. At 7% of the estate, the cost is also the lowest (together with Algeria) and below the OECD average of 9%. The creditors of a Tunisian insolvent company would expect to receive 52 cents for each US dollar, below the OECD average of 70.6 but above all MED economies except Israel.

Israel's results are also positive, especially in terms of "bankruptcy time", which was halved to two years, compared to 2008. However, bankruptcy procedures, at a cost of 23% of the estate, remain the costliest of MED economies. ***Algeria*** and ***Morocco*** also display sound performance, although with no improvements since 2008. ***PA*** appears as "no practice" (according to *Doing Business* terminology) given that it has no registered cases of reorganisation, liquidation, receivership or foreclosure over the past five years.

These results point to a diverse picture in terms of bankruptcy procedures, with all MED economies having laws on distressed companies and bankruptcy, although with different levels of effectiveness and implementation (using resolving insolvency indicators as a proxy).

Promoting the principle of second chance for entrepreneurs starting afresh

Business creation and business exit are intrinsic characteristics of economic dynamism. Start-ups and young firms are important contributors to employment creation, innovation and productivity growth through the introduction of new products, processes and business models (OECD-IDRC, 2013). But new and young enterprises are also the most likely to disappear, especially during the first years of their existence. A study by Stangler and Litan (2009) found that only half of start-ups survive to their fifth year and around a third of them close soon after their second year of operations.

Evidence also points to other factors often linked to the probability of business failure. OECD data shows that "enterprise deaths" are higher in the services sector than in manufacturing; that very small firms, with one to four employees have the highest failure rates; and that enterprise exits increased after 2007 as a consequence of the global economic crisis (OECD, 2013). Yet, despite the fact that business failure is rarely related to fraudulent bankruptcy, the broader public does not often differentiate between non-fraudulent failure and fraud (European Commission, 2011).

The stigma of bankruptcy for firms and individuals dissuades entrepreneurs and company managers from taking risks and innovating. According to *Doing Business*, that stigma holds especially in the (broader) Middle East and North Africa region, where economies have weaker restructuring and liquidation systems.

This section focuses on the existence of measures or initiatives to make society and entrepreneurs aware that non-fraudulent entrepreneurs who have gone bankrupt should have a second chance. These could include training on starting a new business, motivation and "converting an error into an advantage" seminars.[4] The section also analyses evidence on practices for discharge from bankruptcy, access to credit and administrative barriers to accessing public procurement and support services for non-fraudulent entrepreneurs.

The set of indicators used in this section was applied to MED economies for the first time and cannot therefore be compared to the 2008 assessment.

Table 2.4. **Results for sub-dimension 2.2: Second chance**

Scores for individual indicators

	ALG	EGY	ISR	JOR	LEB	MOR	PA	TUN
2.2.1. Promoting positive attitude towards giving entrepreneurs a fresh start	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
2.2.2. Discharge from bankruptcy	2.5	2.5	2.5	2.0	2.0	2.5	2.0	2.5
2.2.3. Access to credit	2.0	2.0	2.0	1.0	2.0	2.0	1.0	1.0
2.2.4. Discrimination against restarters	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Weighted average	***2.4***	***2.4***	***2.4***	***2.0***	***2.3***	***2.4***	***2.0***	***2.1***

Source: Government and independent assessments.

No MED economy implements specific information campaigns to disseminate the concept of second chance and there is no evidence of training schemes targeting recovering entrepreneurs to start afresh. This is hardly surprising given that measures to promote a second chance are rather new, even in EU countries. Furthermore, recent assessments undertaken in the western Balkans, Turkey and in eastern partner countries also point to the absence of such measures in those regions.

It is worth mentioning that ***Egypt's*** Industrial Modernisation Centre (IMC) offers support to distressed factories by providing information and services, including technical assistance and training, as well as by co-ordinating efforts with banks and financial institutions. These efforts are in line with those provided by some EU countries, such as Austria's "Overcoming difficulties – service package for securing businesses" and the Netherlands' "Debt restructuring and insolvency assistance for SMEs", among others (see Box 2.1). This Egyptian initiative, however, does not address the dissemination of information on the second chance or support measures for entrepreneurs who have already failed and who may want to start a new business.

Box 2.1. **Promoting a second chance for entrepreneurs starting afresh**

Second chance is a relatively new line of policy intervention with only a few countries having specific initiatives to support entrepreneurs starting afresh. The assessment shows that no MED economies have specific measures in this area. A few countries in the EU have initiatives that could be worthwhile for MED economies to look at.

As examples of good practice in EU countries, the European Commission points to the following programmes:

- Under the ***Belgian insolvency law***, individuals (not companies) who have gone bankrupt due to factors beyond their control are not considered culpable. The court can discharge the bankrupt business owner and their spouse from all remaining debts. In some circumstances this also applies to guarantors of the business.
- The ***Danish*** government is introducing a pilot ***early warning system*** offering practical advice to help potentially profitable businesses that are heading for insolvency due to temporary problems.
- ***Germany*** offers a business start-up portal (existenzgruender) containing information on business restart, a forum where experts give advice on dealing with insolvency/debts and an early warning tool.
- ***Bankruptcy prevention centres in France*** offer free expert advice to struggling businesses. French VAT authorities include references to advice centres in reminders for non-payment of VAT. Business owners with liquidity problems can obtain a new insurance contract covering expenses (legal advice and mediator fees) for settling debts at an early stage.
- The ***United Kingdom*** helps businesses start again after bankruptcy through measures such as a one-year discharge or the removal of restrictions. Two separate registers, the individual insolvency register and the BRO (Business Restriction Order) register, enable people to differentiate between "culpable" bankruptcies and people who become bankrupt due to circumstances beyond their control.

Sources and further information: European Commission (2011), *A second chance for entrepreneurs: Prevention of bankruptcy, simplification of bankruptcy procedures and support for a fresh start. Final Report of the Expert Group*, Brussels; European Commission (2014), A second chance to entrepreneurs, Enterprise and Industry website, ec.europa.eu/sme2chance, accessed 28 May 2014.

The second indicator in this sub-dimension looks at the existence of specific procedures for discharge from bankruptcy and whether *discharge time and debt settlement* for honest entrepreneurs is limited to a maximum of three years (in line with the guidelines of the Review of the Small Business Act for Europe). This indicator is related to the existence and effective implementation of laws and procedures on distressed companies, receivership and bankruptcy.

Most MED economies have adopted discharge procedures, although there is no evidence that discharge time and debt settlement takes less than three years or that removal from the bankruptcy register is effected after all obligations have been cleared. In ***Egypt***, a non-fraudulent entrepreneur is discharged from bankruptcy after three years of *terminating the bankruptcy case*. But there is no clear evidence on how long the whole bankruptcy process, including debt settlement, takes after there is a bankruptcy filing. In ***Israel***, the duration of the bankruptcy and discharge procedure is not limited by regulation. ***Algeria, Morocco, PA*** and ***Tunisia***, have stipulations relating to discharge from bankruptcy. However in those economies there is no evidence of the length of the bankruptcy clearance process. Therefore, it is not possible to determine whether procedures have been adopted in line with the SBA for Europe.

In ***Jordan***, as noted before, bankruptcy discharge procedures are currently under consideration as part of the Reorganisation, Bankruptcy and Liquidation draft law which is currently under review in parliament. Similarly, in ***Lebanon***, the IBEL initiative is revising the legal framework for insolvency and drafting a new bankruptcy law.

In terms of access to credit, the assessment finds that there are no legal or administrative impediments for entrepreneurs starting afresh to obtain loans from institutions. However, in practice, interviews of private sector representatives undertaken through the independent assessments note that entrepreneurs who have faced bankruptcy procedures in the past face greater difficulties in accessing loans.

MED economies do not have in place legal or administrative barriers for formerly bankrupt entrepreneurs to access support programmes, credit guarantees or public procurement. However, slow or inefficient bankruptcy procedures and clearance have a direct effect on the capacity of entrepreneurs starting afresh to access those schemes.

The way forward

MED economies have put in place laws and procedures to deal with insolvency and bankruptcy, yet evidence on levels of implementation remains scarce or absent. This may point to a preferred use of out-of-court mechanisms, high levels of economic informality and the lack of a system to track the effectiveness of insolvency mechanisms. MED economies should strengthen their monitoring of insolvency and bankruptcy cases in order to better assess the efficiency of the legal and procedural framework.

The *Doing Business* indicators on resolving insolvency serve as a proxy for assessing the effectiveness of insolvency frameworks. In line with the information obtained from the assessment, they indicate that ***Israel*** and ***Tunisia*** have relatively effective bankruptcy mechanisms, with relatively fast and, in ***Tunisia***, cheap bankruptcy processes and good recovery rates. In all other MED economies there is significant scope for improvement in these areas. ***Israel*** and ***Tunisia*** could also continue improving their performance in this area.

Egypt could continue to step up its efforts to develop the bankruptcy system by training Egyptian judges to deal with restructuring distressed companies and by developing the new insolvency law. ***Jordan*** and ***Lebanon***, which are updating their bankruptcy laws, could also consider training schemes for judges and could look at ***Egypt's*** SFD practice of a single window for dealing with insolvency. ***PA*** could start a process to update its bankruptcy framework and developing a mechanism to monitor its implementation.

All MED economies could also benefit from launching information campaigns to promote a second chance for entrepreneurs starting afresh, including measures to assess the extent to which they face hurdles to access to bank credit.

Notes

1. Law 95-34 of 17 April 1995 on the reorganisation of companies in economic difficulties.
2. Articles which apply to the bankruptcy of companies are stated in the Trade law No.17 of 1999 from Article 698 onwards. The law regulates the bankruptcy of individual traders and all types of companies except joint ventures.
3. A detailed overview of the assumptions and methodology of these indicators is provided on the *Doing Business* website: www.doingbusiness.org/methodology/resolving-insolvency.
4. See for instance Spain's training initiative on "A second chance to run a business at the Entrepreneurs Day"; the UK's "Destigmatisation of Bankruptcy" initiative; and Denmark's "Faster start-up after bankruptcy". Information available at the European Commission's SBA Database of good practices, http://ec.europa.eu/enterprise/policies/sme/best-practices/database/SBA/index.cfm?fuseaction=practice.list.

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Chapter 3

Institutional and regulatory framework for SME policy making

SBA principle: Design rules according to the "think small first" principle

This chapter assesses policy areas defined under the "think small first" principle of the Small Business Act for Europe, which requires SMEs to be fully considered at the early stages of policy making in order to make legislation more SME friendly.

The first part of this chapter assesses the institutional framework for SMEs based on indicators referring to laws defining SMEs, strategies for SME development and institutions responsible for elaborating SME policy and implementing SME programmes. The second part focuses on measures simplifying legislation and the use of regulatory impact analysis in the policy making process. The third part addresses the regularity and representativeness of public-private consultations in the policy making process. The last part focuses on the existence and effectiveness of business associations and enterprise networks.

Overall, the results of the assessment show that there are general institutional coordination mechanisms in SME policy making in the MED region. However, comprehensive SME strategies are still missing in most economies, which points to the need of establishing well-defined plans, objectives, measurable targets and clear reporting lines. All economies could also introduce or strengthen administrative simplification and regulatory impact analysis as an intrinsic element of the SME policy making process.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

The "think small first" principle is increasingly considered by governments as a guiding criterion in devising policy towards the private sector in developed and emerging markets. This comes as a result of the recognition of the relevance of SMEs in generating jobs, value added and in providing the basis for a sustainable and diversified economy.

SME policy is a relatively recent development in the MED region. For several decades, SME support had a marginal role in economic policy making. Until the early 1980s, governments focused their attention on building productive capacity in what were identified as strategic sectors, by supporting "national champions", by channelling financial resources to priority industrial projects and by implementing import substitution measures. As those measures often failed to achieve the expected results, governments shifted their policy action towards attracting foreign direct investment, restructuring state enterprises and promoting privatisation. Domestic entrepreneurs not linked to powerful and influential groups, continued to be neglected. The contribution to economic development of micro and small enterprises was considered too marginal to deserve policy support.

Pro-active SME development policies started to emerge only in the late 1990s and early 2000s. Tunisia introduced one of the first funds dedicated to SMEs in 1999 and the Agency of Industrial Promotion and Innovation (API) started to introduce specific SME support programmes. Morocco was one of the first MED economies to launch a co-ordinated SME policy, and approved an SME Charter in 2002, which led to the establishment of the national SME Development Agency (ANPME). Egypt's basic SME legislation was passed in 2004, assigning to the Social Fund for Development (SFD) the task of supporting micro and small enterprises. This shift towards SME policy was supported by bilateral and multilateral donors and international financial institutions.

In particular, the programmes of industrial upgrading or *mise à niveau*, supported by the European Commission in all the MED economies from the early 2000s, contributed to the creation of the institutional framework and the operational capacity for conducting SME support programmes. Most of those programmes and the related institutions are still active in the region and play a central role in governments' SME policy approach. At the same time, the World Bank, in association with other international financial institutions and multilateral and bilateral donors, contributed to raising awareness of the importance of the regulatory and business environment in relation to enterprise development. These initiatives led to the launch of regulatory reform programmes focusing on the business environment from 2007 onwards.

Since then, SME policy in the MED region has been built around two main pillars: the first aiming at promoting entrepreneurship and enterprise development through targeted interventions, and the second aiming at improving the business environment for all enterprises through horizontal measures.

Assessment framework

The objective of this chapter is to assess how the "think small first" concept promoted by Principle 3 of the Small Business Act is applied in the elaboration and implementation of public policy towards private enterprises. The assessment framework is structured in four sub-dimensions: the institutional framework and the strategic directions of SME policy; the approach and the programmes related to regulatory reform and simplification; the features of public-private dialogue; and enterprise networks and business associations.

SME policy encompasses a wide range of policy dimensions, often under the remit of different ministries and government agencies. While it is essential that mandates over SME policy are clearly assigned and policy elaboration and implementation responsibilities are properly defined, it is vital that mechanisms that promote policy co-ordination are put in place. The presence of a multi-year SME development strategy supported by yearly action plans enhances policy co-ordination by providing a common platform, allowing for monitoring and evaluating the results of government actions against a defined set of objectives and targets while facilitating public-private dialogue.

Regulatory reform and administrative simplification play a major role in fostering SME development. A heavy administrative burden forces enterprises to divert resources from productive activities to fulfilling administrative tasks. Cumbersome regulations tend to protect incumbents, discourage new market entrants and result in the unproductive use of resources. Small enterprises, constrained by limited human and financial resources, suffer disproportionally more from complex and costly regulations.

Regulatory reform and administrative simplification is covered by a specific sub-dimension including several indicators dealing with the institutional framework and the strategic direction of regulatory reform and the application of regulatory reform tools, such as the administrative guillotine and the introduction of regulatory impact analysis (RIA).

The assessment structure and the indicators are the same as in the 2008 assessment (Table 3.1). However, it is important to note that while the focus of the 2008 assessment was on the broader enterprise policy spectrum, the 2013 assessment focuses on SME policy. This implies that the institutional framework taken as reference, as well as the strategic policy documents and public-private consultation features, are sometimes different from the previous assessment, partially limiting comparability between the two assessments. Specific country cases will be highlighted in the following analysis.

Table 3.1. **Assessment framework dimension 3: Institutional and regulatory framework for SME policy making**

SBA Principle: Design rules according to the "Think small first" principle

3.1: Institutional framework for SME policy	3.2: Better legislation and administrative simplification	3.3: Public private consultations	3.4: Enterprise networks and business associations
3.1.1. Delegation of responsibility for enterprise policy 3.1.2. Inter-governmental coordination in policy elaboration 3.1.3. SME development strategies 3.1.4. Clear task assignment to legislation drafting and implementation	3.2.1. Delegation of responsibility for regulatory reform and administrative simplification 3.2.2. Strategy for the simplification of legislation and administrative procedures 3.2.3. Review and simplification of current legislation/ regulations 3.2.4. Elimination of redundant legislation and regulations 3.2.5. Cost-benefit analysis of new enterprise legislation and regulation	3.3.1. Framework of the consultations 3.3.2. Frequency 3.3.3. Openness and transparency of the consultation process	3.4.1. Advocacy function and governance rules of private sector representative organisations and professional associations 3.4.2. Provision of services by private sector associations and professional organisations

A detailed description of these indicators is included in Annex A.

Analysis

Institutional framework

The evolution of the institutional framework for SME policy across the MED region since the 2008 assessment has been mixed. Algeria, Morocco, Lebanon and PA have achieved general progress in the areas assessed in this dimension (see Figure 3.2). In Egypt and Tunisia, political transition processes over the last two years have affected governmental inter-ministerial co-ordination capacity, as well as the ability to develop a new strategic vision related to SME development. However, in spite of the current political and economic environment, SME policy institutions continue to operate through the transition phase and new projects and policy proposals are being elaborated.

Morocco and Israel are advanced in terms of institutional policy frameworks. In 2010 ***Israel*** replaced the Small Business Authority with a new Small Business Agency, operating under the Ministry of Economy. The new agency has a specific mandate (which has yet to be codified since a business act is still pending parliamentary clearance) and a co-ordination and advocacy function. A new SME development strategy was launched in 2012, aiming at integrating and co-ordinating the various instruments already in place, while a new SME law has been elaborated and presented to parliament for final approval.

Over the last five years, ***Morocco*** has consistently improved its SME policy framework. A new policy co-ordination committee, the National Committee for the Business Climate (CNEA – see Box 3.1), led by the prime minister and supported by the Ministry of General Affairs and Public Governance, has been put in charge of the improvement of the general business climate. A common action platform was agreed between the government and the General Confederation of Moroccan Enterprises (CGEM) in 2012. In terms of strategic directions, SME policy has been integrated into the National Pact for Industrial Emergence (PNEI) for 2009-15, with a set of detailed objectives, the identification of the related policy instruments and a specific strategy for micro enterprises, which was elaborated in 2013. Finally the National SME Agency (ANPME) has expanded its role as the key SME support agency and has started to conduct independent evaluations of its main SME support schemes.

Figure 3.1. **2013 results dimension 3: Institutional and regulatory framework for SME policy making**

Weighted scores

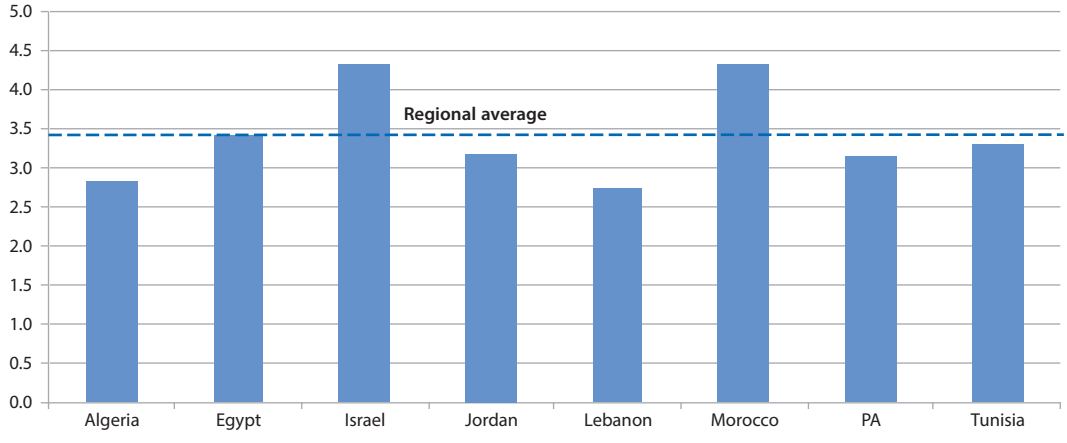


Figure 3.2 shows results comparable for both the 2008 and 2013 assessments.

Source: Government and independent assessments.

In 2013, ***Jordan*** completed the elaboration of a new 2013-20 SME development strategy and prepared new legislation aimed at enhancing the role of the Jordan Enterprise Development Corporation (JEDCO) as the national SME development institution.

In ***Egypt***, the institutional SME policy framework remains highly fragmented, with policy design and implementation distributed through several agencies, from the SFD, in charge mainly of micro and small enterprises, to the General Authority for Investment (GAFI), focusing on small and medium-sized enterprises and the Industrial Modernisation

Table 3.2. **Results for sub-dimension 3.1: Institutional framework for SME policy**

Scores for individual indicators

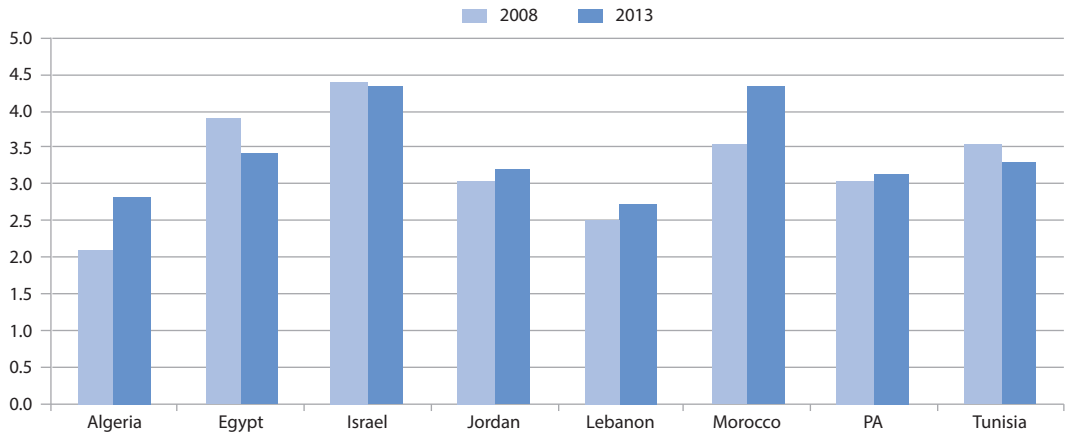
Indicators		AL	EG	IS	JO	LE	MO	PA	TU
Existence of a SME definition*	2013	Yes	No	Yes	Yes	No	Yes	No	Yes
3.1.1. Delegation of responsibility for SME policy	2013	3.0	4.0	4.5	3.5	3.0	4.0	3.0	3.0
	Change since 2008	+1.5	0.0	0.0	0.0	+1.0	+1.0	+1.0	-0.5
3.1.2. Inter-governmental co-ordination in policy elaboration	2013	3.0	3.5	4.5	3.0	2.5	4.5	2.5	3.0
	Change since 2008	0.0	0.0	0.0	0.0	+0.5	+0.5	0.0	0.0
3.1.3. SME development strategy	2013	2.0	2.5	4.0	3.0	2.5	4.0	2.0	2.5
	Change since 2008	0.0	-1.5	+0.5	+0.5	0.0	+1	+0.5	-1.0
3.1.4. Clear task assignments in policy design and implementation	2013	3.5	3.5	4.5	4.0	2.5	4.5	2.0	4.0
	Change since 2008	+1.0	-0.5	0.0	0.0	+0.5	+0.5	+0.5	0.0
Overall weighted average		**2.8**	**3.3**	**4.4**	**3.3**	**2.6**	**4.3**	**2.4**	**3.1**

*The MED economy profiles in the second part of this report include details on the SME definitions.

Source: Government and independent assessments.

Figure 3.2. **2008 and 2013 results dimension 3: Institutional and regulatory framework for SME policy making**

Weighted scores



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

Source: Government and independent assessments.

Box 3.1. **Good practice: The Moroccan National Committee for the Business Climate**

At the end of 2009 the Government of Morocco established a national committee charged with steering a wide programme of horizontal reforms aimed at improving the country's business climate. In 2006, Morocco adopted an enterprise development strategy, based mainly on a sector approach. As it proceeded with the implementation of the plan, the government realised the need to add an additional pillar covering the general business environment, focusing on the improvement of the legislative and regulatory framework and the reduction of administrative barriers.

The committee is chaired by the prime minister and operates as a public-private platform for the identification and design of key reforms. The membership includes ministries and government agencies with a mandate covering specific aspects of the business environment as well as high-level representatives from the main private sector organisations (CGEM, GPBM et Fédération des Chambres de Commerce, d'Industrie et de Services). The Ministry of General Economic Affairs and Public Governance is in charge of co-ordinating committee operations, ensuring the follow-up to committee deliberations and liaising with multilateral and bilateral donors supporting economic reforms, such as the World Bank, the IFC, the European Commission and the OECD.

The committee operates on the basis of an annual action plan, which is structured on short-term and medium-term actions. In its first years of operation the committee focused on the improvement of business legislation and the transparency of administrative procedures. The 2012-13 period listed four priority areas for reform (urban and industrial land development, actions to promote local competitiveness, access to finance and investment promotion and support to micro enterprises). It also included 32 specific actions and a chapter on impact evaluation and reform.

In March 2012 the government signed a partnership agreement (convention de partenariat) with the CGEM, the country's largest employer federation, establishing the framework for a systematic private-public dialogue and partnership on business climate reforms. The committee's work has led to concrete results. In May 2013 the government gave its approval to a batch of 68 measures of administrative simplification ranging from enterprise creation to tax payments and the transfer of real estate assets. A new strategy for micro enterprises was also approved. The quality of the country's business environment has steadily improved, with Morocco gaining 30 places in the overall *Doing Business* ranking between 2011 and 2013.

Sources and further information: Moroccan Ministry of General Affairs and Governance (2014), National Committee for the Business Climate webpage, www.affaires-generales.gov.ma/index.php/fr/, accessed on 4 June 2014; Moroccan Investment Development Agency (2014), National Committee for the Business Climate webpage, www.invest.gov.ma/?lang=en&Id=86, accessed on 4 June 2014.

Centre (IMC), supporting small to large enterprises operating in industrial sectors. In the absence of a Ministry of Economy with a widespread mandate, policy elaboration responsibilities are split between different ministries: Trade and Industry, and Investment and Finance. As in the past, some form of co-ordination is maintained through cross board representation among different bodies and ministries. However, the absence of a comprehensive SME development strategy means that co-ordination remains difficult. In April 2013, the SFD received the mandate from the council of ministers to elaborate a new SME development strategy. Work has subsequently progressed in parallel with the launching of a wide consultation process.

In ***Tunisia***, there have not been any significant recent developments related to the institutional framework. SME policy elaboration comes under the remit of the Ministry of Commerce and Crafts, while the API remains the main policy implementation agency.

In ***Lebanon***, policy co-ordination has started to improve with the launching of the Improving the Business Environment Initiative (IBEL) in 2010, operating under the council of ministers. In addition, the SME unit/enterprise team at the Ministry of Economy and Trade has started the elaboration of an SME development strategy, replacing the previous short-term SME plans.

Since the completion of the 2008 assessment, the ***Algerian*** government has significantly increased its commitment towards SMEs by restructuring the institutional framework, increasing the number and the scope of SME and entrepreneurship support schemes and allocating significant resources to the development of SMEs as part of its strategy to promote economic diversification. The mandate to elaborate and monitor SME policy has been assigned to the Ministry of Industrial Development and Investment Promotion, which now incorporates the former Ministry for SMEs. Inter-ministerial co-ordination is the responsibility of the prime minister, with the National Investment Council playing a leading role.

Strategic orientations are provided in the national five-year development plan for 2010-14, while more specific targets are elaborated in the context of the *plan de mise à niveau* or modernisation plan. However, the country does not have a comprehensive multi-year SME strategy. Algeria has set ambitious targets for enterprise creation and for assisting existing private enterprises, mainly through a large *mise à niveau* programme; however, its targets have not been fully met. Implementation tasks are distributed between a number of government agencies (the agency for SMEs, for microcredit, for youth employment, for foreign trade, etc.), each operating under separate action plans, which makes policy co-ordination complex. Monitoring and evaluation tools are in a very early phase of development, but the availability of SME data has significantly improved.

In ***PA***, policy co-ordination and public-private policy dialogue have improved with the establishment of a Private Sector Institutions Coordination Council, while the Palestinian Reform Development Plan has provided strategic direction for the improvement of the business climate. A multi-year SME strategy is under elaboration by the Ministry of National Economy with the support of the International Finance Corporation.

Better legislation and administrative simplification

Over the last five years governments have shown an increased understanding of the importance of the quality of the regulatory environment and all economies, with the partial exception of PA, are engaged in launching or implementing legislative simplification and regulatory reform programmes. However, the range of activities varies considerably across the region, as documented by a recent OECD (2013) review of regulatory reform in the MENA region.

Out of the eight MED economies only Egypt and Morocco are engaged in implementing systematic regulatory reform programmes, co-ordinated by an inter-ministerial body and organised around a multi-year strategy complemented by a short-term action plan. However, while in ***Morocco*** this systematic approach is starting to produce tangible results, with the elimination of a first set of redundant regulatory measures approved by the Council of Ministers in May 2013, in ***Egypt*** the operational activity of *Errada*, the inter-ministerial regulatory reform programme launched in 2008, has been negatively affected

by the political transition process. The systematic review of current laws and regulations conducted with the direct involvement of eleven ministries and several government agencies was interrupted in July 2012, although steps have been taken to restart it and preserve the accumulated management capacity. The legislative/regulatory guillotine process resulted in over 35 000 legislative and regulatory acts being reviewed and over 2 000 redundant laws and regulations being eliminated or modified.

In ***Morocco*** legislative reform has been enhanced by the establishment of the National Committee for the Business Climate (CNEA), an inter-ministerial committee for the improvement of the business climate chaired by the prime minister and supported by the Ministry of General Affairs and Public Governance. The CNEA has established a consultative mechanism with the private sector and different stakeholders and has identified nine main work streams, including the standardisation of application forms across the public administration.

Israel is also stepping up actions related to regulatory reform, identified as a priority area by the current government. Three inter-ministerial committees are operating in this area: one focusing on the improvement of the general business climate (the Doing Business Committee), another one looking specifically at the license system and a third one, operating under the prime minister's planning unit, aimed at improving governmental legislative processes and introducing regulatory impact analysis for the evaluation of new legislation and regulations. In recent years license requirements for a number of activities have been simplified and the VAT regime for SMEs has been improved.

In ***Tunisia*** regulatory reform is led by the General Directorate for Administrative Reform (DGRA) operating under the Council of Ministers. Until recently, Tunisia pursued an approach directed at identifying quick wins, looking for short-term results. Currently, the DGRA is elaborating a new strategy on regulatory reform based on a systematic approach, in accordance with government directives issued in August 2012. Further, the DGRA is working on an inventory of over 1 000 laws and regulations related to enterprise activities with the intention of installing, in a second phase, a regulatory guillotine, in spite of the uncertainties created by political instability and an extended electoral cycle.

Regulatory reform is still in the preparatory phase in Jordan and Lebanon. In particular, in ***Jordan*** a regulatory reform road map has been identified by the National Competitiveness and Innovation Committee, a public-private forum, along with a systematic review of the enterprise legislative framework in the process of elaborating the new SME law and strategy. In ***Lebanon*** a new inter-ministerial programme for the improvement of the business climate (IBEL) was launched in 2010 under the supervision of the Council of Ministers. The IBEL includes measures to review current laws and regulations in the areas of business registration, issuing construction permits, trading across borders and dispute resolution.

In ***Algeria***, a country subject until recently to tight regulations concerning the activity of private enterprises, the government has stepped up actions in the area of regulatory reform and administrative simplification. Several working groups and inter-ministerial committees have been established. In particular, since 2007, a working group is looking at improving the country performance in the World Bank/IFC *Doing Business* reviews. Algeria currently ranks in the lower quartile of the World Bank/IFC assessment. A second committee is looking at the improvement of the overall business climate in the framework of the tripartite commission including government, employers and trade unions. The government is facing co-ordination issues, as the country lacks a clear regulatory strategy and mandates for administrative simplification are assigned to a range of institutions.

Over the last five years, a number of reforms have been introduced concerning enterprise registration, approval of investment projects and customs operations.

While the overall policy framework for regulatory reform and administrative simplification is being progressively established, the MED region still lags behind in introducing regulatory impact analysis. None of the eight MED economies systematically applies RIA. In a few economies, Egypt, Israel and Jordan, pilot RIA exercises have been conducted. Only Egypt and Israel have been working on establishing RIA units and are planning to apply RIA to new legislation over the next few years.

Table 3.3. **Results for sub-dimension 3.2: Better legislation and administrative simplification**

Scores for individual indicators

Indicators		AL	EG	IS	JO	LE	MO	PA	TU
3.2.1. Delegation for responsibility for regulatory reform	2013	3.0	3.5	3.5	2.5	2.5	4.0	2.0	3.0
	Change since 2008	+1.0	-0.5	-0.5	0.0	+0.5	+1.0	+1.0	0.0
3.2.2. Strategy for the simplification of legislation and administrative procedures	2013	2.5	3.5	3.0	2.5	2.5	4.0	1.5	3.0
	Change since 2008	+0.5	-0.5	-1.0	+0.5	0.0	+1.5	+0.5	0.0
3.2.3. Review and simplification of current legislation/ regulations	2013	2.0	4.0	3.0	2.0	2.5	4.0	2.0	3.0
	Change since 2008	0.0	+0.5	-0.5	0.0	0.0	0.0	0.0	+0.5
3.2.4. Elimination of redundant legislation and regulations (i.e. legislative guillotine)	2013	2.0	3.0	3.0	2.5	2.0	3.0	1.0	3.0
	Change since 2008	0.0	-0.5	-0.5	+0.5	0.0	+1.0	-1.0	-0.5
3.2.5. Cost-benefit analysis of new enterprise legislation and regulation	2013	1.0	2.0	2.0	2.5	1.0	1.5	2.0	2.0
	Change since 2008	0.0	-0.5	-1.5	1.0	0.0	0.0	0.0	1.0
Overall weighted average		**2.3**	**3.4**	**3.1**	**2.4**	**2.3**	**3.6**	**1.7**	**2.9**

Source: Government and independent assessments.

Public-private consultations

Effective and constructive public-private consultations may contribute to improving significantly the quality of public policy towards SMEs, provided that those consultations are conducted regularly, are transparent and open, and private sector representation is wide, including all different segments of the SME population.

The assessment conducted in 2008 indicated that in the MED region there was broad-based use of public-private sector consultations, although there were concerns that in some economies consultations were often more a formality than constructive and private sector representation was dominated by large enterprises and well-connected business groups.

The results of the 2013 assessment, which focus on SME policy dialogue, shows that all MED economies have established formal channels for public-private consultations. In a number of economies, such as Israel, Morocco and Jordan, consultations are now a common practice and, in the case of Israel and Morocco, they are conducted on a regular basis.

Israel and ***Morocco*** have developed the most comprehensive frameworks for public-private consultations. In ***Israel***, in addition to frequent but mostly ad hoc consultations on the preparation of new legislation, the newly established Small Business Agency has initiated the practice of conducting quarterly meetings with the SME policy community, open to all SME and business associations. Organisations such as Lahval, the chamber of independent business organisations, and the Manufacturers Association of Israel are partners in many of the SME development programmes. In ***Morocco*** there is a well-established participatory approach, under which private sector organisations are included in the elaboration of all the key measures concerning the improvement of the business environment and key strategic documents. For instance, the private sector is well represented in the National Committee for the Business Climate, which holds frequent meetings, and in the steering committee of the recently launched strategy for micro enterprises.

In ***PA***, there has been a consolidated practice of public-private dialogue, as private sector organisations and NGOs act as channels for the implementation of many enterprise and community support programmes, often supported by donors. Private sector representatives sit on the boards of the main business support agencies (PIPA, Paltrade) and on the Palestinian Investment Fund. The main forum for public-private consultations is the Private Sector Coordination Council. Consultations are frequent, but tend to focus on key economic measures, such as the tax code, while SME policy issues are relatively sidelined. This is also due to the limited role played by SME associations.

The practice of ensuring participation of private sector organisations in policy making and policy implementation mainly through representation is also common in ***Egypt*** and ***Jordan***. In addition, in Jordan, dialogue is conducted through the Economic and Social Council. Extensive consultations with the SME policy community and the private sector were conducted in the preparation of the new SME strategy.

It is worth noting that the political changes that have taken place since 2011 in ***Egypt*** and ***Tunisia*** have led to a further opening of the consultation process, but also to a disruption of the traditional consultation channels, in the past often monopolised by well-connected organisations. Such mechanisms are yet to be replaced by new public-private consultation frameworks. The frequency and the scope of the consultation process have therefore been reduced and this explains the overall lower score of the two countries in this sub-dimension.

In ***Lebanon***, there has been positive development in public-private consultations associated with the launching of the IBEL initiative, which created the opportunity for a structured dialogue with private sector organisations and professional associations over a number of business environment issues.

In ***Algeria***, there has been significant progress in building and reinforcing public-private dialogue. Formal consultations on broad economic issues take place in the Tripartite Council, bringing together government institutions, private sector organisations, business associations and trade unions. A consultative committee for SME Development, including private sector organisations and independent experts, has been established, but is in an early operational phase. Private sector representatives are also represented in the steering committee of the large *mise à niveau* programme. However, all the policy levers remain under public sector control and it is difficult for private sector organisations to exercise influence in the absence of clear strategic priorities and comprehensive information on the status of programme implementation.

Table 3.4. **Results for sub-dimension 3.3: Public private consultations**

Scores for individual indicators

		AL	EG	IS	JO	LE	MO	PA	TU
3.3.1. Framework of the consultations	2013	3.5	3.5	4.5	3.5	3.0	4.5	3.5	3.5
	Change since 2008	+1.0	-0.5	0.0	0.0	0.0	+0.5	0.0	-0.5
3.3.2. Frequency	2013	3.0	3.5	4.5	3.5	3.0	4.5	4.5	3.0
	Change since 2008	+1.0	-0.5	+0.5	+0.5	+1.0	+1.0	0.0	-2.0
3.3.3. Openness and transparency of the consultation process	2013	3.0	3.5	5.0	3.5	3.0	5.0	4.5	5.0
	Change since 2008	+1.0	-0,5	0.0	0.0	+0.5	+1.0	-0.5	0.0
Overall weighted average		**3.1**	**3.5**	**4.7**	**3.5**	**3.0**	**4.7**	**4.2**	**3.1**

Source: Government and independent assessments.

Enterprise networks and business associations

The last set of indicators under this dimension covers the role of private sector associations in representing their members and advocating for their interests, as well as the capacity of business and professional associations to provide quality services to their members. The 2013 assessment places more emphasis on SME associations, while the previous assessment looked at private sector representation in general.

In the MED region there are many active business and professional organisations. Chambers of commerce, often consisting of a federal body at national level grouping local chambers, are present in all the MED economies and tend to play a key role in representing SMEs.

SMEs are also often affiliated to the largest and most influential national business organisations. This is the case in Egypt, Israel, Morocco and Tunisia. For instance, in ***Egypt***, the Junior Business Association (JBA) has established an SME committee and aims to increase its SME membership. In ***Morocco***, within the CGEM, the major employer association, there is a very active SME commission, and the organisation regularly contributes to the SME policy debate.

In ***Tunisia***, political changes have led to the end of the monopoly of UTICA over private sector representation in public-private consultations. A number of new associations have been launched since 2011, while other, existing associations have extended their role, enriching the policy debate.

Over the last five years, a number of private sector organisations have improved their advocacy capacity by developing their own policy proposals and recommendations. Organisations such as the Forum of Business Leaders (FCE) in Algeria, the JBA in Egypt, the Manufacturers Association and Lahval in Israel, the Jordan Chamber of Industry (JCI), the Industrialists Association in Lebanon, the Palestinian Business Association and Palestinian Federation of Industrialists, the CGEM in Morocco and the Arab Institute of Business Leaders (IACE) in Tunisia, are producing in-depth reviews of major legislative measures, and in some instances, specific policy proposals.

However, small and particularly micro enterprises, while representing the large majority of the enterprise population, tend to be significantly underrepresented. This is due partly to the fact that many of these enterprises operate on various levels of informality, partly due to structural and management limitations. Small enterprises tend to be

represented in professional or sector organisations, but in the region there is no established tradition of independent SME organisations directly representing the interests of small entrepreneurs in public-private consultations. SME representation tends to pass through larger national private sector organisations, covering all classes of enterprises.

The quality of business services provided by private sector organisations to SMEs varies considerably. Most of them, starting from the Chambers of Commerce networks, provide information and orientation services, while the number of organisations providing tailored services is still limited, although increasing. They are currently mostly present in Israel, Morocco and Tunisia.

Table 3.5. **Results for sub-dimension 3.4: Enterprise networks and business associations**

Scores for individual indicators

		AL	EG	IS	JO	LE	MO	PA	TU
3.4.1. Advocacy functions and governance rules of private sector organisations	2013	3.0	3.5	5.0	3.5	3.0	4.5	4.5	4.5
	Change since 2008	+1.0	-0.5	0.0	0.0	-1.0	0.0	-1.0	+0.5
3.4.2. Provisions of services by private sector and professional organisations	2013	2.5	3.5	5.0	3.0	3.0	4.0	3.5	4.0
	Change since 2008	+0.5	-0.5	0.0	0.0	+0.5	+1.0	+0.5	0.0
Overall weighted average		**2.8**	**3.5**	**5.0**	**3.3**	**3.0**	**4.3**	**4.2**	**4.3**

Source: Government and independent assessments.

The way forward

SME policy is highly complex, due to the fact that it operates across a wide range of policy dimensions and combines horizontal and targeted measures. To be effective it requires a well-structured institutional framework and well-developed mechanisms of policy co-ordination and consultation. In general, the level of institutional development tends to drive results across a number of policy dimensions covered by the assessment, particularly those related to the promotion of entrepreneurship, provision of services to SMEs, skills development and innovation.

The results of the 2013 assessment indicate that incremental progress has been achieved in this dimension across the region, but only Israel and Morocco have so far put in place all the building blocks for a comprehensive and co-ordinated SME policy (delegation, strategy, co-ordination, implementation agency). Jordan has made significant progress in terms of institutional and strategic development. None of the other economies have a well-defined SME strategy, but rely instead on a set of action plans or general policy guidelines.

Policy co-ordination remains a structural weak point. Although most economies have developed mechanisms for policy co-ordination, without a shared and comprehensive strategy, co-ordination tends to be limited in scope, thereby reducing the opportunity to develop synergies among programmes managed by different public agencies.

Therefore a first priority for all the MED economies that have not developed a comprehensive medium-term SME strategy is to engage in developing strategic priorities. The strategy should be the result of a participatory process, engaging public institutions and private sector stakeholders.

A second priority should be to clarify the policy mandate and clearly define and demarcate the roles of relevant institutions responsible for policy elaboration and implementation. Policy

implementation should be guided by well-defined objectives, measurable targets and action plans with clearly established reporting lines. This is an area that requires specific attention, particularly for economies, such as Algeria and Tunisia, which have articulated enterprise support systems managed by a large number of agencies and specialised funds.

It is also vital that the MED economies introduce regular monitoring of SME programmes and conduct proper impact evaluation for the most significant SME support measures. Currently, only Israel, and to a lesser extent Morocco, conduct impact evaluation exercises.

Among the horizontal measures, administrative simplification and regulatory reforms have the highest impact on the operational environment for SMEs. Progress in this area has been modest, but a number of economies are introducing medium-term regulatory reform programmes. Among those, Morocco has made the most significant progress, while Egypt has temporarily put on hold its *Errada* (administrative simplification) programme of regulatory reform and Tunisia is at an early stage of a significant programme of administrative simplification.

For economies that are in an early stage of policy development, the main priority is to define the strategic approach, evaluating the advantages and disadvantages of targeted versus broad-based reform programmes and to build the political support around such programmes. Regulatory reform tends to produce tangible results over the medium term. Impact is significant when it is broadly based, covering a number of administrative functions. Therefore, it is vital that programmes reach their final objective of reducing the regulatory and administrative burden and are not interrupted after the initial diagnostic phase.

For economies already engaged in broad-based regulatory reform programmes, it is important that monitoring and impact evaluation mechanisms are put in place. In particular, regulatory impact analysis should be progressively and systematically adopted to ensure that new laws and regulations respond to high standards, in terms of regulatory impact and do not heighten the regulatory burden for SMEs.

The 2013 assessment indicates that there have not been significant changes in regional performance concerning public-private consultations. While in a number of MED economies channels of public-private consultations on SME policy are well established, such as in Israel, Morocco and PA, in other economies, consultations are mostly conducted on an ad hoc basis.

Common priorities for all the MED economies are to consolidate public-private consultation channels, ensure that those channels are not disrupted by political instability, make sure that private sector participation in consultations is representative of all the components of the SME population and that private sector representatives are involved in all the policy phases, from elaboration to implementation and monitoring.

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Chapter 4

Operational environment for business creation

SBA principle: Make public administration responsive to SME needs

This chapter assesses policy areas supporting the operational environment for business creation, in particular the extent to which public administrations have developed instruments to simplify regulations and reduce costs and procedures for starting a business.

The first part of the chapter addresses the company registration process, taking into account the number of days, administrative steps and costs for issuing the company registration certificate and completing the overall registration process. The second part focuses on interaction with online government services (e-government): whether it is possible to declare tax and social security returns online, if enterprise statistics can be reported online and if databases of different public bodies are connected.

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-shop network, or better compliance processes. Moving forward, MED economies could increase their initiatives to establish one-stop shops and establish the functions of existing ones; they could also 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. Measures that could be introduced are the "silence is consent" principle, online registration and notification facilities, and the simplification of the registration process for the most common form of business. Company registration databases could be used as systems to collect information on SMEs and entrepreneurs.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Enterprises constantly interact with the public administration during their entire life cycle. This interaction starts with the registration procedures and the application for licenses and permits needed to launch business activities. Through their operating life, enterprises have to comply with a wide range of laws and regulations, either horizontal or sector specific, related to taxation, to the use of production factors, such as labour and energy, to protect consumers and the environment, to discipline market activity and restrict anti-competitive practices. In addition, enterprises are asked to report regularly on their activities and respond to data and information requests from public bodies.

This interaction with the public administration at all levels, national, regional and local, while necessary, when not efficiently organised may lead to an excessive administrative burden that could weigh heavily on company resources, particularly for smaller enterprises. In the case of micro enterprises, it is often the entrepreneur who takes on the obligation to deal with administrative requirements, diverting time and resources from the core business activity. Larger enterprises employ administrative staff or rely on external services, therefore increasing their fixed cost base. A more responsive public administration, with the capacity to interact efficiently with all classes of enterprises while still retaining control over administrative compliance, provides a positive contribution to the productivity and growth of the enterprise sector.

Assessment framework

The Small Business Act for Europe calls for a substantial reduction of the administrative burden. The European Union has set specific targets in terms of time and costs for completing the registration process and it is closely monitoring progress in reducing the administrative burden in its member states. The development of interactive functions conducted through the internet, known as e-government, has opened up the opportunity to reduce the time and cost of the government-enterprise interaction, particularly for routine and standards functions. It has also created the opportunity for the public administration to reach a larger number of enterprises with timely and well-organised information, while substantially reducing the cost per contact.

The assessment framework adopted for this dimension focuses on one specific phase of the enterprise-public administration interaction: the business start-up process. It includes the process of obtaining the registration certificate from the appointed government body or agency, the completion of the notification process, which involves registering with different public agencies (tax administration, labour and employment agencies, social security and health agencies, customs authorities, etc.) and fulfilling the compliance requirements in terms of mandatory licenses and permits. The assessment framework comprises thirteen indicators organised in two sub-dimensions as shown in Table 4.1.

Business registration is a one-off procedure. Other legal requirements and administrative procedures have a greater impact on enterprise performance, such as those concerning taxation and labour. However, business registration may be viewed as a proxy for the overall level of efficiency of the public administration. It is important that relations between the entrepreneur and the public administration are set on the right foot from the start, in order to build mutual trust and open a channel for the regular exchange of information.

The indicators used in this section are comparable with those utilised for the previous assessments conducted with reference to the Euro-Mediterranean Charter for Enterprises

and therefore it is possible to track progress since 2008 for all economies covered by the report. Figure 4.1 shows the results of the 2013 assessment. Figure 4.2 shows a comparison between the 2008 and 2013 assessments.

In addition, there is evidence that both the level of entrepreneurial activity and the rate of formal business start-ups in the Euro-MED economies are lower than in other emerging economic regions. More efficient business registration procedures may contribute to reducing barriers to business creation and providing an incentive for the formal registration of ongoing business activities. However, inefficient business registration and burdensome licence application procedures are just one of the many factors, though possibly not the most relevant, pushing a large number of private enterprises, particularly micro enterprises in the MED region, to operate informally.

Table 4.1. **Assessment framework dimension 4: Operational environment for business creation**

SBA Principle: Make public administration responsive to SME needs

Sub-dimension 4.1: Company registration	Sub-dimension 4.2: Other indicators on registration, notification and compliance
4.1.1. Number of days to obtain a company registration certificate	4.2.1. Silence-is-consent principle applied to registration procedure
4.1.2. Number of administrative steps to obtain a company registration certificate	4.2.2. Costs connected with registration (% of GNI per capita) (*Doing Business*)
4.1.3. Official costs to obtain the company registration certificate	4.2.3. Minimum capital requirements (% of GNI per capita) (*Doing Business*)
4.1.4. Administrative identification numbers in dealing with the public administration	4.2.4. One-stop-shops (regional investment centres, etc.)
4.1.5. Number of days for compulsory company identification number(s)	
4.1.6. Number of days to complete the overall registration process, including compulsory licenses for standard business activities (*Doing Business*)	4.2.5. Configuration of the registration/notification/compliance process, including one-stop shops
4.1.7. Number of steps to complete the overall registration process, including compulsory licenses for standard business activities (*Doing Business*)	4.2.6. Online registration

A detailed description of these indicators is included in Annex A.

Figure 4.1. **2013 results dimension 4: Operational environment for business creation**

Weighted scores

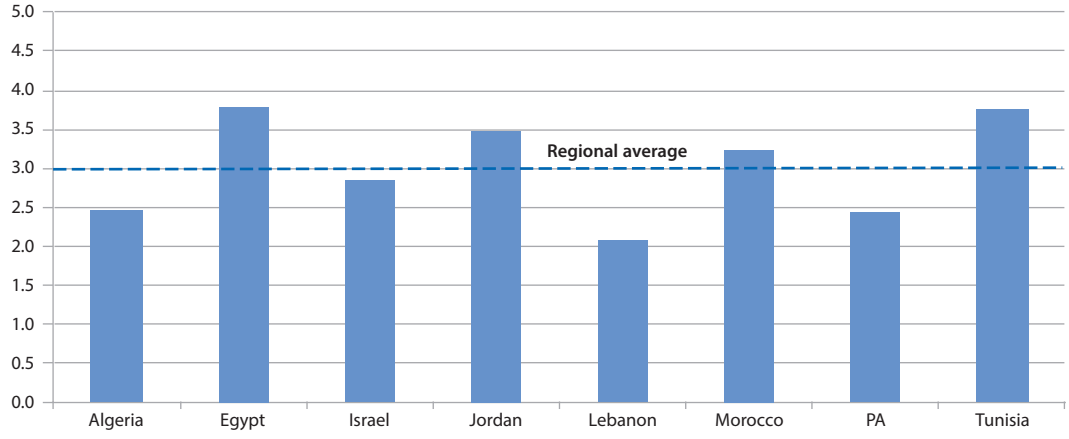
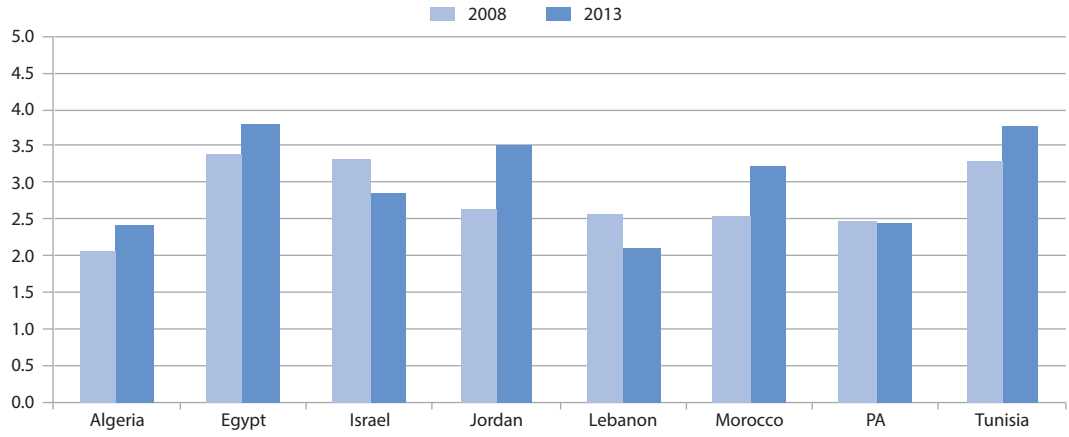


Figure 4.2 shows results comparable for both, the 2008 and 2013 assessments.

Source: Government and independent assessments.

Figure 4.2. **2008 and 2013 results dimension 4: Operational environment for business creation**

Weighted scores



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

Source: Government and independent assessments.

Analysis

Obtaining the registration certificate

As mentioned, procedures related to the business start-up process can be divided into three main phases, registration, notification and compliance with licensing and permit requirements. The registration phase consists of the request by the new entrepreneur to the competent authority, either the court or a public agency managing the company register, to approve the creation of a new business entity, in the legal form selected by the entrepreneur. The registration process is completed with the issuance of a registration certificate and of an enterprise identification number, to be used in relations with different parts of the public administration. Registration procedures vary according to the legal form of the new enterprise and are generally more complex for limited liability companies than for sole ownership enterprises.

As part of the 2013 assessment, information has been collected on the number of days needed by the relevant registration body, on average, to issue the registration certificate, once the complete file is deposited by the new entrepreneur; the official fee charged for registration; and the number of official steps required to complete the file for registration. To permit cross-country comparability, the information refers to the registration of a limited liability company.

All MED economies operate on the basis of a single company register, usually maintained by the courts or a dedicated state agency. However, company registration procedures are decentralised and sometimes handled by a multitude of channels. For instance, in ***Egypt***, a company may register through windows set up by the General Authority for Investment (GAFI), the Social Fund for Development (SFD) or the chambers of commerce, as well as applying directly at the company register. Similarly, in ***PA***, a company may apply for registration through the windows operated by the ministry of National Economy, or, if they exceed a minimum investment threshold, through the single window operated by the Palestine Investment Promotion Agency (PIPA).

Table 4.2. **Results for sub-dimension 4.1: Company registration**

Scores for individual indicators

		AL	EG	IS	JO	LE	MO	PA	TU
4.1.1. Number of days to obtain a company registration certificate	2013	5.0	4.0	4.0	4.0	4.0	4.0	3.5	5.0
	Change since 2008	+1.0	0.0	+1.0	0.0	0.0	0.0	-0.5	+1.0
4.1.2. Number of administrative steps to obtain a company registration certificate	2013	3.0	4.0	4.0	4.0	4.0	5.0	3.0	5.0
	Change since 2008	-1.0	0.0	0.0	0.0	-1.0	0.0	+1.5	0.0
4.1.3. Official costs to obtain the company registration certificate	2013	3.0	4.0	1.0	4.0	1.0	2.0	2.0	3.0
	Change since 2008	0.0	+1.0	-3.5	+2.0	-3.0	+1.0	-2.0	0.0
4.1.4. Administrative identification numbers in dealing with the public administration	2013	3.0	3.0	4.0	5.0	3.0	2.0	5.0	5.0
	Change since 2008	0.0	-1.0	-1.0	+1.0	0.0	0.0	+1.0	+4.0
4.1.5. Number of days for compulsory company identification number(s)	2013	2.0	4.0	4.0	5.0	4.0	4.0	4.0	5.0
	Change since 2008	-2.0	0.0	-1.0	0.0	+3.0	0.0	0.0	+1.0
4.1.6. Number of days to complete the overall registration process, including compulsory licenses for standard business activities (*Doing Business*)	2013	2.0	3.0	3.0	3.0	3.0	3.0	1.0	3.0
	Change since 2008	0.0	0.0	+2.0	0.0	+2.0	0.0	0.0	+2.0
4.1.7. Number of steps to complete the overall registration process, including compulsory licenses for standard business activities(*Doing Business*)	2013	1	3.0	3.0	3.0	3.0	3.0	2.0	2.0
	Change since 2008	0.0	0.0	0.0	+1.0	0.0	0.0	+1	0.0
Overall weighted average		**2.8**	**3.6**	**3.0**	**4.0**	**2.9**	**3.1**	**2.8**	**3.9**

Source: Government and independent assessments; and IFC-World Bank (2013), Doing Business website, www.doingbusiness.org, accessed 11 November 2013

According to government information, in most of the MED economies, the appointed company registration body takes 1 to 5 days to issue the registration certificate for an incorporated company upon presentation of a complete file. The only exception is ***PA***, where it takes up to 10 days if the application is made through the Ministry of National Economy. To complete the file, in most cases, entrepreneurs need to undertake a number of steps, including company name registration, identification of the shareholders, drafting of the company by-laws, deposit of the company start-up minimum capital, if still required, and payment of registration fees. In ***Morocco***, all those steps have been consolidated in a single act, following the introduction of the single form processed by the Regional Investment Centres. Similar results have been achieved in ***Tunisia***, by concentrating all the steps in a single-window system.

The minimum official cost, calculated on the basis of compulsory fees charged by the public administration or entities appointed by the public administration, such as notaries, lawyers and newspapers publishing the company establishment notice, varies considerably across MED economies and not only in relation to the average per capita income. Company registration is particularly costly in ***Lebanon*** due to compulsory legal fees, including an annual mandatory lawyer retainer fee, amounting to a minimum of EUR 4 855. At the other extreme, ***Jordan*** and ***Egypt*** charge the lowest fees, while providing a relatively efficient registration process.

Table 4.3. **The company registration process in figures**

	AL	EG	IS	JO	LE	MO	PA	TU
No. of days	1	3	3*	2-4	3	> 5	5-10	1
No. of steps	7	4	2	4	3	1	5	1
Official cost (Euro)	130	35	530	11	977	160	227	117

* Reduced to 1 day in case of a single shareholder.
Source: Government and independent assessments.

Across the region, official registration time, steps and costs have not changed significantly since 2008 and no radical reform has been introduced. However, there has been incremental progress across the region, mostly in ***PA***, where steps and registration times have been significantly decreased, reducing the performance gap with the other MED economies recorded in 2008. A number of governments are still reviewing registration procedures and considering further reforms, as in the case of ***Algeria, Israel*** and ***Morocco***. In ***Lebanon***, the company registration reform announced in 2008, which saw the decentralisation of the registration process through the windows of Lebanon Post and the abolition of mandatory legal fees, never took place, allegedly due to the strong opposition of the legal profession.

Table 4.4. **The notification process in figures**

	AL	EG	IS	JO	LE	MO	PA	TU
No. of company identification numbers	3	3	2	1	3	4	1	1
No. of days required to obtain the identification numbers	< 15	< 5	3	1	3	< 5	< 5	1

Source: Government and independent assessments.

Registering a new business with the relevant public agencies

According to the results of the 2013 assessment, there have been noticeable improvements in the process of registering newly established enterprises with the different branches of the public administration (tax administration, social security, customs, statistical office, etc.). Three MED economies (***Jordan, PA*** and ***Tunisia***) have introduced a single company identification number, while ***Egypt, Israel*** and ***Morocco*** are actively working on introducing one. In the case of ***Jordan*** and ***Tunisia***, as a result of the establishment of one-stop-shops for company registration, registration with the relevant branches of the public administration is conducted simultaneously upon company registration. In all other cases, companies have to apply directly to the different public agencies. Registration time has been reduced, but in ***Algeria*** and ***Israel***, registration with the tax administration is still relatively complex and time consuming.

Time and costs related to the overall process of starting a business

The *Doing Business* report compiled annually by the World Bank/IFC provides indicators regarding the number of procedures, time and costs related to launching a new business in 185 economies, including those covered by this report. The data refer to starting a standard company and cover the entire process, from the preparation of the documentation needed to obtain the registration certificate, to the notification phase and the application and issue of the relevant business licenses. In addition, it includes information on all steps, including those

performed by entities operating outside the public administration, such as lawyers or notaries. The information contained in the *Doing Business* report therefore provides an indication of the compliance requirements, although limited to a specific enterprise category.

Table 4.5. **Starting a business**

		AL	EG	IS	JO	LE	MO	PA	TU
Time to complete the start-up process	2008	25	9	20	13	46	12	92	11
	2013	25	8	14	12	9	11	45	11
Number of steps for completing business start-up process	2008	14	6	5	8	6	6	12	10
	2013	14	7	5	7	5	5	9	2
Overall cost of the business start-up process, in % of the annual GDP per capita	2008	13.2	28.6	4.4	23.8	94.1	20.6	96.6	8.3
	2013	12.4	9.7	4.1	22.3	76.5	9.5	85.5	4.7
Minimum initial capital requirement as % of the annual GDP per capita	2008	45.2	12.9	0	795.4	60.4	15	63	25.3
	2013	28.6	0	0	0	34.7	0	0	0

Source: IFC-World Bank (2013), Doing Business website, www.doingbusiness.org, accessed 11 November 2013.

The data presented shows that the business start-up process can be completed within 25 days in most of the MED economies with a total cost not exceeding 15% of annual GDP per capita. However, it still requires considerable time and resources in ***PA*** and ***Lebanon***. The analysis indicates that the registration process, and to a lesser extent the notification process, are relatively efficient, in terms of time and costs. Therefore most of the delays and additional costs are either associated with the use of services by private agents (lawyers, notaries, media) or the cost of compliance.

In ***Jordan***, the need to obtain a "vocational license" from the municipality and the procedures for obtaining the use of business premises considerably raise the cost of starting a business (while the registration fees are modest). In ***PA***, the need to obtain a general business license from the local municipality adds considerable time to the business start-up process. Egypt is currently operating the most efficient business start-up process among the MED economies. This result comes at the end of a reform process started in 2006/7 which has systematically reduced the number of steps and eliminated the minimum capital requirements.

Table 4.6 shows that although MED economies have made incremental progress in improving the performance of the business start-up process, significant work remains in applying international good practices, as indicated by the modest absolute rank of all the MED economies. Furthermore, 5 out of 8 MED economies have seen their relative ranking in starting a business decrease in the 2013 *Doing Business* report, a clear indication that economies in the region struggle to keep pace with leading reforms. ***Morocco***'s rank has significantly increased following the abolition of the minimum capital requirement in 2012.

Table 4.6. **Relative performance indicators for starting a business**

	AL	EG	IS	JO	LE	MO	PA	TU
2014 0verall rank in starting a business	164	50	35	117	120	39	143	70
Change in the overall rank over 2013	-8	-24	+6	-14	-6	+17	+36	-4

Source: IFC-World Bank (2013), Doing Business website, www.doingbusiness.org, accessed 11 November 2013.

Application of advanced registration and notification procedures

The 2013 assessment takes into consideration the application of advanced procedures and facilities to improve the efficiency of the registration and notification phase, such as the use of the silence-is-consent rule, the establishment of one-stop shops and the introduction of an online registration and notification facility. The results of the 2013 assessments indicate that governments are engaged in further improving the performance of the public administration, but the introduction of online services is still at a very early stage.

MED economies, with the exception of ***Egypt*** and ***Jordan*** apply the silence-is-consent rule to registration procedures. However, Jordan is considering introducing the principle and in ***PA***, companies that register through PIPA, instead of through the standard procedure through the Ministry of National Economy, benefit from the application of the silent-is-consent rule.

One-stop shops are present in Algeria, Egypt, Jordan, Morocco and Tunisia. In ***Egypt, Jordan*** and ***PA***, specialised one-stop shops are dedicated to larger investors and are operated by the national investment promotion agencies. In Egypt these facilities are in addition to the standard one-stop shops in operation, but not in ***PA***. In ***Israel***, registration procedures are mostly conducted by attorneys who have direct access by e-mail and a smart card to the company register, but there is not an established network of one-stop shops.

The configuration of the one-stop shops under operation varies significantly. ***Egypt*** has three networks of one-stop shops, one for each of the different registration channels operated by GAFI, the SFD and the chamber of commerce association. Those operated by GAFI and the chamber of commerce association are based on the single-window system.

Table 4.7. **Results for sub-dimension 4.2: Other indicators on registration, notification and compliance**

Scores for individual indicators

		AL	EG	IS	JO	LE	MO	PA	TU
4.2.1. Silence-is-consent principle applied to registration procedure	2013	1.0	4.0	1.0	2.0	1.0	1.0	1.0	1.0
	Change since 2008	0.0	-1.0	0.0	+1.0	0.0	0.0	0.0	-4.0
4.2.2. Costs connected with registration (% of GNI per capita) (Doing Business)	2013	1.0	2.0	3.0	1.0	1.0	2.0	1.0	3.0
	Change since 2008	0.0	+1.0	0.0	0.0	0.0	+1.0	0.0	+1.0
4.2.3. Minimum capital requirements (% of GNI per capita) (Doing Business)	2013	2.0	5.0	5.0	5.0	2.0	5.0	5.0	5.0
	Change since 2008	+1.0	+2.0	0.0	+4.0	+1.0	+4.0	+1.0	2.0
4.2.4. One-stop-shops (regional investment centres, etc.)	2013	4.0	4.5	2.5	4.0	1.0	5.0	2.0	5.0
	Change since 2008	+2.5	+0.5	0.0	0.0	-3.5	+0.5	-0.5	0.0
4.2.5. Configuration of the registration/ notification/compliance process, including one-stop-shops	2013	3.0	4.0	3.0	2.5	1.0	3.5	2.0	4.0
4.2.6. Online registration	2013	1.0	4.0	1.5	2.0	2.0	2.5	1.0	3.5
	Change since 2008	0.0	+1.0	-2.0	-0.5	+1.0	0.0	0.0	-0.5
Overall weighted average		**2.2**	**4.0**	**2.7**	**3.0**	**1.3**	**3.4**	**2.1**	**3.7**

Source: Government and independent assessments; and IFC-World Bank (2013), Doing Business website, www.doingbusiness.org, accessed 11 November 2013.

Tunisia, which introduced the first one-stop shops in 1998, and ***Morocco***, which has established an extensive system through the Regional Investment Centres, are moving in this direction. ***Algeria*** has made significant progress, extending the network of the one-stop shops operated by National Agency for Investment Development (ANDI). In total there are 48 one-stop shops in operation covering all the administrative regions. However, the one-stop shops have a limited decision-making capacity and act mainly as a single initial contact point.

The MED region lags in terms of the introduction of online registration facilities, reflecting an overall lack of the provision of e-government services. Online registration facilities are available in ***Egypt***, on a limited scale (a second phase covering the payment of registration fees managed by GAFI is under way), and they are being tested in ***Tunisia***. A pilot project has been launched recently in Tunis.

Box 4.1. **Good practice: Egypt's GAFI one-stop shop for company registration**

Egypt has an efficient and extensive network of one-stop shops in the MED region. There are currently three networks of one-stop shops, one for each of the different registration channels operated by the General Authority for Investment (GAFI), the Social Fund for Development (SFD) and the Chamber of Commerce association. The three authorities cover most of Egypt's governorates through their different branches, licensing units and commercial registry offices. The one-stop shops operated by GAFI and the Chamber of Commerce association are based on a single-window system.

In particular, GAFI currently runs five one-stop shops located in Upper Egypt and the Canal region, precisely in Cairo, Alexandria, Ismailia, 10th of Ramadan, and Asyut. It offers a large range of services to start-ups such as company registration, legal and technical assistance, announcements in the investment magazine and tax exemption services.

GAFI has made major improvements in unifying the establishment procedures system for all companies under Guarantees and Investment Incentives Law no. 8/1997 and Company Law no. 159/1981. The public notary office, the commercial registry and the tax authority office are now integrated with the central database. Through this reform, GAFI managed to reduce company registration time from 14 days to one day for personal companies and individual establishments and three days for joint-stock companies and limited liability companies. It also allowed the provision of computerised printouts of the commercial registry in only two hours instead of the handwritten formats that used to take five days.

GAFI is currently working on expanding its investment services to all governorates. Arrangements have been made to set up one-stop shops in all governorates.

Sources and further information: Egyptian General Authority for Investment (2014), One stop shop webpage, www.gafi.gov.eg/en/default.aspx, accessed on 5 June 2014.

The way forward

In general, MED economies have progressed in improving the operational environment for business creation, with the exception of Israel, Lebanon and PA, for which scores have remained the same or have decreased slightly. The improving trend in these countries is often related to the reduction of company registration costs, the introduction of a single identification number in dealing with the public administration, the introduction or expansion of one-stop-shop networks, or better compliance processes.

In the area of company registration, some economies have taken significant steps towards developing better systems. Algeria has significantly extended its one-stop-shop network, while Egypt has three such networks covering a large part of the territory and based on a single-window system. Jordan and Tunisia have introduced the single identification number and Morocco has significantly reduced costs related to starting a business by eliminating minimum capital requirements. In Israel and Lebanon, the company registration process is still relatively costly, and in PA the process is still relatively lengthy.

In relation to online registration, the region is still lagging behind as the provision of e-government services is limited. Egypt is the only country with online registration facilities, with limited coverage, and Tunisia has recently launched a pilot project.

For the economies that have successfully reformed their company registration processes, the challenge of better compliance and registration procedures is still present. The next steps are to establish one-stop shops or further expand the functions of existing ones, and to transform their company registration bodies into government agencies providing a wide range of services to the business community and public administration, such as managing other registries, as Egypt is currently doing with GAFI.

To improve the efficiency of the registration and notification phase, economies should consider introducing new measures such as the use of the silence-is-consent rule, online registration and notification facilities.

Furthermore, all the economies in the region, with the exception of Egypt, need to look more carefully at the time associated with the business start-up process as a whole. This may be achieved by improving the notification process through introducing or expanding the functions of their one-stop shops and by further simplifying the registration and start-up process for most of the common forms of business.

Finally, company registration databases should not have the single purpose of registering companies but should also be used as a way to collect information about SMEs and entrepreneurs.

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Chapter 5

Support services for SMEs and public procurement

SBA principle: Adapt public policy tools to SME needs

This chapter analyses public policy tools that help SMEs in accessing markets and procurement opportunities. The chapter is divided into two policy sub-dimensions: business services and public procurement. The first policy dimension gives an overview of the public policy tools to address information gaps and the limited availability of business services for small firms. The second focuses on giving SMEs an equal chance to participate in public procurement. Despite overall progress since the 2008 assessment and the fact that start-up support and incubators are now present in all economies, MED economies continue to perform poorly in the collection, analysis and dissemination of relevant of information for SMEs through both traditional and online channels.

Moving forward, MED economies could improve access to information on services for enterprises, continue the provision of tailor-made support services for SMEs, design business support services in a comprehensive way and not only as part of ad hoc initiatives, and step up efforts to facilitate SME access to public procurement.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

To improve and expand operations, SMEs rely extensively on services from external providers. The quality, range, availability and the degree of access to such services have a significant impact on SME performance. The objective of this chapter is to assess progress in relation to the provision of business support services for SMEs and start-ups and to identify any policy gaps. The focus is on public support in service provision. This includes all different forms of financial support, including cost sharing schemes, general and tailored advice and counselling and information provision. Service provision to start-ups is a particularly relevant area for public policy. The high failure rates among newly established enterprises (often estimated at more than 50% over the first five years – OECD, 2013; OECD-IDRC, 2013; European Commission, 2011) could be addressed in many cases by promoting availability and access to external professional services.

Assessment framework

Governments in the MED region support small and new businesses through a variety of services. To assess performance in this dimension, the following sub-dimensions are examined:

- SME support services, covering the policy framework for SME support services and the range of services available. This includes support for start-ups, including incubators and advisory and financial support for start-ups
- Information services for SMEs, taking into account the availability of information on starting and conducting a business, as well as the quality of online portals;
- Facilitating access to public procurement for SMEs, including by disseminating information about public procurement opportunities and cutting tenders into smaller lots to facilitate access to public markets for SMEs.

Table 5.1. **Assessment framework dimension 5: Support services for SMEs and public procurement**

SBA Principle: Adapt public policy tools to SME needs

Sub-dimension 5.1: Business Support Services	Sub-dimension 5.2: Clear and targeted information for enterprises	Sub-dimension 5.3: Public procurement
5.1.1. Range of business services	5.2.1. Collection, handling, analysis and dissemination of information for enterprises through traditional channels	5.3.1. Cutting tenders into lots
5.1.2. Availability of information on business service providers		5.3.2. Information and publication of public procurement opportunities
5.1.3. Access to business services	5.2.2. Online information for enterprises	5.3.3. Penetration of e-procurement
5.1.4. Business establishment support services		5.3.4. Ensuring that payments are made on time
5.1.5. Business incubators		5.3.5. Openness to foreign enterprises, including SMEs and large companies
		5.3.6. Setting proportionate qualification levels and financial requirements

A detailed description of these indicators is included in Annex A.

The 2008 report covered the same indicators on SME and start-up support services, even if those indicators were not grouped in the same dimension. The sub-dimension on public procurement was not covered in the 2008 assessment. Therefore, there is comparability between the two assessments only at the indicator level.

The 2008 report highlighted that all MED economies had devoted sizeable resources to support services, but effectiveness was unclear as monitoring and evaluation mechanisms were lacking. The report recommended systematically monitoring support programmes, for instance through enterprise surveys complemented with control groups, to assess the quality and impact of public support services. Furthermore, the 2008 report noted that information on business services was still fragmented and of low quality. It thus suggested launching online portals to link all relevant websites and databases for enterprises and to establish realistic budgets for their ongoing maintenance and development.

Figure 5.1 shows the aggregate results for dimension 5 for the 2013 assessment. Figure 5.2 compares the results of the 2008 and 2013 assessments.

Figure 5.1. **2013 results dimension 5: Support services for SMEs and public procurement**

Weighted scores

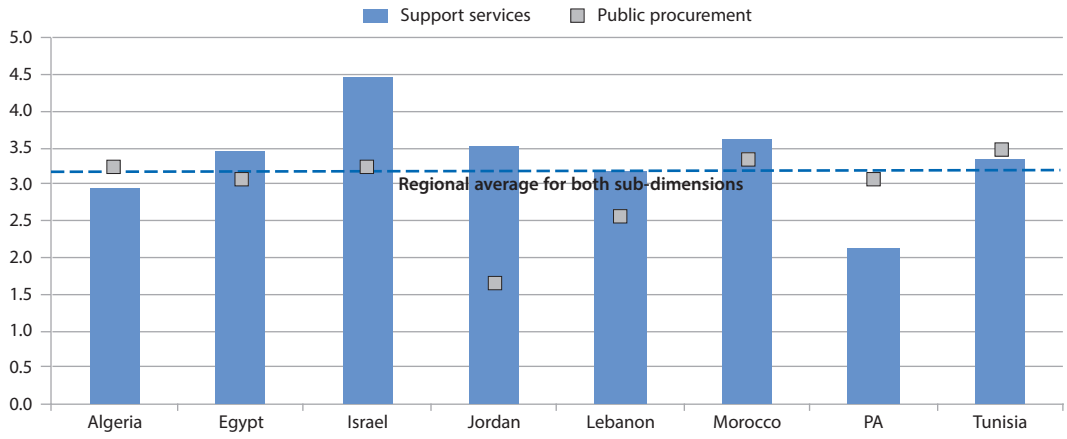


Figure 5.2 shows results comparable for both, the 2008 and 2013 assessments.

Source: Government and independent assessments.

Analysis

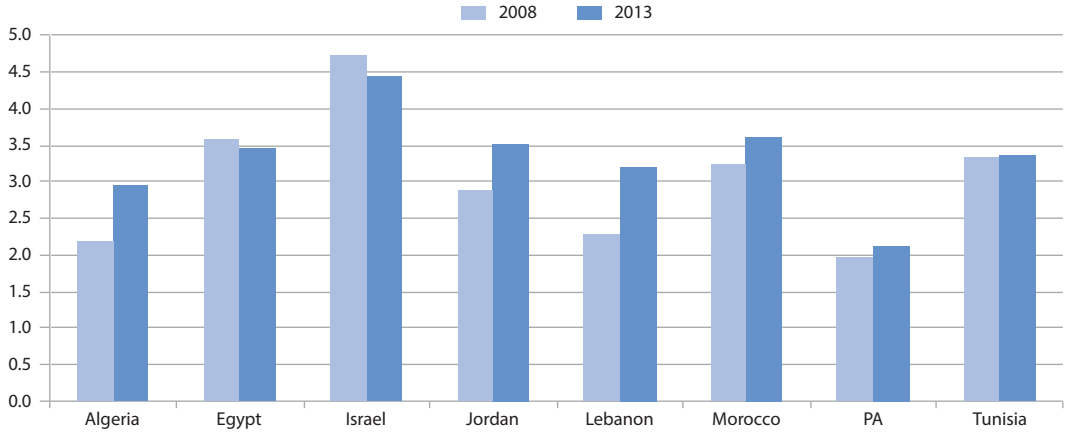
Overall, incremental progress has been achieved across the MED region. The exception has been ***Algeria***, which was lagging behind the regional average in the previous assessment, and ***Morocco***, which has extended the range of services provided and has started to conduct independent impact evaluations (Figure 5.2). In particular, since 2008, the Algerian government has significantly increased public funding for enterprise support, with the launch of an ambitious *mise à niveau* or modernisation programme and a number of other schemes supporting new entrepreneurs, as part of efforts to diversify the economy.

A range of business services is provided in all MED economies. In particular, Egypt, Israel, Jordan and Morocco offer a well-developed market for personalised business services, with a reasonable level of internal competition among service providers. The region has

improved start-up support services and incubators are present in all eight economies. However, most of the MED economies are still performing poorly in the collection, analysis and dissemination of information through both traditional and online channels. SMEs have to search for relevant information from scattered sources and websites when they exist. This adds to the low awareness of government programmes, which often hinders their success.

Figure 5.2. **2008 and 2013 results dimension 5: Support services for SMEs and public procurement**

Weighted scores



This excludes indicators on public procurement.

For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

Source: Government and independent assessments.

Business support services

SMEs in Algeria and PA have access to a network of public and donor funded business service providers, which has slightly improved since the 2008 assessment. ***Algeria*** established specialised technical centres that provide expertise and feasibility studies in areas such as packaging, agro-business and metal transformation. Additional services are provided through the national upgrading programme and the programme PME II, which promotes the utilisation of information and communication technologies in SMEs.

In ***PA***, specific business services focusing on export opportunities and international marketing are provided by the Federation of Chambers, the Federation of Industries, Paltrade and the Shipper's Council. The Federation of the Palestinian Chamber of Commerce, Industry and Agriculture is currently establishing a Businesswomen Support Unit, providing specific services to women, including capacity building, start-up support and marketing courses. Information about business support service providers in Algeria and PA can be found on the respective websites or the regional chambers, but there is no central database or online portal.

Public and private institutions alongside NGOs in Lebanon and Tunisia offer a range of business services for SMEs in a variety of fields. In ***Lebanon***, three business development centres (Berytech, BIAT and SouthBIC) are the main entities supporting SMEs with advice, networks, workshops and training. In addition, a number of shared work spaces and accelerators have also entered the scene recently, such as Cloud 5 and ALTCITY. The SME Support Unit/Enterprise Team at the Ministry of Economy and Trade is currently working on a new support strategy for SMEs to provide a strategic framework. Since the last assessment, Lebanon has also introduced an online portal (EntrepreneursLebanon.

com), which is an initiative for entrepreneurs to connect and collaborate with investors and access information on support organisations.

In ***Tunisia***, the government provides support through the industrial modernisation programme. Private sector consultants and associations complement this service. Nonetheless, an online portal and the evaluation of support programmes to ensure effectiveness is still lacking.

Egypt, Jordan and Morocco have a well-developed market for personalised business services, with a good level of internal competition. In ***Egypt***, several service providers exist, notably the Social Fund for Development (SFD) through technical support programmes and the Industrial Modernisation Centre (IMC) through its business development programmes. These support programmes receive public, private and donor funding and tailor support to the individual needs of the SMEs. These services are provided in different regions throughout the country. There have been some efforts to establish a comprehensive database but an online database does not yet exist.

In ***Jordan***, SMEs may receive support through the Jordan Enterprise Development Corporation (JEDCO), the Tatweer Business Development Centre and the Amman Chamber of Industry. Services are available across the country and cover a wide range of topics. Information about these services can be found on their respective websites, although there is no common online portal.

SMEs in ***Morocco*** can receive support services from public providers such as the National SME Development Agency (ANPME) (e.g. Moussanada and Imtiaz programmes), several associations and private providers. A good level of competition exists among service providers. On the website of ANPME, SMEs can search for private consultants and specific information about ANPME's programmes.

Table 5.2. **Results for sub-dimension 5.1: Business support services**

Scores for individual indicators

		AL	EG	IS	JO	LE	MO	PA	TU
5.1.1. Range of business services	2013	2.5	4.0	5.0	4.0	3.5	4.0	2.5	3.0
	Change since 2008	+0.5	0.0	0.0	+0.5	+0.5	+1.0	+0.5	0.0
5.1.2. Availability of information on business service providers	2013	2.0	3.0	4.0	4.0	3.5	4.0	2.0	2.5
	Change since 2008	+0.5	-1.0	-0.5	+0.5	+1.5	+0.5	+0.5	-0.5
5.1.3. Access to business services	2013	3.5	3.5	4.5	4.0	3.5	4.0	2.0	4.0
	Change since 2008	+1.5	0.0	0.0	+1.0	+1.5	+0.5	0.0	0.0
5.1.4. Business establishment support services	2013	3.5	4.0	4.0	3.5	2.5	4.0	2.5	4.0
	Change since 2008	+0.5	0.0	-0.5	0.0	+0.5	0.0	+0.5	0.0
5.1.5. Business incubators	2013	2.5	3.0	5.0	3.0	4.0	3.5	2.0	4.0
	Change since 2008	+0.5	-0.5	0.0	+0.5	+1.0	+1.0	0.0	0.0
Overall weighted average		**2.9**	**3.7**	**4.6**	**3.7**	**3.4**	**3.9**	**2.2**	**3.6**

Source: Government and independent assessments.

SMEs in ***Israel*** have access to a wide array of support services, both publicly and privately funded. Those services are available throughout the country. The Small and Medium Business Agency (SMBA) operates 26 small business development centres (MATI Centres), which provide professional advice and training. Information on business services is provided by the SMBA online on its website.

Clear and targeted information for enterprises

Effective enterprise policy implementation not only depends on the existence of well-designed and targeted support programmes, laws and regulations, it also depends on the extent to which enterprises are aware of government programmes, policies, regulations and the market they are operating in. Consequently, the systematic collection and dissemination of information relevant for enterprises is a key element for policies to achieve their ultimate objectives.

In ***Israel***, economic, legislative and regulatory information relevant to enterprises is collected, analysed and disseminated by a number of organisations such as the SMBA, their local MATI offices, the Foreign Trade Agreement Association, Lahav, the Manufacturers Organisation of Israel, etc. Information is provided through portals, websites, e-mails, bulletins, brochures and offline through workshops, courses, seminars, etc. However, this does not happen systematically or in a co-ordinated manner. To overcome this shortcoming, the SMBA established an online portal in 2013 to summarise and organise all relevant information. It also provides the opportunity to send requests or questions by e-mail to the SMBA through a form in the website. The goal of this portal is to become the major business portal for SMEs in Israel.

In ***Morocco***, the High Planning Commission (HCP) is the main organisation in charge of collecting, analysing and providing information. It has created a National Statistical Information Council that focuses on co-ordination, the distribution of statistical information and its alignment with statistical norms. In the framework of the e-government programme, public institutions in Morocco have established several online portals such as e-regulations, e-invest and data.gov.ma, which provide information for SMEs online. A dedicated SME portal is not yet operational, but is planned as part of the establishment of an SME Observatory, currently under consideration.

In ***Algeria, Egypt, Jordan*** and ***Tunisia***, the government provides statistical information on the enterprise population and on new laws and regulations. However, a dedicated and interactive portal that provides SME-specific information does not exist. In ***Algeria***, the statistical SME information bulletin, published by the Ministry of Industrial Development and Investment Promotion, provides extensive statistical information about the SME landscape and the support services in place. Additional practical information can be found on websites belonging to several different entities, such as the National SME Development Agency (ANDPME), the National Agency for Investment Development (ANDI) and the National Centre of the Commercial Register (CNRC).

In ***Egypt***, statistical information is provided through the Central Agency for Public Mobilisation and Statistics (CAPMAS) while information on legislation, decrees and laws concerning the SME sector is provided by the General Authority for Investment (GAFI), and relevant ministries. Information is scattered across different sources and all entities engaged in SME development have different websites or portals.

In ***Jordan***, information regarding legislation and regulation is provided by different institutions through their websites, such as the Jordan Chamber of Industry, the Greater

Amman Municipality, the Industrial Development Directorate and the Ministry of Planning. Besides, the Jordan Enterprise Development Corporation (JEDCO) provides information on its website on the financial and technical services they offer. ***Tunisia*** provides information for SMEs on various government websites such as the Agency of Industrial Promotion and Innovation (API) and the National Statistics Institute. While ***Algeria, Egypt, Jordan*** and ***Tunisia*** have generally made progress in the area of information provision, an interactive single information portal is still lacking in all four economies.

In ***Lebanon*** and ***PA***, information for SMEs is not systematically collected at government level and different ministries and organisations provide information, which is sometimes inconsistent. Entrepreneurs Lebanon and SME Toolkit provide information for SMEs in Lebanon online. While Entrepreneurs Lebanon aims at connecting entrepreneurs with investors and entrepreneurs with each other, the SME Toolkit provides practical information on how to start a business. However, these two websites are only available in English, which reduces their impact. In Lebanon and PA, some information can be found on different online websites such as the Ministry of National Economy website, however online information is limited and not centralised.

Table 5.3. **Results for sub-dimension 5.2: Clear and targeted information for enterprises**

Scores for individual indicators

		AL	EG	IS	JO	LE	MO	PA	TU
5.2.1. Collection, handling, analysis and dissemination of information for enterprises through traditional channels	2013	3.0	3.5	4.5	3.5	2.5	3.0	2.0	3.0
	Change since 2008	+1.0	0.0	0.0	+1.0	+0.5	0.0	0.0	0.0
5.2.2. Online information for enterprises	2013	3.0	3.0	4.0	3.0	3.5	3.5	2.0	3.0
	Change since 2008	+0.5	0.0	-1.0	+0.5	+1.5	0.0	0.0	+0.5
Overall weighted average		**3.0**	**3.3**	**4.3**	**3.3**	**2.9**	**3.2**	**2.0**	**3.0**

Source: Government and independent assessments.

Support for start-ups

All MED economies provide some form of start-up support and incubators exist in all nine economies. Slight improvements have been made in most economies since 2008.

Israel has well-structured support services that are available throughout the country. The SMBA and other organisations, such as the Jewish Agency and philanthropic and private funds, offer a wide range of services that include consulting, teaching and financial aid. Start-ups can also apply for one of the six business incubators or 24 incubators for technological entrepreneurship, which provide professional business guidance, financial benefits, networking opportunities and free promotion. These incubators have achieved the highest international standards and partner with similar programmes in Silicon Valley.

In Morocco and Tunisia, a well-structured, diversified system of start-up support exists that covers different regions. ***Morocco***'s National Agency for Employment Promotion (ANAPEC) is running a support programme (*Moukawalati*) and has recently finished an evaluation. Further support providers include the ANPME, the Moroccan Innovation Centre and the Popular Banking Foundation for enterprise creation. The Moroccan Incubation Network (RMIE) and AFEM currently operate six incubators each. A strategy has been approved by the RMIE and the incubators are out of the experimental phase and provide

basic services. In ***Tunisia***, 24 regional offices of the Industrial Promotion Agency, 24 Business Centres and the Ministry of Commerce, all provide start-up support. Twenty-six incubators exist, six of them ISO-certified, and are focused on innovative projects.

Start-up support services in Algeria, Egypt and Jordan exist but have not yet reached all regions and are not totally cohesive or complete. Several public ***Algerian*** institutions, such as the National Agency for Youth Employment (ANSEJ), work in the *wilayas* (provinces) to promote entrepreneurship services. Five university incubators are in the pilot phase, while four technology and ICT-oriented incubators are operational.

Start-ups in ***Egypt*** can revert to the Industrial Modernisation Centre for support services. The Business Development Path Programme has a pre-start-up service package which includes training on operational procedures, basic financial system development, business management, etc. A second and third package is available in the start-up and export phase. There exist several networks of incubators in Egypt. The government launched six incubators via the Social Fund for Development (SFD) and managed by the Egyptian Incubator Association. Several other incubators are managed by other public institutions (The Industrial Council for Technology and Innovation), private investors (Flat 6 labs) or foundations (Misr El Kheir).

The ***Jordanian*** authorities have established effective support programmes although with limited resources and restricted geographical spread. Programmes focus on the provision of basic establishment services. A National Start-Up and Incubation Strategy has been drafted and publicly funded incubators are in the pilot phase. Other incubators such as the Jordan Technology Group Incubator and the Jordan Innovation Centre's incubator are operational and successfully encourage new start-ups.

Establishment services are provided in ***Lebanon*** by the business development centres, Berytech, BIAT, SouthBIC and others. Services include consulting, mentorship, hosting business space, financial expertise, advice, network, workshops and training. Some, such as Berytech, invest in innovative start-ups through the Berytech Fund which is financed by the EU as part of the integrated SME Support Programme launched by the Ministry of Economy and Trade. According to the assessment, more than 80 start-ups were created by Berytech. BIAT, in place since 2006, has supported the creation of start-ups that generated more than 3 500 jobs between 2006 and 2013. SouthBIC reports that 79% of jobs created from incubated start-ups were high-skilled jobs.

In ***PA***, establishment support programmes are in the pilot phase. The Al-Nayzak organisation offers some pre-incubation services such as technical training, financial support and business plan writing training. Several business incubator initiatives have been launched, mainly with donor support. So far, the Palestine Information and Communication Technology Incubator and the Al Bireh-Ramallah incubator managed by Leaders–Qiadat are operational.

Public procurement

SMEs face more obstacles in accessing public procurement than large firms. While public procurement represents an important source of revenue for firms of all sizes, small firms have less opportunity to benefit from it due to their small size and limited access to information. According to recent research (European Commission, 2010), in EU countries, the share in public procurement that SMEs could secure for themselves in 2006-08 was 14% to 21% lower than their overall weight in the economy (as measured by combined business turnover), particularly in the case of micro and small firms.

The large size of average public contracts is generally the most important barrier for SMEs accessing public procurement (European Commission, 2010). Public administrations are keen to bundle contracts together to reduce administrative costs, but as a result small enterprises are excluded from tendering unless they make a joint bid with other companies. Other important barriers are the overly complicated procedures that have to be carried out just to qualify for the tender and highly selective pre-qualification requirements. Limited information and lack of clarity on how tender documents are written can be obstacles that disproportionately affect SMEs' access to public procurement. Finally, national preference rules often discriminate against foreign companies, including those from neighbouring MED economies, participating in public tenders.

Table 5.4. **Results for sub-dimension 5.3: Public procurement**

Scores for individual indicators

	AL	EG	IS	JO	LE	MO	PA	TU
5.3.1. Cutting tenders into lots	4.0	2.5	3.0	2.0	3	4.0	4.0	4.5
5.3.2. Information and publication of public procurement opportunities	4.0	4.0	4.0	1.5	4	4.0	4.0	4.0
5.3.3. Penetration of e-procurement	2.5	2.0	2.0	1.5	2	2.5	1.5	4.0
5.3.4. Ensuring that payments are made on time	4.0	4.0	2.5	1.5	3	4.0	3.0	3.5
5.3.5. Openness to foreign enterprises, including SMEs and large companies	1.5	3.0	5.0	1.0	2	2.0	3.0	2.0
5.3.6. Setting proportionate qualification levels and financial requirements	3.5	3.0	3.0	2.5	1.5	3.5	3.0	3.0
Overall weighted average	**3.3**	**3.1**	**3.3**	**1.7**	**2.6**	**3.3**	**3.1**	**3.5**

Source: Government and independent assessments.

Public procurement contracts are estimated to account for 15% to 20% of GDP in the MED economies. They therefore amount to a significant share of total demand. Public tenders, when conducted in a fair and transparent manner, may provide a major contribution to the development of a competitive private enterprise sector.

The 2013 assessment indicates that public procurement systems in the MED economies are relatively open to the participation of SMEs in public tenders and, in a number of cases, proactive measures favour their participation. With the exception of ***Jordan***, public procurement laws in all MED economies make it possible to cut tenders into smaller lots, a measure that can increase the chances of SMEs accessing public procurement offers. In Algeria, Morocco, PA and Tunisia, this practice is commonly used to increase participation in the tendering process (see Box 5.1 on Tunisia). In ***Egypt*** and ***Israel***, cutting tenders into lots is enshrined in legislation, but is subject to powerful derogations that render implementation rather weak. In ***Algeria, Egypt and Morocco***, the procurement law specifically encourages reserving a certain percentage of public contracts for SMEs (Algeria: 20%, Egypt: 10%, Morocco: 20%, Tunisia: 20%).

A visible effort has also been made to publish information on public procurement. This information is centralised at a national level and is available online and in newspapers free of charge or at negligible cost in ***Algeria, Egypt, Israel, Lebanon, Morocco, PA and Tunisia***.

However, the region has made little effort to provide e-procurement solutions. The system is most advanced in ***Tunisia*** where a new public procurement website was established in April 2013. This platform is used by ten public agencies and allows full electronic case handling without the requirement of any paper-based formal procedure (electronic communication throughout the procurement process, e-invoicing etc.). For all other economies, limited information concerning tendering is available in electronic format. ***Egypt***, ***Israel*** and ***Morocco*** are currently in the process of establishing an e-procurement portal. Further efforts are necessary to mainstream e-procurement in public procurement processes.

Delayed payments by the public administration are proportionally more disrupting for SMEs than for large companies, as a smaller enterprise faces higher obstacles in securing bridge financing. Most of the MED governments have approved laws to ensure that payments are made on time, however enforcement remains sporadic. ***Algeria, Egypt, Morocco*** and ***Tunisia*** have passed laws, or have articles within their public procurement laws/decrees, on late payments imposing strict deadlines for payments and penalties in cases of non-compliance. To ensure that companies do not suffer from late payments, ***Algeria*** established a Guarantee Scheme for Public Procurement (CGMP). This institution covers the bill in case of late payment by the public sector. In 2012, the CGMP has delivered

Box 5.1. **Good practice: The public procurement system in Tunisia**

For several years, Tunisia's public procurement regulations and procedures have encouraged SMEs to participate in the public tendering process. The possibility of dividing public procurement contracts into lots has been enshrined in legislation since 2002, dedicating 20% of public procurement to SMEs.

Article 19 of Decree No. 2002-3158 regulating public procurement states that: "The public purchaser must, while elaborating the specifications for the market, take into consideration the ability of entrepreneurs, producers, service providers and consultants." If the purchaser is unable to allocate 20% of the market to smaller firms, either for technical reasons or due to the absence of small businesses capable of executing of such contracts, it must provide a justification in a report addressed to the procurement committee. Finally, the public procurement regulation provides clear provisions on late payments by public authorities and imposes strict deadlines and penalties for non-compliance with these deadlines.

A visible effort was also made to publish information on public procurement as well as the possibility to apply online. In 2013, a new platform for online procurement was launched (www.marchespublics.gov.tn). This platform is fully electronic with no paper-based formal procedures required (electronic communication throughout the procurement process, e-invoicing etc.).

A National Observatory for Public Procurement, created within the Higher Procurement Committee, is responsible of the gathering, treatment and analysis of data related to the procurement system. The observatory is also responsible for keeping a registry of holders of public contracts, of studying and proposing measures to improve the public procurement regulations, of supervising public procurement and improving its profitability, and for offering public assistance to purchasers through the establishment of training programmes, standard documents and various other forms of assistance. Finally, the observatory prepares one annual census and partial censuses on a series of public purchasers or a given market category.

Source: Government and independent assessments; and Republic of Tunisia (2014), Tunisian National Observatory for Public Procurement website www.marchespublics.gov.tn/onmp/content/index.php?lang=en, accessed on 5 June 2014.

2 800 guarantees totalling DZD 81 million (Algerian dinars); 647 private SMEs have benefited from this service. ***Lebanon*** and ***PA*** also have a law to regulate late payments but enforcement is not effective.

With the exception of Israel, most of the MED economies have introduced a range of positive discrimination measures favouring domestic operators over foreign-based companies competing for public tenders. Market access conditions for foreign bidders are sometimes determined by bilateral agreements or on a case by case basis. The ***Algerian*** public procurement market poses particular challenges to the international investor as they are required to partner with an Algerian enterprise, which must own the majority of the capital (51%). Apart from this, the Algerian government has the right to publish tenders only for Algerian enterprises and applies preferences for Algerian businesses.

Egyptian, Jordanian, Moroccan and ***Palestinian*** domestic contractors are granted priority if their bid does not exceed the lowest foreign bid by more than 15%. Further, procurement conditions often require local representation or a local registration certificate, as well as imposing a national subcontracting clause on foreign bidders that allocates the maximum number of lots of the tender to local suppliers, assuming they are able to meet the corresponding requirements of the offer, as is also the case in ***Tunisia***.

Israel is a party to the World Trade Organisation's Government Procurement Agreement, a legally binding agreement focusing on government procurement. This multilateral agreement ensures that Israel has opened up significant parts of its public markets to foreign enterprises.

Jordan is behind the other MED economies in the area of public procurement. It does not allow cutting tenders into lots, public procurement opportunities are scattered among a variety of sources and only basic information on tenders is available in electronic format. There is no regulation that ensures that payments are made on time and the public procurement market is not open to foreign enterprises on the basis of open competition. In many cases, procurement conditions ask for local representation or a local registration certificate and there is a 15% margin price advantage for locally manufactured products (i.e. local manufacturers are preferred even if their prices are 15% higher than those of foreign firms).

Finally, most of the MED economies have general provisions requiring buyers to determine proportionate qualification levels and financial requirements, such as, years of experience, annual turnover or volume of annual productivity.

The way forward

Since 2008, a little overall progress has been achieved in the region regarding support services for SMEs and public procurement, particularly in the case of Algeria, Lebanon, Jordan, and Morocco. Start-up support and incubators are now present in all economies. However, up until now, support to SMEs has largely revolved around basic services in most of the MED economies with a shortage of more advanced services.

There is still progress to be made regarding information services for enterprises, that is, information is generally scattered and fragmented across different sources and quality remains to be improved and adapted to SME needs. Most of the MED economies are still performing poorly in the collection, analysis and dissemination of information. There are only a few web portals dedicated specifically to SMEs.

Regarding public procurement, almost all economies cut tenders into lots to facilitate SME access to public procurement. Algeria, Egypt, Morocco and Tunisia have quotas for

SMEs in public procurement. In particular, Tunisia has recently established an electronic platform to manage public procurement. Almost all economies have rules on late payments, but application remains patchy.

Accordingly, key priorities should be the following:

- Access to information services should be improved substantially, by co-ordinating information provided by different agencies and by moving towards the establishment of a single online SME portal;
- The range of services offered to SMEs should be broadened with a view to providing more technological and personalised support, skills development through training and coaching, and strategic advice and consulting;
- Business support services should be designed in a more comprehensive manner, and not only as part of ad hoc initiatives, to reduce the overlaps between different institutions offering support services to SMEs. The objective should be to offer tailored and comprehensive packages covering different needs, from skills development to access to finance and access to markets;
- Policies on qualification levels and financial requirements for access to public procurement systems should be improved, and better tailored to SME characteristics; and
- Openness to foreign enterprises should be improved, to foster competition and allow for technological transfers to domestic firms.

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Chapter 6

Access to finance for SMEs

SBA principle: Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions

This chapter focuses on policies and instruments to facilitate access to finance for SMEs. It analyses sources of external finance and the legal and regulatory framework that supports their development. Policies to support general financial literacy, which affect both the demand for credit by SMEs and supply of finance by financial institutions, are also considered.

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 recent years have further reduced the availability of external finance for the private sector, particularly in transition countries.

Some of the most prominent actions yet to be undertaken in access to finance are strengthen legislation on secured transactions and creditor rights; improving the reliability and access to cadastres and registries of movable assets; strengthening bank competition; fostering the development of alternative financial facilities; and enhancing financial literacy.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

The SME financing gap

Facilitating access to finance is one of the most essential areas for the promotion of SMEs and entrepreneurship, and ultimately for enhancing economic growth and employment creation. The provision of external finance enables enterprises to meet working capital requirements, fill temporary gaps in the cash-flow cycle and support expansion plans, leveraging the enterprise's internal resources: the investors' equity contribution and/or retained profits.

Compared to large enterprises, SMEs often face obstacles in securing access to external financing sources. Some of those obstacles originate from the relationship between the providers and users of external finance, in particular, information asymmetries, moral hazard (which can be amplified by the limited capitalisation of small enterprises) and relatively high transaction costs. Others originate from the lack of investment or credit readiness of SMEs, such as inadequate or non-existent business planning, accounting practices and book keeping, lack of awareness and knowledge about financing options and instruments, and economic informality. Other hurdles stem from deficient regulatory and legal frameworks, underdeveloped financial and banking systems and financial shocks (OECD, 2006).

Addressing the SME financing gap is complex and requires actions on many fronts and by several actors, including government, financial institutions, banks and private enterprises. Yet the cost of inaction is very high: lack of access to adequate and timely finance affects the creation of new companies and the day-to-day operations and growth of existing ones.

Access to finance in the MED region

SMEs in MED economies, with the partial exception of Israel, suffer from a structural lack of access to external finance. Bank lending, the main source of formal finance, is constrained by the relatively poor quality of the legal and regulatory environment, the limited depth of financial markets and lack of competition among banking and financial institutions. Furthermore, alternative sources of finance, such as leasing, factoring, mezzanine financing or the provision of equity capital, remain marginal.

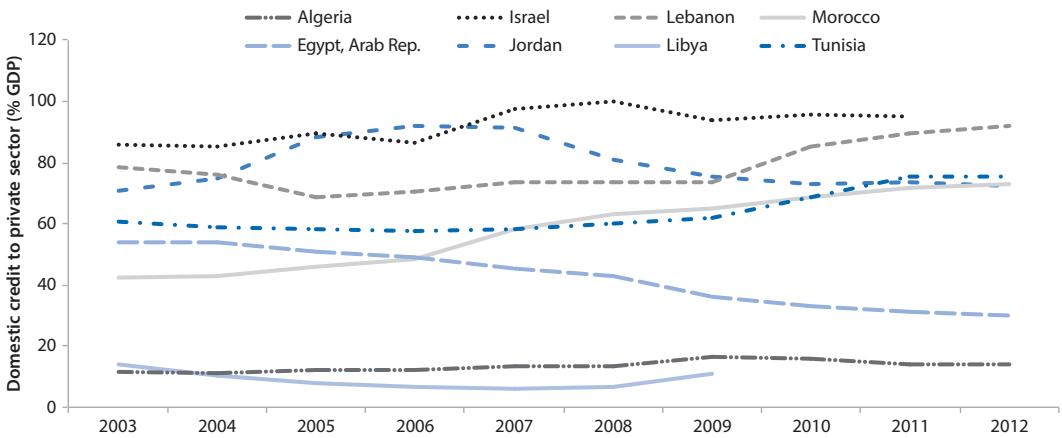
Several studies demonstrate that SMEs are financially constrained in the MED region, just as in the wider Middle East and North Africa (MENA) region (Beck et al. 2008 and 2009, and De la Torre et al. 2010). According to enterprise-level surveys conducted by the World Bank, only 20% of SMEs in the region, excluding Israel, have a loan or a line of credit, which represents the lowest share in the world, while only 10% of SME investment expenditures are financed by a bank loan, a share that is lower only in the sub-Saharan African region.

A survey on bank lending to SMEs in the MENA region was conducted by the World Bank and the Union of Arab Banks in 2009 (Rocha et al., 2011). The survey, which covers the economies assessed in this report with the exception of Israel and Algeria, provides interesting insights into SME lending in the MENA region. Overall, SME loans in non-Gulf Co-operation Council (GCC) countries represent only 13.2% of total loans provided by banks. In comparison with the rest of the world, the region lags well behind, as the SME loan ratio in high-income OECD economies is around 22%, while it reaches 16.2% in middle-income countries (Beck et al., 2008). A survey conducted by the OECD-MENA Women's Business Forum in collaboration with the Union of Arab Banks in 2013 examined bank lending to women-owned SMEs and found that such businesses represent less than 10% of bank loan portfolios among the surveyed MENA banks (OECD, forthcoming).

Among the loans provided by banks to SMEs, 26.4% are reported as medium-term investment loans (loans used for investment purposes, granted by banks for the acquisition of fixed assets such as property, equipment and other machinery). Interestingly, while private banks have a higher ratio of SME loans to total loans than state banks, the latter display a higher share of investment loans to total SME loans, showing that state banks may be less risk averse. This reflects the mandate state banks have to help fill the financing gap for SMEs, but may also reveal a lack of expertise in efficiently assessing loan requests.

Bank lending in the MED region has not been significantly affected during the global financial crisis as in other regions, largely due to the limited integration of domestic banking and financial institutions in the global financial system. However, economic and political instability had a significant impact on lending and financing activities in several MED economies over the years since 2011. In addition, increased demand from the public sector to finance growing budget deficits has contributed to crowding out credit to the private sector. This has been the case in Egypt and Jordan, which witnessed significant declines in credit volumes between 2008 and 2012. Remarkably, Tunisia's share of credit to the private sector increased during that period while the country went through a regime change at the end of 2010 (Figure 6.1).

Figure 6.1. **Domestic credit to the private sector (in % GDP, 2003-12)**



Source: World Bank (2014), World Development Indicators Database, data.worldbank.org/, accessed 5 June 2014.

Other countries, such as Algeria and Morocco which experienced a more stable economic and political environment, recorded an expansion of credit activity during the same period. Among the MED economies, there is an important heterogeneity in the ratio of domestic credit to the private sector (% of GDP), a proxy for the depth of financial intermediation. In 2012 ratios ranged from 14% in Algeria to more than 90% in Lebanon. Jordan, Morocco and Tunisia have comparable levels, around 70%-75%. Over the last decade, Morocco witnessed an impressive surge in the share of credit to the private sector, increasing from around 40% in 2003 to more than 70% in 2012. Tunisia and Lebanon also had non-negligible increases between 2008 and 2012 from 60% to 75% in Tunisia and from 73% to 92% in Lebanon. Whereas Egypt's share of domestic credit to the private sector shrank gradually from 54% in 2003 to less than 30% in 2012 (see Table 6.1).

Bank concentration (defined as the ratio of the assets of the three biggest banks to total bank assets), a proxy indicator of the level of competition in the banking sector, is still relatively high in all MED economies, ranging between 45% in Tunisia to almost 90% in Morocco.

Table 6.1. **Banking sector indicators**

	Domestic credit to private sector (% GDP)		Non-performing loans to total gross loans (%) - 2012		Stock market capitalisation (% GDP)		Bank concentration* 2011	
	2008	2012	2008	2012	2008	2011	2008	2011
Algeria	13.2	14.3	n.a	n.a	n.a	n.a	73.9	75.5
Egypt	42.8	29.7	14.8	10.7	76.2	27.8	57.6	64.2
Israel	99.8	n.a	1.5	2.4	101.7	77.4	76.7	85.8
Jordan	80.9	72.4	4.2	n.a	186.0	100.1	94.9	88.2
Lebanon	73.8	92.2	7.5	3.7	n.a	26.1	49.5	51.3
Libya	6.8	n.a	n.a	n.a	n.a	n.a	n.a	100.0
Morocco	63.2	72.8	6.0	4.8	82.5	66.1	67.8	89.9
PA	n.a	n.a	n.a	n.a	n.a	n.a	100.0	n.a
Tunisia	60.1	75.2	15.5	12.1	13.3	22.2	43.7	45.0

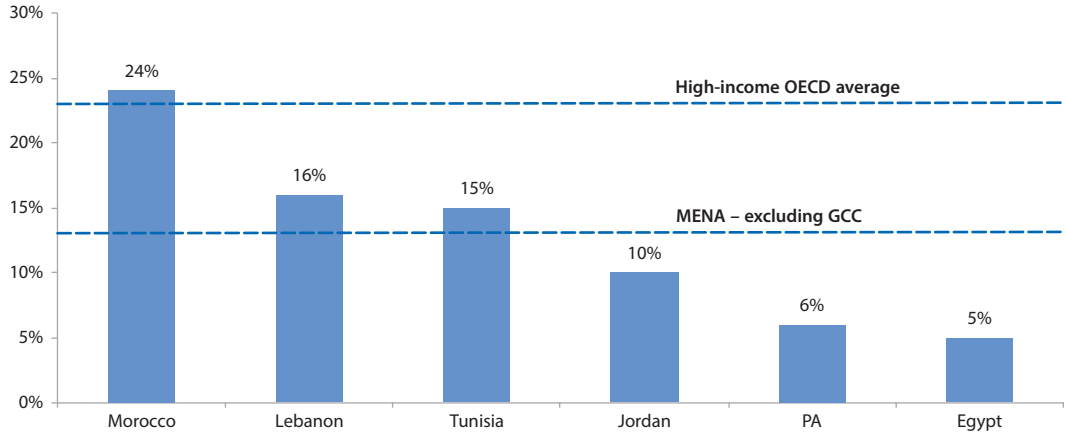
*Bank concentration measures as the assets of three largest banks as a share of assets of all commercial banks. – Data for Libya corresponds to 2010, for Morocco to 2011 and for Tunisia to 2010.

Sources: Čihák et al. (2012), "Benchmarking Financial Development Around the World", *Policy Research Working Paper 6175*, World Bank, Washington, DC; World Bank (2014), World Development Indicators Database, data.worldbank.org/, accessed 5 June 2014.

The 2008 assessment highlighted how the legal and regulatory framework for bank lending was still relatively underdeveloped in most MED economies, with the exception of Israel. In particular, the lack of public registries for movable assets, the limited presence of credit bureaux and complex and lengthy bankruptcy procedures resulted in high collateral requirements and credit rationing.

The results of the 2013 assessment show that significant progress has been achieved in those areas, while more limited and incremental progress has been recorded in the differentiation of the sources of external financing. Commercial banks in a number of MED economies are looking with increasing interest to expanding SME lending and the provision of services to SMEs. More banks are establishing SME units.

Figure 6.2. **Bank loans to SMEs (% of total bank loans)**



Source: Rocha, R. et al. (2011), "The status of bank lending to SMEs in the Middle East and North Africa region: the results of a joint survey of the Union of Arab Bank and the World Bank", *World Bank Policy Research Working Paper Series*, World Bank, Washington, DC.

However, overall bank lending to SMEs in the MED region remains limited (see Figure 6.2). Morocco, with 24% of bank loans going to SMEs, is the only country that has a share of SME lending in total bank lending similar to that of developed economies (22% according to Beck et al. (2008)). Lebanon's and Tunisia's shares are slightly above the MENA region's average of 13%, excluding GCC economies, while Jordan's, PA's and Egypt's shares are still low and do not exceed 10%.

At the other extreme, Israel's official statistics show that the share of business loans to SMEs increased from 38.9% of total business loans in 2010 to 40.7% in 2012. However, there are indications that segments of the SME population, particularly those engaged in more traditional sectors, still face obstacles in accessing bank financing.

Assessment framework

The access to finance dimension is made up of two main sub-dimensions: sources of external finance for SMEs and the legal and regulatory framework. As in the 2008 report on the implementation of the Euro-Mediterranean Charter for Enterprise, this exercise considers the most relevant sources of external finance. This assessment is based on the Small Business Act for Europe which sets out potential instruments that could be used by governments to facilitate access to finance by SMEs.

Table 6.2 shows the indicators of dimension 6. Figure 6.3 shows the results for the 2013 assessment and Figure 6.4 compares the results of the 2008 and 2013 assessments.

Table 6.2. **Assessment framework dimension 6: Access to finance for SMEs**

SBA principle: Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions

Sub-dimension 6.1: Sources of external finance for SMEs	Sub-dimension 6.2: Legal and regulatory framework for external financing	Sub-dimension 6.3: Financial literacy
6.1.1. Credit guarantee schemes	6.2.1. Cadastre	6.3.1. Financial literacy
61.2. Business angel networks	6.2.2. Credit information services	
6.1.3. Microfinance facilities	6.2.3. Registration system for moveable assets	
6.1.4. Leasing	6.2.4. Collateral and provisioning requirements	
6.1.5. Availability of risk capital (e.g. venture capital, private equity funds)	6.2.5. Creditors' rights	
6.1.6. Access to capital markets		

A detailed description of these indicators is included in Annex A.

This new assessment goes beyond the previous one by introducing new indicators to provide a more comprehensive and complete view of the obstacles to accessing external funding that SMEs encounter. There is one new indicator under the sources of external finance sub-dimension that assesses the existence of business angel networks and whether there are policies supporting them. In the legal and regulatory sub-dimension, a new indicator on creditor rights assesses the extent to which laws on secured transactions are developed and enforced, as well as the ease with which a creditor can retrieve ownership of the collateral in case of default. Finally, this new assessment introduces a third sub-dimension that looks at financial literacy as another factor that affects both demand for and supply of finance.

Figure 6.3. **2013 results dimension 6: Access to finance for SMEs**

Weighted scores

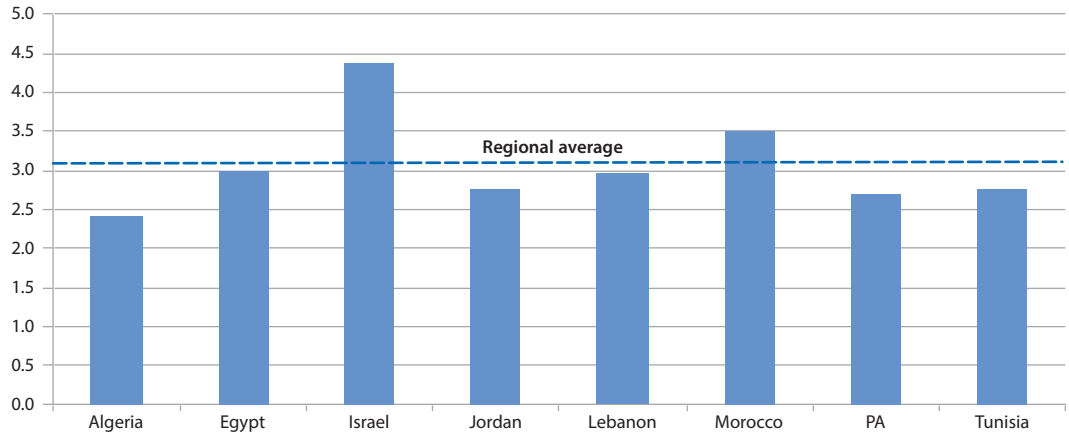
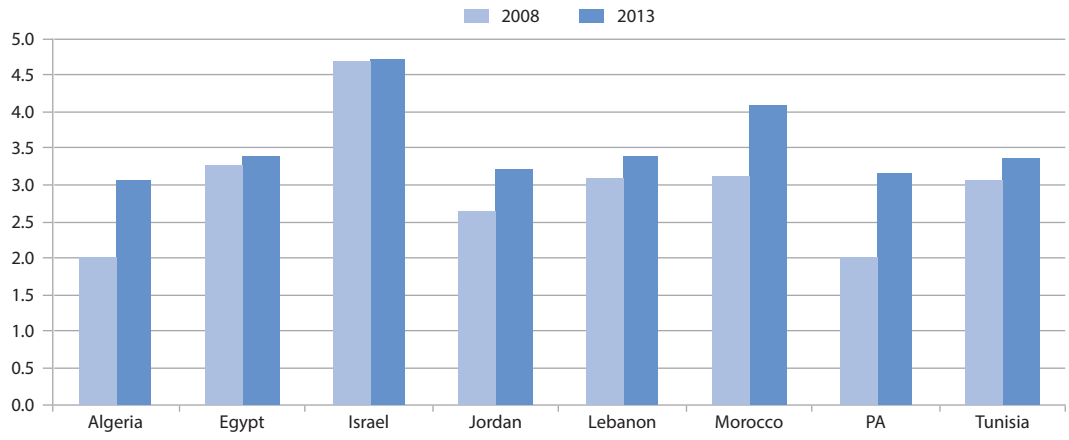


Figure 6.4 shows results comparable for both the 2008 and 2013 assessments.

Source: Government and independent assessments.

Figure 6.4. **2008 and 2013 results dimension 6: Access to finance for SMEs**

Weighted scores



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

Source: Government and independent assessments.

Analysis

Sources of external finance

While bank lending is the main source of external finance for SMEs in the region, it remains limited, and has been reduced in MED economies undergoing political transitions in recent years. Other instruments to ease access to bank lending, such as credit guarantee schemes, and other sources of financing, such as leasing or private equity, while relatively more developed than in 2008, also remain insufficient and have been constrained by the political transition.

Thus, government policies must encourage policies that favour bank lending to SMEs amid increased aversion to risk. This is especially the case in a period of economic slowdown, as SMEs experience internal resource constraints and need to rely more on external sources of finance while banks tend to decrease lending. Indeed, countries have used credit guarantees during crises as a countercyclical policy tool to alleviate the adverse effects of credit tightening on SMEs. Credit guarantee schemes are in place in all MED economies; Rocha et al. (2011) report that most of them appear financially sound, that is, not over-leveraged or equity constrained, as they are mostly financed by their respective governments or donors, and show capacity to expand due to a sufficient equity base. However, while schemes in MED economies are financially healthy, they are not yet reaching the smaller firms, suggesting that there is room for more competition in the market.

The assessment shows that there are substantial differences among the MED economies in the funding structures of the schemes, their level of co-operation with the banking sector and how they are managed. In some of the MED economies, existing credit guarantee schemes are only funded by either public institutions and state banks or foreign donors, as is the case in ***Algeria, Jordan and PA***. In contrast, in ***Morocco*** the credit guarantee scheme *Dar Ad Damanei* has legally been a private entity since 1989, funded partly by private banks but also by public contributions (Hassan II fund). Similar cases where schemes are funded by both public bodies and private banks are present in ***Egypt*** (Credit Guarantee Company, CGC), in ***Lebanon*** (Kafalat) and ***Tunisia*** (SOTUGAR). Differences in the funding structure may lead to variations in the commitment of the banking sector to accept guarantees and to co-operate more closely with schemes, as private banks would be more willing to accept guarantees from schemes in which they participate. In most of the assessed economies, governance rules specific to credit guarantee schemes are not yet clearly defined and are limited to the specific procedure to obtain the guarantee. Furthermore, limited use by the schemes of risk management tools in line with good practices, such as the Basel regulatory

Table 6.3. **Results for sub-dimension 6.1: Sources of external finance for SMEs**

Scores for individual indicators

		ALG	EGY	ISR	JOR	LEB	MOR	PA	TUN
6.1.1. Credit guarantee schemes	2013	3	4	4.5	4	4.5	5	4.5	3.5
	Change since 2008	0	0	0	-0.5	+0.5	+1	+1	0
61.2. Business angel networks	2013	1.5	1	4	2	2.5	3	1.5	3
6.1.3. Microfinance facilities	2013	3	4	3.5	4	3.5	5	4	3
	Change since 2008	+0.5	0	-0.5	+1	-0.5	0	+1	0
6.1.4. Leasing	2013	3.5	4	4	4	4	5	2.5	4
	Change since 2008	+0.5	0	-1	+0.5	0	+0.5	+1	-1
6.1.5. Availability of risk capital (e.g. **venture capital, private equity funds)**	2013	3	4	5	2	3.5	4.5	4	3
	Change since 2008	+0.5	0	0	+0.5	0	+0.5	+2.5	-1
6.1.6. Access to capital markets	2013	2	4	4.5	3.5	3	4	3.5	3.5
	Change since 2008	+0.5	0	-0.5	+0.5	0	0	+1.5	0
Overall weighted average		**2.8**	**3.7**	**4.3**	**3.4**	**3.6**	**4.5**	**3.5**	**3.4**

Source: Government and independent assessments.

recommendations, makes banks less inclined to accept guarantees (Rocha et al., 2011). In terms of regulation and supervision, the guarantee schemes are regulated and supervised by the appropriate monetary authorities in most of the MED economies.

While credit guarantee schemes are efficient instruments to overcome information asymmetries in bank lending to existing SMEs, there is also a clear financing gap in the seed and early-stage financing market. There is a well-documented information asymmetry in the early-stage financing market as entrepreneurs and investors find it difficult to find each other (OECD, 2011). This market failure suggests that policy makers should intervene in such markets.

Business angel groups and networks can help to address this early-stage financing gap. Business angels are individuals who invest in promising start-ups and innovative companies with untested business ideas in return for an equity stake. Importantly, they also provide valuable management and business experience, which is not the case with venture capital institutions. Policy makers could help develop competitive business angel networks by promoting them through various policies and programmes, including providing support directly to the networks or through tax incentive programmes (OECD, 2011). In the MED region, with the exception of Israel, there is little business angel activity. Existing initiatives are composed mostly of informal networks and initiatives without any clear public support. Nevertheless a number of pilot projects and policy awareness plans to develop business angel networks exist in ***Jordan, Lebanon, Morocco and Tunisia***. In ***Israel***, tax incentives for business angel networks have been enshrined in legislation since 2011 (see Box 6.1). However, business angels in Israel usually focus on technological start-ups and there is a lack of angel investment in other start-ups.

Box 6.1. **Good practice: Business angels network in Israel**

The success of the Israeli start-up model has been well-documented and recognised. According to the OECD, the business angel community in Israel has been growing, although more informally, in recent years (OECD, 2011). The Global Entrepreneurship Monitor collects data on the percentage of the adult population who have invested their own money, in the last three years, in an entrepreneur establishing a new business. They report that business angel activity increased from 3.2% in 2008, to 4.2% in 2010 and reached 4.8% in 2012, which is one of the highest rates among developed economies.

There is a core group of successful serial entrepreneurs who have become "super angels" and are driving much of the activity in this segment of the market. As reported in the assessment, a major database for companies looking for investors, including angels, is the Israel Venture Capital website, but more information about angels is also available on websites intended for technological start-ups.

The High Tech Industry Association (HTIA), the leading public policy advocate for the high-tech, angel and venture capital industry, has been proactive in encouraging the government to focus on the angel investment market, which introduced tax incentives for business angels in legislation in 2011. The law offers substantial tax breaks to angel investors in Israeli start-up companies. The tax law provides that foreign or Israeli resident individuals may deduct from their total taxable income a qualifying investment of up to NIS 5 million (USD 1.4 million or EUR 1 million) in shares of target companies, who must meet certain criteria in terms of revenue and R&D expenses. Furthermore, the initial investment is considered as a capital loss on the day of investment.

Sources and further information: OECD (2011), *Financing High-Growth Firms: The Role of Angel Investors*, OECD Publishing, Paris; Menipaz E. et al. (2011), *Global Entrepreneurship Monitor 2010: Israel National Entrepreneurship Report*, The Ira Center for Business, Technology and Society, Ben Gurion.

Microfinance institutions are particularly important due to their proximity to smaller borrowers, which makes them a useful tool for employment creation and poverty reduction, especially within the most vulnerable groups, such as, youth and women. Governments can foster the development of a microfinance sector through the liberalisation of banking services to facilitate deposit-taking and the long-term sustainability of microfinance institutions while regulating, notably, skills and excessive risk-taking behaviour. Countries that lack clear regulatory and supervisory frameworks should have their microfinance institutions supervised by the financial regulatory authorities and need to develop specialist supervisory capacity (Rocha et al., 2011).

The microfinance sector in the MENA region is the weakest among the world regions, reaching less than 1% of total bank credit, compared with more than 5% in Eastern Europe and Central Asia as well as in South East Asia. However, the proportion of women obtaining microfinance in MENA is more than 60%, which is the highest among all regions, except Asia (Rocha et al., 2011).

According to the assessment, microfinance institutions are present in all MED economies, and most of them operate throughout all geographical sub-regions. Overall, the facilities are mostly NGOs or state-owned institutions providing a limited range of microfinance products, generally targeting women and youth, while direct involvement of commercial banks is still very limited. ***Morocco*** provides the most advanced example in terms of a regulatory framework for microfinance institutions, with the central bank acting as a supervisory institution. For example, microfinance institutions in Morocco are allowed, by law, to leverage necessary resources through private bank support. The regulatory framework has also improved in ***PA*** with respect to the previous assessment in 2008, as the Palestinian Monetary Authorities have been responsible since 2011 for granting licences to microfinance institutions and are entrusted with their supervision. Other countries, such as, ***Egypt*** and ***Jordan***, have a fairly developed microfinance sector (the Jordanian microfinance sector witnessed an average annual growth rate in outreach of 28% between 2006 and 2010) but they lack a specific legal and regulatory framework. Consequently, in 2011 Jordan reviewed and updated the national microfinance strategy adopted in 2005 and is currently reviewing the legal framework governing microfinance institutions. ***Tunisia*** is another country that has no specific regulatory framework for microfinance institutions, has a large but fragmented microfinance sector and lacks specialised facilities to target specific groups such as youth and women.

Leasing is a particularly attractive financing tool for SMEs as it offers uncollateralised lending for enterprises that do not have a long credit history or a significant asset base for collateral. Governments have to implement a comprehensive legal framework to fully develop sustainable leasing activities. Except for ***Israel*** (where leasing activities are regulated through the tax law), all assessed MED economies have a leasing law that is already approved. However, it is difficult to evaluate whether these leasing laws are well implemented and in line with international good practices. According to the abovementioned World Bank study (Rocha et al., 2011), the majority of leasing jurisdictions in MENA economies do not clarify the rights of lessors and lessees under bankruptcy and legislation suffers from the lack of clear and neutral tax rules, leading to potential market distortions. The absence of legislation that clearly defines leasing and the rights and responsibilities of the parties obstructs the growth of the leasing sector in the MENA region. On the regulatory and supervisory side, regulators are mostly central banks but there is little evidence on how actively these regulators monitor their respective leasing markets. In ***Morocco***, leasing companies are supervised by the Central Bank (Bank Al-Maghrib), as stated in the banking law, and are required to report all necessary information to the public credit bureau *(Service*

de centralisation des risques). In ***PA***, where a leasing law was approved in 2013, the sector is supervised and monitored by the Palestinian Capital Market Authority (PCMA).

The availability of risk capital for SMEs is still limited in the MED region. Risk capital (e.g. venture capital and private equity funds) is an important long-term financing source for projects with considerable risks, but with potentially high rates of return. Besides the development of a good business climate, a key determining condition for a healthy private equity sector is the creation and implementation of legislation in line with good practices of corporate governance (such as the OECD Corporate Governance Principles) and appropriate exit strategies for firms.

In the MED economies, specific legislation for venture capital/private equity/investment funds is in place in ***Algeria, Egypt and Tunisia***. However, according to the assessment, in most cases, legislation is not fully in accordance with good practices. In ***Algeria***, for example, the law relating to investment funds sets the minimum capital for entry at a very high level as the law does not differentiate between investment funds and asset management companies (a draft law is under preparation to differentiate between the two). Other economies, such as Israel and PA, have developed vibrant risk capital markets without implementing any specific legislation. However, in ***Israel***, despite the existence of approximately 70 venture capital funds, it is the high-tech industry that receives almost all of the investment, meaning that venture capital funds are not a financing option for non-technological start-ups. ***PA's*** situation has improved substantially since the last assessment, with four private equity/venture capital funds having started operations during the last few years focusing mainly on SMEs. In ***Lebanon***, equity financing is growing, but is still constrained by the lack of exit strategies due to weak capital markets. Two positive developments are the establishment of the capital market authority, and the recent announcement by the central bank of Lebanon that it would make available up to USD 400 million (EUR 288 million) over the next seven years for equity investments in start-ups. The central bank would guarantee 75% of equity investments made by banks in start-ups, accelerators/incubators or venture capital funds.

The development of risk capital activity is influenced by the existence of capital markets, including "small caps", which allow investors to "exit" companies through an initial public offering. In general, capital markets in MED economies have diverse levels of development. While capital stock in ***Algeria*** does not exceed 1% of GDP, the stock ratio exceeds 60% in ***Morocco*** and 75% in ***Israel***. In ***Jordan***, it reached more than 100% in 2012. However, despite high market capitalisation in these economies, capital markets do not seem to provide a significant complement to bank finance for SMEs (Rocha et al., 2011).

Stock exchanges are in place in all MED economies and most of the countries have a market reserved for companies with lower capitalisation. For example, PA witnessed a significant improvement with respect to the 2008 assessment as new regulations in 2013 distinguish between a main market and a secondary market with lower capitalisation. However, SME financing through capital markets is still very limited as the requirements are too restrictive. ***Egypt*** (NILEX) has developed a stock market for small companies but a very limited number of SMEs are listed, as the minimum requirement for entry is still relatively high. The same stringency applies in ***PA***, where the minimum capital requirement for entry is USD 500 000 (EUR 360 126) and companies have to have at least 50 shareholders. Similarly, in ***Morocco***, different sub-categories of the Casablanca Stock Exchange were created to allow firms with lower capital to enter, but the vast majority of SMEs still do not satisfy entry criteria. In ***Tunisia***, while there is no minimum capital requirement for entry to the alternative market, the company must be held by at least 100 shareholders. In ***Israel***, only

high-tech SMEs benefit from more flexible and separate terms, mostly enabling them to offer shares to the public under particularly lenient terms.

Legal and regulatory framework for external financing

Public policies for improving the legal and regulatory environment can help stimulate bank lending in general and lending to SMEs in particular. Developing adequate information systems, such as business registration systems, credit bureaus and collateral registries, would help to bridge the gap related to the lack of credit information on SMEs. Moreover, the legal environment clearly affects the ability of banks to recover collateral. In this respect, rules which ensure the enforcement of creditor and property rights and adequate bankruptcy laws are the cornerstones of a legal system that facilitates lending to SMEs. Within the MED economies, the overall legal and regulatory framework has improved with respect to the 2008 assessment. Nonetheless, many policy areas remain where progress is needed.

Credit information systems contain data on the credit status of borrowers who are active in a financial system. They help to overcome information asymmetries and to facilitate the pledging of property as collateral by SME owners. Such registries should cover all available credit information. Public credit bureaus are usually managed by the central bank, mainly for supervisory purposes, while private credit bureaus are often established by financial institutions.

Supported by the International Financial Institutions (IFIs), the coverage of credit information systems in the MED region and the quality of their information has improved substantially since the last assessment in 2008. Besides ***Israel***, which had a fully functioning private credit bureau in 2008, there has been remarkable progress in ***Algeria, Egypt, Lebanon, Morocco and PA***. In particular, the new ***Moroccan*** credit bureau, which started operating in 2009, is an interesting hybrid model based on a contractual concession. It is actually regulated by the central bank but owned and managed by a private firm selected through an open tender (Rocha et al., 2011). ***Egypt*** has both private and public credit bureaus, which is useful as they

Table 6.4. **Results for sub-dimension 6.2: Legal and regulatory framework for external financing**

Scores for individual indicators

		ALG	EGY	ISR	JOR	LEB	MOR	PA	TUN
6.2.1. Cadastre	2013	3.5	3	5	4.5	3.5	4.5	3	4
	Change since 2008	+0.5	0	0	+0.5	+0.5	+0.5	+1	0
6.2.2. Credit information services	2013	4	5	5.0	3	5	5	4.5	5
	Change since 2008	+2	+1.5	0	+0.5	+2	+2.5	+2.5	+1.5
6.2.3. Registration system for moveable assets	2013	3	2.5	5	3	2	2.5	2	3
	Change since 2008	+2	-0.5	0	+2	+0.5	+1.5	0	+2
6.2.4. Collateral and provisioning requirements	2013	2.5	2	5	2	2.5	3	2	2
	Change since 2008	+1.5	0	+1	0	-0.5	+1	+0.5	0
6.2.5. Creditors' rights	2013	1	1	4	2	2	1	2	1
Overall weighted average		**2.6**	**2.5**	**4.8**	**2.8**	**2.9**	**3.0**	**2.6**	**2.7**

Source: Government and independent assessments.

play complementary roles in supporting the credit industry. However, only the private bureau provides all the required information to firms and individuals. Significant progress has also been made in ***Algeria*** where, since 2012, borrowers have had the right to access their data from the Public Credit Information Bureau (*Central des risques)* and the minimum threshold for loans to be included in the database was eliminated. The same reform was enacted in ***Tunisia*** in 2009 and in ***PA*** in 2013, legally guaranteeing that individuals and firms can access their credit data. ***Jordan*** has established a public credit information bureau, but the information is not widely available and firms and individuals cannot access their data under the law. A private credit bureau, the Credit Bureau Corporation, is currently in the process of registration and is expected to open in 2014. However, with the exception of Israel, the coverage of credit bureaus in the MED economies, either public or private, remains limited, particularly in ***Algeria, Jordan and PA*** (see Table 6.5).

Table 6.5. **Coverage of public and private credit bureaus in MED economies**

	ALG	EGY	ISR	JOR	LEB	MOR	PA	TUN	MENA	OECD
% coverage public bureau	2.4	5.3	---	2.0	19.2	---	8.8	28.8	8.3	15.2
% coverage private bureau	---	19.6	100.0	---	---	19.6	---	---	9.9	66.7

Source: IFC-World Bank (2013), Doing Business website, www.doingbusiness.org, accessed 11 November 2013.

Well-functioning and accurate cadastre registries help to map, prove and secure property, and allow the use of rights to fixed assets (land-use rights). Importantly, this helps firms and entrepreneurs to access finance by offering collateral for loans. Property and land registration has improved slightly in recent years. For example, in ***PA***, a cadastre system is in place and a land law was passed in 2010. However, the system is constrained by many factors on the ground. Most importantly, nearly 64% of all land area of the West Bank is under Israeli jurisdiction, which creates significant obstacles to the use of land rights for collateral purposes. ***Algeria*** has also made some progress with regard to property registration, but there is still a non-negligible fraction of the territories that are not yet registered. The registration system is also not yet fully operational in ***Egypt*** and ***Lebanon***. ***Israel*** has a fully functioning cadastre with information easily accessible and available online.

Fixed property is not the only form of assets for firms and entrepreneurs. Machinery, vehicles, equipment and merchandise in many cases constitute the majority of assets at the disposal of a company or entrepreneur (according to the World Bank, in the developing world 78% of the capital stock of a business enterprise is movable and only 22% immovable property). Furthermore, for many innovative firms the main form of property may not be fixed or even physical, but rather of an intangible nature, such as intellectual property, brands and trademarks, and patents. However, financial institutions are typically reluctant to accept movable and intangible property as collateral and heavily prefer land and real estate. According to previous research by the World Bank, the availability of collateral is frequently not the source of the problem, but the ability to bring valuable assets into productive use (World Bank, 2010). This is clearly an issue in the MENA region, where there is a lack of reliable (legal) frameworks for financial institutions to accept more movable property as collateral. Having a central and unified registry for movable assets is an important step in facilitating the use of assets other than real estate for collateral.

There have been some improvements in collateral registries for movable assets in the region. The most important ones were in ***Algeria, Jordan and Tunisia***, where registries of moveable assets are now in place, while they were non-existent in 2008. However, they are

not yet fully operational and information is not easily accessible or fully reliable. In most of the remaining economies, the few improvements underway remain at the drafting stage of legislation to establish a registration system. ***Egypt*** has already prepared a draft law for establishing a registration system, but it still needs to be approved by parliament. ***Israel*** stands out with a fully functioning system for registration with information available online.

A well-functioning registration system for immovable and movable assets has a positive impact on the availability of collateral and eases credit restrictions since creditor protection is improved. Nevertheless, the improvements in the registration systems mentioned earlier did not yet translate into lower collateral requirements, which remain high in the region, ranging from 150% to 200% of loan amounts. High collateral requirements are therefore one of the main obstacles SMEs and entrepreneurs face in the region when seeking loans. Nevertheless, some slight improvements are evident in some countries. In ***Morocco***, for example, more flexible collateral requirements for smaller loans were introduced, in line with the standard approach of Basel II for credit risk. ***Israeli*** banks implemented Basel II rules in 2009. The country has a flexible definition of collateral and a central registry covering most bank loans.

Creditor rights refer to the legal provisions in place which preserve the creditors' ability to enforce claims against debtors, and it has been shown that the existence of these legal provisions is associated with higher ratios of private sector credit to GDP (Djankov et al., 2007). Appropriate legal provisions would establish procedures to settle creditors' claims and would govern the enforcement of rights held by different classes of creditors. Providing adequate enforcement mechanisms is likely to be beneficial in particular for bank lending to SMEs, as a legal environment would facilitate debt collection by creditors. However, an appropriate legal framework with enforcement of creditors' rights remains a challenge across the MED region. Table 6.6 provides information on lender rights, according to *Doing Business*. Except for ***Israel***, the legal frameworks on secured transactions in MED economies offer poor protection of creditors' rights as, for example, creditors are not paid first following liquidation of a business or outside an insolvency procedure. Furthermore, even when these rights are present on paper, implementation does not guarantee effective collateral recovery in case of default.

Table 6.6. **Creditor rights in MED economies**

	ALG	EGY	JOR	ISR	LEB	MOR	PA	TUN
1 – Are secured creditors able to seize their collateral after reorganisation, i.e. is there no "automatic stay"?	No	No	**Yes**	**Yes**	**Yes**	No	**Yes**	No
2 – Are secured creditors paid first (i.e. before general tax claims and employee claims) when a debtor defaults outside an insolvency procedure?	No	No	No	**Yes**	No	No	No	No
3 – Are secured creditors paid first (i.e. before general tax claims and employee claims) when a business is liquidated?	No	No	No	**Yes**	No	No	No	No
4 – Does the law allow parties to agree in a collateral agreement that the lender may enforce its security right out of court, at the time a security interest is created?	No	No	No	No	No	No	No	No
Score	*1*	*1*	*2*	*4*	*2*	*1*	*2*	*1*

Source: IFC-World Bank (2013), Doing Business website, www.doingbusiness.org, accessed 11 November 2013.

Financial literacy

This assessment has introduced financial literacy as a factor to evaluate. That is, whether national strategies include any consideration of the level of financial literacy and promote educational programmes to improve it. This can impact the supply of and demand for finance. SMEs need to be aware of the range of financial products available on the market and have adequate levels of skills and transparency to be considered creditworthy. There is no comprehensive survey-based evidence available in the region, and thus it is rather difficult to make any quantitative comparison of where each economy stands in terms of financial literacy. According to the qualitative answers provided in the assessment, financial literacy remains low in most of the MED economies.

Table 6.7. **Results for sub-dimension 6.3: Financial literacy**

Scores for individual indicators

	ALG	EGY	ISR	JOR	LEB	MOR	PA	TUN
6.3.1. Financial literacy	1	3	3.5	1.5	2	3	1.5	1.5

Source: Government and independent assessments.

On the policy level, there are few national strategies encompassing a methodology to assess existing financial literacy levels and almost no initiatives to promote financial education programmes. In 2008, the OECD established an International Network on Financial Education (INFE), gathering more than 240 public institutions from 107 countries, with the aim of providing a unique policy forum for governments to exchange views and experiences on financial education. According to the OECD/INFE, ***Israel, Lebanon and Morocco*** are at an advanced state of design of a national strategy for financial education (OECD, 2013).[1]

The assessment confirms these findings and reports that the ***Israeli***, ***Egyptian, Lebanese and Moroccan*** governments have recently shown increasing awareness regarding the need to improve financial literacy rates. Morocco created a foundation in 2013 that will be in charge of implementing a newly validated national strategy for improving financial literacy over the period between 2013 and 2015. One of the axes of this strategy is to develop awareness-building programmes adapted to different segments of the population. Egypt recently became a member of INFE and a national committee formed under the auspices of the Egyptian Banking Institute (EBI). The Central Bank of Egypt is currently drafting a national strategy for financial inclusion and financial literacy. Some efforts were undertaken in Jordan, where the promotion of financial literacy is stated as one of the central policy priorities under the Jordanian National Policy Framework for Microfinance. In Israel, financial literacy is relatively higher than in other MED economies and initiatives are at a more developed stage. A government decision in 2011, entitled increasing financial education in Israel, created an action plan for increasing financial literacy among citizens.

The way forward

Despite the global financial crisis, there has been some progress regarding external sources of finance in the region. However, progress was not shared by all the countries, as ***Egypt, Tunisia*** and to a lesser degree, ***Jordan***, only recorded incremental changes, using the same set of indicators as in 2008. Bank credit continues to be the main source Euro-Mediterranean Development Centre for Enterprises (EMCD of external finance for

SMEs in all the MED economies. Institutions and mechanisms such as credit guarantee schemes, microfinance institutions, and leasing companies are established in most MED economies, but their impact on SME financing remains limited. Similarly, legal frameworks for private equity and venture capital activities as well as alternative capital markets for SMEs are in place in most MED economies, but equity provision to SMEs is marginal, as current regulations and listing requirements tend to be very stringent, while capital markets are shallow and illiquid, providing no viable exit route for investors.

The legal and regulatory environment has generally improved compared to 2008, although progress is not uniform across the region. In particular, credit information systems improved in all economies. Progress on registries for movable assets has been more modest as several economies remain at the drafting stage or have just passed laws to establish such registries.

In all economies, excluding ***Israel***, strengthening secured transaction and creditor rights remain the most important challenge. Without stronger creditor rights, supported by law enforcement and effective credit registries, collateral requirements will remain excessively high, contributing to limited credit access for SMEs.

Overall, bank competition is very low in the MED economies, as the banking sector is highly concentrated and banks have few incentives to tailor financial and lending products to SMEs' needs. Financial literacy levels among SME owners and managers are still low, reducing the ability of SMEs to deal effectively with the financial sector and explore alternative sources of financing other than the standard bank overdraft.

Therefore, the key priorities for all the MED economies that are in an intermediate level of financial sector development should be the following:

- The first priority should be to develop and strengthen legislation on secured transaction and creditor rights;
- The second priority should be to improve reliability and access to cadastres and movable asset registries, while at the same time extending the coverage of the public and private credit bureaux or establishing them where they are not yet in place.
- The third priority is to foster overall banking competition by upgrading the regulatory framework and to promote the development of alternative products to standards bank loans, such as leasing, discounting and factoring.
- Additional priorities are related to the development of alternative financial facilities, in particular, business angel networks supporting firms with high growth potential in their early development phase, seed finance for innovative enterprises and equity financing for more established SMEs.

A common priority for all MED economies should be the development of programmes to increase the level of financial literacy of entrepreneurs and the training of staff in financial institutions to overcome information asymmetries and to improve the quality of financial reporting by SMEs.

Note

1. The report covered only Israel, Lebanon and Morocco among the MED economies.

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Chapter 7

Supporting SMEs to benefit from Euro-Mediterranean networks and partnerships

SBA principle: Help SMEs to benefit more from the opportunities offered by the single market

This chapter analyses policies and initiatives to promote Euro-MED networks and partnerships. The analysis indicates that all MED economies have at least one project (in some cases pilot projects) to promote the development of business clusters and networks, although a connection to Euro-MED initiatives is missing in some cases. Priority actions include promoting intra-MED business networks and partnerships, since most initiatives are focused on co-operation with EU economies and there are few examples of "south-south" co-operation. Enterprise networks and partnerships could also be extended beyond R&D and technology-based projects; without denying the relevance of those projects, extending support for Euro-MED enterprise co-operation to other economic activities could also prove fruitful for enterprise development and job creation.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

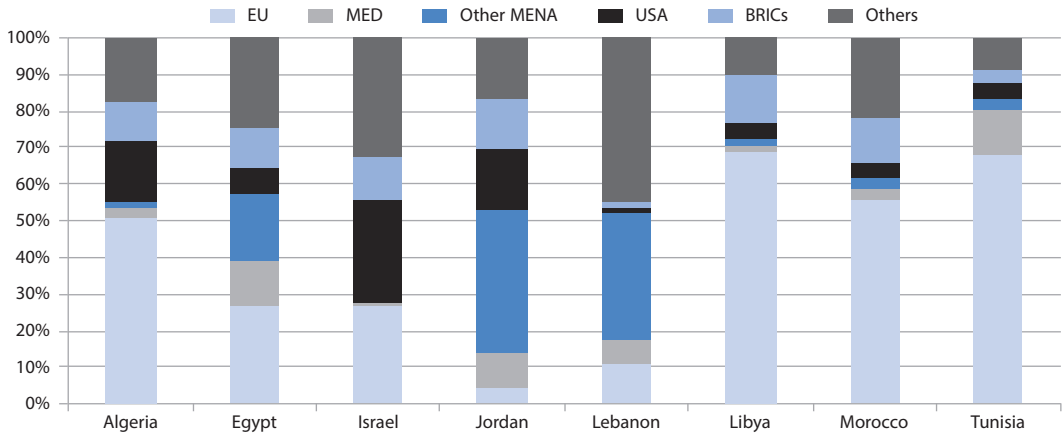
Introduction

Euro-Mediterranean co-operation to foster access to markets and economic integration is important for enterprises in MED economies to expand business opportunities, increase their growth potential and, ultimately, contribute to economic growth and more and better jobs. An important mechanism for SMEs to materialise the benefits of closer integration is the promotion of business partnerships, clusters and networks between European and MED enterprises. This chapter focuses on initiatives to strengthen Euro-MED networks and partnerships, including the provision of business support services.

With nearly 500 million people (compared to 185 million in the MED region), the EU market is one of the main trading partners for MED economies. Algeria, Libya, Morocco and Tunisia export more goods to the EU than to any other market. The EU single market is also an important destination for Egyptian and Israeli goods. Intra-MED trade, however, remains limited (see Figure 7.1).

Figure 7.1. **Exports of goods by country/region**

As a percentage of total exports, 2012



Source: IMF (2013), Direction of Trade Statistics Database, elibrary-data.imf.org/finddatareports.aspx?d=33061&e=170921, accessed 11 November 2013.

In terms of FDI, although data is scarce and scattered, it points to the relative importance of Euro-MED investment flows. For instance, according to the EU, 80% of FDI inflows to Egypt originated in EU countries during fiscal year 2011/2012. ANIMA Investment Network's statistics indicate that FDI from the EU to MED economies (including the Syrian Arab Republic and Turkey) is usually half of the total invested in the region, although it has decreased recently.[1] (ANIMA Investment Network, 2013). This highlights the need to strengthen economic links and trade, not only at the Euro-Mediterranean level but also among the MED economies. Establishing and strengthening business networks and partnerships among European and MED companies is an important means for achieving this.

Assessment framework

The results of the assessment in this chapter are comparable to the results of the 2008 assessment on "Strengthening Euro-Mediterranean networks and partnerships" (European Commission et al., 2008, pp. 77-79). Table 7.1 provides an overview of the indicators covered. Figure 7.2 shows the results of the 2013 assessment and Figure 7.3 compares the results of the 2008 and 2013 assessments.

Table 7.1. **Assessment framework dimension 7:**
Supporting SMEs to benefit from Euro-Mediterranean networks and partnerships
SBA Principle: Help SMEs to benefit more from the opportunities offered by the single market

7.1. Euro-Med inter-firm clusters and partnerships
7.2. Euro-Med networks of business support services
7.3. Linkage programmes between Euro-Med enterprises

A detailed description of these indicators is included in Annex A.

Figure 7.2. **2013 results dimension 7:**
Supporting SMEs to benefit from Euro-Mediterranean networks and partnerships
Weighted scores

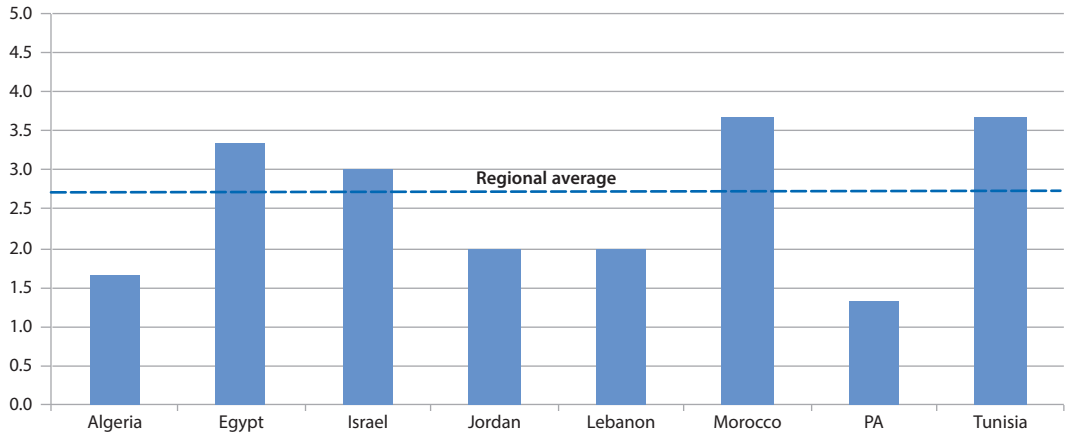
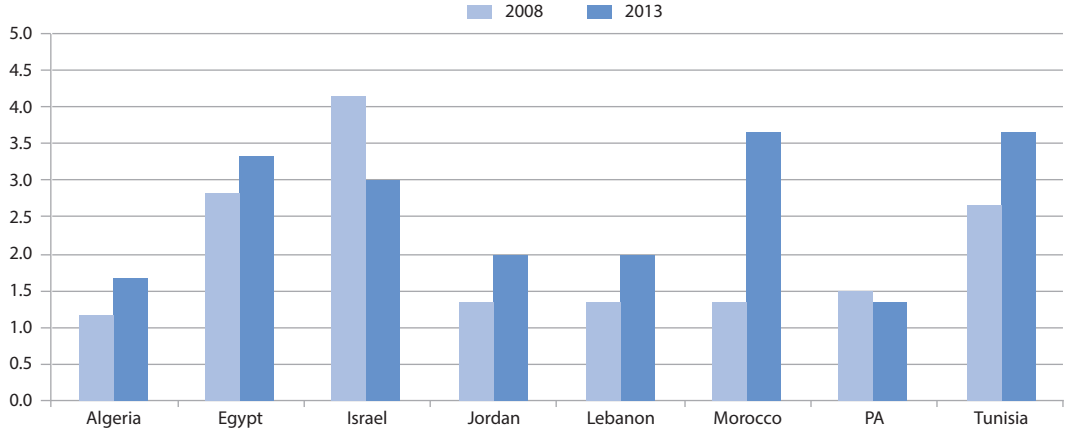


Figure 7.3 shows results comparable for both, the 2008 and 2013 assessments.

Source: Government and independent assessments.

Figure 7.3. **2008 and 2013 results dimension 7:**
Supporting SMEs to benefit from Euro-Mediterranean networks and partnerships
Weighted scores



For comparability purposes, the indicators for 2013 were rearranged to correspond to the framework in 2008.

Source: Government and independent assessments.

The assessment framework looks at the existence of initiatives for the promotion of networks and partnerships between Euro-MED businesses and between business service providers, and analyses whether they are embedded into a broader strategy for enterprise development.

Analysis

Linkages and partnerships among enterprises are initiatives to create synergies, address common problems and materialise opportunities. Firms can undertake joint actions to increase quality, achieve economies of scale and scope, create export consortia, access and provide business support services and promote technology transfers. Linkages and partnerships can be especially important for SMEs given their limited resources. When undertaken among foreign and local firms, partnerships and linkages can also enhance the positive impacts of FDI, such as increased business opportunities and employment in local enterprises.

Box 7.1. **Clusters, networks and partnerships**

Three key concepts are useful for the analysis in this chapter: clusters, networks and partnerships. Although there is no universally accepted definition of these concepts, a brief review of literature and sources allows for a general clarification.

Clusters involve a geographical concentration of enterprises and institutions in a particular field. When they have a certain level of development or competitiveness, clusters lead to the constitution of a set of suppliers of specialised products, services and skilled labour. For example, a cluster of enterprises specialised in the manufacturing of medical instruments can lead to the establishment of suppliers of special equipment, specialised consulting firms, specialised engineers and technical staff, etc. Clusters may also lead to the creation of governmental and other institutions such as universities, think tanks, training centres and standards-setting agencies.

Networks involve more formal ways of co-operation between companies and are not tied to geographical location. Networks, as defined by Ceglie and Dini (1999, p2), are *groups of firms that co-operate on a joint development project – complementing each other and specialising in order to overcome common problems, achieve collective efficiency and conquer markets beyond their individual reach*. Networks are usually characterised as vertical when they involve firms collaborating at different levels of the value chain (e.g. a group of SMEs supplying a large company). They are characterised as horizontal when enterprises co-operate in the same layer of the value chain (for instance to achieve economies of scale or undertake joint market research).

Partnerships are closely tied to the concept of networks. A partnership can be formed by two or more companies wanting to achieve a common goal and involve different degrees of complexity or sophistication. For instance, two or more companies can pool resources to participate in a trade fair in a foreign country or export goods or services to a foreign client. There is no clear cut differentiation between networks and partnerships, except perhaps the level of complexity and number of firms involved in a business relationship. Partnerships generally involve two or more companies working towards a specific goal (e.g. meeting a large order), whereas networks involve more complex levels of co-operation between a relatively large number of firms (for instance, firms in different levels of the value chain working to establish a joint research centre).

Sources: Porter, M.E. (2000), "Locations, Clusters, and Company Strategy", in G.L. Clark, M.P. Feldman and M.S. Gertler, *The Oxford Handbook of Economic Geography* (pp. 253-274). Oxford: Oxford University Press; Porter, M.E. (1998), "Clusters and the New Economics of Competition", *Harvard Business Review*, 77-90; Humphrey, J. and H. Schmitz (1995), "Principles for promoting clusters and networks of SMEs", *Paper commissioned by the Small and Medium Enterprises Branch*, Institute of Development Studies, United Nations Industrial Development Organisation, Vienna; Ceglie, G. and M. Dini (1999), *SME Cluster and Network Development in Developing Countries: The Experience of UNIDO,* United Nations Industrial Development Organisation, Vienna.

Initiatives for promoting Euro-MED networks and partnerships

The EU and MED economies count on a number of regional and bilateral initiatives and mechanisms to promote economic integration and co-operation. Such initiatives vary in scope and reach and include a number of actions to promote Euro-MED enterprise co-operation, partnerships and the provision of services for businesses. Among the main initiatives are:

- The **European Neighbourhood Policy (ENP)**, which promotes political association and economic integration between the EU and its southern and eastern neighbours, including the MED economies. The ENP is mainly a bilateral policy between the EU and each partner country, although it is complemented by regional and multilateral initiatives. The ENP is underpinned by a number of country-specific action plans, which align short and medium-term priorities between the EU and the relevant economy. The action plans include specific initiatives for the development of the private sector, including SMEs, and include proposals to promote better market access, enhance productivity and boost competitiveness.
- The ENP action plans build on **Association Agreements** with the EU. These are legal agreements that include, among other issues, provisions towards the progressive liberalisation of trade, co-operation in enterprise policy and competitiveness. The EU has Association Agreements with Algeria, Egypt, Israel, Jordan, Lebanon, Morocco and Tunisia, and an Interim Association Agreement on Trade and Co-operation with PA.
- The **Union for the Mediterranean (UfM)** was launched in 2008 as a continuation of the Euro-Mediterranean Partnership that was established in 1995. The UfM focuses on a number of priority areas, including business development, in particular relating to SMEs. For instance, a Euro-Mediterranean Development Centre for Enterprises (EMDC) has been created under the umbrella of the UfM to provide internationalisation support services for SMEs in Egypt, Jordan, Morocco and Tunisia. The EMDC provides services such as business events (trade missions, exhibitions), market research, strategy development support and other services.
- The **Enterprise Europe Network (EEN)** is an initiative bringing together business support organisations from four MED economies (Egypt, Israel, Morocco and Tunisia) and beyond. The stated mission of the EEN is to help small companies make the most of business opportunities in the EU. The EEN includes chambers of commerce and industry, technology centres, research institutes and development agencies. It provides services for SMEs in the areas of internationalisation, technology transfers, access to finance, funding research, advice on EU law and standards, intellectual property and patents.
- The **ANIMA Investment Network** aims to facilitate the development of investments, business partnerships and clusters in the Mediterranean rim to promote innovation, entrepreneurship and the internationalisation of enterprises. ANIMA leads the MedAlliance consortium, which manages the **Invest in MED Project** that promotes networking initiatives, such as business to business events, matchmaking of business representative organisations and conferences.[2]
- A **work programme on Euro-Mediterranean industrial co-operation for the period 2013-15**, announced in June 2013, which aims to improve the business climate by inviting MED economies to adhere to the *Small Business Act for Europe*; encourage MED economies to participate in EU SME support networks like

the Enterprise Europe Network and, in the future, the EU COSME programme; organise annual conferences, especially in areas such as textiles, clothing and creative industries – sectors which are fundamental to the MED region; and prepare and negotiate Agreements on Conformity Assessment and Acceptance (ACAA) for industrial products, and co-operate in areas such as standardisation and the elimination of non-tariff barriers. Parts of this programme will benefit from EU financial support (EUR 12 million) including an element to develop quality Euro-MED networks providing adequate support and linkage services in sectors of common interest.

These and other initiatives for the promotion of enterprise networks and partnerships are usually driven at the EU level in co-operation with MED economies at the individual and regional level. Intra-MED efforts in this area remain very limited with only a handful of initiatives available, including the Network of Maghreb Enterprises for the Environment (REME) and the Union of Mediterranean Confederations of Enterprises (BusinessMED).

Promoting Euro-MED clusters, networks and partnerships

Overall, since 2008 there has been modest progress in terms of the promotion of Euro-MED enterprise networks and partnerships (see Figure 7.3). 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 some cases. The 2008 report noted that Israel, Egypt and Tunisia offered relevant examples of how Euro-Mediterranean business co-operation can be encouraged in a strategic and sustainable manner. The report also noted that Jordan, Morocco, Lebanon and PA had an *ad hoc* (i.e. non-strategic) approach in this area. The current assessment reveals a similar situation, with only Morocco registering significant progress (see Table 7.2).

Table 7.2. **Results for dimension 7: Supporting SMEs to benefit from Euro-Mediterranean networks and partnerships**

Scores for individual indicators

Indicators		AL	EG	IS	JO	LE	MO	PA	TU
7.1. Euro-MED inter-firm clusters and partnerships	2013	2	2	2	2	2	4	2	3
	Change since 2008	+1	0	-2.5	+0.5	+1	+3	+0.5	0
7.2. Euro-MED networks of business support services	2013	2	4	3	2	2	4	1	4
	Change since 2008	0.5	0.5	-1	+1	+1	+2	-0.5	+2
7.3. Linkage programmes between Euro-MED enterprises	2013	1	4	4	2	2	3	1	4
	Change since 2008	0	+1	0	0.5	0	+2	-0.5	+1
Weighted average		***1.7***	***3.3***	***3.0***	***2.0***	***2.0***	***3.7***	***1.3***	***3.7***

Source: Government and independent assessments.

The Ministry of Industry, Commerce and New Technologies of ***Morocco*** (MICNT) is leading national efforts to promote the emergence and development of industrial and technological clusters with innovative potential under the Morocco Innovation Initiative. One of the main actions is to stimulate the development of collaborative projects for innovation in clusters on ITC, microelectronics, mechatronics, etc. (see Box 7.2). In 2012,

the MICNT also signed a memorandum of understanding with European institutions for the promotion of clusters.[3] The MoU aims at sharing information, tools and experiences on the management of "clusters of excellence", innovation management between Moroccan and European institutions linked to clusters and promoting the internationalisation SMEs between European and Moroccan clusters. A pilot project is being tested under the auspices of the MoU, although results are not yet available.

Tunisia has established a system of technopoles or industrial parks to foster the development of specific industries and economic activities such as textiles, biotechnology,

Box 7.2. **Good practice: The Moroccan Innovation Initiative**

The Moroccan Innovation Initiative aims at building an ecosystem for innovative companies, enterprise projects, universities, venture capital and technological development centres. Its objectives are to promote a higher-added-value economy, attract investment and establish the foundations for an innovative economy. One of the main actions is to stimulate the development of collaborative projects for innovation in clusters on ITC, microelectronics and mechatronics, among others.

The initiative aims at consolidating the innovation promotion efforts of the Ministry of Industry, Commerce and New Technologies and the Ministry of Higher Education. It is led by the Moroccan Innovation Centre, which serves as a one-stop shop in charge of the co-ordination, management and distribution of financial tools for the support of innovative projects. A National Innovation Committee, involving public and private actors, evaluates the progress of the initiative, provides recommendations for adjustment when necessary, and serves as an arbitrator in case of disagreements among actors.

The initiative supports innovative enterprises and projects at different stages of development, including:

- Start-ups with less than two years of operations. A programme called *Intilak* finances up to 90% of the costs of an innovative project, including the commercialisation of R&D.
- Individual enterprises and networks and clusters of enterprises in operations for more than two years. The *Tatwir* programme finances up to 50% of the costs of innovative projects.
- Consortia (networks) and groups (clusters) of enterprises. The programme provides financial support of up to 75% of the costs of a project.

Priority clusters include advanced materials, biotechnology, microelectronics, ICT, sustainable development (environmentally), energy, water and fisheries, and agriculture.

Apart from grants, the initiative also supports the development of venture capital, in particular through guarantee funds, the creation of a public-private venture capital fund and the development of a tool to rate technological projects.

The activities under this initiative, together with increased co-operation with the EU to share information, tools and experiences on cluster development, provide fertile ground for the promotion of innovative enterprises in Morocco.

Sources: European Commission (2012), *Mémorandum d'Entente entre la Fondation Clusters et Compétitivité (FCC), l'Académie Europenne du Management de l'Innovation-IMP3rove (IEIMA), la Plateforme Européenne de Collaboration entre Clusters (ECCP), EuroMed@Change et le Ministère de l'Industrie, du commerce et des Nouvelles technologies (MINCT) du Royaume du Maroc*, http://ec.europa.eu/enterprise/initiatives/mission-growth/missions-for-growth/files/africa/morocco-clusters-tajani-2012_fr.pdf, accessed 6 June 2014; Moroccan Ministry of Industry, Commerce and New Technologies (2013), Initiative Maroc Innovation website, www.mcinet.gov.ma/TechnologiesAvancees/PromotionInnovation/Pages/Initiative%20Maroc%20Innovation.aspx, accessed 6 June 2014; and Moroccan Center for Innovation website (2014), www.cmi.net.ma/Accueil.html, accessed 6 June 2014.

renewable energy and agribusiness. Although the technopoles do not have a specific Euro-MED orientation, the signature of a co-operation agreement between the Agency of Industrial Promotion and Innovation (API) and European institutions (along the lines of the Moroccan agreement cited above) could help to foster Euro-MED partnerships.

In ***Israel*** the emphasis is on the promotion of co-operative projects and partnerships oriented towards research and development (R&D). The Agency for Industrial R&D Co-operation (MATIMOP) provides funds for Israeli companies participating in international collaborative R&D programmes and supports them in finding foreign partners for collaboration (e.g. for developing a product, application or technology). It also helps foreign companies to identify suitable partners in Israel for undertaking joint R&D projects. MATIMOP co-operates with the Enterprise Europe Network to promote partnerships in Europe. It also promotes collaboration with companies in the Americas and the Asia Pacific region. Support, however, is not specifically targeted towards the promotion of clusters or networks, and has no explicit Euro-MED orientation.

Egypt has a number of initiatives to promote partnerships between Egyptian and EU enterprises, notably joint business associations with France, Germany, Italy and the United Kingdom.[4] The aim of these initiatives is to foster industrial investments, technology transfers and the development of human resources, among other actions. The Federation of Egyptian Chambers of Commerce has also recently announced the launch of a number of EU-funded projects gathering 76 partners from chambers of commerce in Spain, France, Italy, Greece and Portugal to exchange experience and develop partnerships in the food industry, tourism, textiles, solar energy and environment.

Apart from participating in the Invest in MED project, 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 Euro-MED connection.

Furthermore, programmes to foster Euro-MED networks and partnerships tend to focus on the promotion of innovation, technology transfers and R&D. While this is certainly relevant, MED economies could also promote the development of clusters and Euro-MED networks and partnerships in other areas encompassing access to markets, industrial upgrading, enhancing quality, etc.

Many initiatives also tend to remain at a broad level, for instance, promoting co-operation among chambers of commerce or business associations; or they are organised on an *ad hoc* basis like the Missions for Growth led by the European Commission and the commercial missions led by individual EU Member States to some MED economies. There are only a handful of initiatives directly promoting inter-enterprise partnerships and co-operation. Further, there is only one initiative that fosters multinational enterprise-SME linkages: Egypt's national suppliers' development programme.

Fostering Euro-MED networks of business support services

Euro-MED networks of business support services refers to the availability of international (namely Euro-MED) associations providing services to enterprises in MED economies, especially in areas relevant for SME internationalisation, such as, market information, information on quality and safety standards, and patents and intellectual property. The Enterprise Europe Network (EEN) and the Euro-Mediterranean Development Centre for Enterprises (EMDC) are examples of such networks.

Egypt participates in both the EEN (through the Egyptian-European Competitiveness Network) and in the EMCD. Egypt also relies on a network of Technology Transfer and Innovation Centres (ETTICs), which aims at establishing Euro-MED networks of business support services to upgrade the technological level and innovation activities of Egyptian industries and link Egyptian enterprises to technological and information institutes at the national and international levels. The ETTICs serve various economic activities including marble and quarries, plastics, textiles and clothing, fashion, design, and food, among others. The ETTICs have partnerships with British, Danish, German, Italian and Spanish technological associations.

Morocco and Tunisia also participate in a number of Euro-MED networks of business support services, including the EEN, the EMDC and intra-MED initiatives such as the Network of Maghreb Enterprises for the Environment (which focuses on compliance with EU environmental norms and regulations) and BusinessMED.

Apart from Egypt, Israel, Morocco and Tunisia, MED economies do not participate in the EEN, although they are involved, to varying degrees, in other Euro-MED initiatives such as BusinessMED, REME and the EMCD. ***PA*** is the only economy with no participation in Euro-MED networks of business support services.

The way forward

As in 2008, the results of the assessment of measures for promoting Euro-MED networks and partnerships are mixed, with some economies registering significantly higher performance than others. Progress since 2008 has been modest, except in the case of Morocco and Tunisia, which have introduced relevant initiatives to promote Euro-MED enterprise co-operation. It is important, however, to monitor and evaluate the sustainability and effectiveness of those measures.

Israel's scores decreased with respect to 2008 not because of policy reversals but because of a stricter revision of the information concerning the indicators in this dimension, in particular concerning the Euro-MED focus of initiatives. Israel does have a number of relevant initiatives to promote enterprise linkages and partnerships, but they are targeted at international markets in general, and not the Euro-MED context in particular.

The overall assessment also 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. This suggests that there is significant scope for further "south-south" co-operation in these areas.

There is also a significant focus on the promotion of R&D and technology-based enterprises, with a limited focus in 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.

Finally, the information on measures 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 areas, should therefore be strengthened.

Notes

1. In 2012 the *announced* FDI from the EU to the MED region (equivalent to USD 10 billion) was down to 26% of the total invested in the region. For the first time, this was below the share of other countries, including BRICs.
2. The MedAlliance consortium includes ASCAME, BUSINESSMED, EUROCHAMBRES (networks), Euroméditerranée, GTZ and UNIDO.
3. The European institutions are the European Cluster Excellence Initiative (ECEI); the IMP^{3}rove-European Innovation Management Academy (IEIMA) and the European Cluster Collaboration Platform (ECCP). The text is accessible at http://ec.europa.eu/enterprise/initiatives/mission-growth/missions-for-growth/files/africa/morocco-clusters-tajani-2012_fr.pdf.
4. These are the Club d'Affaires Franco Egyptien (CAFE), the Egyptian Italian Business Council, the British Egyptian Business Association (BEBA), and the German Arab Chamber of Commerce.

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Chapter 8

Enterprise skills and innovation

SBA principle: Promote the upgrading of skills and all forms of innovation

This chapter assesses policy areas providing a framework to develop enterprise skills and support innovation in SMEs. The first sub-dimension assesses policies and practices regarding the development of human capital and their impact on SMEs. Aspects considered are the availability of training, its relevance to SME needs, the quality of the training provided and how well it is targeted at both new and growing enterprises. The second evaluates policies that support innovation and technology transfers, such as the development of a strategic approach to innovation policy, the establishment of innovation and technology centres and the development of a broad range of technical and financial support services.

In terms of enterprise skills, almost all MED economies have achieved incremental progress since the 2008 assessment. They offer various training programmes that support SME skills enhancement and have allocated funds from their annual budgets in addition to donors' support to finance training for enterprise growth. Significant efforts have also been made to improve the innovation policy framework in the MED economies; however more work is needed to build complete frameworks to support innovation in SMEs and establish coordination mechanisms to increase the effectiveness of those measures.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Skills development and innovation are key areas for improving SME competitiveness. Enterprise skills comprise business skills (e.g. marketing and finance), entrepreneurship as a key competence (e.g. creativity, innovation, risk management – analysed in Chapter 1) and vocational skills (e.g. professional skills for specific sectors) (ETF, 2014). Innovation, in turn, relates to the implementation of new or significantly improved products (goods or services), production processes, marketing or organisational methods in business practices (e.g. workplace organisation or external relations). This definition encompasses a broad spectrum of innovative activities that go beyond technological innovation (OECD, 2005).

At the aggregate level, innovation is a key driver of economic growth. Empirical studies on the determinants and impact of innovation have found that smaller firms generally have a lower propensity to innovate than larger ones. As such, innovation practices in SMEs may be less developed than in larger firms and therefore may benefit from supportive public policies and institutions adapted to their needs. Policy makers can assist SMEs in strengthening their innovative capacities through measures such as developing innovation support services, strengthening links between research centres and SMEs, and facilitating the development of clusters, networks and business linkages.

Skills development for SMEs can benefit from fostering a policy focus on the training needs of start-ups, early phase and growing enterprises so that small businesses are better able to contribute, in a sustainable way, to economic growth and competitiveness.

Assessment framework

This dimension is divided into two sub-dimensions: enterprise skills and the policy framework for SME innovation (see Table 8.1). Some of the indicators in each sub-dimension were assessed in 2008 and therefore there is partial comparability with the current assessment.

Taken as a whole the assessment framework for enterprise skills presents a barometer on the steps each MED economy is taking to address the human capital concerns of SMEs. In addition to the five indicators used in the 2008 assessment (availability of training, start-ups, enterprise training, enterprise growth and access to international markets), in the 2013 assessment three additional indicators were added to the framework: training-needs analysis (TNA), quality assurance and skills for sustainable enterprise development.

In the first instance, the assessment captures the extent of analysis of the needs of SMEs for training to allow for more informed policy making. Secondly, it allows for an overview of systemic reforms to the education and training sectors needed to guarantee relevance to market demand and quality assurance necessary for building a skilled workforce. The assessment also focuses on training for growing enterprises including the creation of conditions enabling SMEs to operate internationally. Attention to the level of policy development in environmental compliance in enterprise policy developments underscores its necessity for long-term economic sustainability.

In terms of the policy framework for SME innovation, the assessment looks at the extent to which an institutional and policy framework is in place to design, co-ordinate and implement innovation-related policy support measures. It also examines the implementation of a range of non-financial measures to support innovation and analyses financial support mechanisms. In comparison with the 2008 assessment framework, the 2013 evaluation's focus shifted from general innovation policy to more SME-specific policies and measures.

The new indicators introduced aim at providing a more comprehensive picture of the policy instruments adopted to support innovative SMEs, including linkages with universities and research centres and financial support schemes.

Table 8.1. **Assessment framework dimension 8: Enterprise skills and innovation**
SBA Principle: Promote the upgrading of skills and all forms of innovation

Sub-dimension 8.1: Enterprise skills	Sub-dimension 8.2: Policy framework for SME innovation
8.1.1. Training needs analysis (TNA)	8.2.1. Delegation of competencies and tasks
8.1.2. Availability of training	8.2.2. Strategic approach to innovation policy for SMEs
8.1.3. Start-up training	8.2.3. Budget provision for SME innovation
8.1.4. Enterprise training	8.2.4. Establishment of innovation and technology centres
8.1.5. Enterprise growth	8.2.5. Information on innovation support services
8.1.6. Access to international markets	8.2.6. Financial support services
8.1.7. Quality Assurance	8.2.7. Tools used to support co-operation between SMEs research institutes/universities
8.1.8. Skills for sustainable enterprise development (SSED)	8.2.8. Public R&D grants
	8.2.9. Incubators (serving innovative start-ups which are linked to technology content)
	8.2.10. Science Parks/competitive clusters and facilities to promote networking among companies

A detailed description of these indicators is included in Annex A.

Analysis

Enterprise skills

In terms of enterprise skills development, the assessment highlights some general improvements since 2008 in the policy enabling environment as well as a number of common challenges which need to be addressed to enable a better-performing business sector. The main issues to have emerged are the following:

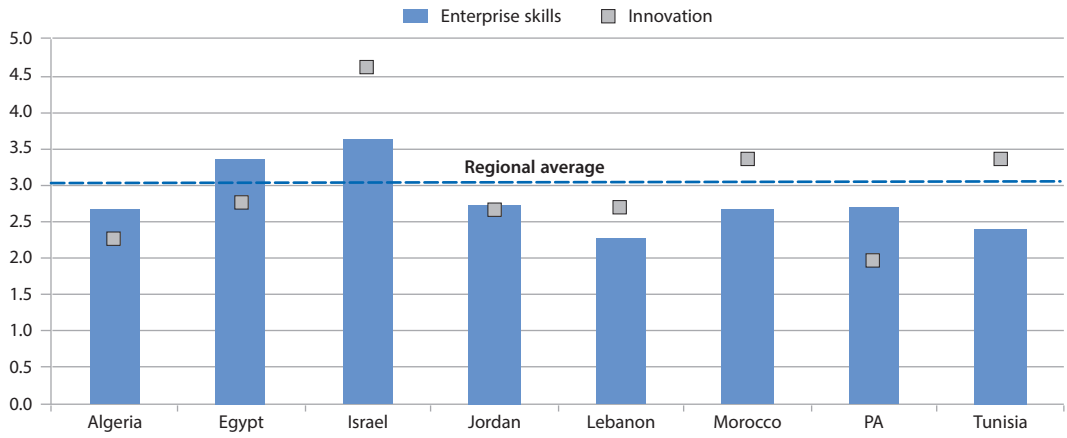
- Improvements in policy co-ordination though more focused effort are still required between government bodies responsible for education, training and the economy;
- Coordination mechanisms are needed to ensure systematic and comprehensive overviews of the training needs of SMEs;
- There is an inadequate response from the education and training community to the interests and demands of SMEs;
- Increased efforts are needed to develop quality assurance for training;
- Increased focus should be placed on promoting skills within SMEs with exporting potential;
- Policy attention to skills for sustainable economic development, although in its infancy, is a growing concern;
- There is some stagnation in training provision in countries which have experienced political transition.

Training needs analysis

This new indicator emphasises the importance of systematic intelligence on the workforce to allow governments in collaboration with businesses to establish the necessary policies, support structures and training to reinforce the human capital of SMEs. Moreover, public and private investment in training is more cost effective when the training offer reflects the specific demands of the market.

Figure 8.1. **2013 results dimension 8.1: Enterprise skills and innovation**

Weighted scores



Figures 8.2 and 8.3 show results comparable for both, the 2008 and 2013 assessments.

Source: Government and independent assessments.

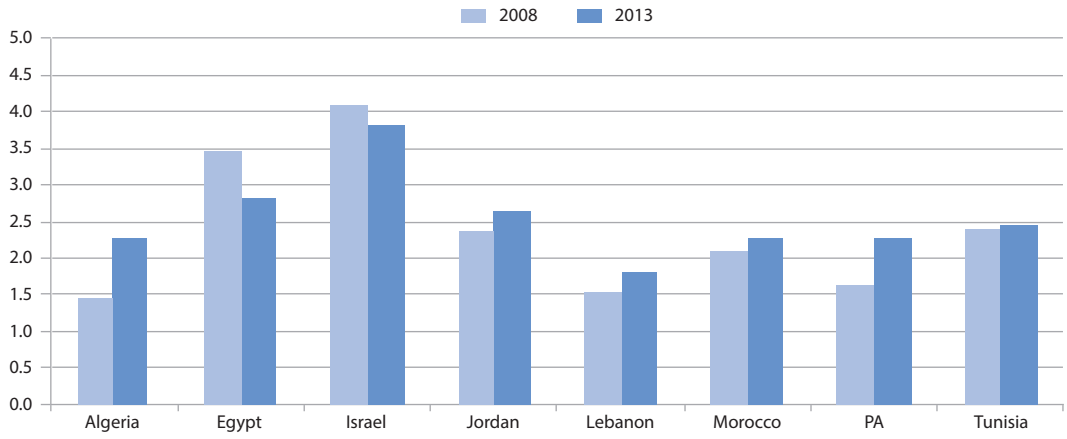
In most countries, training needs analysis is only occurring on an *ad hoc* basis, hence the most common result of a level 2 or lower. The assessment did highlight some interesting initiatives, which are primarily employer driven, where the engagement of small enterprises in the intelligence build-up can ensure a targeted response to training provision. In ***PA*** a sector-specific training-needs analysis was performed with the support of the United Nations Industrial Development Organisation (UNIDO) for the stone and marble sector. In ***Morocco***, the Inter-Professional Associations of Aid for Consultancy (GIAC) collect enterprise data based on which they produce strategic studies for developing human resources. This is especially the case for the textile and clothing and automobile sectors. Finally, an agreement on a Vocational and Educational Training strategy in Egypt includes provisions for harmonised labour market intelligence.

All MED economies will need to give further attention to developing intelligence on skills primarily targeting the key sectors of the economy. Vocational and management skills will need to be addressed including the impact of technology on the workforce in specific sectors as well as technical skills required for standards compliance when exporting. The identification of a lead body (public or private) which could undertake a mapping of existing initiatives followed by consultations with key stakeholders could be the first step in agreeing on a national framework. This does not mean that the actual training-needs analysis should be conducted by one organisation. Rather, sectoral organisations can be trained on implementation methodology in order to have the various sector-specific results fed into comprehensive national training needs analyses. These national training-needs analysis frameworks would serve as one of the key inputs when developing or

updating national small business strategies. Such analyses may also form a vital pillar in the securing of public and/or private funding at sector-specific or a national level.

Figure 8.2. **2008 and 2013 results sub-dimension 8.1: Enterprise skills**

Weighted scores



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

Source: Government and independent assessments.

Availability of training

The rationale of this indicator is to consider the extent of training services available with particular reference to key economic sectors which are identified in national development strategies (where available).

All MED economies demonstrated an availability of training provision for small enterprises, primarily within public vocational training systems but with some limited private sector training support. Funds are available in most economies and various training programmes are provided for small enterprises with an encouraging trend toward expanding their availability beyond the main cities. Reliable data on the extent to which small businesses have ready access to the training provision on offer are not available. Moving from training availability for SMEs to actual access to training is therefore the challenge for the future.

Israel has a recognised national platform that co-ordinates training options for small enterprises. The Israeli Small and Medium Business Agency (SMBA) is engaged in establishing and supporting the operation of small business development centres (MATI centres in Hebrew) in several Israeli cities. MATI centres act as one-stop shops for business owners or entrepreneurs, by offering a package of offline and online services.

The ***Jordan*** Enterprise Development Corporation's project, funded by the European Union (the Support to Enterprise and Export Development Programme (JUMP II), and Jordan Services Modernisation Programme), supports small enterprises in both the manufacturing and services sectors, giving priority to enterprises located in governorates outside the capital Amman.

Not only is the procedure for acquiring funding for training often complicated, but SMEs also face difficulties in identifying and formulating their needs to begin with. Small

businesses could benefit from the assistance of intermediary support agencies, which could help to draw up a skills development plan between the businesses and training provider. Sector organisations at both public and private level could also take a more prominent role in the definition and delivery of targeted training.

There is a need in most countries for greater focus on creating a good training-provider online network to facilitate the sharing of information. In many countries, online training does not feature at all in the training offer in spite of its potential for improving access to training and cost efficiency. Companies operating in the information and communication technology sector could seize this opportunity to partner with training providers in order to tailor solutions to local enterprises' needs.

Table 8.2. **Results for sub-dimension 8.1: Enterprise skills and innovation**

Scores for individual indicators

Indicators		AL	EG	IS	JO	LE	MO	PA	TU
8.1.1. Training needs analysis	2013	2	2	1.5	1.5	1.5	2	2	1.5
8.1.2. Availability of training	2013	3.5	4	4.5	3	2	2.5	2.5	3.5
	Change since 2008	+2.5	0	0	0	0	-0.5	0	0
8.1.3. Start-up training	2013	2	1.5	2	1.5	1.5	1.5	1.5	2
	Change since 2008	0	-0.5	-2.5	0	0	0	0	-0.5
8.1.4. Enterprise training	2013	1	1	3	1	1	1	1	1
	Change since 2008	0	-2	0	0	0	0	0	0
8.1.5. Enterprise growth	2013	3	3	4	3	1	3	3	3
	Change since 2008	+2	-1	+1	0	0	0	+2	0
8.1.6. Access to international markets	2013	2	4	5	4	3	3	3	3
	Change since 2008	0	0	0	+1	+1	+1	+1	+0.5
8.1.7. Quality Assurance	2013	2	3	2	2	3	3.5	3	2
8.1.8. Skills for sustainable enterprise development	2013	2.5	3.5	2.5	2	2	1.5	2	1
Weighted average		***2.7***	***3.3***	***3.6***	***2.7***	***2.3***	***2.7***	***2.7***	***2.4***

Source: Government and independent assessments.

Start-ups

This indicator reflects the importance of targeting training and mentoring services for start-up enterprises, which are a vital component of a progressive economy. This is a quantitative indicator to monitor the availability of start-up training and support services based on disaggregated government statistics (see Annex A).

Encouraging training and development of start-ups is an important feature in ensuring their survival and should ideally be combined with start-up capital in one support package. All MED economies have a range of training provision to support start-up training. However, little aggregated data is available. Despite the availability of so many programmes, data is spread across many organisations which results in difficulties in data collection and verification. Furthermore, data collection should be linked to comprehensive systems of training assessment that analyse demand and supply, identifying gaps which policy makers can work on.

Attention could also then be given to the interfaces between the different training providers and their responsibilities in order to ensure that the demand for start-up training is being met. In ***Israel***, the SMBA provided 2 300 training courses last year by MATI centres all over Israel for potential entrepreneurs in the "Yosmim Esek" (Initiating Business) programme; approximately 25% of these are start-ups. Other initiatives include MassChallenge Israel, which focuses on enabling top-tier Israeli start-ups to access global markets. Israeli start-ups have access to mentorship, training, networking events, free office space and cash prizes.

In ***Tunisia***, information, advice and counselling as well as further training are offered by a network of Business Centres, which exist in each of the 24 regions. Offers include: ideas generation, business plan writing, access to finance, and, most importantly, training and coaching throughout business creation and the first three years of existence. The Business Centres draw on external experts for their services, including coaches from higher education institutions. A one-stop shop for start-up firms to help them with the registration phase and other business support services they require until they reach the maturity stage might be an option to streamline various operational challenges that small firms face at this stage of development. This one-stop shop can be a new institution or embedded within the organisational structure of any organisation that supports SME development. In either case, it should serve as a hub that links entrepreneurs to all training providers, financial institutions and other service providers based on their stage of development.

It is also important to have national awareness campaigns utilising social media promoting available services for start-up support combined with a simpler process to access these services. Engaging the academic sector in these efforts will have a multiplier effect on the impact and outreach of the campaign given that many start-ups emerge from vocational and tertiary-level institutions.

Enterprise training

More developed business support for established businesses provides important leverage for a nation's economic growth and employment. Similar to the above indicator, due to the lack of data co-ordination only a vague picture of the number of enterprises implementing training development plans for their staff is available. Political will is required to change this situation and to improve technical capabilities to co-ordinate and ensure proper collection and dissemination of data. For the latter, possible options could include the introduction of annual surveys, or the upgrading of existing surveys. Recent technological advances such as social networks, as well as mobile and monitoring devices, could help this process.

Annual surveys by business associations, chambers of commerce or research companies could serve the purposes of *a)* raising awareness about available programmes; *b)* highlighting the importance of training for enterprise growth; and, *c)* providing a tool to compile needed data and share this among stakeholders. This could be implemented by a public-private partnership led by specialised training providers.

Departments of statistics have existing surveys that are distributed to all businesses for various reasons. Adapting these surveys could provide a simpler alternative to the gathering of data. This might just require the inclusion of questions or statements related to the data needed for analysing enterprise skills training, aggregated by gender, sector, location and other relevant details.

Furthermore, having monetary and non-monetary incentives for enterprises that report the uptake of training programmes can encourage enterprises to provide the necessary information. Whatever the organisational initiative and technical capacity established, to ensure success it needs to be accompanied by the appropriate political commitment and policy drive.

This issue can also be tackled by co-ordination with E-TVET (employment-technical vocational education and training) councils (where they exist) by utilising the data provided by training organisations according to the suggested quality assurance framework mentioned later in this chapter.

Enterprise growth

This indicator is intended to capture the extent to which countries are providing dedicated financial support in the form of direct training, subsidies for businesses to engage in training or voucher schemes directed at businesses with growth potential. Systematic monitoring tools to evaluate the impact of training programmes for growth enterprises are required. There is considerable variation in the financial schemes available to encourage enterprises to invest in human resources in the region. The criteria used to determine the support offered differ among countries, reflecting the national vision of what enterprise support should entail. Most countries have a systematic approach to developing human resources in enterprises backed up with financial schemes. However, the efficiency of these schemes needs to be analysed and remedial actions put in place.

Funding mechanisms have been established in ***Algeria, Morocco*** and ***Tunisia*** in which enterprises are obliged to pay a training levy which may be used to establish special funds, or to fund in-company training directly. However, SMEs face challenges to benefit from such opportunities due to cumbersome procedures. In other countries, forms of support include direct training, subsidisation of business development services, or the use of venture capital funds. Examples of sector-specific initiatives reflect the country's emphasis on priority sectors versus cross-cutting support for all sectors.

Training and support measures for growth enterprises differ from those of start-ups. The skills required can be much more knowledge-intensive, requiring human resources development focusing on skills for innovation, expansion into new markets, new products and services, internationalisation etc. National policy frameworks need to incorporate the characteristics of this target group as a strategic priority given their enhanced potential to generate growth and jobs. This would help to reduce the high mortality rate of start-ups in the region, which is due partly to the lack of appropriate support services.

Access to international markets

The need to generate sustainable employment and economic growth through exports has become a central trade policy goal in many countries. Evidence from SMEs in EU countries demonstrates the critical link between a business's international activities (importing, exporting or inter-business co-operation) and performance (employment, enterprise growth, competitiveness and sustainability) (European Commission, 2010). Moreover, exporting offers the further opportunity for networking, acquiring new knowledge and know-how, as well as identifying additional market opportunities. To take advantage of this offer a certain skills-set is required in addition to the necessary technical and sector-specific skills to meet necessary trade and environmental standards. The capacity to build business partnerships at national and international level is a fundamental criterion on the road to internationalisation.

Most countries in the MED region have a well-developed training offer on international standards and marketing for a certain number of key sectors. For example, ***Jordan***'s Business Development Centre offers a hybrid training programme that combines entrepreneurial training with international market access. The programme is demand driven, linking market entry standards with product and process development. Another successful initiative from ***Egypt*** offered by the Ministry of Industry and Foreign Trade provides online training on export management. Apart from this unique example in Egypt systematic online training for export development skills is underexploited in the region.

E-business training could provide a great opportunity for small enterprises to engage in international trade. Online resources and information on all aspects of training and consultancy for SMEs should be an objective of government policy for SME development, engaging them virtually and opening the window of opportunity of virtual internationalisation.

Box 8.1. **Good practice: Training for enterprise growth and access to international markets in Israel**

Israel's reputation as a "start-up nation" is evidenced by the country's top scores in the most recognised international business and scientific rankings. It is a world front runner on concentration of high-tech companies and start-ups per capita, as well as on availability of venture capital, university-business collaboration and the quality of scientific research. The high performance of intellect-intensive business enterprises in Israel is steered by a critically important blend of enabling factors. Among them: clear government policy priorities of high-tech enterprise support, availability of multi-annual state funding, regulatory environment conducive to technology-intense start-up development and active implementation measures for high-tech export orientation.

Strategic investment in enterprises goes hand in hand with massive government support to education and training favouring technological innovation, linking academic research with the world of business and the world's highest investment in research and development (as a percentage of GDP). There is a great variety of web-resources guiding interested individuals and companies regarding diverse business training and attractive support opportunities. The government collaborates closely with business associations and employers and operates a network of 25 business development centres.

Vibrant and rapidly growing start-up communities, pioneering networks and cutting-edge entrepreneurship ecosystems around all large universities, centres of technological research and major cities in Israel are a unique feature of the country's business environment. Hundreds of virtual communities of entrepreneurs pop up every day in Israel, encouraging talented individuals into innovative business activities. A diverse range of training programmes is offered by public and private providers, responding to the variety of learning needs of SMEs and contributing to the development of vocational and management skills of entrepreneurs.

Moreover, Israel's government also puts substantial resources into maintaining dedicated web resources encouraging collaboration links with business partners and clients around the world, including Invest in Israel.

Given these outstanding achievements in the promotion of high-technology and expert-oriented entrepreneurship, Israel now faces a need to take the next step in expanding state support to non-tech businesses. Equally, it needs to shift the focus of government policy from implementation of project-based entrepreneurship support initiatives at individual levels of the educational system to a comprehensive policy partnership for development and implementation of life-long entrepreneurial learning across all parts of the education system.

For further information visit http://sba.tamat.gov.il; http://innovation.technion.ac.il/default.asp?lang=eng; www.industry.org.il/?pg=monthlyview&CategoryID=0.

Executive education programmes should also equip management with the skills and knowledge needed for specialised careers in export development ranging from technical skills (e.g. procurement, manufacturing, standards conformity) to the interpersonal and communication skills required to work at international level.

Quality assurance

Enhancing the quality of training and accreditation by reputable organisations provide credibility for enterprises and encourage them to be more involved in training. Moreover, as SME demand for quality assurance of training increases, competition amongst training providers encourages them to continue providing innovative programmes that respond to market needs. Growing enterprises, and those seeking to access international markets in particular, will increasingly seek out quality-assured training to assist them in their business expansions.

A range of tools exists to determine the quality of training for SMEs which are especially driven by donor projects or education and training councils (where they exist). However, most economies lack a national framework for quality assurance of enterprise training. Efforts need to concentrate on first establishing a recognised body dedicated to quality assurance that is supported by government – this function could also be supported by an existing institution. There is a lack of quality assurance legislation and relevant institutions concerned with ensuring SME training quality standards. This results in inconsistent training offers, various advisory entities, often-poor training modules or sporadic verbal advice, all of which undermine the credibility of training and consultancy service providers among the SME community.

Morocco has sought to address this issue. With the support of the European Training Foundation (ETF), a national qualifications framework is being set up. There has been good progress in the development of the methodological approach. The institutional setting builds on the ongoing dialogue between a wide variety of stakeholders from vocational education and training, industry sectors, higher education, public administration, public and private education and training providers, and social partners.

It is recommended that coverage of the quality assurance framework of the education and training councils is extended beyond the formal education system to incorporate enterprise skills training. Ideally this would be done through a participatory approach where good practitioners provide models for the quality assurance of training as input for policy makers to create a national framework. The quality assurance framework needs to encompass several issues, such as general standards for registered training organisations, a national qualifications framework, profiling of proper personnel at the training organisations, ensuring the financial viability of the training organisation and meeting data provision requirements.

Skills for sustainable enterprise development

Enterprises also need to contribute to worldwide sustainable development efforts. Ensuring sustainability in enterprise development in terms of environmental compliance (e.g. energy efficiency and clean production) is essential, especially in the MED region where this is a growing concern. Moreover, it is necessary to ensure that enterprise development is sustainable economically for the long-term future so as to guarantee the prosperity and social well-being of local populations.

A number of countries are taking constructive steps in addressing these issues. There have been roundtables and conferences bringing together representatives from SMEs and their associations with public sector organisations responsible for the environment and energy sectors to engage in dialogue. Some training initiatives are also equipping the workforce with the requisite skills. Scaling-up of training efforts for sustainable enterprise development requires an increase in the capacity of local trainers.

Policy framework for SME innovation

Policy coordination and strategic approach

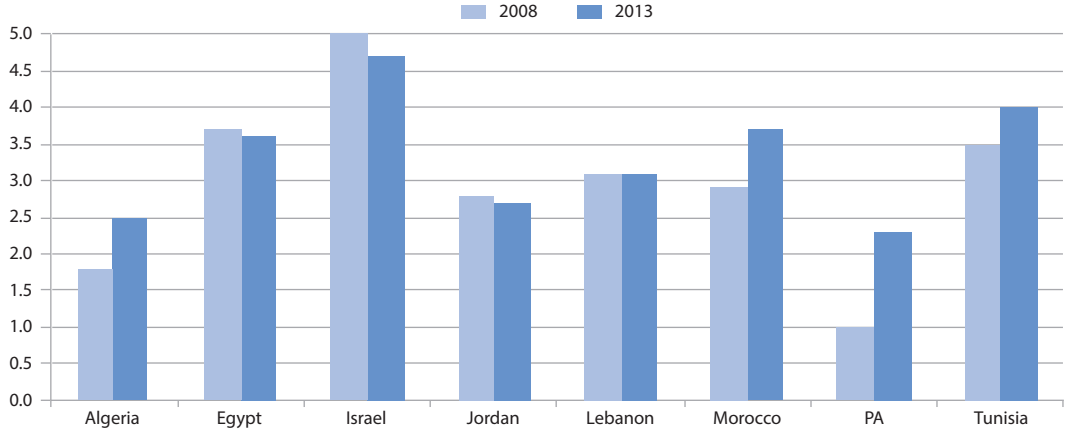
Governments can create a favourable environment for the growth of innovative enterprises through the implementation of a comprehensive innovation strategy, covering the full spectrum of technological and non-technological innovation activities. Developing a strategic approach to innovation policy is key, as it underpins the government's commitment to fostering public-private partnerships (PPPs), financial support schemes and innovation support services for SMEs. A co-ordinating body, chaired by a high political authority and supported by a well-structured secretariat, can encourage the successful development of innovation policy. Indeed, the effective organisation of innovation support programmes and institutions can allow for practical exchanges between relevant stakeholders, leading to the fulfilment of constructive policy actions to promote innovation and entrepreneurship.

In the 2008 assessment, innovation was identified as a relatively weak area. Among all the 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 (see Figure 8.3).

The results of the 2013 assessment indicate that the MED economies have made noticeable progress in developing an innovation policy framework. Promoting innovative enterprises is now a stated objective of SME policy. All economies now have an innovation strategy or are currently developing one, with the exception of ***PA*** and ***Algeria***. Most economies have a

Figure 8.3. **2008 and 2013 results sub-dimension 8.2: Innovation**

Weighted scores



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

Source: Government and independent assessments.

co-ordinating body in place that delegates competencies and tasks concerning innovation policy and the more advanced economies in this area have specific budget allocations to support R&D activities and fund financial schemes and incentives supporting innovative SMEs.

Table 8.3. **Results for sub-dimension 8.2: Policy framework for SME innovation**

Scores for individual indicators

Indicators		AL	EG	IS	JO	LE	MO	PA	TU
8.2.1. Delegation of competencies and tasks	2013	2	2	5	2.5	3.5	3.5	1.5	3
8.2.2. Strategic approach to innovation policy for SMEs	2013	2.5	3.5	4.5	2.5	3	4	2	4
	Change since 2008	+0.5	0	-0.5	0.0	0.0	+1.0	+1.0	+0.5
8.2.3. Budget provision for SME innovation	2013	2	2.5	4.5	3.0	1.5	3	2	3
8.2.4. Establishment of innovation and technology centres	2013	2	4.5	5	3	3	3.5	2.5	4
	Change since 2008	+0.5	+0.5	0.0	0.0	0.0	+0.5	+1.5	+0.5
8.2.5. Information on innovation support service	2013	2	2	4.5	2.5	2	4.0	1	3
8.2.6. Financial support services	2013	3	3	5	3	3.5	3	3	4
	Change since 2008	+1.5	-1.0	0.0	-0.5	0.0	+0.5	+2.0	+0.5
8.2.7. Tools used to support co-operation between SMEs research institutes/universities	2013	2.5	2.5	4.5	3	3.0	2.5	3.0	3.0
8.2.8. Public R&D grants	2013	3.0	2.5	4.5	2	2.0	2.5	1.0	3.0
8.2.9. Incubators (serving innovative start-ups which are linked to technology content)	2013	2.0	3	5.0	3	3.5	3.5	3.5	3.5
8.2.10. Science parks/competitive clusters and facilities to promote networking among companies	2013	2.0	2.5	4.0	2.5	2.5	2.5	1.5	3.0
Weighted average		***2.3***	***2.8***	***4.6***	***2.7***	***2.7***	***3.4***	***2.0***	***3.4***

Source: Government and independent assessments.

As in 2008, ***Israel*** has the most comprehensive and structured innovation policy. It devotes public and private resources to supporting basic research, but also product development and application. Among the other economies ***Morocco*** has made the most significant progress. Over the last five years, Morocco has been able to develop a strategic approach and introduced targeted support schemes. ***Egypt*** and ***Tunisia*** have made incremental progress in a number of policy areas, but financial support remains limited. All other economies are still in a phase of developing a comprehensive policy towards innovative SMEs.

PA and Algeria have an innovation policy infrastructure which is relatively underdeveloped. In ***PA***, an innovation strategy does not exist and elements of it are only present in the ICT strategy of the Palestine IT Association. In PA, innovation initiatives

are uncoordinated and taken *ad hoc* by public and private agencies such as the Ministry of Economy, the Chamber of Commerce and the ICT Association. There is also no specific allocation of public funding to promote enterprise innovation and most of the initiatives are privately or donor funded.

The ***Algerian*** government is taking innovation measures on an *ad hoc* basis and in the framework of its national upgrading programme (*mise à niveau*). There is no innovation strategy, but elements of it have been included in several documents. In particular, there is a specific budget allocation for innovation provided by the Fund for the Promotion of Industrial Competitiveness. Further innovation funding is provided by the national upgrading programme.

Egypt and ***Jordan*** are currently drafting new national innovation strategies that build on the existing industrial development strategy (Egypt) and the national strategy and policy for science, technology and innovation (Jordan) and which will ensure better co-ordination between various ongoing activities of different ministries and institutions. There are several public and private funding schemes to support innovation. For instance, in Egypt there are the Science and Technology Development Fund and the Research, Development and Innovation Programme; and in Jordan there are the Innovation Centre Network and the Industrial Research and Development Fund.

Lebanon, ***Morocco*** and ***Tunisia*** have adopted national innovation strategies. Lebanon endorsed its science, technology and innovation policy strategy in 2006, which led to initiatives such as the Kafalat programme and is co-ordinated by the National Council for Scientific Research (CNRS). The Industrial Research Institute is the second innovation co-ordination body in Lebanon that supports SME innovation.

Morocco adopted the innovation initiative in 2009 and has further developed it. It is co-ordinated by the Moroccan Innovation Centre and the establishment of a National Innovation Committee is planned at the moment. ***Tunisia*** has endorsed the national innovation guide. The co-ordination and implementation is supported by the Innovation and Technology Development Centre, which is a part of Agency of Industrial Promotion and Innovation. While there is no specific allocation of funding or budget provision at the central government level in ***Lebanon***, there are some programmes that provide funding, such as the innovation vouchers by the Centre for Innovation and Technology (CIT). Morocco is channelling its innovation funding through its innovation support funds, Intilak, PTR and Tatwir. Tunisia has reserved a specific part of the Finance Ministry's budget for organisations that support innovation and research such as the Agency for Industrial Promotion and Innovation.

Israel has a wide range of institutions, committees, funds and programmes in place to support the development of innovation. The Office of the Chief Scientist (OCS) in the Ministry of Economy is in charge of the execution of innovation policy. Besides this, the National Council for Research and Development plans the general strategy for research and development. While there is currently no formal strategic document in place, these are currently being developed by the OCS. The OCS's activities are funded every year in the annual government budget and many other programmes are funded by the private sector, which accounts for approximately 80% of national expenditure on research and development.

Innovation-support measures

Since 2008, MED governments have significantly stepped up their efforts to provide specific services to SMEs to foster innovation. These include innovation and technological centres, databases of innovation service providers, SME research linkage programmes, innovation incubators, science parks and clusters.

Several innovation and technology centres have recently been established in the MED region and are being developed further. The centres provide a range of services to local enterprises, such as exposure to new technical developments, laboratory services, staff training, and linkages with other domestic and foreign enterprises.

Since 2008, ***Egypt*** has further expanded its network of Technological Transfer and Innovation Services (ETTICs), operating under the Ministry of Industry and Foreign Trade. There are now 11 sector-specific and two horizontal technology and innovation centres.

Other MED economies are moving in the same direction. ***Morocco*** has established four innovation centres (*cite de l'innovation*) and is planning to increase this number to 14 by 2016. ***Tunisia*** has launched one innovation and technological development centre (*centre de l'innovation et du développement technologique*) and is planning to establish four regional centres to improve regional knowledge dissemination. ***Lebanon*** has a centre for innovation and technology, which is a division of the Industrial Research Institute (IRI), and which provides innovation vouchers for enterprises. ***PA*** established its first business and innovation centre in 2012. ***Jordan*** has launched pilot projects to establish innovation centres to promote co-operation on innovation under the Jordan Innovation Centre.

Several economies are implementing policy measures or pilot projects to foster linkages between innovative SMEs and universities or research institutes. There are currently several programmes active in all the MED economies, but with the exclusion of Israel, they are still limited in scope and constrained by lack of funding. ***Egypt, Jordan*** and ***Morocco*** have launched a number of programmes since 2008, such as the Professor for every Factory initiative (Egypt), a Collaborative Innovation Network (Egypt), Technology Transfer Offices (Egypt and Jordan) and a Faculty for Factory programme (Jordan). Morocco is promoting research-SME linkages with the following programmes: PROTARS,[1] INNOV'ACT, Tatwir and *Réseaux de Diffusion Technologique*.

Tunisia has two programmes in place: Technological Resource Centres (CRT) that provide equipment and personnel to build prototypes, analysis and trials of industrial solutions for businesses; and the Research and Innovation System Support Programme that aims at consolidating links between research and production. Lebanon has established innovation centres in three universities. ***Algeria*** introduced a pilot project to link universities to businesses through "development/monetisation units" (*cellules de valorisation*), where scientific innovations can be connected to entrepreneurs and companies.

The 2008 report noted that business incubators were present in all the MED economies, although many were in a pilot stage and were often operating without clear guidelines about the length of the incubation period and exit strategies. Since 2008, the incubator network has significantly expanded in most of the MED economies, while incubators have been increasingly oriented towards supporting innovative start-ups. ***Egypt***, ***Morocco*** and ***Tunisia*** have established an extensive network of technological incubators run by government agencies or technology and innovation centres and private providers such as Flat 6 labs (Egypt). ***Jordan*** and ***PA*** have several incubators linked to technological content: Oasis 500, iPark, JTG and an Agro-Industry Business Incubator (Jordan), PICTI and various university linked incubators (PA). ***Algeria*** established the Sidi Abdallah incubator and plans to establish six more.

Lebanon was one of the first countries to establish a business incubator related to innovation. The first incubator, Berytech, established in 2001, has evolved into an advanced technological centre offering incubation and acceleration services and technical and business council services. Since 2008, two more technology centres offering incubation services, one located in Sidon in the south of Lebanon and a second in Tripoli in the north, have been established with the support of the European Commission.

Box 8.2. **Good practice: Berytech: A leading incubator for innovative start-ups in Lebanon**

Berytech was established by the *Université Saint-Joseph*, a leading francophone Lebanese university, as the first business development centre to provide high-tech hosting, incubation, training and counselling to SMEs in Lebanon. Berytech grew from being one technology centre in 2001 to the creation of the first venture/seed fund for technology start-ups in 2008, and has become a national reference for SME support, overseeing the establishment of ten start-ups and creating hundreds of jobs in technology sectors such as information technology and multimedia.

Berytech helps people aspiring to self-employment by assessing their projects and identifying business opportunities, developing their entrepreneurial skills, and helping them access information and funding. It offers a range of services, such as targeted programmes for women entrepreneurs, entrepreneurship contests, microenterprise acceleration programmes, local and international workshops and forums and networking events. It is particularly known for its activities as an innovation centre and was the first in the region to receive the EU accreditation as a business innovation centre opening up access to its companies to international networks and is a full member of the European Business Network (EBN).

In response to a growing need to provide equity finance for entrepreneurs and support innovative start-ups, a Berytech Fund was established in 2008. It aims to invest in Lebanese technology start-ups in exchange for equity ownership with an overall budget of USD 6 million (EUR 4.3 million). Given that the fund is closely linked to the support structure of Berytech, entrepreneurs have access not only to funding but also to a wide range of business development services including training, coaching and an important network of local and global expertise.

Berytech currently runs more than 150 entities, assists more than 2 000 entrepreneurs in several outreach programmes, disbursed more than USD 350 000 (EUR 252 000) in grants to start-ups, and has invested more than USD 4 million (EUR 2.8 million) in Lebanese technology companies.

Source: Berytech (2014), Berytech website, www.berytech.org, accessed 2 June 2014.

In addition to technology centres and incubators, governments have supported innovative enterprises by promoting the establishment of science parks and technological clusters. Those establishments are in operation in ***Algeria*** (cyber park Sidi Abdallah, *technopole solaire de Hassi R'mel*), ***Egypt*** (Smart Village, Industrial Developer System), ***Jordan*** (Al Hassan Science Park), ***Lebanon*** (Lebanon Soft Shore, Beirut Creative Cluster), ***Morocco*** (Haliotis, Technopolis, Agropolis) and ***Tunisia*** (*Pôle de compétitivité Monastir/El Fejia* for textiles, *Pôle de compétitivité de Bizerte* for industry and agro-business and the *Pôle de compétitivité de Gafsa*).

While fixed investment in technological infrastructure is increasing, access to information on innovation support services for SMEs, as well as the provision of specialised services, is lagging in most economies and should be further developed. Only ***Morocco*** (*Club*

de l'Innovation) has an updated online database on innovation support service providers that includes information on the selection criteria for firms to participate in all types of innovation support programmes. The Industrial Council for Technology and Innovation in ***Egypt*** is currently developing a database of national and international innovation support providers. In Algeria, Jordan, Lebanon and Tunisia innovation service providers publish some information on their websites but a database or centralised website dedicated to innovation services does not yet exist.

Israel stands out as a case of excellence in innovative enterprise support. The OCS is co-ordinating these programmes, which include many R&D and technology centres, 24 incubators (22 technological incubators, one industrial incubator and one biotech incubator) and several science parks and clusters (biotech cluster in Jerusalem and Rechovot, software cluster in Herzliya and ICT cluster in Haifa). Within the MAGNET programme, collaboration among companies and researchers is encouraged. It includes several initiatives such as MAGNETON, NOFTAR and KAMIN, which promote technology transfer from academia to industry via mutual co-operation between individual companies and academic research groups.

Financial innovation support measures

All MED economies provide some form of financial support scheme for innovative firms, although most of the schemes are limited in scope and funding. Egypt, Morocco and Tunisia have a range of financial support services in place. In ***Egypt***, the Industrial Modernisation Centre research programme has allocated EGP 39 million (EUR 4.2 million) to 55 projects, the NGO Misr El Kheir has financed 13 entrepreneurs having patents in science and technology, the Information Technology Industrial Development Agency has developed new access to finance projects and the EU-Egypt Innovation Fund has developed two financing schemes for innovative enterprises.

In ***Morocco***, the National Fund of Scientific Research and Technological Development Support (FSRSDT), the Technological Network Allowance (PRT), the programmes PROTARS I, II, III, the seed fund SINDIBAD and INNOV'ACT all provide financial support for innovation. Tunisia finances innovation mainly through its Incentive Mechanism for Creativity and Innovation in the ICT sector (RICITIC), a seed fund, the Investment Bonus for Research Development (PIRD) and the National Programme for the Promotion of Research Innovation (PNRI).

In ***Jordan***, the main financial support service providers for innovative SMEs are the Development and Employment Fund, the donor-funded Support to Research and Technological Development and Innovation Initiative and Strategies and increasingly venture capital funds such as Injazat Technology Fund, Accelerator Technology Fund and the Foursan Group.

In ***Lebanon***, the Kafalat Programme and the Industrial Research Institute have specific financial support services for innovative SMEs. Apart from the national Upgrading Fund and the National Innovation Prize, ***Algeria*** introduced the FAUDTIC fund, which finances research in ICT and the creation of SMEs in the ICT sector. In ***PA***, various support services are available ranging from grants, subsidies and seed funding to big venture capital funds.

In ***Israel***, public support to innovative enterprises is very significant but is concentrated in the early start-up phase, several steps before commercial development. As the start-ups progress towards product development, a well-structured system of venture capital funds and angel investors back up those innovative entrepreneurs with the highest potential.

In parallel to direct SME support, funds supporting R&D activities with a commercial orientation exist in all economies except Lebanon and PA. ***Egypt***, for instance, has an innovation grant, which aims at funding a scientific innovation and its development until a prototype or a finished product is achieved. Successful proposals receive funding of up to EGP 3 million (EUR 324 000) over a maximum period of three years. ***Tunisia*** is supporting the development of a new product during all stages of development with its investment bonus (*prime d'investissement*) and the Development of Research Results Project (VRR). ***Israel*** has a R&D fund, which finances 20%-50% percent of the total approved R&D costs of approved proposals. The annual budget is NIS 1.5 billion (EUR 319 million) and supports hundreds of companies. There is a track record of effective allocation and lessons learned are taken into consideration and are implemented via the general directives.

The way forward

Enterprise skills

On the whole, there has been some improvement in 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 to develop a policy partnership that allows for greater national co-ordination and overall skills improvement.

Attention needs to be given to securing 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 initiatives and relevant results and to adopt remedial actions for ongoing improvement.

The development of national quality assurance systems for enterprise training is essential for all training and especially for those businesses seeking to operate internationally. Linking up and building upon the many important initiatives within each country would be an effective starting point.

It is advisable to have an annual event as a platform for public-private partnerships to promote awareness and understanding of the mutual advantages of promoting small business support. The event could also provide an opportunity for exchanging ideas between various stakeholders, including training providers, sector-specific associations, educational institutions, public institutions and other stakeholders to provide feedback on applied policies and any further recommendations for amendments or additions.

Cross-regional peer review exercises to analyse good practices, share expertise, and celebrate successes can expedite the process of reforms in all countries. Such initiatives could be adopted by governments as an integral part of the national enterprise skills development strategy.

Promoting innovation in SMEs

The capacity to innovate has become particularly important in a globalised world where many economies compete through low labour and capital costs. In this context, central governments have an important role to play in ensuring that all public policies reward and facilitate innovative activities.

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. A challenge for many economies remains the establishment of an innovation co-ordination body, chaired by a high political authority and supported by a well-structured secretariat, which ensures that widespread policy exchange, co-ordination and consultation with stakeholders and civil society is carried out effectively. The private sector should also be incentivised to contribute to R&D spending.

Economies that have started to introduce public policy measures supporting innovation in SMEs, such as Egypt, Jordan, Morocco and Tunisia, should furthermore carefully monitor and evaluate their innovation measures, in order to gauge their impact and enable prioritisation of these activities in the future. Improved data collection and regular follow-up will be a precondition. In times of limited public budgets, this is of particular importance to target interventions and make sure that public funds achieve the highest return.

In addition, for those economies it is necessary to better inform SMEs about the financial and non-financial services provided by the government, NGOs, associations and private organisations to increase awareness 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.

Finally, the ability of SMEs to innovate is related to their level of integration in networks supporting the introduction of new technologies, products and processes, as well as access to advanced business and financial services and technical laboratories. Therefore, a key objective of the innovation policy should be to support the expansion of those networks at the domestic and international level and the creation of an ecosystem favouring innovation. National and international research and development networks, such as cluster co-operation and linkage programmes, should be clearly targeted, in order to promote knowledge spillovers in the SME sector.

Note

1. Thematic programme to support scientific research.

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Chapter 9

SMEs in a green economy

SBA principle: Enable SMEs to turn environmental changes into opportunities

This chapter analyses the initiatives by MED economies to integrate eco-efficiency and eco-innovation in SME and innovation strategies, the availability of expertise on environmental issues for SMEs, the use of environmental management systems (EMS) and standards, and governments' efforts to promote them.

The analysis indicates that governments in the MED region have generally integrated environmental considerations into their policy framework and have institutions in place that promote the protection of the environment, clean production and renewable energy. In most economies, however, these policies are not adapted to the needs of SMEs. Service provision and information on how to improve eco-efficiency or eco-innovation which target SMEs are underdeveloped and the wider use of EMSs and standards remains a widely untapped potential.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Growing concerns over the environment and the depletion of non-renewable resources have led governments in developed as well as in emerging economies to reshape their policies, aiming at achieving a more environmentally sustainable development. Over the last ten years there has been a clear trend towards "greening" SME policy. Promoting more sustainable development poses new challenges for SMEs, but at the same time it opens new business opportunities.

SMEs face difficulties in addressing environmental issues. They are often insufficiently aware of new energy efficient and environmentally friendly solutions. They also tend to lack the time and human and financial resources to comply with environmental standards and exploit new business opportunities. To help small businesses overcome these obstacles and improve their environmental performance, governments can integrate environmental considerations into their strategies in the field of SMEs, industry and innovation through the promotion of a policy framework for eco-efficient business and products as well as eco-innovation. They can furthermore provide specific information on environmental concerns as well as concrete assistance and incentives.

Environmentally sustainable development may also open up considerable business opportunities in the MED region, which has a high and largely unexploited potential for developing alternative and renewable resources. Several MED economies suffer from water shortages that could be addressed by new technologies reducing water demand in agricultural and industrial production. Urban and industrial air and water pollution, presently largely untargeted, could be significantly reduced, by applying environmental targets. Introducing more stringent environmental standards could create a new wave of investment, benefitting innovative SMEs. In order to foster the development of alternative green sources of energy governments need to move towards the elimination of distorting subsidies on fossil energy products, currently in place in several MED economies. Enterprises will have to shift to more efficient systems of production.

SMEs represent a very significant part of the productive sector and therefore have to be part of the collective effort to promote sustainable development. One of the key objectives of SME policy is to facilitate and support this movement, including environmental policy targets in SME strategy documents and new instruments and incentives supporting environmentally friendly enterprises.

Assessment framework

Environmental issues in SME policy were not covered in the 2008 assessment. Their inclusion in the 2013 assessment is a result of restructuring the framework in line with the SBA for Europe, which includes green policy issues under Principle 9. Table 9.1 lists the indicators in this dimension. Figure 9.1 shows the aggregate results of the assessment for dimension 9.

Table 9.1. **Assessment framework dimension 9: Promoting environmentally sustainable ("green") growth**

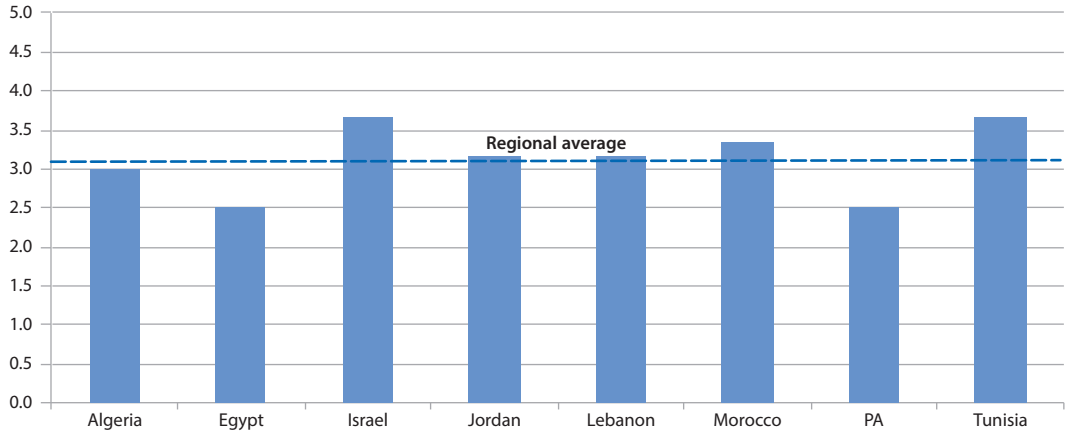
SBA Principle: Enable SMEs to turn environmental changes into opportunities

9.1. The greening of current strategies in the field of SMEs, industry and innovation
9.2. Improving availability of expertise to SMEs on environmental issues
9.3. Promoting the use of environmental management systems and standards

A detailed description of these indicators is included in Annex A.

Figure 9.1. **2013 results dimension 9: Promoting environmentally sustainable ("green") growth**

Weighted scores



Source: Government and independent assessments.

The objective is not to provide a broad assessment of government environmental policy, but instead to focus on the linkages between SME and environmental policy and on some of the instruments used to promote the adoption of higher environmental standards by SMEs to assess how economies currently perform and be able to measure progress in future assessments.

Analysis

Governments are making efforts to include green growth in national policy frameworks. However, information and service provision for SMEs remains partial and tends to be untargeted. This could be improved through tailored SME services, especially for environmental management systems (EMSs) and standards, and could unleash a mostly untapped business potential for SMEs.

In 2012, the European Commission released an extensive report surveying sustainable enterprise development policies in Mediterranean partner economies and their impact. The two most prevalent policy measures in MED economies, according to the report, include

Table 9.2. **Results for dimension 9: Promoting environmentally sustainable ("green") growth**

Scores for individual indicators

Indicators		AL	EG	IS	JO	LE	MO	PA	TU
9.1. The greening of current strategies in the field of SMEs, industry and innovation	2013	3.0	2.0	3.0	3.0	3.0	3.5	3.0	4.0
9.2. Improving availability of expertise to SMEs on environmental issues	2013	3.0	2.5	4.0	3.50	3.5	3.5	2.50	3.5.
9.3. Promoting the use of environmental management systems and standards	2013	3.0	3.0	4.0	3.0	3.0	3.0	2.0	3.5
Weighted average		***3.0***	***2.5***	***3.7***	***3.2***	***3.2***	***3.3***	***2.5***	***3.7***

Source: Government and independent assessments.

access to finance and skills development, i.e. supply-side measures (European Commission, 2012). Other supply-side policies, such as entrepreneurship support or providing information services, are less frequently implemented. Demand-side policies that stimulate market change, such as the use of taxation and subsidies (but also the development of standards), are still lacking in the region.

In terms of enterprise-level impacts, the most common identified in the survey were the use of cleaner production approaches (prevention of pollution at the source, instead of its treatment after being produced) and the creation of new markets, products or firms, driven by measures to support eco-innovative products and businesses.

The greening of strategies

All MED economies have strategic documents or laws in place to promote sustainable development and green growth. The degree to which these strategies and laws are applied to SMEs, and promote eco-efficiency and eco-innovation in particular, varies across economies and could benefit from adding more concrete targets and measures through the development of specific action plans.

Several MED economies mention environmental concerns in their industrial or cleaner production strategy. ***Egypt*** introduced the national cleaner production strategy in 2004, which mainly aims at encouraging the adoption and implementation of cleaner production methods in Egyptian industry. Egypt also adopted a national environment action plan 2002-17, which outlines specific measures. Overall, the policy framework for driving sustainable enterprise development in Egypt is characterised by a market-based system, such as access to finance instruments aiming to increase the use of cleaner production processes (European Commission, 2012).

PA endorsed an environment sector strategy in 2010 and also established a programme offering "green loans" to help SMEs shift to more sustainable energy sources. This strategy deals with industry in general, and does not focus on SMEs in particular. Moreover, clear targets and objectives are lacking.

Algeria has introduced several laws to protect the environment and to promote sustainable development and renewable energy. These laws are complemented by two national action plans for the environment and sustainable development, which focus on the preservation and sustainable use of biodiversity, soil degradation, water management and the stabilisation of greenhouse gas emissions with a budget of DZD 500 million (Algerian dinar, EUR 4.73 million). However, despite some existing market-based pricing mechanisms, the regulatory approach Algeria has taken to change the behaviour of firms appears to be restrictive rather than supportive, as it limits the activities of enterprises (European Commission, 2012).

In ***Lebanon***, law 444/2002 promotes environmental sustainability and environmentally friendly practices in doing business. However, while these strategies and laws address the concept of greening strategies for Egyptian, Algerian, Palestinian and Lebanese industry; they do not focus specifically on eco-efficiency and eco-innovation for SMEs. Clear targets and evidence of implementation are lacking.

Israel, Jordan and Morocco specifically promote the creation of eco-efficient businesses and eco-innovation in their environmental strategies. ***Israel*** is in the process of adopting a National Strategy for Green Growth to 2020 with the aim of creating eco-efficient businesses, eco-innovation, new clean industries, promoting efficiency measures and the saving of natural resources. ***Jordan*** has included energy saving measures such as the

promotion of eco-efficient businesses and eco-innovation in its National Strategy for SMEs and the National Policy for Innovation. In the case of ***Morocco***, the National Charter for the Environment and Sustainable Development addresses the promotion of eco-businesses and eco-innovation, which is further elaborated in the National Environment Strategy. While the strategy in Israel and Jordan is not yet approved and concrete targets and timelines are lacking, Morocco has introduced a specific national upgrading programme, which outlines concrete actions and targets.

Tunisia performs well on this indicator as it has an elaborated policy framework for eco-efficiency and eco-innovation. It has adopted a National Strategy for Sustainable Development, which includes the industrial sector. Besides this, there is a National Committee for Sustainable Development, a National Agency for the Protection of the Environment and a Tunisian Observatory of the Environment and Sustainable Development, which provide more detailed actions and targets.

Box 9.1. **Good practice: Institutional reform for green growth in Algeria**

Like other economies in the MED region Algeria is confronted with a number of environmental challenges, notably related to desertification, soil erosion, water scarcity, pollution and contamination of the Mediterranean Sea. Due to its geographical location, Algeria is highly vulnerable to climate change – the temperature is predicted to rise by 1.1° C to 1.8° C by 2020 (Sahnoune et al., 2013).

In response to these challenges, Algeria has made progress in developing an institutional framework to support sustainable growth and green business. The *national action plan for the environment and sustainable development* published by the Ministry of Territorial Planning and Environment in 2002 is a good example due to its involvement of industry. It provides the basis for public policies to address negative environmental effects related to economic growth and for obliging enterprises to adopt environmental protection, including environmental management systems (EMSs). In addition, the programme for 2010-14 provides a budget of DZD 500 million (EUR 4.73 million) to environmental development, focusing on the preservation and sustainable use of biodiversity, soil degradation, water management and the stabilisation of greenhouse gas emissions.

Several public institutions such as the Algerian Institute of Renewable Energy and Energy Efficiency (IARD), the National Centre for Cleaner Technologies Production (NCCTP) and the Research Institute for Sustainable Development (IRDD) focus on sustainable enterprise development – some of them provide expertise and training to SMEs to improve their environmental performance. In addition, more than 100 research projects on renewable energy are ongoing.

Sources and further information: Algerian Ministry of Territorial Development and Environment (2002), *Plan National d'Actions pour l'Environnement et le Développement Durable (PNAE-DD)*, www.naturevivante.org/documents/pnae_dd.pdf, accessed 6 June 2014; Sahnounea, F. et al. (2013), "Climate Change in Algeria: Vulnerability and Strategy of Mitigation and Adaptation", *Energy Procedia* 36 (2013), ScienceDirect, pp. 1286-1294.

The availability of environmental expertise to SMEs

SMEs are often badly informed about environmental issues. They also tend to lack the in-house capacity to successfully address these issues. The government and private sector associations can therefore play a crucial role in facilitating access to both environmental information and expertise.

In ***Algeria, Egypt and PA***, there are few, mostly public service providers that disseminate expertise on environmental laws and regulations to SMEs. In ***Egypt*** these institutions include the Private Public Sector Industry Project (PPSI), the Egyptian National Cleaner Production Centre (ENCPC) and the Environmental Compliance Office (ECO), which provide technical assistance and consultancy services in the area of cleaner production, energy efficiency, eco-innovation and green technology.

In ***PA***, the Ministry of Environmental Affairs provides information on the Palestinian Environmental Law, which constitutes the legal framework that businesses operate in. In ***Algeria***, there are several public institutions such as the Algerian Institute of Renewable Energy and Energy Efficiency (IARD) and the Research Institute for Sustainable Development (IRDD), which provide SMEs with expertise and training in areas such as energy auditing and security. Furthermore, 110 national research projects on renewable energy were launched in 2011, but toned to be further developed and evaluated. The engagement of chambers of commerce, NGOs and private service providers is limited.

There are several public and private service providers in Israel, Jordan, Morocco and Tunisia that advise SMEs on environmental issues. In ***Israel***, this includes the Small and Medium Business Agency (SMBA) and the Manufacturers Association and the Ministry of Industry, Trade and Labour, which provides entrepreneurs and start-ups with a toolkit in the field of green entrepreneurship through courses in green enterprise development (European Commission, 2012). In ***Jordan***, JEDCO's Energy Saving Services Programme, the Faculty for Factory and the Senior Dutch Volunteers Programme provide technical assistance and training. In ***Morocco***, the General Confederation of Moroccan Enterprises (CGEM), the National SME Development Agency (ANPME) and the Moroccan Centre for Clean Production (CMPP) provide technical support on the implementation of the National Charter, financial incentives to invest in green technology and training on energy efficiency. ANPME lists several experts, which can be contacted by SMEs for support in these areas.

In ***Tunisia***, the International Centre of Environmental Technologies of Tunis (CITET) provides environmental support to SMEs and microenterprises through its Environmental Upgrading Programme. This programme provides technical assistance such as detailed environmental diagnostics and management training on profitable environmental management. Other institutions in Tunisia also provide information and assistance, such as the National Agency for Waste Management (ANGED). The agency has a programme aiming to reducing waste at the source of production through the use of green technologies and materials by private sector firms. However, a coherent strategy and national co-ordination is still lacking in all four countries.

The ***Lebanese*** Cleaner Production Centre provides environmental technical support for SMEs to improve their energy efficiency and reduce their energy consumption. It co-ordinates with government institutions such as the Ministry of Industry and the Ministry of Environment. However its funding is reportedly limited and relies mainly on international donors.

The promotion of environmental management systems and standards

EMSs and standards provide businesses with a means to systematically improve their environmental performance and advertise their environmental efforts to stakeholders and society. ISO 14001 and the EU EMAS – which has recently been extended to organisations outside of the EU – are the most commonly used EMS standards. Governments can support the adoption of EMSs and standards through awareness-raising activities, direct financial support and incentives.

Voluntary environmental standards are widely used in ***Israel***. Over 630 institutions, 80% of them industrial companies, have been accredited under ISO 14000. The Standards Institution of Israel, operating under the Ministry of Industry, Trade and Labour is in charge of standards development and accreditation, including EMS. Since 2010 the ministry has established a scheme funding technical assistance on compliance with EMS and other environmental standards and environmental auditing for SMEs (OECD, 2011).

In ***Algeria, Egypt and Jordan*** the application of EMS is at a relative early stage. In ***Algeria***, 75 enterprises were certified in 2012 by the National Centre of Cleaner Production Technologies. Further certification and standardisation measures are planned within its SME upgrading programme. In ***Egypt***, there are several institutions that promote the use of EMSs and standards such as the Egyptian Environmental Affairs Agency (EEAA), the Egyptian Organisation for Standardisation and Quality Control (EOS), the Egyptian National Cleaner Production Centre (ENCPC), the Environmental Compliance Office (ECO) and the Industrial Modernisation Centre (IMC). Another support system, Achieving Compliance with Environmental Regulation in Industry (ACI), is a component of the environmental sector programme (ESP) and its objective is to assist industry to improve compliance with environmental legislation through the adoption of cleaner production approaches (European Commission, 2012). These institutions provide consultancy services in the field of EMS to support their adoption.

In ***Jordan***, both JEDCO and the Amman Chamber of Industry, through its industries support programme for certification of international standards of quality management systems and of national and international conformity certificates promote the use of EMSs and standards. Adequate funding and a wider dissemination of information are required in these three countries to further develop the adoption of EMSs and standards for SMEs.

Lebanon, Morocco and Tunisia have specific funding and other incentives available for the implementation of EMSs and standards. The ***Lebanese*** Cleaner Production Centre (LCPC) is promoting the use of EMSs and other environmental standards, especially a local system, similar to ISO 14001. However, according to LCPC figures, only 10-12 enterprises have an EMS and there is no international accreditation body for EMSs certification.

Morocco has specific funding available for the implementation of EMSs and standards through ANPME's Moussanada Programme, which finances up to 60% of SMEs' EMS certification costs. The label is called RSE and is provided by CGEM. Furthermore the Moroccan Institute of Standardisation (IMANOR) provides information and training on standards in the area of renewable energy and energy efficiency. In addition, the Office for Professional Training and Promotion of Work (OFPPT) is providing free training on environmental issues. In ***Tunisia***, the International Centre of Environmental Technologies of Tunis (CITET) provides specific technical assistance to support SMEs to adhere to national and international environmental norms such as ISO 14001.

The way forward

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. Eco-efficiency and eco-innovation should be included as priorities in enterprise policy documents – particularly in SME strategies – and associated with clear measures and targets in action plans for greening SMEs.

While general information on energy efficiency, clean production and environmental protection is available, SMEs should also have easier access to information on existing and forthcoming legislation which might affect them, tools to enhance environmental management, and funding opportunities for green innovations and best practices. With regard to the availability of environmental expertise, the capacity of SME support organisations to provide environmental assistance to SMEs should be enhanced and co-ordinated.

Finally, MED governments should support the implementation of effective EMSs. As a first step, information about EMS and standards should be made more widely available as businesses remain largely unaware of them. After that, financial support could be put in place for companies wishing to acquire ISO 14001 or EMAS certification, possibly based on cost-sharing schemes, such as voucher schemes or partial reimbursement of consultancy fees. Economies which have achieved this level can make EMSs a requirement through procurement rules and the market.

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Chapter 10

Internationalisation of SMEs

SBA principle: Encourage and support SMEs to benefit from the growth of markets

This chapter analyses initiatives to promote trade such as the implementation of trade promotion strategies, export promotion programmes, and the simplification and facilitation of trade procedures. Since the 2008 assessment, MED economies have made progress in terms of promoting access to foreign markets. 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.

Moving forward, MED economies could update or adopt strategic approaches towards export promotion and could increase efforts for the facilitation of trade through electronic procedures and virtual one-stop shops.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

The MED region is increasingly integrating into the global economy. Exports of goods and services have grown by more than 80%, from USD 137 billion in 2000 to USD 177 billion in 2012. Imports have also increased from USD 116 billion to USD 209 billion during the same period.[1] MED economies have also signed a number of bilateral, regional and multilateral trade and investment agreements, including the Greater Arab Free Trade Area (GAFTA), the Agadir Agreement and Association Agreements with the EU (see Chapter 7).

Access to international markets represents an important opportunity for SME development. An OECD (2008) study found that exporter enterprises consistently outperform non-exporters on a number of measures, including profitability, production, wages and sales volumes. Along the same lines, a report published in 2010 by the European Commission found that international SMEs registered 7% employment growth, compared to 1% for non-international SMEs. The study also found that international SMEs tend to be more innovative: 26% introduced new products and services, compared to 8% for non-exporting SMEs. Furthermore, exporting is not the only means for SMEs to internationalise. The studies by the European Commission (2010) and the OECD (OECD, 2008) have found that importing is often a springboard for the engagement of companies in exporting activities.

Despite the importance of internationalisation, SMEs are underrepresented in international trade compared to their contributions to the national economy (OECD, 2008). OECD data shows that in a set of countries for which information is available, less than 10% of enterprises are exporters. Furthermore, the propensity to export is found to increase with enterprise size (OECD, 2013 and COMCEC, 2013) across countries for which there is data available; less than 5% of micro enterprises are exporters, while typically half of large enterprises export.

The shares of exporting SMEs are even lower for MED economies for which data and studies are available. In Egypt only 6% of SMEs export and just 1.8% of companies with less than 20 employees are exporters (El-Said et al. 2012). In Jordan, estimates of the 2011 Human Development Report indicate that only 4% of surveyed companies were exporters and that manufacturing and agricultural activities registered higher tendencies to export (10% and 9% of firms in those activities were exporters) (MOPIC and UNDP, 2011). Furthermore, the shares of exporting firms are likely to be significantly lower if the total population of enterprises includes the informal sector.

This chapter analyses MED economies' policies and initiatives to promote and facilitate trade, including by promoting trade agreements and export promotion strategies, export capacity building programmes and facilitating trade procedures.

Assessment framework

There are many factors determining the export potential/performance of a given company and not all of them are influenced or should be influenced by public policies. For instance, the sector of activity in which an enterprise operates can be a key determinant of its international orientation. The size of the domestic market and the level of sophistication of a business are other important determinants. However, policies should be aimed at removing barriers and facilitating access to international markets for those companies with export potential and ambitions.

The framework for the assessment in this chapter focuses on two elements: proactive trade policy and measures for the simplification of procedures for international trade. The first sub-dimension focuses on a variety of indicators, ranging from the existence of an export promotion strategy to specific programmes to build capacity for exporting

SMEs. The second sub-dimension analyses levels of computerisation of procedures for international trade and the provision of relevant and timely information on those procedures and regulations. Table 10.1 lists the indicators analysed in this policy dimension. Figure 10.1 shows the aggregate results of the 2013 assessment and Figure 10.2 provides a comparison of results between the 2008 and 2013 assessments.

Table 10.1. **Assessment framework dimension 10: Internationalisation of SMEs**

SBA Principle: Encourage and support SMEs to benefit from the growth of markets

Sub-dimension 10.1: Implementing a proactive trade policy	**Sub-dimension 10.2: Simplification of procedures for international trade**
10.1.1.Export promotion strategy	10.2.1. Level of computerisation of procedures for foreign trade
10.1.2. Intra-MED trade agreements	10.2.2. Quality of access to regulatory and procedural information relating to foreign trade
10.1.3. Providing advice and high value information on the international market	10.2.3. Virtual one-stop shop to deal with the formalities of foreign trade
10.1.4. Export capacity-building programmes	

A detailed description of these indicators is included in Annex A.

Figure 10.1. **2013 results dimension 10: Internationalisation of SMEs**

Weighted scores

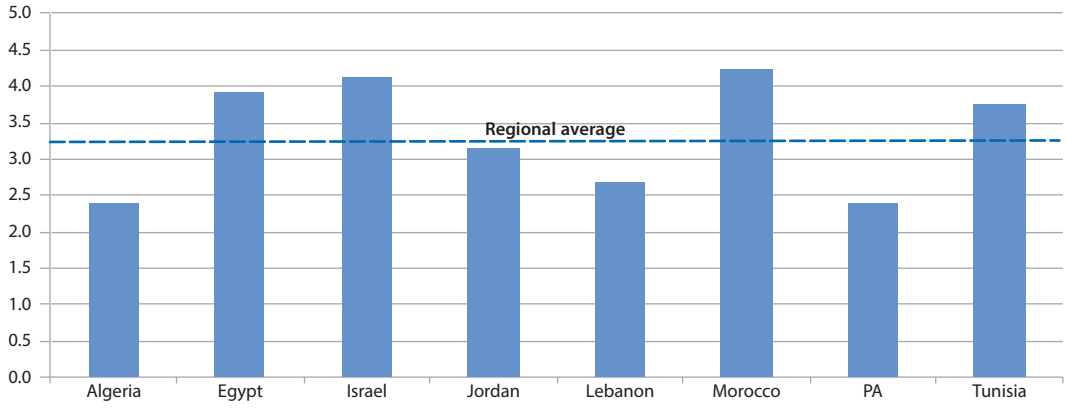
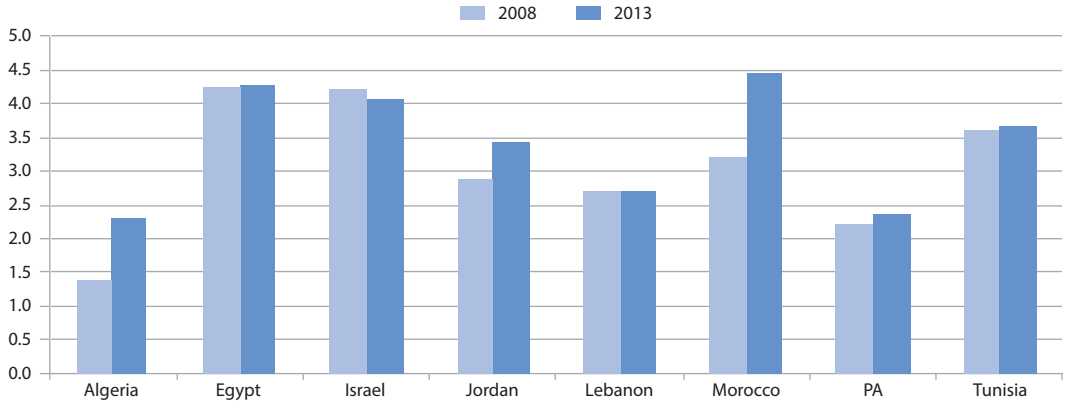


Figure 10.2 shows results comparable for both the 2008 and 2013 assessments.

Source: Government and independent assessments.

Figure 10.2. **2008 and 2013 results dimension 10: Internationalisation of SMEs**

Weighted scores



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

Source: Government and independent assessments.

Analysis

Implementing a proactive trade policy

Trade is a complex policy area needing well-articulated measures linking trade policy and simplification of procedures, the reduction of transaction costs and export promotion activities, among others. In many countries governments have established export promotion agencies and other trade-specialised institutions (such as export credit guarantees and import-export banks) to support exporters and implement the country's export promotion strategy. In particular, the most active export promotion agencies are able to provide a wide range of services to exporters, including personalised market intelligence services, market research and searches for trade partners, and to maintain a presence in all the most important export markets though commercial offices.

Morocco has achieved important results in terms of the development and implementation of coherent export promotion efforts. In 2008, the Ministry of External Trade was in charge of the development of an export promotion strategy, linking a number of executive bodies and high-level steering committees whose roles range from export promotion, to regulation, to conforming to standards and to the simplification of procedures. The Moroccan government now has in place a National Pact for Industrial Emergence (PNEI) for the 2009-15 period. The PNEI aims at mobilising and co-ordinating actions to develop strategic industrial sectors where Morocco can exploit competitive advantages, such as its geographical location, trade agreements and the growth potential of key sectors of the economy. The sectors targeted by the PNEI include the offshoring of services, automobiles, aeronautics, electronics, textiles and leather, food, and seafood processing. Although the PNEI is really a wider industrial promotion strategy, it includes important components and measures aimed at improving the competitiveness of Moroccan exports.

Since 2008, Morocco has also been implementing an integral strategy for export promotion (Maroc Export Plus), whose objective is to double exports by 2015 and triple them by 2018. The strategy focuses on key sectors, key markets and supporting exporting firms through sectoral, horizontal and organisational (enterprise) measures.

As in 2008, ***Israel*** continues to implement a number of government programmes and has institutions supporting exporters. The Foreign Trade Administration in the Ministry of Industry, Trade and Labour is in charge of trade policy and international trade agreements,

Table 10.2. **Results for sub-dimension 10.1: Implementing a proactive trade policy**

Scores for individual indicators

		ALG	EGY	ISR	JOR	LEB	MOR	PA	TUN
10.1.1. Export promotion strategy	2013	1.5	4	5	2.5	2	5	2	3.5
	Change since 2008	0	0	0	0	0	+2.5	+0.5	0
10.1.2. Intra-MED trade agreements	2013	3	5	2	5	3	4	3	4
	Change since 2008	+2	+1	0	+1	0	0	0	0
10.1.3. Providing advice and high value information of the international market	2013	3	3	4	2	2	3	3	4
10.1.4. Export capacity building programmes	2013	2	2.5	4	2.5	2.5	4	2	4
Overall weighted average		**2.3**	**3.7**	**3.9**	**2.9**	**2.3**	**4.1**	**2.4**	**3.8**

Source: Government and independent assessments.

and counts on a network of 35 economic and trade representatives and offices in 50 countries worldwide. The Israel Export and International Co-operation Institute (IEICI) promotes exports of goods and services, trade relations and co-operation and strategic alliances with overseas companies. The IEICI also provides services to Israeli exporters. The Manufacturers Association of Israel (Department of Foreign Trade and International Relations) advocates for local industry in terms of foreign trade policy, while at the same time promoting international collaborations and the principles of free trade.

The ***Egyptian*** Ministry of Industry and Trade (MIFT) is implementing a strategy for Export Promotion for 2010-13, which was revised after the 2011 revolution. According to the government, a new export promotion strategy for 2014-18 is under formulation in co-ordination with a number of stakeholders such as the exports councils, the industrial chambers and the Federation of Egyptian Industries. Egypt has a network of 63 commercial trade offices in key export markets.

Tunisia has a number of sectoral strategies for export promotion, including agri-food industries, health services and textiles. According to government sources, those strategies build on sectors where the country has comparative advantages. The Export Promotion Centre (CEPEX), part of the Ministry of Commerce, continues to gather commercial intelligence, examine the impact of export assistance programmes and organise export promotion activities such as commercial missions, trade fairs, etc.

In 2009, ***Jordan's*** Enterprise and Development Corporation (JEDCO) launched a series of EU-funded programmes targeted at the services and manufacturing sectors. Those programmes are expected to remain in place until December 2015 and include supporting export activities such as the development of export plans and participation in trade missions and events. Jordan is also developing a National Export Strategy, which is expected to be completed by the end of 2014, and a Strategy for Entrepreneurship and SME Development for 2014-18 which was still pending final government endorsement in the first quarter of 2014. The strategy includes an element on access to markets, the objectives of which are, among others, to increase the capacity and propensity of SMEs to export and increase their participation in the supply chains of large companies.

In ***Lebanon***, there are *ad hoc* initiatives such as trade missions and trade fairs. However, no formalised export promotion strategy exists. The Investment Development Agency of Lebanon assists in the support, promotion and marketing of Lebanese products, in particular, agricultural products and materials used in the agro-industry. A draft law for the establishment of an export promotion agency is being discussed in the parliament, but there is no evidence of the development of a clear export promotion strategy.

A National Promotion Strategy, including sectoral plans, is being developed in ***PA.*** The strategy will aim at increasing the export competitiveness of Palestinian enterprises and improving the business environment in order to expand exports.

Algeria has a functioning export promotion agency (ALGEX) with a broad mandate to promote non-hydrocarbon exports. The Algerian Insurance and Export Guarantees Company (CAGEX) insures commercial and political risks. However, there are no signs of or plans for the preparation of a comprehensive export promotion agency.

MED economies have a number of intra-MED trade agreements (including with Turkey), and many participate in two main trade agreements:

- The Greater Arab Free Trade Area (GAFTA), grouping a number of Arab countries within and outside the MED region;

- The Agadir Agreement, involving four MED countries (Morocco, Tunisia, Egypt and Jordan).

A number of trade and co-operation agreements have been signed since the assessment in 2008. ***Algeria*** signed new agreements with Tunisia in 2008 (ratified in 2010) and with PA in 2010 (ratified in 2012).[2] Egypt has a Qualifying Industrial Zones (QIZ) protocol with Israel and the United States. Although this is not necessarily a free trade agreement in the traditional sense, the QIZ allows duty-free access to the US market for Egyptian goods provided 35% is manufactured in a QIZ in Egypt and there is 10.5% Israeli content.

Two new indicators are included in this sub-dimension compared to the 2008 assessment:

- Providing advice and high-value information on the international market, which focuses on the scope of information provided (products, features, buyers, etc.) as well as the existence of one-stop shops providing information; and
- Export capacity building programmes, which analyses whether there are such programmes in operation at the national level.

Israel and Tunisia have agencies in place providing a wide array of information services on foreign markets and acting as one-stop shops with advisory services. As noted above, in Israel the IEICI provides services to companies, including the provision of information on foreign markets and trade. In Tunisia the Intelligence and Economic Surveillance Network (*Réseau Tunisien d'Intelligence et Veille Économique*, RTVIE), composed of relevant institutions such as the Ministry of Commerce, the Tunisian Chamber of Commerce and the CEPEX, collects and disseminates information on market trends, regulatory changes in commercial partners, and commercial opportunities and threats. The Export Promotion Fund (*Fonds de Promotion des Exportations*, FOPRODEX), operated by the CEPEX, also supports enterprises in financing market studies, among other services.

Algeria, Egypt, Morocco and PA also count on a number of public and private sources to gather and disseminate information on international markets, but lack a one-stop shop facilitating a unified source of information for companies. ***Jordan and Lebanon*** support enterprises in undertaking assessments of international markets, mostly by facilitating information on specialised consulting services. However, they do not disseminate information about market trends and opportunities.

In terms of export capacity building programmes, ***Israel, Morocco and Tunisia*** have put in place a wide array of initiatives. The rest of the MED economies also have also implemented a number of programmes although they partly rely on donor funding.

Simplification of procedures for international trade

The elimination of paperwork through the implementation of electronic platforms reduces transaction costs and speeds up export and import procedures. An initiative by UNCTAD, the Automated System for Customs Data (ASYCUDA) facilitates this process by electronically handling and simplifying customs clearance procedures, including manifests and customs declarations, accounting procedures, transit and suspense procedures (UNCTAD). To date, among the MED economies only ***Jordan, Lebanon, Libya, P.A. and Tunisia*** implement the system. Furthermore, Jordan, Lebanon and Tunisia implement additional measures to facilitate foreign trade through electronic clearance.

Although they do not implement ASCYCUDA, ***Egypt, Israel, Morocco and Tunisia***, have in place measures to exchange documents concerning foreign trade via electronic channels, including the electronic submission of forms. However, paper formats are still heavily used. According to the government, a new customs code is being developed in

Algeria. The code foresees the legalisation of the electronic transmission of documents. However, the non-recognition of electronic signatures by Algerian regulations impedes the implementation of this plan.

Table 10.3. **Results for sub-dimension 10.2: Simplification of procedures for international trade**
Scores for individual indicators

		ALG	EGY	ISR	JOR	LEB	MOR	PA	TUN
10.2.1. Level of computerisation of procedures for foreign trade	2013	2	4	4	4	4	4	3	4
	Change since 2008	+0.5	0	-0.5	+1	0	0	0	0
10.2.2. Quality of access to regulatory and procedural information relating to foreign trade	2013	3	5	5	3	3	5	3	3
	Change since 2008	+1.5	0	0	0	0	+2	0	0
10.2.3. Virtual one-stop shop to deal with the formalities of foreign trade	2013	2.5	3.5	4	3	2	4	1	4
	Change since 2008	+1	-1	-0.5	+1	0	+1	0	+0.5
Overall weighted average		**2.5**	**4.2**	**4.3**	**3.3**	**3**	**4.3**	**2.3**	**3.7**

Source: Government and independent assessments.

Egypt, Israel and Morocco have a national institution in charge of facilitating the diffusion of regulatory and procedural information: the MIFT, the Foreign Trade Administration and the Ministry of External Trade, respectively. Those economies also have inter-institutional co-ordination committees to facilitate information gathering and access.

The rest of the MED economies have a number of institutions disseminating regulatory and procedural information for foreign trade, but lack a unified system and/or a co-ordination committee to facilitate information gathering and access. It is worth mentioning that ***Lebanon*** is working towards a fully operational National Technical/Trade Information Centre to offer trade services and information to exporters/importers.

Israel, Morocco and Tunisia have virtual one-stop shops to deal with the formalities of foreign trade. In Tunisia, the *Liasse Unique* project allows essential documentation to be dealt with through a single electronic system, Tunisia Trade Net (TTN) (see Box 10.1). Along

Box 10.1. **Good practice: Tunisia Trade Net**

Companies involved in export and import activities face a number of administrative procedures, formalities and interactions with different institutions in different locations. This results in a loss of competitiveness due to higher-than-necessary transaction costs.

Tunisia's Trade Net (TTN) is an electronic one-stop shop to simplify, harmonise and standardise the export and import procedures and forms required by different institutions and agencies, thus facilitating procedures for foreign trade and speeding up the passage of goods through ports. It consists of the electronic exchange of information between all stakeholders in the commercial, financial and logistical chain involved in import and export operations.

Procedures are processed through the electronic platform www.tradenet.com.tn. TTN also uses a training centre (Tradenet Form) to support its clients in the process of adapting to electronic procedures and utilisation of TTN's tools. Since its creation in 2001, Tradenet Form has trained 1 200 people working in different activities, including government officials, bank staff, employees of industrial and commercial enterprises, customs agents and transport staff.

Sources and further information: Tunisian One-Stop Shop for Trade (2014), Tunisia Trade Net website, www.tradenet.com.tn/, accessed 6 June 2014

the same lines, in 2010 ***Morocco*** created PORTNET, a platform for exchanging information, albeit limited to ports. In ***Egypt***, the MIFT expects to launch a similar platform soon.

The way forward

Since the last assessment in 2008, MED economies have made progress in terms of promoting access to foreign markets. Among the most important developments are the establishment in Morocco of the PNEI, which sets priorities and targets to promote exports and competitiveness and to better integrate the country in the global economy. Algeria, 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.

For the overall MED region, however, these efforts have still to produce results. As noted before, despite the existence of a number of bilateral and regional trade and co-operation agreements, intra-regional trade remains limited: MED economies' exports are mostly destined to countries outside the region. All MED economies, except Israel and Morocco, also need to update or adopt strategic approaches towards export promotion by developing or implementing clear strategies in this area. And although efforts to facilitate trade through electronic procedures and virtual one-stop shops are underway, they still need to reach greater acceptance among users.

Notes

1. In constant 2005 USD. Refers only to Egypt, Israel, Jordan, Lebanon, Morocco and Tunisia.
2. Preferential trade arrangement between Algeria and Tunisia, signed in Tunis on 4 December 2008 and ratified by Presidential Degree no. 10-12 of 11 January 2010. Trade co-operation arrangements between Algeria and the Palestinian Authority in November 2010 and October 2012.

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Part II

Mediterranean Middle East and North Africa Economy Profiles

Chapter 11

Algeria

Economic overview

Algeria's business environment has undergone profound changes since the 1990s. The country's commitment to the market economy attributes great importance to the private sector. Algeria recorded a sustained growth rate, particularly during the 2000s (IMF, 2013a). In 1994, the value added by the private sector was only 46.5% of the national total, but this proportion has been rising. In 1998, the added value created by the private sector contributed over half of the national total (Gharbi, 2011). Although unemployment dropped from a rate of nearly 30% in 2000 to 10% in 2012, it still disproportionately affects young people (21.5%) and women (19.1%).

The Algerian economy weathered the global financial crisis of 2007-08 and the recession that followed fairly well. This is largely due to the low exposure of the Algerian economy to global financial markets, but also to prudent macroeconomic policies and sensible management of the country's oil and gas revenues. In 2011, real GDP grew by 2.6% and estimates suggest an increase of 3.3% in 2012 and 3.1% in 2013. This growth is mainly due to the non-oil economy, driven by the high level of public investment (IMF, 2013a).

However, expansionary fiscal policies have resulted in higher inflation, which rose to 8.9% in 2012 (up from 4.5% in 2011) and a wider public deficit of 6% of GDP in 2012 (up from 1.7% in 2011), although the deficit is thought to have declined again in 2013 (Table 11.1). The higher level of public spending is unlikely to be sustainable in the medium term given the instability of oil and gas revenues and their dependence on global markets. According to IMF estimates (2013a), erratic oil production in some countries of the region and a decrease in global demand should temporarily reduce growth in the region's oil-exporting countries.

Algeria continues to benefit from a favourable external position. Latest estimates suggest that the current account surplus for 2012 was around 5.9% of GDP (against 8.9% in 2011), while foreign exchange reserves were USD 193.9 billion (IMF Projections Article 4) and foreign direct investment inflows (FDI) totalled USD 1.5 billion in 2012 (against USD 2.6 billion in 2011, UNCTAD). However, FDI has been directed mainly toward the fuel sector, as mining products account for over 98% of exports. This lack of diversification makes the Algerian economy vulnerable to production shocks and changes in the demand for and prices of energy, which in turn affects the business climate and the ability of SMEs to develop and to create sustainable jobs.

Table 11.1. **Algeria: Main macroeconomic indicators, 2008-13**

Indicator	2008	2009	2010	2011	2012	2013
GDP (current USD, billion)	171.5	137.6	161.8	198.8	209.3	215.7
GDP growth (real)	2	1.7	3.6	2.6	3.3	3.1
GDP per capita (current USD)	4 958	3 901	4 496	5 413	5 582	5 668
Current account balance (% of GDP)	20.1	0.3	7.5	8.9	5.9	1.8
General government primary net lending/borrowing (% of GDP)	8.8	-5.9	-0.8	-1.7	-5.9	-2.2
Unemployment, total (% of total labour force)	11.3	10.6	9.9	9.9	9.9	10
Inflation, consumer prices (annual average increase, %)	4.8	5.7	3.9	4.5	8.9	5
Foreign direct investment, net inflows (current USD, millions)	2 593	2 746.4	2 264	2 571	1 484	---
General government gross debt (% of GDP)	8.1	10.5	12.1	11.1	10.5	10.8

Data for 2012 and 2013 are estimates.

Source: IMF (2013), *World Economic Outlook database 2013*, October, Washington, DC, www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx; UNCTAD (2013), UNCTAD Stat Database, available at unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en.

Greater economic diversification is therefore necessary to correct macroeconomic imbalances and reduce unemployment. Although important steps have been taken in this direction, progress on economic reform should be accelerated in order to boost growth and attract FDI to sectors other than mining. In particular, FDI regulations, such as that limiting foreign investment to 49% of a given project or the prior approval requirement of the National Agency for Investment Development (ANDI), could be eased.

Business environment

As was already the case in 2008, the development of the non-oil private sector is still one of the government's priorities. In addition to the macroeconomic challenges described above, the Algerian business climate faces a multitude of challenges: a regulatory framework which is still not conducive to enterprise development, a judicial system that needs to be improved in terms of contract enforcement, a dysfunctional labour market, an underdeveloped financial market, and restricted access to the international market. In addition, the long years of protectionism in international trade and investment have led to a relatively low level of integration of the economy in global production chains.

Algeria ranks 153rd out of 189 economies in the IFC-World Bank's 2014 *Doing Business*, while the MENA region, on average, ranks 107th. In addition to Insolvency Regulation (60th), the main challenges Algeria still faces are Registering Property (176th), Paying Taxes (174th), and Starting a Business (164th). The World Economic Forum lists inefficient government bureaucracy, access to financing, and corruption as the three most common problem areas for doing business (World Economic Forum, 2014). Overall, Algeria ranks 100th out of 148 economies in the 2013-2014 Global Competitiveness Index, compared to 87th out of 142 in 2011-12.

Overview of the state of SMEs

The dominance of the hydrocarbon sector in the Algerian economy, together with the poor business environment, has stymied the development of entrepreneurship. From 2004 to 2009, there were an annual average of 0.4 limited liability companies established per 1 000 working-age residents, a density rate which is low in comparison with the MENA region's average rate for the same period (0.6 companies), which is itself very low compared with the rest of the world. However, Algeria's rate has improved slightly to reach 0.5 companies in 2012 (World Bank, Entrepreneurship Survey, 2012).

According to a survey conducted by the International Finance Corporation (2011), in 2009 there were 18.2 micro, small and medium enterprises per 1 000 people in Algeria, contributing a mere 13.9% to total employment. In comparison, during this same year there were 31 SMEs per 1 000 inhabitants on average for the 131 countries covered by the survey, and these SMEs represented more than one-third of total employment.

Since then, the government has started to actively promote SME creation. According to the Ministry of Industrial Development and Investment Promotion (MDIPI), which regularly publishes statistics on SMEs, 711 832 SMEs were registered in Algeria by the end of 2012 (of which 420 117 were legal entities). Of these, 180 000 were created between 2010 and 2013 (statistical information bulletins from the MDIPI). The total number of jobs created by SMEs was 1.8 million by the end of 2012, up from 1.6 million in 2010.

The vast majority of SMEs in Algeria are small, with 96% of SMEs created in 2012 classified as micro enterprises, 3.5% as small and 0.5% as medium-sized. In 2012, SMEs

in Algeria were mainly operating in the service sector (48.6%), in construction (33.8%) and to a lesser degree in manufacturing (16%).

Box 11.1. **Definition of SMEs in Algeria**

Law 01-18 of December 2001 defines small and medium enterprises as enterprises producing goods or services and which:

- Employ between 1 and 250 employees (micro: 1-9, medium: 50-250);
- Earn annual revenues not exceeding DZD 2 billion (Algerian dinars, approximately EUR 25 million). Micro enterprises have annual revenues below DZD 20 million (EUR 250 000) and medium enterprises earn annual revenues of between DZD 200 million and DZD 2 billion (between EUR 250 000 and EUR 25 million);
- Report a year-end statement not exceeding DZD 500 million dinars (approximately EUR 6.4 million). For micro enterprises, this figure is below DZD 10 million (approx. EUR 130 000), and for medium enterprises it ranges between DZD 100 and DZD 500 million (between EUR 130 000 and EUR 6.4 million);
- Meet the independence criterion.

Assessment results

The results of the 2013 assessment indicate that over the past five years, Algeria has made significant efforts and allocated considerable resources to promoting entrepreneurship and supporting SMEs. Its performance has improved in a number of policy dimensions, going from lower scores at level 2 on most key indicators in the 2008 assessment to scores close to level 3 or just above level 3 in the 2013 assessment (Figure 11.1). These results indicate that Algeria has already established a large number of building blocks towards the deployment of a proactive policy in favour of SMEs, although there are still gaps in the policy framework, especially with regard to institutional co-ordination and strategic direction.

Policy making is largely based on a top-down approach. The government pursues with determination its objectives of promoting economic development and diversification, as defined in the Five-Year Economic Plan (2010-14). These objectives include reinforcing the capacity of private companies to generate added value and create jobs in the non-oil and gas sectors. The government responded to the challenge of transforming a largely planned economy dominated by the state into a more open and market-oriented economy by creating a number of state-controlled institutions that are each responsible for addressing a specific issue, and by allocating significant resources through dedicated funds and support programmes.

However, this approach has a number of limitations, particularly in the SME policy area. The increase in the number of institutions with mandates covering SME policy development (there are at least eight public agencies operating at central level in the SME policy area), either directly or indirectly, raises complex issues in terms of programme co-ordination, project selection and the dissemination of information to potential beneficiaries. State agencies have only limited information on the needs of private enterprises. Funds supporting new entrepreneurs and newly established enterprises provide grants or interest rate subsidies

without rigorous selection mechanisms. This may lead to the extension of funding to projects with poor economic prospects, and may delay the development of a market-based banking and financial sector.

Algeria has undertaken important steps to promote foreign trade, including the signing of co-operation and trade agreements with other MED economies, and the facilitation of access to regulatory and market information on foreign trade.

Finally, the assessment shows that a number of important SME policies and initiatives exist. However, data on their implementation, efficiency and impact remain very limited, which makes it impossible to know whether follow-up is sufficient.

The following sections present a basic overview of the results Algeria obtained in the 2013 assessment. The assessed dimensions were grouped into five broad areas pertaining to SME policies:

- Strengthening institutions and mechanisms for SME policy making (dimension 3);
- Creating an operational environment favourable to SMEs (dimensions 2 and 4);
- Facilitating the access of SMEs to finance, and improving the legal and commercial environment (dimension 6);
- Promoting a culture of entrepreneurship and skills development (dimensions 1 and 8);
- Improving SME Competitiveness (dimensions 5, 7, 8, 9 and 10).

Figure 11.1. **Algeria: 2013 assessment scores**

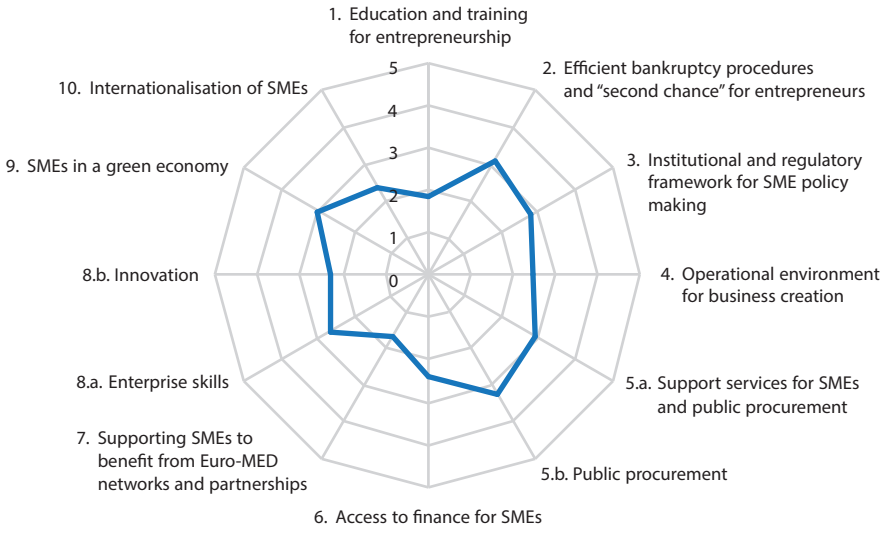


Figure 11.2 shows results comparable for both the 2008 and 2013 assessments.

Source: Government and independent assessments.

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

Algeria's institutional framework for SME policy making has evolved significantly since the 2008 assessment. SME policy has been placed under the remit of a single ministry, the MDIPI, while in the past the portfolio was split between the Ministry of Industry and Investment, which is in charge of managing the country's ambitious investment plan, and the Ministry of Small and Medium-Sized Enterprises. The reconfiguration of the institutional framework aimed at improving policy co-ordination and at better integrating SMEs into the country's development strategy. The 2010-14 Five-Year Economic Plan has elevated private sector development as one of the country's key priorities, together with public investment in infrastructure, housing and social services, with the aim of reducing reliance on the hydrocarbon sector and diversifying the country's economic structure.

Since then the resources allocated to supporting private sector development, and particularly entrepreneurship promotion in the SME sector, have increased significantly, with new instruments and institutions being established.

SME policy implementation is delegated to a number of government agencies, each one with a specific mandate and action plan. The most relevant are the National Agency for the Development of Small and Medium-Sized Enterprises (ANDPME) and the National Agency for Investment Development (ANDI).

In addition to the mandates related to the provision of information and support services to SMEs, ANDPME has since 2010 been in charge of implementing the newly established National Upgrading Programme (*programme national de mise à niveau*, MAN), with a budget of DZD 386 billion (USD 5 billion or EUR 3.6 billion) over the 2010-14 period. The programme's objective was to upgrade 20 000 enterprises by 2014, 4 000 per year over the 2010-14 period. However, the programme's implementation has been well behind schedule, with less than one thousand enterprises assisted and only DZD 5 billion disbursed in the first two years of operation.

The 2009 presidential programme also issued guidelines providing for the creation of 200 000 companies between 2010 and 2014. This objective will certainly be met in 2014, according to statistics published by the MDIPI, since more than 180 000 SMEs were created between 2010 and 2013. However, it should be noted that during the period from January 2011 to the middle of 2013, only 73.8% of SMEs created or reactivated were legal entities (the other 26% being individuals or artisans). Another programme funded by the European Commission and other international donors, PME II, focuses on supporting companies with high export potential. PME II is also experiencing weak demand for services from local enterprises.

ANDI manages a number of facilities providing fiscal incentives to support investment plans, including those endorsed by the National Investment Commission. Forty-eight regional investment funds were established at the *wilayas* level (provincial administrative units) to take equity stakes in local SMEs and to provide lease financing lines.

A number of other government agencies, operating under the Ministry of Labour, Employment and Social Security, and the Ministry of Commerce, also contribute to promoting entrepreneurship and supporting small enterprises (as indicated in Table 11.2). Finally, other institutions supporting the access of SMEs to external funding are mentioned in detail in the section devoted to them.

Table 11.2. **Algerian institutions involved in the promotion of SMEs and their respective roles**

Institutions	Roles
Ministry of Industrial Development and Investment Promotion (MDIPI)	• Defining enterprise promotion and development policies. • Dictating measures meant to improve the business environment. • Outlining the action plans that will be implemented by its branches (listed below).
National Agency for the Development of Small and Medium-Sized Enterprises (ANDPME)	**Main Tasks:** • Implementing the sectoral strategy for SME promotion and development. • Implementing and following up on the national SME upgrading programme. • Promoting expertise and consulting for the benefit of SMEs. • Following the SME population by tracking their creation, cessation of activity, and changes in activity. • Conducting regular sectoral studies and reports on economics trends. • Collecting, exploiting, and disseminating specific information related to SME areas of activity.
National Agency for Intermediation and Land Regulation (ANIREF)	**Main Tasks:** • Creating new industrial areas. • Providing land through private treaties signed via the CALPIREFs. • Implementing a price enhancement policy specific to each region. • Improving the attractiveness of the country's regions by creating and rehabilitating industrial areas.
National Agency for Investment Development (ANDI)	**Main Tasks:** • Promoting investment and the distribution of benefits accrued from it.
The Credit Guarantee Fund (FGAR)	**Main Tasks:** • Facilitating the access of SMEs to bank financing for start-up or activity extension projects by granting credit guarantees to banks, in order to complete the financial package. • SME-creation or development investments that fall outside the scope of the various existing schemes (ANGEM, ANSEJ, CNAC).
Ministry of Finance	Providing access to financing through the creation of funds and investment funds (listed below). Customs facilitation.
The Investment Credit Guarantee Fund for SMEs (CGCI-PME)	**Main Tasks:** • Supporting SME creation and development by facilitating their access to credit. • Covering the risks attached to the investment loans granted to SMEs. • Covering insolvency risks incurred by banks on loans granted to SMEs. • Complementing the other schemes aiming at providing bank financing support to SMEs, established by the FGAR and the Mutual Guarantee Fund (*Fonds de caution mutuelle*).
The Mutual Guarantee Fund for Risks/Credits to Young Entrepreneurs	**Main Tasks:** • Further strengthening the willingness of banks to take risks in the financing of companies created under the ANSEJ schemes.
The Mutual Guarantee Fund for Microcredits	**Main Tasks:** • Banks and financial institutions affiliated with the fund grant microcredits to beneficiaries who have obtained the aid of the National Agency for Microcredit Management, the ANGEM.
The Mutual Credit Fund for the Investment Risks/Credits of Unemployed Entrepreneurs between 35 and 50 Years Old	**Main Tasks:** • Further strengthening the willingness of banks to take risks in the financing of companies created under CNAC schemes.

Table 11.2. **Algerian Institutions Involved in the promotion of SMEs and their respective roles** *(continued)*

Institutions	Roles
Ministry of Labour, Employment, and Social Security	• Increasing employment through support for business creation. • Participating in financing entrepreneurship projects through its branches (see below).
National Agency for the Support of Youth Employment (ANSEJ)	**Main Tasks:** • Helping and encouraging young entrepreneurs in the creation of SMEs.
National Agency for Micro-Credit Management – Micro enterprise Creation Support (ANGEM)	**Main Tasks:** • Creating microbusinesses, home-based activity and self-employment.
The National Unemployment Benefit Fund (CNAC)	**Main Tasks:** • Helping and encouraging unemployed people in creating microbusinesses and in becoming self-employed.
Ministry of Commerce	• Developing policies facilitating access to the global market.
Algerian Agency for Export Promotion (AAPEX)	**Main Tasks:** • Promoting SME exports.

Source: Government and independent assessments.

Given the number of government institutions involved in SME support, policy co-ordination between the various institutions remains a major issue due to the lack of a comprehensive medium-term SME development strategy supported by short-term action plans. The assessment shows that policy co-ordination is currently provided by the Office of the Prime Minister through *ad hoc* inter-ministerial councils. At the institutional level, the National Council for Investment, chaired by the Prime Minister, is responsible for co-ordinating the country's investment strategy, while a separate national council supervises the implementation of the Upgrading Programme. Policy co-ordination between institutions that are not under the remit of the MDIPI remains weak.

In spite of the very significant budget allocation and the number support programmes, there are no mechanisms in place to systematically monitor the implementation and the impact of these programmes and to exchange good practices among institutions.

While there are clear indications that the government is determined to increase the role of the private sector in the economy and to promote SME activities, particularly in industrial sectors, the top-down approach and the central role assigned to public agencies have thus far not proven very productive.

In spite of all the government programmes to support Algerian SMEs mentioned above, SME development remains negatively affected by structural factors related mostly to the overregulated business environment, the lack of competitiveness of local suppliers *vis-à-vis* imports, and distorted price incentives that favour trading activities over manufacturing. Unless these distorting factors are addressed, it is unlikely that government SME support schemes alone, no matter how generous they are, will be sufficient to drive economic growth in Algeria.

Legislative simplification and regulatory reform

Until recently, private enterprise activity in Algeria has been constrained by strict regulations, resulting from several decades of state economic planning that assigned a prominent role in the economy to state enterprises. Over the last decade the government

has started a process of progressive but cautious liberalisation. Compared with the situation in 2008, the government has stepped up actions in the area of regulatory review and administrative simplification. Algeria is currently still in the early phases of establishing a regulatory reform programme. Several work groups and inter-ministerial committees have been established.

In particular, since 2007, a working group has been looking at improving the country's performance in the IFC-World Bank *Doing Business* reviews and has elaborated an overall strategy for regulatory reform. As mentioned above, Algeria currently ranks in the lower quartile, with the exclusion of the indicators related to investor protection and the insolvency procedure, where it ranks around average. A second committee is looking at the improvement of the overall business climate as part of the tripartite commission that includes representatives from the government, employers and trade unions. The government faces co-ordination issues, due to the lack of a multi-year regulatory strategy and clear mandates for administrative simplification. However the commission's work has started to produce results, with a number of incremental reforms concerning enterprise registration, approval of investment projects and customs operations.

Public-private consultations

The last five years have witnessed significant progress in the development and reinforcement of public-private dialogue. Formal consultations on broad economic issues take place in the Tripartite Council, bringing together government institutions, private sector organisations, business associations and trade unions. The assessment shows that a working group for SME Development (which is still at an early operational stage), including private sector organisations and independent experts, has been established and has presented its recommendations. However, it is not yet known whether or not the government has followed these recommendations. Private sector representatives are also members of the steering committee of the National Upgrading Programme. However, all the policy levers remain under public sector control, and it is difficult for private sector organisations to exert an influence in the absence of clear strategic direction and comprehensive information on the status of the programme's implementation.

Establishing a conducive operational environment for business creation

Company registration and business start-up process

Since 2008, Algeria has made some progress in improving its operational business environment. A major initiative was the extension of its network of one-stop shops. In 2010, measures were taken to reinforce the role of the one-stop shops managed by the National Agency for Investment Development (*Agence nationale du développement de l'investissement*) throughout the 48 *wilayas* of the country. However, the one-stop shops have, for the moment, only limited decision-making capacity, and act mainly as single initial contact points. In the area of business registration, while efforts were also made to reduce minimum capital requirements to 28.6% of income per capita, there is still room for improvement regarding the official costs of obtaining a registration certificate and the number of steps required to obtain mandatory company identification numbers.

Online registration services

There is an online business registration system in Algeria, although it is accessible only to notaries. Since 2013, notaries can go online on the portal of the National Council of the Commercial Register (*Conseil national du registre du commerce,* CNRC), on behalf of their investor clients, to reserve a company name, insert summaries of Articles of Incorporation and publish the registration in the Official Bulletin of Legal Announcements (Boal). The online registration process is operational and in the process of being extended. Entrepreneurs can download business creation forms from the websites of the CNRC and the National Agency for Investment Development. In addition, the introduction of a single identification number and exploitation of the synergies existing between the different institutions involved in the registration process would further facilitate the establishment and use of online services.

Bankruptcy procedures and second chance

Algeria's Code of Commerce (order 75-79) of 1975 establishes bankruptcy procedures, but, according to the assessment, their implementation remains very limited. The 2013 *Doing Business* report shows that the process of closing a business in Algeria is relatively speedy and inexpensive and creditors recover 41% of their investment, which is well below the OECD average of 70% but above all other MED economies except Israel and Tunisia.

Algeria has a relatively efficient system for resolving insolvency. However, according to the assessment, Algerian courts are not generally trained in matters related to the reorganisation of enterprises and therefore often opt for liquidation, which can lead to the closure of businesses that could have survived bankruptcy. Therefore, Algeria could benefit from capacity-building programmes for judges dealing with insolvency, such as those being undertaken by Egypt with the assistance of the International Finance Corporation (IFC).

Facilitating SME access to finance and improving the legal and business environment

Since the 2008 assessment, Algeria has made significant progress in the area of access to financing, in particular by improving the legal and regulatory framework of the credit information bureaus. However, despite these improvements, SMEs still suffer from a structural lack of access to external financing. The bank credit market remains underdeveloped due to excessive regulation, and to the domination of state financial institutions operating in conditions that are not based on the market, which, in turn, hampers competition among commercial banks.

Sources of external finance for SMEs

Bank lending was not significantly affected during the global financial crisis, largely due to the limited integration of domestic banking and financial institutions in the global financial system. The economy recorded a slight expansion of credit activity between 2008 and 2012, with domestic credit to the private sector increasing from 13.2% to 14.3% of GDP (see section on Access to Financing for details). But this level of financial development is very low compared to both international norms and the other MED economies. In particular, the contribution of private banks in Algeria to enterprise lending remains marginal as state banks represented more than 90% of the credit granted in 2012.[1] Regarding the financing of SMEs, available statistics do not indicate what percentage of loans was granted by banks, whether private or public, to SMEs.

As in the 2008 assessment, credit guarantee schemes in Algeria are funded by either public institutions and state banks or by foreign donors such as the EU. The Investment Credit Guarantee Fund for SMEs (CGGI-PME) has facilitated, since 2001, the access of SMEs to investment credits. A 2013 government circular plans to increase the resources of this fund, as well as to reinforce its regional structures and improve its sector-specific analytical capacities. Other credit guarantee schemes in place in Algeria are the SME Guarantee Fund (FGAR), which facilitates the creation and expansion of SMEs, and the Mutual Fund Guarantee Risks/Credits for Young Entrepreneurs, established in 2003 by the National Agency for the Support of Youth Employment (ANSEJ). According to the assessment, these guarantee funds do not have performance self-assessment mechanisms. No clear governance structures that would separate the different actors involved in the decision to grant the requested guarantees could be found for these funds.

In comparison with the 2008 assessment, some improvements were witnessed in leasing activities. Although a legal framework has been in place since 1996, it is only recently that this activity has started to emerge, and it remains a marginal tool for SME financing. According to estimates, the penetration rate of leasing activities has not yet reached 1%, a comparatively weak rate with respect to other countries such as Morocco (6%) and Tunisia (8%). Nevertheless, the number of lessors increased from 1 to 10 between 1990 and 2010, and reached 14 in 2014. The leasing sector is composed of leasing departments in banks with units for SMEs, and of specialised leasing agencies. On the regulatory level, some incentives were established for leasing institutions, including tax and value-added tax exemptions (*Loi de Finances* 2008). Leasing activities in Algeria are supervised by the central bank.

Microfinance institutions in Algeria are state institutions, while in the other economies in the MED region NGOs or independent financial institutions manage microfinance activities. The sector has, however, witnessed some progress since the 2008 assessment, especially from the point of view of its territorial coverage. There is now a microfinance office in each province for each of the three main actors in the microfinance sector. One of them, ANSEJ, the most important microfinance institution, offers microloans to the young unemployed between 19 and 35 years old. Between 1996 and 2012, ANSEJ financed 223 437 projects that created a total of 564 721 jobs, well below the number of jobs expected to be created by these projects. The proportion of women in these projects is only 10%. ANGEM, another specialised government agency, gave microcredits to almost half a million clients, with 60% of them women. The CNAC, the National Unemployment Benefit Fund, also offers microloans to the unemployed but only if state banks participate in the loans. The percentage of women that received loans from CNAC is only 6.7%. Therefore, the microfinance institutions described here remain financed by the state, and this without any specific legal and regulatory framework, a situation that not only prevents the sector from expanding, but also inhibits the expansion of the range of products offered.

Other sources of external finance for SMEs, such as venture capital, business angels, and capital markets are underdeveloped in Algeria, despite some progress since the last assessment in 2008. Specific legislation for venture capital/private equity/investment funds has been in place in Algeria since 2009. However, this legislation is not fully in line with good practices: for instance, the law governing investment funds sets the minimum capital for entry at a very high level, and fails to distinguish between investment funds and asset management companies. However, the assessment reveals that a draft law is under preparation to formalise the difference between the two types of institution.

Overall, the number of investment funds increased from two to six between 2008 and 2013. So far, due to the stringent legal framework, the impact of these funds on SME financing

has remained marginal. Moreover, capital markets in Algeria remain underdeveloped as stock market capitalisation represents only 0.1% of GDP. A market sub-sector for SMEs was created in 2012, but it requires businesses to introduce 10% of the capital distributed over a minimum of 50 stakeholders.

Legal and regulatory environment

Concerning the legal and regulatory environment, Algeria has also witnessed fairly significant progress. Notably, credit information services have improved considerably compared to the last assessment. Since 2012, borrowers have had the right to access their data as defined by a regulation of the Public Credit Information Bureau (*Centrale des Risques*), and the minimum threshold for loans to be included in the database has been eliminated. Credit information services are available to both financial institutions and individuals, including negative credit information. However, no more than two years of historical data is available, which limits the capacity to analyse borrower profiles. Moreover, the coverage of the credit information bureau is only around 2.4% of adults, compared to an average of 8.3% for MENA economies and 15.2% for OECD countries (*Doing Business*, 2014).

Algeria has also made some progress in the area of property registration, but there is still a non-negligible fraction of the country that is not yet covered. Regarding movable assets, a registry is now in place, whereas it was non-existent in 2008. However, the assessment shows that it is not yet fully operational, and that information is not easily accessible. Furthermore, the type of moveable asset that can be used as collateral needs to be broadened, and the law that establishes the rights and responsibilities of the parties needs to be clarified.

Despite the improvements mentioned above, there is still some progress to be made to improve SMEs' access to external financing. The lack of information about the financial status of entrepreneurs and enterprises, the lack of appropriate guarantees based on operational asset registries, and the weak legal rights of creditors remain responsible for the very high collateral and provisioning requirements demanded by banks. More flexible requirements only apply to loans below EUR 20 000, mostly because of state support mechanisms (ANDI, ANSEJ, etc).

Financial literacy

The level of financial literacy remains very low in Algeria. According to the IMF survey on access to finance (IMF, 2013b), only 48 households in 1 000 have a deposit account in a commercial bank, while the average for developing countries is 539 accounts and the average for OECD member countries is 1 560 accounts. According to the assessment, the government has launched no significant initiatives to improve the level of financial literacy among entrepreneurs.

Promoting a culture of entrepreneurship and skills development

As described above, Algeria's institutional framework offers considerable incentives for business start-ups, particularly for young people and the unemployed. Three agencies (ANSEJ, CNAC and ANDI) have been set up to allocate public resources and to promote business development. These agencies support entrepreneurs using the public resources at their disposal. At the same time, the formal education system has not demonstrated the same dynamism. Entrepreneurial learning is not yet regarded as a core competence in education programmes. However, the reform of the education system in 2008 and the

reform of vocational training have created instruments such as the Partnership Council for Vocational Training and the National Curriculum Board. These boards, which include representatives from various socio-economic sectors, could act as levers for the development and implementation of a national strategy for lifelong entrepreneurial learning.[2]

The low rate of business creation in Algeria in relation to its population size may be due, among other factors, to insufficient access to entrepreneurial learning instruction throughout the country.

While, in theory, the policy framework and funding mechanisms for entrepreneurial learning are in place, in practice weaknesses can be identified in the fields of national education, vocational training, and higher education. Lower and Secondary Education levels (ISCED 2) completely ignore entrepreneurial learning, while Upper Secondary Education (ISCED 3) continues to disregard entrepreneurial learning as a core competence. While there is a growing awareness of the entrepreneurial learning dimension in higher education, it is not yet integrated systematically into courses of study.

Informal initiatives promoting entrepreneurship by employers and professional associations, working together with universities and schools, are diversifying and, in some cases, becoming more regular and long term. Co-operation between universities and businesses is developing very slowly, and holds the potential for fostering the exchange of good practices.

The analysis of workplace training needs and its organisation are also provided for by public policy. Algeria has sufficient budgetary instruments to promote workplace training. For example, a National Office for the Development of Continuous Training (ONDEFOC), which will promote continuous training, and at least two special funds financed by the treasury have been created. These funds are the National Fund for Apprenticeship and Continuous Training (FNAC) and the Fund for Information and Communications Technology (FOTIC), a fund for start-ups in the information and communications technology sector. Because of these public funds, training opportunities are relatively widely available both in the public and private sectors.

These programmes are systematically offered by ANSEJ and CNAC to anyone intending to set up a business. They relate primarily to financing, market research, relations with banks and account management.

In general, workplace training is strongly encouraged by the public authorities through the established funds. There are strong incentives for lifelong training, as businesses are required to invest at least 2% of their annual wage bill in training and apprenticeship, failing which they are obliged to pay the difference (unexpended funds) to the FNAC.

It is without a doubt in the area of female entrepreneurship that there have been the most remarkable developments in recent years. Programmes on business start-ups and training aimed specifically at women have enjoyed great success. Nevertheless, they remain highly segmented and are not yet part of a public policy on female entrepreneurship.

There are still many weaknesses, most notably in the access of small businesses to information, relations between universities and businesses, training in exports and sustainable development, and the dissemination of good practices.

In general, the weaknesses in the Algerian institutional framework for promoting entrepreneurship lie in its fragmentation and in the inadequate co-ordination of sectoral public policies. In addition, the public funds that have been mobilised are not tailored to small businesses, which do not always have information about the opportunities available. The budgetary instruments are often also impeded by administrative and bureaucratic procedures.

Enhancing SME competitiveness

Business information and services

The policy framework for business support services has improved since 2008, as the Algerian government has significantly increased public funding for enterprise support with the launching of an ambitious National Upgrading Programme in 2010 (*Programme de Mise à Niveau)* and a number of other schemes supporting SMEs, such as the Programme PME II, launched in 2011. According to the assessment, a range of business support services is provided, and specialised technical centres offering expertise and feasibility studies in areas such as packaging, agro-business and metal transformation are already in place. However, there are no personalised services and little internal competition among the service providers. Information about business support service providers in Algeria can be found on different websites, but there is no central database available online.

Regarding start-up support services, only slight improvements have been made since 2008, as these services do not yet reach all regions and are not well structured and diverse, despite the existence of public institutions, such as ANSEJ, which work in all 48 *wilayas*. Five university incubators are at the pilot stage and a technology park is under construction following a 2011 government decision, while four technology and ICT-oriented business incubators are operational. However, statistical bulletins by the MDIPI reveal that these services are not yet effectively contributing to the creation of new start-ups, or at least not as much as was expected.

Algeria has generally made some progress in the area of enterprise access to economic and legal information compared to 2008. The statistical SME information bulletin, published by the MDIPI, provides extensive statistical information about the SME landscape and the support services in place. It is distributed twice a year, and brings together statistics from various national sources. Additional practical information can be found on the websites of the ANDPME, ANDI and CNRC. However, a single interactive information portal is still not available, which would make it easier for companies to access regularly updated information in all the relevant areas of activity.

Public procurement

The 2013 assessment indicates that the public procurement system in Algeria is relatively open to the participation of SMEs in public tenders. For instance, a decree regulating public markets, issued in 2012, specifically encourages reserving 20% of public contracts for micro enterprises. The same decree stipulates the mandatory publication of information on public procurement in official bulletins and in at least two national newspapers. Regarding e-procurement solutions, there is limited information available in electronic format.

Algeria has established a Guarantee Scheme for Public Procurement (CGMP) to deal with late payments for public contracts. This institution covers the government bill in case of late payment. In 2012, the CGMP has delivered 2 800 guarantees totalling DZD 81 million (EUR 7.6 million). In addition, 647 private SMEs have benefited from this service.

The country has introduced a range of discriminatory measures concerning foreign-based companies competing for public tenders, as market access conditions are sometimes determined by bilateral agreements or on a case-by-case basis. According to the Algerian Public Market Code of 2010, international investors are required to partner with an Algerian enterprise, which has to own the majority of the capital (i.e. at least 51%). In addition, the

Algerian government has the right to publish tenders only for Algerian enterprises and apply a preferential margin of 25% for Algerian applicants. Such measures limit the participation of foreign companies in the local economy, and thus reduce the positive effect they could have.

Innovation

Since 2008, Algeria has achieved progress in many aspects of innovation promotion policies. Since 2010, innovation promotion has been the responsibility of the National Business Upgrading Programme. The government has yet to adopt a national innovation strategy. Recently, the MDIPI developed a new industrial strategy, and a draft law on innovation promotion and the creation of a local agency in charge of monitoring innovation measures was presented to the government. The industrial strategy is still under discussion and no official measures have been initiated yet. At present, there is no single institution dedicated to the promotion of innovation. Scattered measures have been taken by the MDIPI, the Ministry of Information and Communication Technologies, and the Ministry of Higher Education and Scientific Research, which developed a draft law on research promotion in enterprises for 2014-18.

Since 2008, Algeria has established a number of innovation support mechanisms involving the private sector, universities and research centres. These initiatives include: the new centres for technology and innovation support created in 2010 within universities by the National Algerian Institute for Intellectual Property and the World Organisation for Intellectual Property; 34 national research programmes established by the Ministry of Higher Education; 2 577 research projects selected and launched in 2011; a network for R&D in the ICT sector that gathers universities, research centres and economic actors in the field. The Sidi Abdallah innovation incubator is operational and incubating three projects. It has defined another 20 projects for the future. Five new regional incubators will soon be developed. The cyber park of Sidi Abdallah expanded its activities in 2013 to Oran and Batna.

Financial support for innovation promotion has increased remarkably. There are measures to fund innovation promotion, including: a national programme for technological start-ups launched by the National Agency for SME Development in 2013; the Multilateral Support Programme for the Creation of Innovative Enterprises in the Mediterranean Region (PACEIM); the Fund for the Promotion of Industrial Competitiveness (*fonds de promotion de la compétitivité industrielle*), which since 2012 has allocated DZD 1 million (approx. EUR 9 400) to finance the innovation-related activities of the Upgrading Programme and the government's annual initiative to grant a national prize to the best innovative SME. As for indirect funding mechanisms implemented in 2012, the National Fund for Investment and the listing of SMEs on the stock market are expected to have an indirect impact on promoting innovation.

Green economy

Algeria's policy framework contains several laws to protect the environment and promote sustainable development and renewable energy. These laws are complemented by two National Action Plans for the Environment and Sustainable Development, with a budget of DZD 500 million (EUR 4.7 million), which focus on the preservation and sustainable use of biodiversity, soil degradation, water management and the stabilisation of greenhouse gas emissions. However, despite some existing market-based pricing mechanisms, the regulatory approach Algeria has taken to change the behaviour of businesses appears to be restrictive rather than supportive, as it limits the activities of enterprises (European Commission, 2012).

Expertise and training for SMEs in areas such as energy auditing and security are made available through various public institutions, such as the Algerian Institute of Renewable Energy and Energy Efficiency (IARD) and the Research Institute for Sustainable Development (IRDD). Furthermore, there were 110 national research projects on renewable energy in 2011 but remain to be further developed and assessed. However, the commitment of private institutions, such as chambers of commerce, NGOs and private service providers, remains limited.

The participation of SMEs is still at an early stage with only 75 enterprises being certified with ISO 14001, a series of specific requirements for the establishment of an environmental management system in 2012 applied by the National Centre of Cleaner Production Technologies. However, further certification and standardisation measures are planned within its SME Upgrading Programme, with the stated objective of bringing 1 000 businesses to mandatory certification of their products in accordance with Algerian standards.

Export promotion

Algeria has a number of bilateral trade and co-operation agreements with MED economies, including the relatively recent Preferential Trade Agreement between Algeria and Tunisia, signed in Tunis on 4 December 2008 and ratified in 2010, and the Commercial Co-operation Agreements between Algeria and PA of November 2010 and October 2012. In reducing barriers to international trade, these agreements are important for the development of SMEs. As described in Chapters 7 and 10, SMEs that are successful in integrating into the export market tend to record higher rates of job creation, to offer higher wages and to be more innovative. However, Algeria also needs to develop the export sector itself, notably by diversifying its economy, since the range of exported products is still very limited.

Algeria also has a number of platforms for disseminating relevant information on foreign markets, including regulatory information. These include the Algerian Company of Export Guarantees (CAGEX), the Algerian Agency for the Promotion of Foreign Trade (ALGEX), the Office of Promotion of Foreign Trade (PROMEX), and the Algerian Chamber of Commerce and Industry (CACI). However, there is no one-stop shop facilitating access to all this information in a single platform.

In the area of foreign trade promotion through facilitated procedures, Algeria is developing a new customs code stipulating the legalisation of the electronic transmission of documents. Under this new code, in the specific case of the Port of Algiers, import and export procedures are to be computerised. However, the non-recognition of electronic signatures by Algerian regulations makes it unfeasible to implement this plan.

Euro-MED co-operation

Algeria has no measures to promote the development of Euro-MED enterprise linkages and business support services, apart from its participation in the MED-Alliance within the Euro-MED Invest initiative, an EU programme that ended in 2011.

The way forward

The results of the 2013 assessment indicate that Algeria has made significant progress in its SME support policies. To continue this progress, Algeria should first solve its problems of policy co-ordination and efficiency, before further extending the scope of its policy instruments and allocating additional resources to the promotion of entrepreneurship and the development of SMEs.

The first step should be a thorough diagnosis of existing constraints on and opportunities for the development of private enterprises. To do this, Algeria should conduct a detailed impact analysis of the business environment and a review of mechanisms creating market distortions that are likely to send the wrong signals to potential and existing entrepreneurs. For example, one of the main factors discouraging entrepreneurial activity, despite substantial financial incentives, is the attractiveness of relatively more secure employment in the public sector, whereas an entrepreneur would only be covered by the social security net.

The diagnosis should lead to the development of a comprehensive multi-year strategy for SME development, conceived in collaboration with all stakeholders related to SMEs, including entrepreneurs and private sector development experts. The strategy should set a medium-term vision, objectives, and a set of quantitative and measurable targets. In addition, it is necessary to define the instruments for achieving these objectives, combining horizontal measures aiming at improving the business climate with targeted measures to support businesses. The strategy should include a mechanism for monitoring and reporting programmes, as well as dedicated tools for assessing their impact. Such a strategy should be well structured, providing a platform for policy co-ordination and utilising indications from the private sector to counterbalance the current top-down approach to policy making in Algeria.

The strategy should offer the opportunity to integrate and further develop actions in previously neglected areas. For instance, support to innovative SMEs has been relatively limited. In particular, there is a need to extend and upgrade incubation facilities and to support the establishment of networks offering dynamic SMEs opportunities to develop business projects jointly with larger companies, technical laboratories and foreign partners.

Regarding access to funding, Algeria's priority should be to set up market mechanisms and to reduce the premiums granted by public financial institutions on non-market terms so as to increase the competitiveness of the banking sector. Public and private banks could also improve their ability to conduct risk analyses before granting loans. Finally, in view of the low financial literacy rates, another priority would be to develop an action plan that would aim to educate entrepreneurs about existing financial products and their use.

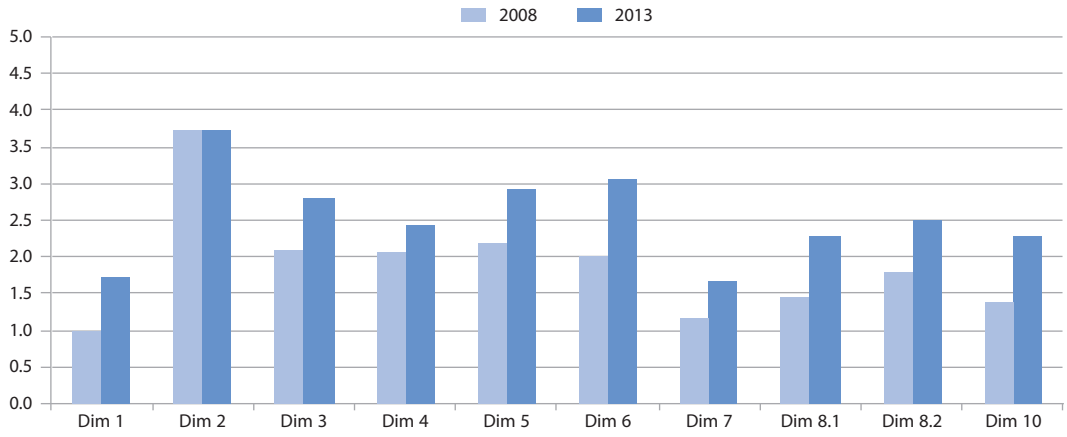
Business development services are numerous in Algeria. However, there is no evaluation of these services and their effectiveness. It is therefore essential not to introduce new services without having first conducted an evaluation of existing ones.

Entrepreneurial learning remains weak, and obstacles must be overcome in the three components of the educational system. First of all, entrepreneurial learning should be established by the National Curriculum Board as a core competence in courses of study at two levels of the national educational system (ISCED 2 and ISCED 3). The vocational training system is already reasonably open to this issue. The role of the Partnership Council should be reinforced in order to update training nomenclatures with a view to including a needs analysis in the areas of entrepreneurial learning and training. In higher education, changes should be introduced in the university governance system, with the appointment of representatives from the business community on management bodies

as well as on educational and academic bodies. Training-needs analysis and workplace training also constitute key elements in promoting entrepreneurship and competitiveness among businesses. The instruments already in place are assets, but they must be made more accessible for small businesses by simplifying procedures and eligibility criteria. The arrangements for access to these incentives often make them redundant and ineffective. For this reason a Small Business Act-type legal framework, dedicated specifically to small businesses, should be introduced.

A number of key measures, such as the definition of a multi-year strategy for export promotion, with clear targets and co-ordination mechanisms, could further develop the exchanges of Algerian SMEs with other MED economies. Moreover, Algeria could benefit from the introduction of a one-stop shop to facilitate access to information on foreign trade, including regulatory information. Finally, new schemes could ensure the recognition of electronic signatures in Algerian regulations so as to facilitate imports and exports and reduce the time and transaction costs of foreign trade operations.

Figure 11.2. **Algeria: assessment results 2008 and 2013**



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

DIM 1: Education and training for entrepreneurship, including women's entrepreneurship; **DIM 2**: Efficient bankruptcy procedures and "second chance" for entrepreneurs; **DIM 3**: Institutional and regulatory framework for SME policy making; **DIM 4**: Operational environment for business creation; **DIM 5**: Support services for SMEs; **DIM 6**: Access to finance for SMEs; **DIM 7**: Supporting SMEs to benefit from Euro-MED networks and partnerships; **DIM 8.1**: Enterprise skills; **DIM 8.2**: Enterprise innovation; **DIM 9**: SMEs in a green economy; **DIM 10**: Internationalisation of SMEs.

Source: Government and independent assessments.

Notes

1. According to the Bank of Algeria, in 2011 the public banking sector consisted of six banks that accounted for 89% of total banking sector assets, 83% of the national banking system and 70% of net banking income. Meanwhile, the private banking sector was composed of more than 14 banks with foreign capital, comprising subsidiaries or branches of international banks.

2. The Partnership Council for Vocational Training was established by the Framework Law on Vocational Training in 2008, and created in 2009. "This Council is to contribute to the development of the training programmes and profiles required by the labour market. It also contributes to the consolidation of national nomenclature of specialties, and facilitates dialogue and regular and ongoing consultation between all stakeholders and partners in the system of vocational training." "Its potential lies in its composition. The Council is composed of representatives of socio-economic sectors, corporate bodies promoting entrepreneurship, employment, and investment, as well as employers' associations and trade unions."

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Chapter 12

Egypt

Economic overview

Egypt is the second largest economy of the MED region and is classified as a lower middle income country according to the World Bank. It has a large and growing population and lacks the natural resource abundance of other neighbouring economies. Nevertheless, mineral fuels are the main export item; constituting 30% of all exports in 2012 (World Bank, 2014).The Egyptian economy is dominated by the service sector, notably tourism, transport and public administration.

The economy of Egypt continues to suffer from the political transition that has been ongoing since 2011. Real GDP growth remained subdued at 2.2% in 2012 and is estimated at only 1.8% in 2013, as in 2011 (Table 12.1). This represents a significant slowdown relative to average growth rates around 5% in the decade before but is still comparable to the growth rate witnessed in 2012 by MENA oil importers (2%) or by Arab countries in transition (2.5%),[1] according to the IMF (2013).

The political transition has negatively affected macroeconomic fundamentals, notably consumer confidence, investment inflows and public finances. Consequently, this has led to a deterioration of the operational environment for private enterprises, mainly composed of SMEs. Inward foreign direct investment (FDI) inflows remained subdued at USD 2.8 billion in 2012, compared to USD 6.4 billion in 2010 and around USD 9 billion before the outbreak of the financial crisis in 2006-07 (UNCTAD, 2013). Elevated public spending drove up the primary deficit to 10.7% in 2012, while gross government debt exceeded 80% of GDP. Efforts are needed to keep these rates from getting even worse, with the primary deficit notably reaching almost 15% in 2013.

A significant portion of public expenditures goes to subsidies for food and energy. These have helped to keep inflationary pressures moderate with a consumer price index at 8.6% in 2012. While this is lower than in previous years (11.1% in 2011), it nevertheless poses a risk in the medium term. At the same time, the Egyptian pound has been subject to severe pressure. Despite inflationary pressures, the Central Bank of Egypt cut interest rates by a further 50 basis points to 9.6% in August 2013 in an attempt to restore investment and credit to the private sector.

Table 12.1. **Egypt: Main macroeconomic indicators, 2008-13**

Indicator	2008	2009	2010	2011	2012	2013
GDP (current USD, billion)	162.4	188.6	218.4	235.6	256.7	262
GDP growth (real)	7.2	4.7	5.1	1.8	2.2	1.8
GDP per capita (current USD)	2 160	2 452	2 775	2 930	3 111	3 113
Current account balance (% of GDP)	0.5	-2.3	-1.9	-2.6	-3.1	-2.6
General government primary net lending/borrowing (% of GDP)	-8	-6.9	-8.3	-9.8	-10.7	-14.7
Unemployment, total (% of total labour force)	8.7	9.4	9.2	12.1	12.3	13
Inflation, consumer prices (annual average increase, %)	11.7	16.2	11.7	11.1	8.6	6.9
Foreign direct investment, net inflows (current USD, millions)	9 494	6 711	6 385	-482	2 797	n.a
General government gross debt (% of GDP)	70.2	73	73.2	76.6	80.6	89.5

Data for 2012 and 2013 are estimates.

Source: IMF (2013), *World Economic Outlook database 2013*, October, Washington, DC, www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx; UNCTAD (2013), UNCTAD Stat Database, available at unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en.

Business environment

Throughout the political transition, Egypt has continued to recognise that the business and investment climate is crucial to realising Egypt's potential and has remained committed to a process of reforms. While the political transition and the related macroeconomic challenges are currently the greatest impediment to Egypt's business environment, more structural challenges include a barely functioning labour market and a regulatory environment that needs to be improved.

The OECD Business Climate Review of Egypt (forthcoming), conducted with the support of the European Commission, shows that the domestic laws and international commitments of Egypt provide a high level of protection for foreign investors in many areas. However, implementation of laws and regulations, accessibility to investment and business-related information and transparency emerged as the most important deficiencies. Another finding is that Egypt needs more comprehensive communication strategies between the public and private sector as they are seen as an essential component of an improved business climate.

Egypt is moderately open towards external trade and foreign investment, but significant non-tariff trade barriers remain and capital transfer restrictions have been put in place in the past two years to limit capital outflows. Reforms adopted prior to 2011 aimed at improving the investment and business environment, such as the General Authority for Investment (GAFI) one-stop shop policy to accelerate investment approvals. However, their impact has been limited due to the political transition and lengthy judicial procedures.

Egypt ranks 128th out of 189 economies in the ease of doing business index of the IFC-World Bank *Doing Business* report 2014, a significant drop compared to 109th place out of 185 economies in 2013. While Starting a Business (50th) is relatively easy in Egypt, the country performs poorly in Enforcing Contracts (156th), Dealing with Construction Permits (149th), Paying Taxes (148th), Protecting Investors (147th) and Resolving Insolvency (146th). The World Economic Forum lists Policy Instability and Government Instability as the two most common problem areas for doing business in Egypt. Overall, Egypt ranks 118th out of 148 economies in the Global Competitiveness Index 2013-2014, compared to 94th out of 142 in 2011-12.

Overview of the state of SMEs

Without a functioning labour market and a satisfactory regulatory environment, conditions for entrepreneurs are challenging in Egypt. While statistics for more recent years are not available, there were on average 0.13 limited liability companies established per year and per 1 000 working-age residents between 2004 and 2009, a rate that is much lower than the Middle East and North Africa region[2] average of 0.6 companies over the same period (World Bank, 2012). Small-scale entrepreneurship does however play an important role in the Egyptian economy.

According to numbers provided by the Central Bank of Egypt to a team of researchers from the University of Cairo, there are around 2.5 million SMEs in Egypt, "representing 75% of the total employed workforce and 99% of non-agricultural private sector establishments" (El-Said et al., 2011). They find that 85.4% of SMEs have less than 20 employees, while only 6.3% employ more than 50 people. Similarly, most SMEs are characterised by a small capital base, with 82.6% of SMEs possessing capital not exceeding EGP 250 000 (Egyptian pounds, EUR 26 540). As opposed to most economies

in the region, the most common activity for SMEs in Egypt is in the manufacturing sector (51.1% of total), closely followed by the trade sector (40.5%). Only 6% of Egyptian SMEs participate in export markets, with this share ranging between 24% and 29% for those with capital of more than EGP 30 million or employing more than 50 persons.

Box 12.1. **Definition of SMEs in Egypt**

There are several definitions of SMEs in Egypt. The Law 141 from 2004 defines small and medium enterprises as follows:

- Micro enterprise: less than EGP 50 000 capital paid (around EUR 5 260), up to 10 employees.
- Small enterprise: EGP 50 000-1 000 000 capital paid (around EUR 5 260-EUR 105 130), 11-50 employees.
- Medium enterprise:
  - Industrial sector: EGP 500 000-10 000 000 capital (around EUR 52 560-EUR 1 051 300, 51-100 employees
  - Trade and service sector: EGP 500 000-2 000 000 capital (around EUR 52 560-EUR 210 250), 10-19 employees

Assessment results

In the 2008 report Egypt figured among the best performing MED economies, having adopted a number of policies directed at improving the business environment for private enterprises, while at the same time establishing a range of tools and support schemes for small enterprises. At the same time, the report also highlighted the fragmentation of the institutional framework, the lack of a common strategy and the weak support for innovative enterprises.

Over the last five years, Egypt has maintained its position among the MED economies in terms of overall performance (see Figure 12.1). However the 2013 assessment indicates that the momentum driving business climate policy reforms has been partly lost, due to the prolonged phase of political transition that started following the events of 2011. At the same time, the 2013 report shows that the institutions in charge of SME policy have continued to operate and co-ordination has improved at the operational level. In addition Egypt has made further 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 innovations in SMEs, although most of those schemes are in the initial implementation phase.

The operational environment for SMEs has faced significant difficulties, mostly due to the impact of macroeconomic factors and social and political transition. There have been improvements in the regulatory framework for access to finance, notably the extension of the activity of the credit bureau, but private enterprises, already suffering from limited access to bank financing, are increasingly crowded out by public borrowing at high interest rates.

Figure 12.1. **Egypt: 2013 assessment scores**

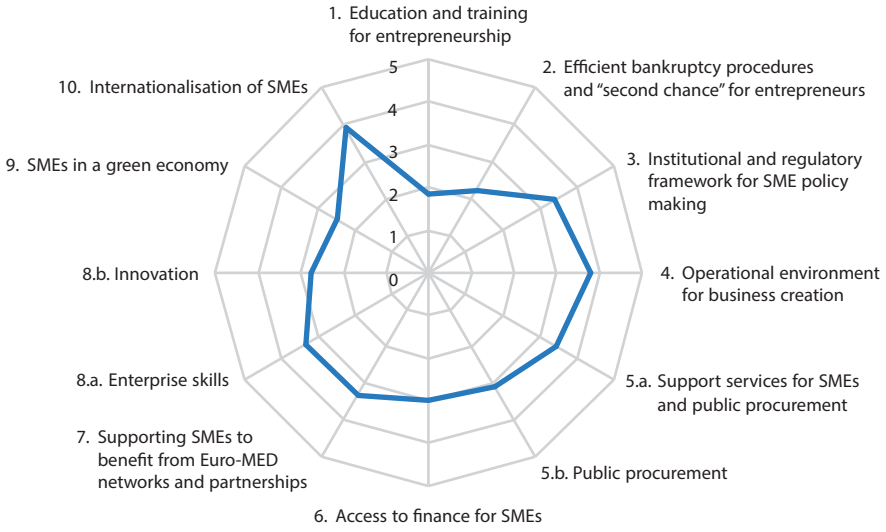


Figure 12.2 shows results comparable for both, the 2008 and 2013 assessments.

Source: Government and independent assessments.

Finally, despite the large number of existing policies, initiatives and programmes supporting SMEs, indications of the degree of their implementation, effectiveness and impact remain limited.

The following sections outline the main findings for Egypt from the 2013 assessment. In order to facilitate the analysis of the economy profile, the policy dimensions are reorganised under five wider SME policy areas:

- Strengthening institutions and mechanisms for SME policy making (dimension 3);
- Establishing a conducive operational environment for SMEs (dimensions 2 and 4);
- Facilitating SME access to finance and developing the legal and business environment (dimension 6);
- Promoting a culture of entrepreneurship and skills development (dimensions 1 and 8);
- Enhancing SME competitiveness (dimensions 5, 7, 8, 9 and 10).

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

The findings of the 2013 assessment indicate that the institutional SME policy framework in Egypt remains highly fragmented. The SME policy mandate is distributed over several institutional agencies and with a blurred separation between the functions of policy elaboration and policy implementation. The structure of the institutional framework has not changed significantly since the 2008 assessment. The Social Fund for Development (SFD) remains in charge mainly of micro and small enterprises, while GAFI is focusing on small and medium sized enterprises with high growth potential. The Ministry of Trade and Industry, through the Industrial Modernisation Centre (IMC) and other affiliated

organisations, is supporting small to large enterprises operating in industrial sectors. However, institutions like the SFD and GAFI are showing greater dynamism, under a renewed leadership, and there are indications of closer co-operation between the different institutions at operational level.

The SFD, for instance, has extended its financial support facilities for microenterprises, increased co-operation with international financial institutions, such as the World Bank and the African Development Bank, and has established a policy unit. GAFI has increased its assistance to high-growth enterprises, launching initiatives such as the SME Clinic, and extended its network of one-stop shops.

In the absence of a comprehensive mandate for the Ministry of Economy, policy elaboration responsibilities are split between different ministries: Trade and Industry, Investment and Finance, and Planning. Some form of co-ordination is maintained as in the past through cross-board representation in the implementation agencies (SFD, GAFI, IMC), but co-ordination remains difficult in the absence of a comprehensive SME development strategy. In April 2013, the SFD received the mandate from the council of ministers to co-ordinate the development of the new SME strategy with other stakeholders. Work has progressed since then in parallel with the launching of a wide consultation process. However the instability of recent months is delaying completion of the strategy.

The Industrial Development Strategy (2005-25) elaborated in 2004 continues to guide government actions for the promotion of industrial activity. Its goal is to transform Egypt into a major manufacturing centre by 2025, by supporting a mix of traditional and advanced sectors and tackling business climate issues, such as access to technology and skill development. Strategy implementation is closely monitored by the Ministry of Industry, through a set of key performance indicators. Thus, it is important that the new SME policy strategy currently under preparation is linked with the ongoing industrial development strategy in order to assure that SMEs, and particularly high-growth SMEs, have access to the instruments put in place by the institutions operating under the supervision of the Ministry of Trade and Industry, such as the IMC, the Industrial Development Authority (IDA) and the Egyptian Technology Transfer and Innovation Centres (ETTICs).

Legislative simplification and regulatory reform

In 2008, Egypt launched an ambitious, comprehensive multi-year regulatory reform programme, the Egyptian Regulatory Reform and Development Activity (Errada). From 2008 to 2012 Errada conducted a systematic review of current laws and regulations with the direct involvement of eleven line ministries and several government agencies. The aim was to identify redundant regulations and speed up administrative simplification. The first years of Errada saw intensive activity, with over 35 000 business regulations reviewed and 2 000 streamlined through 31 ministerial decrees. Errada also engaged in a widespread process of public consultation with the private sector covering nine topics, through a Business Advisory Council established under the Egyptian National Competitiveness Council, and it has taken steps to introduce regulatory impact analysis.

However, as a result of political transition, the Errada programme was suspended in July 2012 and the General Review Unit, which co-ordinated the programme's implementation, was subsequently dissolved. Steps have been taken recently to restart the programme on the basis of the results of the previously conducted legislative reviews.

Public-private consultations

In the 2008 report it was noted that there were several channels of formal and informal public-private consultations in Egypt and several private sector associations are active in policy dialogue (for instance the Egyptian Business Association, the Egyptian Junior Business Association, at sector level the Manufacturers Associations and at the local level the Alexandria Business Association, in addition to the Egyptian Chamber of Commerce Federation). Since the 2011 events, there has been an increase in the number of associations and NGOs representing the private sector, giving voice to young entrepreneurs, new market entrants and previously underrepresented categories of enterprises.

However, at the same time policy dialogue has been highly disrupted by the political transition. SME representation is highly fragmented as there is no national association specifically representing the SMEs. SMEs are members of the leading national business associations, a number of which have established SME committee(s), but their voice is largely diluted, while microenterprises, many of them operating informally and therefore excluded from public policy, are largely absent from public-private consultations.

Establishing a conducive operational environment for business creation

Company registration and business start-up process

Egypt has achieved incremental progress in terms of accelerating its company registration and business start-up processes. One of the most important improvements is GAFI's reforms to unify establishment procedures, which allows all companies to obtain a registration certificate in one to three days. While there is still no single identification number, Egypt is actively working on introducing one through its extensive network of one-stop shops, managed by GAFI, SFD, the Industrial Development Authority (IDA) and the chambers of commerce, throughout the country. According to the IFC-World Bank's 2012 *Doing Business*, Egypt has also made progress in reducing costs related to starting a business, by completely eliminating any minimum capital requirements for limited liability companies. However, improvements could be made to reduce the costs connected to registration.

Online registration services

The provision of e-registration services in Egypt is the best among the MED economies. Online registration facilities are available, albeit on a limited scale. GAFI is going through a second phase to establish an online payment system for registration fees and IDA is publishing its electronic services on line to make it easier for enterprises and individuals to register, renew or making modifications to the industrial registry.

Bankruptcy procedures and second chance

Egypt has a legal framework to deal with insolvency and has established a single-window system at the SFD to facilitate insolvency procedures for SMEs, including for micro firms. However, the 2013 *Doing Business* report indicates that there is ample scope for improving insolvency procedures: it takes more than four years to close a business, longer than in any other MED economy. The cost of the overall procedure represents 22% of the debtor's estate, higher than any other MED economy except Israel. In addition, creditors recover only 16.0 cents for every dollar owed, which is the lowest recovery rate among MED economies.

Facilitating SME access to finance and developing the legal and business environment

There was no major improvement in external sources of SME financing in Egypt compared to 2008. As in the other assessed economies, bank lending is the main source of credit to SMEs. While alternative sources of financing for SMEs such as microcredit and leasing are already in place, they have had limited impact. Nevertheless, some improvements took place regarding Egypt's credit information bureaus. Egypt still needs to improve creditor rights and access to collateral for secured creditors.

Sources of external finance for SMEs

Bank lending in Egypt was moderately affected during the peak of the global financial crisis, due to some exposure of its domestic banking and financial institutions to the global financial system. The economic and political transition that started in 2011 prolonged this negative shock to lending and financing activities. As a consequence, Egypt witnessed significant declines in credit volumes, with shares of credit to the private sector shrinking from 54% of GDP in 2003 to 42.8% of GDP in 2008, before reaching less than 30% in 2012. Furthermore, stock market capitalisation shrank from more than 70% of GDP in 2008 to less than 30% in 2012 (see section on access to finance). SME financing remains a big challenge in Egypt. According to a World Bank survey conducted in 2010 (Farazi et al., 2011), only 5% of bank credit in Egypt was allocated to SMEs, while this rate reached more than 15% in Tunisia and 24% in Morocco. Furthermore, financial services seem to be underutilised by SMEs as 47% of them do not deal with banks and only 22.4% have access to banking facilities (El Said et al., 2011).

Since the last assessment in 2008, credit guarantee schemes in Egypt have displayed closer co-operation with the banking sector and expanded the range of products they offer. According to Farazi et al. (2011), outstanding guarantees in Egypt represented 9% of total loans to SMEs in 2009, which is comparable to Lebanon (10%) or Tunisia (8.1%), but well below PA (33%). However, outstanding guarantees in Egypt remain modest at the equivalent of only 0.07% of GDP in 2009, while they represented around 0.3% in MENA, a rate that is consistent with international standards. This difference could be explained by the restriction that schemes in Egypt can only offer guarantees to firms smaller than 50 employees, while there is no such a limit in Morocco or Tunisia, for instance (Arvai et al., 2011). In terms of funding, guarantee schemes in Egypt are funded by both public organisations and private banks, with the majority owned by banks. According to the assessment, the Credit Guarantee Company (CGC), operating since 1991, has nine commercial banks and one insurance company as stakeholders. The company has signed co-operation agreements with 30 banks, covering most of the banking sector in Egypt. The regulation of the CGC and its by-laws specify and segregate authority between the board, the chairman and the rest of the executive staff. However, the assessment reports that there are no specific good practice guidelines on governance for credit guarantee schemes. Furthermore, the assessment did not report any monitoring mechanisms evaluating the impact of the schemes.

Alternative financial mechanisms such as microcredit and leasing exist in Egypt but both lack a specific legal and regulatory framework in line with best practices. The country has a fairly developed microfinance sector and microfinance institutions are present countrywide. The assessment reports that NGOs are the major suppliers of microcredits, accounting for 83% of the total number of active borrowers and for 68% of the total outstanding portfolio of microcredit in the country. Banks account for most of the remaining share of the microfinance market. Various special initiatives for microfinance

exist in Egypt for women and young people, mainly initiated by the SFD, with around 30% of microfinance projects usually targeting these groups. However, according to the assessment, microfinance in Egypt is still limited to lending, with coverage not exceeding 12% of demand. Other products (saving, insurance, mortgages, and others) are still non-existent and need to be developed, but they lack the relevant regulations and laws that would allow for their expansion within the microfinance market.

Regarding leasing activities, a law has existed since 1995 but there are still important limitations facing the industry. A new draft law is in preparation to allow, *inter alia*, the lease back system (defined as a property transaction in which the buyer simultaneously purchases and leases back the property to the seller), which would offer the required liquidity for projects in their early stages. According to the assessment, SMEs are not sufficiently aware of leasing as a financial tool and the advantages of using this tool versus other financial facilities. Regulation of leasing activities is relatively active; with the Egyptian Financial Supervisory Authority being responsible for regulating leasing activities. Supervision mostly consists of annual off-site inspections.

Regarding equity activities targeting SMEs in Egypt, in the 2008 assessment only nine private equity funds were operating in the country, allocating less than 10% of their funds to SME projects. In 2013, the assessment counted 19 venture capital companies and 5 direct investment funds. A private equity fund aiming to invest in SMEs was established recently by GAFI. However, the fund will only target companies with a net asset value of USD 290 000 (EUR 214 534) or more. Furthermore, exit strategies remain limited as the stock market for small companies in Egypt (NILEX) has stringent minimum capital requirements for entry. There is also a lack of venture capital funds targeting firms at early stages of development. To attempt to fill this financing gap, a few business angel networks have been established, including Cairo Angels and Flat6Labs. Yet there is still little awareness about this kind of financial facility among the entrepreneurial community and actions to encourage and foster this kind of network are at a very early stage.

Legal and regulatory environment

There have been few improvements regarding the legal and regulatory framework governing financial activities. The country is the only assessed economy that has already established both private and public credit bureaus. However, only the private bureau, I Score, provides all the required information to firms and individuals such as credit reports for SMEs, credit scoring and bankruptcy data. In Egypt, any client has the right to access their data, after paying a service fee. According to the World Bank, the private credit information bureau covers 19.6% of adults, well above the average coverage rate for private credit bureaus in the MENA region (9.9%), but still far below the OECD average (66.7%). The public credit bureau covers only 5.3% of adults.

As already reported in the 2008 assessment, the cadastre registration system is not yet fully operational in Egypt. So far, there is no cadastral map showing real properties with details of ownership, tenure, precise location, dimensions and area. Furthermore, only around 30% of real property ownership belongs to the formal, registered system. Most databases are still not computerised, which affects the quality and accessibility of cadastral data. Egypt drafted a law on establishing a registry of movable assets as collateral in 2010. However, the draft law still needs to be approved by the corresponding authorities.

As a result, SMEs in Egypt lack access to both legal land titles and a registry of moveable assets. Furthermore, creditor rights are not well covered, according to *Doing Business*, and contract enforcement remains weak. As a consequence, collateral and provisioning

requirements in Egypt represent, on average, 123% of the loan value, sometimes reaching 150% for SMEs, making it very difficult for smaller firms to finance projects.

Financial literacy

While there is no specific information on levels of financial literacy, financial inclusion and the use of financial services remain relatively weak in Egypt. According to the IMF Financial Access Survey, Egypt has a relatively low number of deposit accounts compared to other developing economies (in 2010 there were only 387 deposit accounts in commercial banks per 1 000 adults in Egypt, while developing countries, on average, had 539 deposit accounts and OECD countries had 1 560). Also, there were only 90 loan accounts with commercial banks per 1 000 adults in Egypt in 2012, while the world average was above 340 accounts. As a response, the Egyptian authorities have recently shown increasing awareness of the need to raise financial literacy. The country recently became a member of the International Network on Financial Education (INFE) established in 2008 by the OECD. For the banking sector, a national committee formed under the auspices of the Egyptian Banking Institute (EBI) and the Central Bank of Egypt is currently drafting a national strategy for financial inclusion and financial literacy. The EBI has also launched a Financial Education Project (FEP) with the objective to promote and disseminate information regarding financial literacy by providing familiarity with and understanding of banks and financial market products to various target groups, including SMEs.

Promoting a culture of entrepreneurship and skills development

As in the 2008 assessment, a range of policy instruments (employment, youth, ICT, vocational training) underlines how entrepreneurial learning remains a segmented phenomenon in the Egyptian learning system. What is missing is a coherent, strategic framework to enable a system-based approach to entrepreneurial learning at each level of the education system. Commitment and leadership by the education authorities is critical to ensuring a "joined up" framework. This requires, firstly, an institutional setting favouring policy co-ordination, planning and support for entrepreneurship within formal education, from primary, secondary, vocational and through to higher education. Secondly, efforts to promote entrepreneurship in formal education should interface with the wider drive for non-formal entrepreneurial learning supported by public, private and civic organisations promoting youth and adult learning services.

The assessment points to very good efforts by a range of organisations in promoting non-formal entrepreneurial learning. However, this would have greater leverage if it were couched within a wider national entrepreneurial learning strategy, in which sharing good practice was more systematically promoted, building on the activities of organisations such as SFD, the American University in Cairo, GAFI (Bedaya Programme), and the Egyptian Junior Businessmen's Association. Promising efforts in this direction were identified in the assessment, such as a proposal, pending presidential approval, to revamp the Supreme Council for Human Resources and Development. Approval of this proposal would remove an important hurdle to the establishment of the building blocks for a sustainable, lifelong entrepreneurial system.

Promotion of entrepreneurship in secondary education has demonstrated little progress since the 2008 report. Part of the difficulty remains limited awareness and understanding by the education community of entrepreneurship as a key competence. Furthermore, the necessary curriculum adjustments and teacher preparations remain to be addressed.

Discussions with stakeholders during the assessment period point to three opportunities. Firstly, plans within the education ministry for upgrading teacher competences should include entrepreneurship as a key competence. Secondly, greater capacity for entrepreneurship promotion in vocational education (upper secondary), would allow greater teacher-to-teacher know-how transfer, including potential for curriculum sharing at both the lower secondary and upper secondary levels. Thirdly, experience developed through entrepreneurship support projects (e.g. "Know about Business" from the International Labour Organisation, ILO) should be built upon.

Developments in tertiary education look promising. While a specific policy instrument to promote "across-campus" entrepreneurship in tertiary education has yet to be defined, an initiative by the Supreme Council of Universities specifically to promote graduate employability (Student Training for Employment Project), which includes entrepreneurial skills, is a step in that direction. The project's value is further enhanced because it includes post-secondary technical colleges. This provides an opportunity to create a learning sequence in entrepreneurship between post-secondary and tertiary education. More broadly, university-enterprise co-operation requires more strategic attention while a platform for sharing good practice would generate awareness within the higher education community of the potential contribution of tertiary education to local and national economies.

The assessment underlined a sound support framework for the promotion of women entrepreneurs (in particular in training), governed by the National Women's Council (NWC). The policy gives particular emphasis to microenterprise support for women set against a wider objective of socio-economic empowerment of Egyptian women. An important feature of the NWC action programme is a set of individual plans for each of Egypt's 27 governorates, which include a review of ongoing support to women entrepreneurs. However, data to allow for wider tracking of support for women's entrepreneurship training across all governorates, including evaluation of training efforts, needs to be systematised. A network of business centres falling under the NWC provides microenterprise training for women. This is complemented with training, coaching and financial support for women entrepreneurs supported by the SFD – an institutional and financial support framework for improving the socio-economic environment in Egypt. Although it is still early days in Egypt's political and democratic transition, it is important that the policy and institutional support arrangements for promoting women's entrepreneurship are included in a wider drive by all parts of Egyptian society (government, civic interest groups and enterprises) to reinforce women's contribution to a more vigorous and competitive small enterprise environment.

The global economic crisis has generated new interest in skills and competences available to small businesses as part of a wider policy to keep businesses open and competitive. The assessment points to a range of data sources on business training to allow for more effective policy, but no co-ordinating mechanism exists to ensure a comprehensive overview of the training interests and concerns of the small business community. Nonetheless, a draft technical and vocational education strategy includes specific provisions for the establishment of a training-needs analysis framework which should build on other data development drives e.g. the Enterprise Training Partnership of the Industrial Training Council. Should these proposals materialise, and with regular tracking of training in the small business sector, progress on all indicators with quantitative demands (training-needs analysis, enterprise training, and start-up and growth enterprises) would follow. Furthermore, some options have already been proposed to bring forward quality assurance of training by way of a dedicated training accreditation agency or extension of the mandate of the National Authority for Quality Assurance and Accreditation of Education. This would allow for greater confidence and take-up of training by small businesses.

The assessment highlighted a range of training provision (by public, private and non-governmental organisations) in the country, supported by national and donor funding, although government cutbacks to financing of training present a particular challenge to the small business community. The Industrial Training Council and the IMC, both affiliates of the Egyptian Ministry of Trade and Industry, are prominent providers of training to small businesses. More innovative training solutions by the Foreign Trade Training Centre ensure online access by small businesses to training on export promotion. Export-oriented companies also benefit from funding to support training for growth sectors (e.g. tourism, construction, and information and communication technology). However no progress was registered in the assessment and some of the scores regarding enterprise skills have deteriorated.

Finally, support to businesses for environmental compliance includes a consultation framework covering universities, non-governmental organisations and private sector interest groups which also provide training and advisory services to businesses. A wider range of training providers could benefit from partnership with these organisations, including more systematic good practice exchange, allowing for a scaling-up of training services for sustainable enterprise development.

Enhancing SME competitiveness

Business information and services

As in 2008, the assessment reports that the country has a well-developed market for business support services, with personalised services and a good level of internal competition. The main service providers are the SFD through technical support programmes and the IMC through its business development programmes. A notable advance was the involvement of GAFI in 2010 through its Bedaya Centre for Entrepreneurship and SMEs Development and the Business Clinic Programme, launched in 2011, which offers advanced consultancy services to SMEs. These support programmes receive public, private and donor funding and tailor support to the individual needs of SMEs. The IMC, for instance, starts its support process with a diagnosis of development needs, then formulates a business development path and tailors its support according to this plan. These services are provided in different regions throughout the country. There have been some efforts to establish a comprehensive database on business services provided. The IMC, GAFI and SFD have collected the information but it is not yet available in an online database.

Statistical information for enterprises is provided through the Official Statistical Agency of Egypt, CAPMAS, while information on legislation, decrees and laws regarding SMEs is provided by relevant ministries and GAFI's one-stop shops (according to the assessment, 40 one-stop shops existed in 2012 compared with only 30 in 2004). Information is not made available in an interactive single information portal but is rather scattered across different sources. All of the entities engaged in SME development have different websites or portals. Furthermore, there is little evidence regarding the relevance and suitability of the information provided to enterprises.

Support services for start-ups in Egypt have not seen any particular improvement since the 2008 assessment. The services exist, but have not yet reached all regions and are not structured and diverse enough. In general, start-ups can revert to the IMC or the SFD for support services. The Business Development Path Programme, established by the IMC, has a pre-start-up service package which includes training on operational procedures, basic financial system development and business management. Second and third packages

are available in the start-up and export phases. Several incubator networks exist. The government has launched seven incubators, both via the SFD and jointly managed with other partners such as the Egyptian Incubator Association. The maximum incubation period is five years, during which the SFD offers office space and facilities for rent at a lower price than the market. The SFD collects statistics on the number of incubation contracts signed. In 2013, the seven incubators signed 19 contracts, representing a total value of more than EGP 16 million. Several other incubators are managed by other public institutions (The Industrial Council for Technology and Innovation), private investors (Flat6labs) or foundations (Misr El Kheir). Overall, the information collected during the assessment did not report the presence of monitoring or evaluation mechanisms that would allow measurement of the impact of these establishments.

Public procurement

In order to make it possible for small firms to apply for public tenders, cutting tenders into lots has been enshrined in legislation since 2010 but can only be done for supply contracts. Furthermore, the process is subject to stringent derogations that make its implementation in practice rather weak. The procurement law specifically encourages reserving 10% of public contracts for SMEs, which is lower than in other regional countries. Regarding potential late payments by public authorities, Egypt's tender law 89 of 1998 imposes strict deadlines for payments and requires that Deposits should be immediately returned to firms once the results of the tender are announced. Nevertheless, no information was available regarding the degree of implementation of this law.

With respect to the participation of foreign firms in public tenders, domestic firms are favoured over foreign-based companies competing for tenders, limiting their participation in the local economy and the resulting spillovers that this could create. By law, domestic firms are granted priority if their bid does not exceed the lowest foreign bid by more than 15%.

Innovation

Egypt has a wide range of institutions, programmes and funds in place to support innovation such as the Research Development and Innovation Programme (RDI) and the Science and Technology Development Fund (STDF). While there is still a lack of co-ordination between the different initiatives, the government is currently reviewing its national innovation strategy. This builds on the Industrial Development Strategy developed in 2005, with the aim of targeting SMEs and increasing co-ordination and complementarity between the different institutions and ministries. In terms of financial support to innovation, there are several public and private funding schemes, such as the IMC (public) and Flat6bas (private), a start-up incubator. However, the private sector's participation is considered limited and objectives and targets of funding schemes have not been specified in policy documents.

Since 2008, Egypt has shown some progress in terms of innovation support measures. The Ministry of Industry and Foreign Trade has established a network of 13 Technology and Innovation Centres – ETICS – (11 sector-specific and two cross-cutting) providing a wide array of services including, among other things, technical assistance, funding and networking facilities. A number of incubators serving innovative and technology-oriented projects exist. Examples include the Social Fund for Development, which manages six incubation programmes, and the Technology Innovation and Entrepreneurship Centre (TIEC), which has four others. Furthermore, competitive clusters have been developed to

further support innovation. Initiatives include the Smart Village which hosts ICT clusters and the Industrial Developer System established by IDA, which promotes networking among enterprises in industrial sectors. While there are several programmes to support innovation in Egypt, some challenges need to be addressed. Linkages with universities and research centres are still limited in terms of scope and funding. Moreover, information on innovation support services is not always available to entrepreneurs. The IMC is one of the few bodies having developed a database on innovation services, but so far it contains only limited information.

Egypt has a range of financial support services in place. The IMC Research Programme has allocated EGP 39 million (EUR 4.2 million) to 55 projects, the NGO Misr El Kheir has financed 13 entrepreneurs having patents in science and technology, the Information Technology Industrial Development Agency has developed new access to finance projects and the EU-Egypt Innovation Fund has developed two financing schemes for innovative enterprises.

Green economy

As reported in the assessment, there are clear efforts by various entities to integrate green growth in the national policy framework. Egypt introduced the National Strategy for Cleaner Production, which mainly aims at encouraging the adoption and implementation of cleaner production methods in Egyptian industry. Egypt also adopted a National Environment Action Plan 2002-2017, which outlines specific measures. However, according to the assessment, existing national strategies are lacking concrete action plans dealing with eco-efficiency and eco-innovation related explicitly to SME development.

According to the assessment, a few institutions in Egypt are providing information on environmental issues or offer technical assistance and consultancy service for SMEs. Providers of services include the Private Public Sector Industry (PPSI) project, the Egyptian National Cleaner Production Centre (ENCPC) and the Environmental Compliance Office, which offer expertise in the areas of cleaner production, energy efficiency, eco-innovation and green technology. Some of these service providers are affiliated to ministries, e.g. the Ministry of Environment and the Ministry of Industry and Foreign Trade. However, there is no information regarding the effectiveness of these services provided to SMEs.

In Egypt, there are several institutions which promote the use of environmental management systems (EMSs) and standards such as the Egyptian Environmental Affairs Agency (EEAA), the Egyptian Organisation for Standardisation and Quality Control (EOS), the Egyptian National Cleaner Production Centre (ENCPC), the Environmental Compliance Office (ECO) and the IMC. Another support system, Achieving Compliance with Environmental Regulation in Industry (ACI), is a component of the Environmental Sector Programme (ESP) and its objective is to assist industries to improve compliance with environmental legislation through the adoption of cleaner production approaches (European Commission, 2012). However, according to the assessment, these programmes are limited to larger companies and lack clear instruments and mechanisms that are designed for SME needs.

Export promotion

As described in Chapters 7 and 10, SMEs that succeed in entering the export market tend to register higher employment growth rates, pay higher wages and be more innovative. In Egypt, the Ministry of Industry and Foreign Trade (MIFT) implemented an export

promotion strategy for 2010-13. Furthermore, Egypt is working towards the implementation of an export promotion strategy for 2014-18, which is currently being formulated in co-ordination with a number of private and public stakeholders.

The 2014-18 strategy will include key components such as positioning Egyptian industrial exports on the global market; a detailed analysis of the current performance of markets and products; an assessment of the current institutional framework governing exports; and proposing a "future path for Egyptian exports", including the identification of main markets and products, and developing a new institutional framework for Egyptian exports. However, the approval and implementation of such a strategy is very likely to be affected by the current political transition process.

Egypt has several services and institutions promoting foreign trade, including through the provision of information on foreign markets and regulatory and procedural information. However, the country lacks a one-stop shop (including a virtual one) providing all this information and other services, such as the electronic treatment of customs procedures, in a single platform. An initiative by the MIFT to create such a one-stop shop ("EgyTrader") is not yet operational.

A number of documents and procedures related to foreign trade have also been computerised. For instance, the General Organisation for Export and Import Control (GOEIC) website contains a link for e-filling of documents for exporters. However, according to the assessment, paper-based procedures are still widely used.

Euro-MED co-operation

Egypt has a number of relevant initiatives to promote Euro-MED enterprise linkages and business support services, including a number of business associations between Egyptian and EU enterprises. Egypt also participates in the Europe Enterprise Network (EEN) and has technology transfer and innovation centres aimed at promoting the establishment of Euro-MED networks of business support services. It participates in the Euro-Med Innovative Entrepreneurs for Change pilot project supported by the EU and shares knowledge and good practice relating to clusters, innovation management and networks with Morocco, Tunisia, Lebanon and the EU. These initiatives could provide guidelines for similar practices in other MED economies.

The way forward

As a way forward Egypt should address the fragmentation of the institutional framework, defining the role of the different institutions and government agencies operating in the SME policy area, co-ordinating the support instruments, and developing synergies among programmes. It is important that enterprises with potential for growth are supported, in terms of services, provision of information (including relevant data) and access to finance, through their expansion path. Currently there are gaps in the assistance programmes, due to the fact that there is no single SME development agency. Instead, enterprise support is covered by a variety of agencies, each targeting a specific section of the enterprise population and setting its own eligibility criteria. Enterprises have to search for information and learn to navigate among different government programmes, which requires considerable effort.

The elaboration of a new SME development strategy, currently ongoing under the co-ordination of the SDF, should provide the opportunity to develop a common vision inspiring the actions of the various institutions, to review the current institutional

framework and better define policy mandates, to set a common SME definition, to establish co-ordination mechanisms, to develop synergies among programmes and to introduce monitoring and impact evaluation tools.

A second priority should be the resumption of 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 programme is not lost and regulatory reform continues to advance.

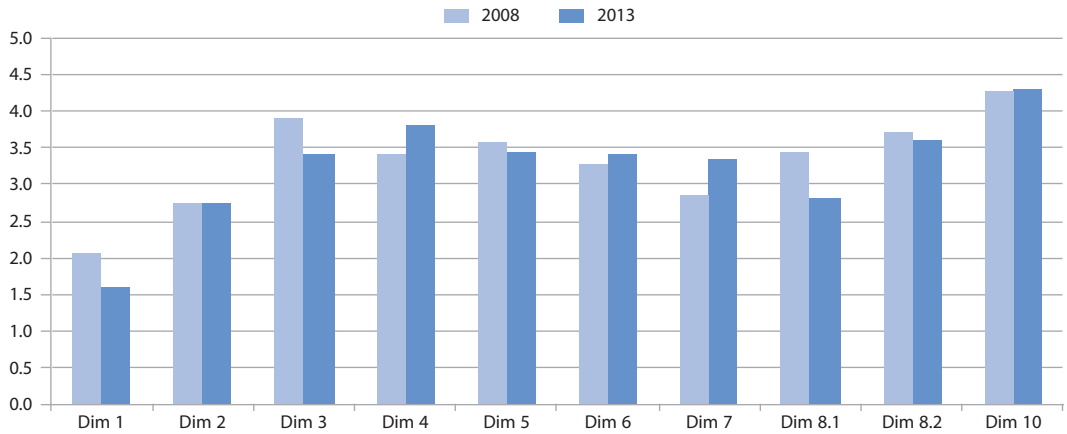
Egypt's efforts to improve the framework for dealing with insolvency are laudable; however, the results of *Doing Business* 2013 indicate that there is significant scope for improvement. Egypt could therefore review its procedures and the implementation of the Trade Law in order to speed up bankruptcy processes and reduce its costs.

Access to bank financing for SMEs remains heavily constrained. It is important that the government takes action to strengthen creditor rights and secure lending. This will open the way to lower collateral requirements, which are currently excessively high, and will induce banks to extend exposure to SMEs. Egypt could also improve its regulatory framework governing microfinance institutions and expand the coverage of the sector. In particular, other products than lending could be developed and offered.

Egypt is active in the promotion of business development services and partnerships among Euro-MED enterprises. Yet there is scope to promote the development of clusters and networks beyond the ongoing pilot projects.

Regarding entrepreneurial learning and skills development, the assessment points to three areas for next developments, *a)* promotion of multi-stakeholder dialogue with the objective of establishing a coherent framework for lifelong entrepreneurial learning with a leading role by the Ministry of National Education, *b)* establishment and capacity

Figure 12.2. **Egypt: assessment results 2008 and 2013**



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

DIM 1: Education and training for entrepreneurship, including women's entrepreneurship; **DIM 2**: Efficient bankruptcy procedures and "second chance" for entrepreneurs; **DIM 3**: Institutional and regulatory framework for SME policy making; **DIM 4**: Operational environment for business creation; **DIM 5**: Support services for SMEs; **DIM 6**: Access to finance for SMEs; **DIM 7**: Supporting SMEs to benefit from Euro-MED networks and partnerships; **DIM 8.1**: Enterprise skills; **DIM 8.2**: Enterprise innovation; **DIM 9**: SMEs in a green economy; **DIM 10**: Internationalisation of SMEs.

Source: Government and independent assessments.

building of a professional mentors network for women entrepreneurs and *c)* implementation of existing proposals for setting up a training-needs analysis framework (LMIS: labour market information system) and quality assurance in training.

Egypt should include elements of eco-efficient business and products and eco-innovation with reference to SME development in its national strategies, e.g. in the National Strategy for Cleaner Production. Furthermore, there is room for a wider range of institutions, such as chambers of commerce, local governments and NGOs, to offer environmental support to SMEs.

Egypt could work towards the expedited implementation of its new export promotion strategy, which could help it in making the most of its trade agreements with other MED economies and beyond. However, this is very likely to be influenced by progress in the current political transition. Egypt could also build on its current efforts to facilitate access to information on foreign markets and foreign trade procedures and establish a virtual one-stop shop providing consolidated access to this information. The *EgyTrader* initiative (www.egytrader.gov.eg) could be a step in this direction, but the website is not yet operational.

Notes

1. According to IMF, MENA oil importers are: Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Sudan, the Syrian Arab Republic, and Tunisia. Arab countries in transition are (excluding Libya): Egypt, Jordan, Morocco, Tunisia, and Yemen.
2. As defined by the World Bank.

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Chapter 13

Israel

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Economic overview

Israel is the only high income economy in the MED region, with a GDP per capita of USD 33 433 in 2012. Its population is only 4.4% of the total in the MED region. Israel is considered an industrialised economy – its major industrial sectors include manufacturing, technology, agriculture, chemicals and transport. Relatively poorly endowed with natural resources, Israel depends, unlike some of its neighbours, on oil and gas imports. Israel is the only OECD member country in the MED region.

The economy of Israel continues to grow at solid rates, only marginally affected by the global downturn and the heightened political uncertainty in the region. Real GDP grew by 3.4% in 2012, a slight slowdown in relation to the 4.6% in 2011 (see Table 13.1). The unemployment rate has reached historically low levels, while the labour-force participation rate has been rising steadily, reaching 73% in 2012 (OECD, 2013c). Some of this growth is sustained through expansionary fiscal policies, with government expenditure exceeding revenues each year since 2009. In 2013, net borrowing is expected to reach 5% of GDP. However, the government has embedded multiple elements of fiscal restraint into future budgets, which should help further rein in public debt which has fallen from 95.6% of GDP in 2003 to 70.4% in 2013.

The Israeli economy remains export dependent and therefore continues to suffer from sluggish external demand. In 2012, the current account surplus shrank to a meagre 0.3% of GDP and the trade deficit widened to 3.6% of GDP, based on data from the Bank of Israel. The export industry is mostly dependent on demand from the United States and Europe for high-tech goods. Trade within the region is not a significant factor in the economy. Strong macroeconomic fundamentals and the well-diversified production base provide for robust private sector-led growth and widely shared wealth among a strong middle class. Nevertheless, ongoing political uncertainty in the region could deter foreign investment, thus impeding private sector development. However, FDI inflows have recovered to levels prior to the 2007-09 global financial crisis and amounted to USD 10.4 billion in 2012 (USD 5.5 billion in 2009).

Table 13.1. **Israel: Main macroeconomic indicators, 2008-13**

Indicator	2008	2009	2010	2011	2012	2013
GDP (current USD, billion)	213.1	205.8	231.7	258.2	257.5	272.7
GDP growth (real)	4.5	1.3	5.7	4.6	3.4	3.8
GDP per capita (current USD)	30 190	28 523	31 420	34 264	33 432	34 651
Current account balance (% of GDP)	1.44	3.9	3.1	1.3	0.3	2.3
General government primary net lending/borrowing (% of GDP)	-3.7	-6.3	-4.6	-4.2	-4.9	-5.1
Unemployment, total (% of total labour force)	7.7	9.4	8.3	7.1	6.9	6.8
Inflation, consumer prices (annual average increase, %)	4.6	3.3	2.7	3.5	1.7	1.6
Foreign direct investment, net inflows (current USD, millions)	10 875	4 607	5 510	11 081	10 414	---
General government gross debt (% of GDP)	72.9	75.3	71.5	69.7	68.2	70.4

Data for 2012 and 2013 are estimates.

Source: IMF (2013), *World Economic Outlook database 2013*, October, Washington, DC, www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx; UNCTAD (2013), UNCTAD Stat Database, available at unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en.

Business environment

The relatively strong macroeconomic environment of Israel compared to other economies in the region is mirrored by robust infrastructure and a sound institutional framework which support the business environment. A well-developed financial sector and high levels of innovation are particular strengths. The modern legal framework, based on British common law, effectively enforces property rights and contracts. Regulatory efficiency is relatively high and markets are open to external trade and foreign investment. However, the domestic service sector remains highly regulated and inefficient. High public expenditures, together with elevated tax rates, are a further constraint, tending to crowd out private sector activity.

The general business environment has deteriorated slightly since 2011, but Israel nonetheless takes the lead among the economies discussed in this report in business environment and competitiveness assessments. Israel ranks 35th out of 189 economies in the ease of doing business index of the IFC-World Bank *Doing Business* report for 2014, having lost two positions compared to the 2013 index (2013). In particular, it performs very well in Protecting Investors (6th), Trading Across Borders (10th) and Getting Credit (13th). Meanwhile, Israel performs poorly in Registering Property (151st), Dealing with Construction Permits (140th), Getting Electricity (103rd), Enforcing Contracts (93rd) and Paying Taxes (93rd). Starting a Business (35th) is relatively easy in Israel. The World Economic Forum lists Inefficient Government Bureaucracy, Access to Financing and Tax Regulations as the three most common problem areas for doing business in Israel as mentioned by respondents in the *Global Competitiveness Report* 2013-2014 (WEF, 2013). Overall, Israel ranks 27th out of 148 economies according to the global competitiveness index for 2013-14, compared to 22nd out of 142 in 2011-12.

Overview of the state of SMEs

A high degree of economic diversification along with a well-developed regulatory framework make for a favourable environment for entrepreneurs in Israel. Between 2004 and 2012, there were on average 3.3 newly registered limited liability companies per 1 000 working-aged residents, compared to an average of 4.8 in OECD countries (World Bank, 2012). Entrepreneurial activity is high: According to an IFC survey, there were 30 micro, small or medium enterprises per 1 000 residents in 2008 in Israel, which corresponds to the average number of SMEs for the 132 economies covered by the survey (IFC, 2011). 58% of workers in the manufacturing sector and 67% in the services sector are employed by SMEs, similar to the average shares in OECD countries at 60% and 70%, respectively (OECD, 2013).

Israel participates in the OECD Scoreboard on Financing SMEs and Entrepreneurs 2014. According to the Israel Central Bureau of Statistics, there were a total of 501 676 SMEs in Israel in 2012, representing 99% of total enterprises – this share corresponds to the EU average according to the 2013 SBA Fact Sheet for Israel, provided by the European Commission. Among Israeli SMEs, 86% were micro enterprises, 11% small enterprises and 3% medium enterprises (OECD, forthcoming). Bank credit remains the main source of funding for Israeli SMEs, with over 80% of SME credit provided by banks.

The recently established Small and Medium Business Agency (SMBA) at the Ministry of Economy aims to support SMEs, by operating local Business Development Centres (BDCs), being involved in legislation concerning SMEs and co-ordinating public-private projects.

Box 13.1. **Definition of SMEs in Israel**

According to Government Decision no. 2190 the definitions are as follows:

- Micro business: a company or practitioner employing up to 5 employees and a sales turnover of less than ILS 10 million a year (approximately EUR 2 million).
- Small business: a company or practitioner employing up to 50 employees and a sales turnover of less than ILS 25 million a year (approximately EUR 5.2 million).
- Medium business: a company or practitioner employing up to 100 employees and a sales turnover of less than ILS 100 million a year (approximately EUR 20.8 million).

The Israeli national Small and Medium Business Agency (SMBA) defines SMEs as follows:

- Micro business: up to 4 employees and an annual turnover of up to ILS 1 million (EUR 207 thousands).
- Small business: up to 20 employees and an annual turnover of up to ILS 10 million (EUR 2 million).
- Medium Business: up to 100 employees and an annual turnover of up to ILS 100 million (EUR 20 million).

Assessment results

The results of the 2013 assessment show that Israel has developed a solid framework for SME policy, broadly in line with SBA principles. Over the last five years the most important development has been the establishment of a new executive agency, the SMBA. The agency, operational since 2010, has taken the place of the previous Small Business Authority and is playing an increasingly active role in policy advocacy and implementation. The SMBA is focused on consultancy and information services and access to finance for entrepreneurs, especially from relatively less-developed regions or those belonging to less favoured segments of society. Other positive developments include the elaboration of a new SME development strategy and the drafting of a new law, the Law for Supporting Small Business, which will confirm the legal status of the agency and define the government's engagement with SMEs.

Israel's performance in other policy areas is substantially unchanged. Policy development of a lifelong learning framework remains quite problematic, the situation indeed worsened compared to 2008. Regulatory reform and administrative simplification remains a weak area as well. Company registration is relatively costly – in most cases entrepreneurs have to use the services of legal firms to complete registration procedures. The notification procedures are also quite cumbersome and online registration is not yet available. The administrative burden for SMEs remains substantial, while regulatory reform is proceeding at a relatively slow pace, with Regulatory Impact Assessment being progressively introduced.

The following sections outline the main results for Israel from the 2013 assessment. In order to facilitate the analysis of the economy profile, the policy dimensions are reorganised under five wider SME policy areas:

- Strengthening institutions and mechanisms for SME policy making (dimension 3);
- Establishing a conducive operational environment for SMEs (dimensions 2 and 4);

- Facilitating SME access to finance and developing the legal and business environment (dimension 6);
- Promoting a culture of entrepreneurship and skills development (dimensions 1 and 8);
- Enhancing SME competitiveness (dimensions 5, 7, 8, 9 and 10).

Figure 13.1. **Israel: 2013 assessment scores**

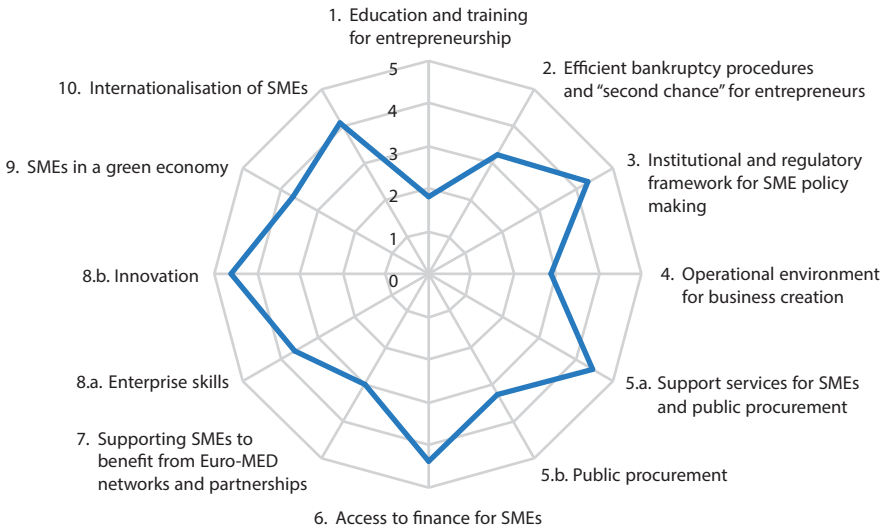


Figure 13.2 shows results comparable for both, the 2008 and 2013 assessments.

Source: Government and independent assessments.

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

Israel has one of the most advanced institutional policy frameworks in the region. In 2010 Israel replaced the Small Business Authority with a new Small and Medium Business Agency (SMBA), operating under the newly established Ministry of Economy. The SMBA executes support programmes for SMEs, supervises and operates 25 local Business Development Centres (BDCs), is involved in reviewing key SME legislation and co-ordinates activities between the government and the private sector.

A new, publicly available strategic plan for SME development was launched by the SMBA in 2011, intended to map the SME sector, identify obstacles to SME development and integrate and co-ordinate the various support instruments already in place. A second part of the strategic plan was developed in 2012 and is used internally by the SMBA to review and monitor its activities. The SMBA operates according to these two strategic documents with a budget of around ILS 120 million (EUR 24 million). A new SME bill was also presented by the government to parliament and has passed the first reading; it is currently under discussion for final approval. The bill will empower the SMBA with further authority regarding regulatory impact assessment, legislation review, data collection and supplying government ministries with information, and reviews concerning their activity.

Besides the SMBA, the Doing Business Committee, the Business Licensing Committee, the Prime Minister's Office, the Ministry of Finance and the Office of the Chief Scientist are involved in specific areas of SME policy corresponding to their area of expertise.

Legislative simplification and regulatory reform

The regulatory environment is one of the weak points in the Israeli policy framework. However, Israel is stepping up efforts related to regulatory reform, which was identified as a priority area by the current government. Three inter-ministerial committees operate in this area, the first focusing on the improvement of the general business climate (the Doing Business Committee), the second looking specifically at the licensing system, and a third, operating under the Prime Minister's Policy Planning Unit, looking at improving the government's legislative process and introducing regulatory impact analysis for the evaluation of new legislation and regulations. At the moment, the SMBA is only tasked with reviewing new legislation, without undergoing a cost-benefit analysis, and regulatory impact analysis is merely in its initial stage of design.

Over recent years, licensing requirements for a number of activities have been simplified and the value added tax regime for SMEs has been improved. In November 2013, a new business licensing reform entered into force, which standardises the licensing requirements and makes it more difficult for approving bodies to insert additional conditions into a business license, thus bringing more certainty to businesses. In addition, approval authority will go to the municipal level and the requirements for licensing have been reduced by 22 items.

Public-private consultations

The 2013 assessment shows that Israel has developed one of the most comprehensive frameworks for public-private consultations in the region. These consultations are now a common practice and are conducted on a regular basis.

In addition to frequent but mostly *ad hoc* consultations for the preparation of new legislation, the newly established SMBA has initiated the practice of conducting monthly meetings with the SME policy community by way of a consulting committee that consists of the main agencies representing the business sector. Organisations such as LAHAV (Independent Businesses Association), the Federation of Israeli Chambers of Commerce (FICC), the Manufacturers Association of Israel and the Enterprise Europe Network Partners are partners in many SME development programmes. However, other parts of the government involved in SME legislation are less likely to have effective public-private consultations.

Over the last five years, a number of private sector organisations have improved their advocacy capacity and presented their own policy proposals and recommendations. Organisations such as the Manufacturers Association and LAHAV are producing in-depth reviews of major legislative measures and in some instances suggest specific policy proposals.

The quality of business services provided by private sector organisations to SMEs in Israel is very well developed. Most, including the Chambers of Commerce network, provide information and orientation services, while a number of organisations offer tailored services.

Establishing a conducive operational environment for business creation

Company registration and business start-up process

According to the *Doing Business* 2014 report, Israel has introduced reforms in 2014 that make starting a business easier by reducing the time required for registration at the Income Tax Department and the National Insurance Institute (World Bank, 2013). Further reforms regarding registration procedures are under consideration. The Doing Business Committee is, amongst other things, engaged in shortening some bureaucratic procedures, including company registration.

There are two administrative identification numbers for dealing with public administration, the company registration number and the tax authority's identification number. While the compulsory company identification number is provided with the company's registration certificate, registration with the tax administration is still relatively complex and time consuming.

Registration procedures are mostly conducted by attorneys who have direct access by e-mail and a smart card to the company register, but there is no established network of one-stop shops for company registration. However, one-stop shops are operational for obtaining a business licence at the municipal level. Online availability of registration services is still lacking and only a pilot project including registration by e-mail has been launched.

Online registration services

There is currently no online registration system in Israel. The only way to register a company online is to scan documents and send them by e-mail to the relevant administration which deals with the request, usually the same day. This can only be done by attorneys with a smart card required for the registration. The process is not applicable to foreign companies.

Bankruptcy procedures and second chance

In Israel, the Bankruptcy Ordinance of 1980 and the Israeli Companies Law of 1999 provide the framework for bankruptcy procedures. Usually the receivership and bankruptcy processes are transparent and every citizen can read the court verdicts on the court management website.

Facilitating SME access to finance and developing the legal and business environment

Israel displays levels of financial development that are comparable to other OECD countries. The 2008 assessment already recognised that the country's financial institutions were generally in line with international good practices. However, the country needs to further develop and promote access to equity financing for non-technological enterprises as well as improve the coverage of its microfinance institutions and range of financial products.

Sources of external finance for SMEs

Domestic credit to the private sector represents around 90% of GDP, indicating that financial intermediation is relatively deep in Israel compared to other MED economies, but lower than the average of high income countries (150% of GDP) (World Bank, 2014). The share of non-performing loans is very low (2.4% of total gross loans in 2012). However, bank competition remains limited with more than 85% of all assets held by the three largest commercial banks. Bank credit was the main funding instrument in Israel for SMEs in 2013, according to the OECD scoreboard, representing over 80% of SME credit (OECD, forthcoming). However, over 95% of bank credit was extended by only five banks. Despite the global financial crisis, there was a combined increase of 10% in bank credit to SMEs between 2007 and 2012, compared to 8% for large businesses. Nevertheless, in 2012 only 41% of business credit was focussed on SMEs, while big businesses received the remainder. SMEs also pay a higher interest rate compared to larger businesses, with a spread ranging from 1.9% to 2.5% between 2010 and 2012. However, this spread is mainly explained by the rather large spread between small and medium businesses, while the spread between medium and large businesses is relatively small. It is thus the small businesses risk factor that explains why small businesses face more difficulties in raising capital compared to larger ones.

Government-sponsored credit guarantee schemes are in place, operating under independent management with clear governance rules. The leading programme is the state guarantee SME Fund. The programme is managed by two private consulting companies that oversee the proper application of the fund's regulations. They are also in charge of co-ordinating between the Ministry of Finance and the Fund. Additional credit guarantee programmes for SMEs operate under different terms. All in all there is not a wide range of guarantee programmes available.

The microfinance sector remains relatively small. The Koret Israel Economic Development Fund (KIEDF), an Israeli NGO, is the main institution providing micro loans and is financed up to 50% by its own endowments with the remainder being financed by the government. The fund, among other activities, co-operates with one commercial bank in the framework of an initiative to help low income women in developing regions. Overall, the NGOs providing micro loans are not regulated by a specific law, while microfinance activities by commercial banks are regulated by the standard banking law. Leasing activities are regulated by the tax law as opposed to a specific leasing law.

With many venture capital funds in place, Israel has managed to develop a vibrant equity market. The main regulatory framework for risk capital is an agreement between venture capital associations and tax authorities regarding tax issues. However, despite the existence of approximately 70 venture capital funds, it is the high-tech industry that receives the bulk of the equity financing in Israel, meaning that venture capital funds are not a significant financing option for non-technological start-ups.

Israel is a pioneer at the international level with regard to business angel networks. According to the *Global Entrepreneurship Monitor 2012*, business angel activity in Israel is one of the most advanced among developed economies. Tax incentives for business angel networks have been enshrined in legislation since 2011. The law offers substantial tax breaks to angel investors in Israeli start-up companies. However, angels in Israel usually focus on technological start-ups and there is a lack of angels investing in other sectors.

The focus on technological SMEs applies to the capital market as well. According to the assessment, in practice, only medium-sized businesses can issue initial public offerings

because of the high minimum criterion. However, the Tel Aviv Stock Exchange (TASE) offers separate and more flexible terms for technology companies to sell shares to the public.

Legal and regulatory environment

The legal and regulatory environment in Israel was in line with international best practice standards in the assessment conducted in 2008. The country has a fully functioning cadastre system with bureaus established in different areas of the country. Information is easily accessible and available online. The same holds for the registration of moveable assets. The register of pledges was already established in 1994 and operates according to the pledge regulations. Information is available online and access is easy and low cost.

Three main sources of credit information are available in Israel, two of them are private credit bureaus and one is the Central Bank of Israel. These institutions operate according to the Credit Data Service Law (2002) and the Credit Data Services Regulations (2004). The coverage of private credit bureaus reaches 100% of adults, which is well above the OECD average of 60%. The country has a flexible collateral definition and a central registry covering most bank loans. Creditor rights are well protected in Israel, but the law does not allow parties to agree in a collateral agreement that the lender may enforce its security rights out of court at the time a security interest is created (IFC-World Bank, 2013).

Financial literacy

In Israel, financial literacy is higher than in the other MED economies and initiatives are at a more developed stage and follow an established national strategy. A government decision in 2011, entitled "increasing financial education in Israel" created an action plan for increasing financial literacy among citizens. According to a recent OECD publication, Israel has reached an advanced stage of design of its own national strategy for financial education (OECD, 2013a).

Promoting a culture of entrepreneurship and skills development

Israel has made exceptional achievements in developing an entrepreneurial culture and the business potential of its people. This emerged in the first assessment in 2008 and is reconfirmed by the current scores for the majority of indicators. Major public and private resources have been invested in high-tech R&D, innovation, education and in developing the knowledge economy. The government gives top policy priority to strengthening the links between academia and enterprises, especially those enterprises aiming at international markets. The country performs well in different international assessments, ranking second on concentration of high-tech companies and per capita number of start-ups. Israel possesses the world's top share of scientists – 135 per 100 000 workers – and is ranked 8th by the World Economic Forum regarding research collaboration between universities and industry. Israel invests 4.5%-4.8% of GDP in R&D – the highest rate in the world. There are regional entrepreneurship ecosystems around the large cities that support collaboration between academia, the business community and civil society. Israel's fields of excellence are telecommunications, information and communication technology, microelectronics, homeland security, aerospace, nanotechnology, life sciences, agro-technology, water technology and renewable energy.

Three programmes at Israeli universities are among the world's top 100 masters programmes in entrepreneurship. These programmes are offered by the following universities: Tel Aviv University, Hebrew University of Jerusalem and Ben-Gurion University of Negev.

The Ministry of Education, covering all levels of education from primary to matriculation, implements specific *ad hoc* entrepreneurship programmes to give students early exposure to future career opportunities and to encourage entrepreneurial pathways after matriculation. It engages in co-operation with employer organisations and provides school grants for original pedagogical entrepreneurship programmes. In this respect the Ministry works closely with Ta'asiyeda, the educational branch of the Manufacturer's Association of Israel, to encourage the co-operation of industry in projects aimed at the school system, including lectures, factory tours, contests and award ceremonies for students, and training for teachers and principals.

Israel's education system provides a variety of frameworks and operates many networks for the development of entrepreneurial potential, extra-curricular activities and non-formal learning. These include the Amal network, the ORT network, the MATI network, the network of Small Business Development Centres (MAOF) under the Small and Medium Business Agency, and others. Despite the many entrepreneurship programmes, Israel has not yet developed a holistic vision with regard to entrepreneurship development from a lifelong learning perspective across all parts of the education and learning system and therefore scores have not improved from the assessment in 2008. This is mainly explained by the government's focus on technology-intensive sectors, at the cost of other sectors, and the prioritising of entrepreneurship promotion with respect to the tertiary level of education, which is linked to the goal of innovative economic development. Beyond higher education, entrepreneurship development programmes are *ad hoc*: individual top-down or bottom-up initiatives at various levels of the education system. This is reflected in the scores regarding secondary education, which have not improved since the last assessment. While many organisations have their own entrepreneurship development strategies and activation plans, the national education policy does not put a defined focus on entrepreneurship as a key competence.

Enterprise training policy is overseen by the Ministry of Economy and focuses on the needs of SMEs. Online databases and websites providing information on training offers for SMEs are available and easily accessible. The training offered at a local level and organised by different providers is highly popular. Key sectoral organisations and trade and industry associations contribute to the quality assurance framework of training services.

In spite of a variety and high availability of training courses, they do not necessarily focus on enterprise needs. While there are numerous *ad hoc* business-driven training-needs analysis initiatives, there is no evidence of training-needs analysis for SMEs on a national scale, or a specific training-needs analysis strategy for enterprise training. Allocation of funds to training is mainly driven by political priorities and is not based on research of SME clients, leading to overlapping as well as over and undersupply in provision.

There are many programmes to support enterprise growth and access to international markets by SMEs (for example NITSOS and 200X2).[1] In fact provision of training for enterprise growth has improved since the 2008 assessment. In spite of outstanding achievements regarding export-oriented business support, there is a lack of systematic measures and funds for non-tech and domestic market-oriented companies. For a more efficient resource allocation, training-needs analysis and regular monitoring should include all categories of SMEs.

Women have a strong position in society and equal opportunities to engage in entrepreneurship. However, as confirmed by the current policy assessment, and also

reflected in the National Report by the *Global Entrepreneurship Monitor* (2012), few women consider a business career as a viable option and there is no specific vision in the country to encourage women's entrepreneurship, despite the availability of support measures for special target groups of female entrepreneurs.

Enhancing SME competitiveness

Business information and services

SMEs in Israel have access to a wide array of support services, both publicly and privately funded. As found in 2008, the quality of services is in line with the highest professional standards and is available throughout the country. The SMBA operates 26 Small Business Development Centres (MAOF Centres), which provide professional advice and training. SMBA provides information on available business services online on its website.

Economic, legislative and regulatory information relevant to enterprises is collected, analysed and disseminated by a number of organisations such as the SMBA and its local offices. Information is provided through portals, websites, e-mails, bulletins, brochures and offline through workshops, courses, seminars, etc. However, this does not happen systematically and in a co-ordinated manner. To overcome this drawback, the SMBA established an online portal in 2013 to summarise and organise all relevant information.[2]

As in 2008, a wide range of services to start-ups is offered by SMBA and other organisations such as the Jewish Agency and philanthropic and private funds, including services such as consulting, instructing and teaching, and financial aid. Start-ups can also apply to one of the six available business incubators that provide professional business guidance, financial assistance, networking opportunities and free promotion. These incubators have achieved the highest international standards and partner with similar programmes in Silicon Valley. In order to develop low-tech start-ups as well, a plan is under development to establish incubators specifically for this purpose, following a decision by the Ministry of Economy in 2012.

Public procurement

Public procurement law in Israel allows for cutting tenders into smaller lots, making it more feasible for SMEs to apply for public tenders. In practice, however, this seldom occurs. Information is centralised at a national level and is available online and in newspapers free of charge or at negligible cost. Furthermore, Israel is currently in the process of establishing an e-procurement portal (MENORA system) to increase the degree of penetration of e-procurement. Finally, the country is party to the World Trade Organisation's Government Procurement Agreement, a legally binding multilateral agreement ensuring that Israel has opened up significant parts of its public markets to foreign enterprises.

Innovation

Israel has the most advanced innovation policy in the region. It has a wide range of institutions, committees, funds and programmes in place to support innovation. The Office of the Chief Scientist (OCS) in the Ministry of Economy is in charge of the execution of innovation policy. Besides this, the National Council for Research and Development plans the general strategy for research and development. While there is currently no formal strategic document in place, an action plan is being developed by the OCS. The OCS's

activities are budgeted for every year in the annual government budget and many other programmes are funded by the private sector. Indeed the private sector is responsible for approximately 80% of national expenditure on innovative research and development.

Israel has an extensive network of innovation support measures for SMEs. The OCS co-ordinates these programmes, which include several R&D and technology centres, 24 incubators (22 technological incubators, one industrial incubator and one biotech incubator) and several science parks and clusters (biotech cluster in Jerusalem and Rechovot, software cluster in Herzliya and ICT cluster in Haifa). Within the MAGNET programme, collaboration among companies and researchers is encouraged. It includes several initiatives such as MAGNETON, NOFTAR and KAMIN, which promote technology transfer from academia to industry via mutual co-operation between individual companies and academic research groups.

In Israel, most of the financial support services for innovative entrepreneurs come in the form of venture capital funds, angel investors and grants (see Access to Finance). However, fully operating public funds supporting R&D activities with a commercial orientation exist as well. The R&D fund finances 20-50% of the total R&D costs of approved proposals. The annual budget is ILS 1.5 billion (EUR 319 million) and supports hundreds of companies. There is a track record of effective allocation and lessons learned are taken into consideration and are implemented via General Directives.

Green economy

Israel is in the process of adopting a comprehensive National Strategy for Green Growth for 2012-20, with the aim of creating eco-efficient businesses, eco-innovation, new clean industries and promoting energy efficiency measures to save natural resources. However, the strategy makes no specific reference to SMEs and does not define concrete targets or timelines.

There are several public and private service providers in Israel that advise SMEs on environmental issues. These include the SMBA, the Manufacturers Association and the Ministry of Economy, which provides entrepreneurs and start-ups with a toolkit for green entrepreneurship through courses in green enterprise development (European Commission, 2012).

Companies are relatively more aware of environmental management systems (EMSs) and standards than in the rest of the region. Over 630 institutions, 80% of them industrial companies, have been accredited under ISO 14000, a family of standards addressing aspects of environmental management. The Standards Institution of Israel, operating under the Ministry of Economy, is in charge of standards development and accreditation, including EMS standards. Since 2010 the Ministry of Economy has established a scheme to fund technical assistance for compliance with EMS and other environmental standards and environmental auditing for SMEs (OECD, 2011).

Export promotion

Three Israeli institutions are in charge of promoting foreign trade. The Foreign Trade Administration (FTA) of the Ministry of Economy examines, negotiates and initiates trade agreements. The FTA also represents Israel in the World Trade Organisation and administers economic and trade representatives worldwide – Israel has a developed network of 35 economic and trade representatives and offices in 50 countries. Another key institution is the Israel Export and International Co-operation Institute (IEICI), a non-profit

organisation operated by the government and the private sector promoting the export of Israeli goods and services, and trade relations, co-operation and strategic alliances with overseas companies. The IEICI also provides services to thousands of Israeli exporters. The Manufacturers Association of Israel (Department of Foreign Trade and International Relations) advocates for local industry in terms of foreign trade policy, while at the same time promoting international collaboration and the principles of free trade.

Through their websites, these institutions provide extensive information for SMEs regarding international markets and trade. Furthermore, the IEICI acts as a one-stop shop, while the FTA assists firms to set up partnerships/alliances and to determine market entry strategies.

Although Israel does not have a formal export promotion strategy, its export promotion system is well co-ordinated and underpins the importance of foreign trade in the economy. The government assessment references plans by the Foreign Trade Administration of the Ministry of Economy to prepare a strategic programme with the SMBA and the Israeli Export and International Co-operation Institute. Israel also has a wide network of free-trade agreements, including with the United States, the EU, Canada and Mexico. In the MED region, Israel has Qualifying Industrial Zones (QIZ) protocols with Jordan and Egypt.

According to the assessment, the Department of Policies and International Agreements of the Foreign Trade Administration is in charge of disseminating regulatory and procedural information on foreign trade while the FTA regularly checks the quality of its services with exporters and businesses.

Euro-MED co-operation

Israel has a programme, the Israel-Europe R&D Directorate (ISERD) to promote joint Israeli-EU R&D ventures within the EU's R&D Framework Programme for Research and Technological Development (FP7). Israel also counts on MATIMOP, the national agency for industrial R&D co-operation. MATIMOP funds Israeli companies participating in international collaborative R&D programmes and supports them in finding foreign partners for collaboration (e.g. for developing a product, application or technology). It also helps foreign companies to find suitable Israeli partners.

The way forward

As a way forward, a key priority should be the acceleration of the regulatory reform process, starting in areas with the highest administrative burden, such as property registration, issue of construction permits and tax payments. The company registration and notification process could also be further improved by the establishment of an online registration system and the extension of the network of one-stop shops.

In the area of access to finance, where Israel's performance is generally strong, action should be taken to facilitate access to equity investment for non-technological companies. While equity finance for technology-oriented companies is well developed, few funds and only some facilities provide access to equity investment for non-high-tech companies, making those companies more dependent on bank financing and forcing them to increase their debt-equity ratio.

Good-practice identification needs to be clearly linked with the abovementioned national policy and would stimulate development of more comprehensive and sustainable

policy decisions. A national monitoring mechanism should be introduced as part of the strategy for lifelong entrepreneurial learning, covering all levels of education and non-formal learning.

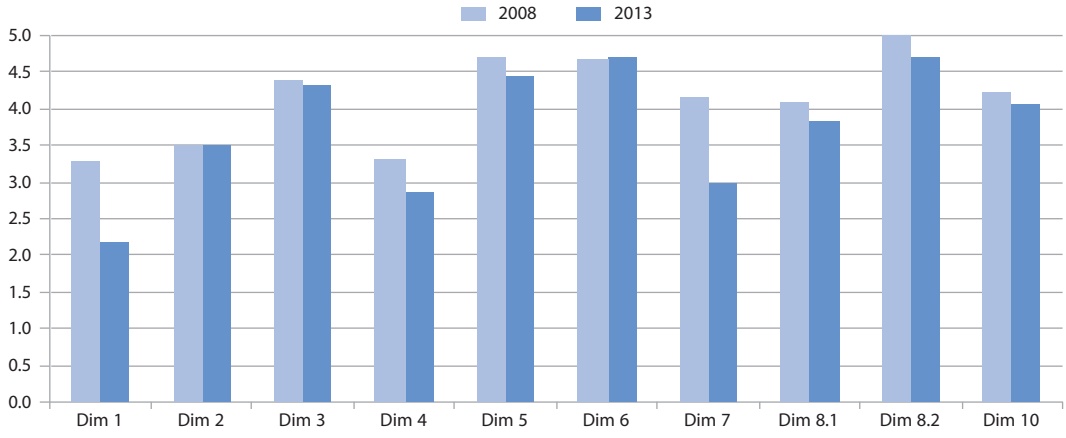
Though Israel's innovation policy is already very advanced, Israel should make efforts to ensure a comprehensive approach, allowing equal access by all groups of the population and sectors of the economy to the resources and systems for entrepreneurship development, including domestic market oriented and non-high-tech businesses.

Israel has put in place relevant initiatives to promote international enterprise co-operation through partnerships. However, those initiatives remain limited to R&D and innovative activities. Those schemes or new ones could therefore be extended to other activities such as quality upgrading, surveillance of international markets and compliance with international standards.

Establishing a systematic training-needs analysis framework is a specific recommendation of this assessment for Israel to develop entrepreneurial learning. The collection of sex-disaggregated and cross-sectoral statistics specifically targeting training and support to start-ups and growth-oriented enterprises is critical for the monitoring of effective use of state funds devoted to the training of entrepreneurs. This should explicitly exclude non-high-tech companies. Women's entrepreneurship requires a special policy focus.

Regarding the promotion of a culture of entrepreneurship and skills development, there is a need to consolidate the individual efforts of the various parts of government and national stakeholders to establish a national policy partnership and a strategy to promote entrepreneurship as a key competence from a lifelong learning perspective. The strategy should be included in the national enterprise, education, employment, research and development, and regional and/or local development policies. It should demonstrate a focus on key competences relevant for entrepreneurship and be accompanied by an action

Figure 13.2. **Israel: assessment results 2008 and 2013**



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

DIM 1: Education and training for entrepreneurship, including women's entrepreneurship; **DIM 2**: Efficient bankruptcy procedures and "second chance" for entrepreneurs; **DIM 3**: Institutional and regulatory framework for SME policy making; **DIM 4**: Operational environment for business creation; **DIM 5**: Support services for SMEs; **DIM 6**: Access to finance for SMEs; **DIM 7**: Supporting SMEs to benefit from Euro-MED networks and partnerships; **DIM 8.1**: Enterprise skills; **DIM 8.2**: Enterprise innovation; **DIM 9**: SMEs in a green economy; **DIM 10**: Internationalisation of SMEs.

Source: Government and independent assessments.

plan covering teacher training, training-needs analysis, career guidance, and non-formal entrepreneurial learning, as well as provisions for sustainable enterprise development and women's entrepreneurship. Existing partnerships between government, universities and other stakeholders should promote the "cross-campus approach" to entrepreneurial learning in higher education, beyond technology-based or high-tech intensive faculties, and be further developed to cover the issues of lifelong entrepreneurial learning.

Notes

1. NITSOS is the industrial innovation programme of the Ministry of Economy that boosts innovation and creativity in non-high-tech SMEs www.moital.gov.il/; 200X2 is the Ministry of Economy programme aimed at assisting companies from Israel's peripheral regions to double their exports.
2. http://sba.economy.gov.il/programs/funds/pages/yeutz_asakim.aspx.

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Chapter 14

Jordan

Economic overview

Jordan is the second smallest economy in the MED region and has a GDP per capita of USD 4 879, placing it among the upper-middle income countries according to the World Bank income group classification (the other MED economies in this classification are Algeria, Lebanon and Tunisia).

Jordan lacks significant hydrocarbon resources and thus relies heavily on oil and gas imports. Water scarcity is a major obstacle to socio-economic development – it is one reason why only 10% of land is arable, and for the modest role of the agricultural sector (4.5% of GDP). The Jordanian economy remains better diversified than others in the region – it is dominated by services (65% of GDP) and industry (30% of GDP), with pharmaceuticals, phosphates, potash, clothing, fertilisers and vegetables being the main exports (Hausmann et al., 2011). Jordan has several bilateral and multilateral free trade agreements and is a member of the Greater Arab Free Trade Agreement, the Euro-Mediterranean partnership and the Agadir Agreement.

Like other countries in the region, the Jordanian economy has been vulnerable to repeated external shocks such as the global economic downturn and regional instability. This is reflected in a sharp decrease in GDP growth from 5.4% in 2009 to 2.3% in 2010 (see Table 14.1) and a drop in the share of exports in GDP from 57% in 2008 to 46% in 2012, caused by weak external demand. At the same time, rapidly rising imports, especially of expensive fuel to replace currently disrupted gas supply from Egypt, widened the current account deficit to 18% of GDP in 2012 (up from 12% in 2011).

Remittances from Jordanians abroad have stagnated and foreign direct investment inflows of USD 1.4 billion in 2012 remain significantly below those of previous years (USD 2.8 billion on average between 2006 and 2009). Jordan is also greatly affected by conflict spillovers from the neighbouring Syrian Arab Republic, with a large inflow of Syrian refugees adding pressure to Jordanian labour and housing markets. However, increased consumption fuelled by refugees is also contributing to the recovery of the economy – GDP growth is expected to reach 3.25% in 2013 (IMF 2013). While this rate

Table 14.1. **Jordan: Main macroeconomic indicators, 2008-13**

Indicator	2008	2009	2010	2011	2012	2013
GDP (current USD, billion)	22.0	23.8	26.5	28.9	31.2	34.1
GDP growth (real)	7.2	5.5	2.3	2.6	2.8	3.3
GDP per capita (current USD)	3 757	3 986	4 326	4 618	4 878	5 207
Current account balance (% of GDP)	-9.3	-3.3	-5.3	-12.0	-18.1	-9.9
General government primary net lending/borrowing (% of GDP)	-9.7	-8.3	-7.7	-6.1	-8.9	-10.4
Unemployment, total (% of total labour force)	12.6	12.9	12.5	12.9	12.2	12.2
Inflation, consumer prices (annual average increase, %)	13.9	-0.7	5.0	4.4	4.8	5.9
Foreign direct investment, net inflows (current USD, billion)	2.83	2.41	1.65	1.47	1.40	n.a
General government gross debt (% of GDP)	60.2	64.7	67.1	70.7	79.6	83.9

Data for 2012 and 2013 are estimates.

Source: IMF (2013), *World Economic Outlook database 2013*, October, Washington, DC, www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx; UNCTAD (2013), UNCTAD Stat Database, available at unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en.

exceeds the average of MENA oil importers (projected to be 2.8%), it is still low compared to an annual average of 7% between 2000 and 2008 and might not be sufficient to create jobs (unemployment reached 12.2% in 2013).[1]

To soften the adverse impact of these external shocks, the Jordanian government engaged in increased fiscal spending throughout 2012. Fuel subsidies, in particular, weighed heavy on the fiscal deficit. Net borrowing reached 9% of GDP in 2012 (6.1% in 2011). In recent months, the government has taken important steps towards fiscal consolidation, in particular by replacing fuel subsidies with a system of cash transfers. Official reserves have been partially rebuilt to USD 11.7 billion at the end of July 2013, after having bottomed at USD 8.8 billion at the end of December 2012, and the current account deficit is expected to narrow to 9.9% of GDP in 2013, compared to 18.1% in 2012. Inflation remained moderate at 4.8% in 2012, despite some remaining pressure in food and housing, but is thought to have increased to 5.9% in 2013. Remaining challenges are to fight persistently high unemployment, achieve fiscal consolidation, control the budget deficit and spur private investment in order to unlock private sector potential for inclusive and sustainable growth.

Business environment

The Jordanian business environment benefits from well-developed infrastructure, a sound institutional and regulatory framework and a relatively open economy. This led to a sharp increase in FDI inflows in the late 1990s. Committed towards strengthening the liberalisation of investment, increasing its integration in the world economy and promoting responsible business conduct, Jordan adhered in November 2013 to the OECD Declaration on International Investment and Multinational Enterprises (OECD, 2013). However, in addition to the macroeconomic vulnerabilities described above, Jordan's private sector development is impaired by a rigid labour market, low productivity, low levels of innovation and R&D, and an underdeveloped financial sector.

Jordan ranks 119th out of 189 economies in the ease of doing business index of the IFC-World Bank's 2014 *Doing Business*, maintaining its position from the 2013 index. Paying Taxes is relatively easy in Jordan (ranked 35th) – the total corporate tax rate of 28.9% is significantly lower than the MENA and OECD averages (32.3% and 41.3% respectively). Getting Electricity (46th) and Trading Across Borders (57th) are further strengths of the Jordanian business environment. Getting Credit (170th), however, represents a major burden, due to the lack of legal rights, difficulties in obtaining credit information, and weak registry coverage. Protecting Investors (170th) and Enforcing Contracts (133th) are also weak areas – the ability of shareholders to sue officers and directors is assessed as particularly restricted for entrepreneurs in Jordan and enforcing contracts is a lengthy and costly process.

Ranked 68th out of 148 economies, Jordan has lost four positions in the Global Competitiveness Index 2013-2014 of the World Economic Forum since the preceding year, mainly reflecting the macroeconomic constraints the country is facing due to the economic crisis and regional instability. According to the assessment, "restrictive labour market regulations, tax rates and access to financing are the most problematic factors for doing business in Jordan (World Economic Forum, 2014). Yet Jordan is considered the most free economy among the MED economies analysed in this report, ranking 39th out of 178 economies in the Index of Economic Freedom 2014 of the Heritage Foundation.

Overview of the state of SMEs

While significant restrictions on entrepreneurial activity remain, the well-developed regulatory environment and relatively open economy support a growing community of entrepreneurs in Jordan. Between 2004 and 2009, there was an average of 0.59 limited liability companies established per 1 000 working-age residents, compared with an average rate of 0.77 in Middle East and North Africa economies for which data is available (World Bank, 2014). In 2012 the firm entry density rate in Jordan reached 0.98. According to an IFC survey, SMEs employed 31% of the total workforce in 2007, slightly less than the average of 34% in upper middle income economies (IFC 2011).[2] While micro enterprises were mostly focused on trade (63.6%) and less so on services (19.1%), other SMEs were well diversified between services (40.5%), trade (27.2%) and manufacturing (25.6%).

Of the total 156 728 private sector establishments reported by the 2011 Establishment Census by the Jordanian Department of Statistics, 92% employed 1-4 persons and another 7% employed 5-19 persons. Furthermore, 94% of enterprises have registered capital of no more than JOD 20 000 (Jordanian dinar, EUR 21 706). The 2011 Employment Survey (Jordan Department of Statistics, 2014a), shows that businesses with fewer than 100 employees account for 64% of private sector employment, with businesses with 4 or less employees making up 35% alone. These micro enterprises operate predominantly in the retail trade (non-vehicle) sector, where they account for 98% of businesses.

According to the 2011 Establishment Census (Jordan Department of Statistics, 2014b), SMEs are strongly oriented towards internal trade – SMEs account for only 2.4% of total domestic exports in 2011. SMEs contributed 30% of GDP in 2009, but the Executive Development Programme 2011-2013 of the Ministry of Planning and International Co-operation has set the goal of increasing this to 40% by 2013. Still, the density of around 25.6 SMEs per 1 000 inhabitants remains lower than the global average of 31 SMEs per 1 000 people (IFC, 2011).

Finally, the gender gap in employment is largest among small Jordanian enterprises. Only 10% of employees in micro enterprises (1-4 employees) were women according to the 2011 Jordan Human Development Report, compared to 26.5% of employees in large enterprises (more than 99 employees) (MOPIC-UNDP, 2011).

Box 14.1. **Definition of SMEs in Jordan**

The Official Letter from the Minister of Industry and Trade to the Prime Minister dated on 12/1/2005 Ref No 23/1/7/23002 defines SMEs as follows:

- Micro business: 1-9 employees or less than JOD 30 000 registered capital.
- Small business: 10-49 employees and at least JOD 30 000 registered capital.
- Medium-size business: 50-249 employees and at least JOD 30 000 registered capital.

Not all government entities use the above definition. The data provided in the 2011 Establishment Census by the Department of Statistics classifies establishments according to the number of employees, with the following categories: (1-4 employees), (5-19), (20-49), (50-99), (100-249) and >250.

Assessment results

The results of the 2013 assessment show that Jordan's overall performance in SME policy has remained largely unchanged since 2008 (Figure 14.1). Although incremental improvements were recorded in the scores for a limited number of policy indicators, there is room for more in-depth reforms. For instance, Jordan should consider expediting the approval, implementation and monitoring of the new bankruptcy law, as the current law is not in line with international standards.

Figure 14.1. **Jordan: 2013 assessment scores**

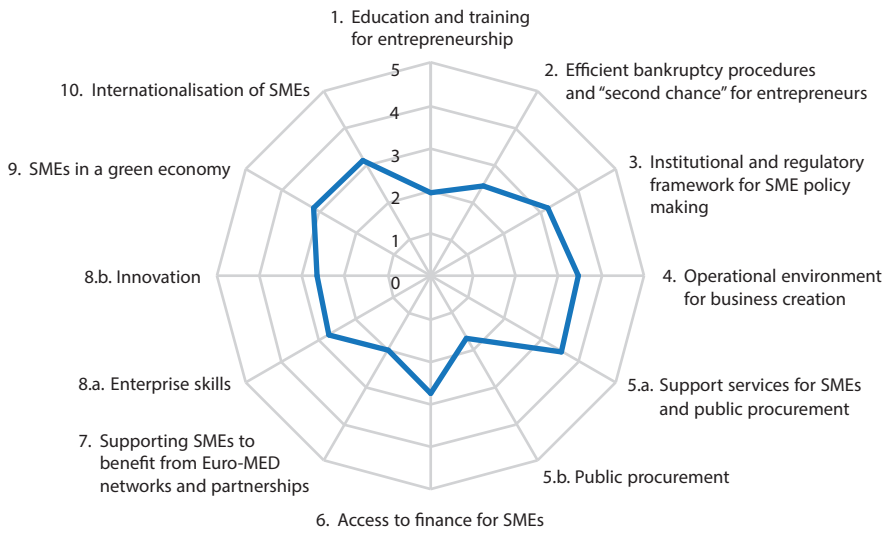


Figure 14.2 shows results comparable for both, the 2008 and 2013 assessments.

Source: Government and independent assessments.

On the institutional framework, the most significant development has been the elaboration of a new National Entrepreneurship and SME Growth Strategy 2014-2018, which sets a new range of medium-term objectives, grouping enterprises in terms of size, providing a tailored action plan that reflects their needs, and putting a clear emphasis on enterprise growth. The strategy, which was still pending final government endorsement in the first quarter of 2014, aims to facilitate policy co-ordination, assigning a major role to the Jordan Enterprise Development Corporation (JEDCO) in terms of policy advocacy, co-ordination and implementation.

Other positive developments have been the introduction of a single company identification number, the approval of legislation regulating the establishment of a private credit bureau (after a lengthy drafting procedure) and improvements in exchanges of good practices about entrepreneurial learning. However, while several SME initiatives are in place in Jordan, information regarding their level of implementation and effectiveness remains scarce.

Finally, despite the large number of existing policies, initiatives, and programmes supporting SMEs, indications of the degree of implementation, effectiveness and impact remain limited.

The following sections outline the main results for Jordan from the 2013 Euro-MED Charter/SBA assessment. In order to facilitate the analysis of the SBA profile, the policy dimensions are reorganised under five wider SME policy areas:

- Strengthening institutions and mechanisms for SME policy making (dimension 3);
- Establishing a conducive operational environment for SMEs (dimensions 2 and 4);
- Facilitating SME access to finance and developing the legal and business environment (dimension 6);
- Promoting a culture of entrepreneurship and skills development (dimensions 1 and 8);
- Enhancing SME competitiveness (dimensions 5, 7, 8, 9 and 10).

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

The structure of the institutional framework for SME policy in Jordan has remained largely unchanged since the publication of the 2008 report. The Ministry of Industry and Trade is in charge of enterprise and SME policy elaboration, while the Ministry of Planning and International Co-operation is responsible for implementing the broader country development strategy and mobilising donor support. Policy implementation is delegated to a number of specialised agencies. The most relevant for SME policy is JEDCO, an independent agency established in 2003. JEDCO is supervised by a board of directors, chaired by the minister of industry and trade and composed of representatives of key economic ministries and the private sector, selected on an individual basis such that relevant industry and services sectors are represented properly.

In 2008, JEDCO launched two major enterprise assistance programmes with the support of the European Commission and with contributions from the government: *1)* the Jordan Upgrading and Modernisation Programme (JUMP), which provides partial grants and technical assistance to Jordanian manufacturing companies in equipment upgrading, technology enhancement, marketing, management, staff training, market access and standardisation; and *2)* the Jordan Services Modernisation Programme (JSMP), which focuses on the services sector. Over the last five years, JEDCO has extended the scope of its activity to cover innovation, enhancing access to both traditional and non-traditional finance, policy advocacy and co-ordination, and business networking.

Other institutions relevant for SME policy are the Jordan Investment Board (JIB), focusing on investment attraction, facilitation and promotion; the Jordanian Industrial Estates Company, promoting the establishment of industrial parks; and the Free Zones Authority.

Policy co-ordination remains a relatively weak point. Originally, the prime minister's office was expected to play a pivotal role in the co-ordination of policy development, while representatives on the board of the implementation agency were to ensure information exchange and identification of potential synergies at operational level. However, over the last two years, the co-ordination role of the prime minister's office has diminished, due to the short duration of a series of governments.

The recent elaboration of the new National Entrepreneurship and SME Growth Strategy 2014-2018 is a milestone in terms of overcoming this weakness in the policy environment. The new strategy, formulated through an extensive participatory process,

creates the opportunity to rationalise legislation and regulations affecting SMEs as well as create synergies between actions and programmes. It also further clarifies the policy framework, assigning JEDCO a central role in SME policy advocacy, co-ordination and implementation.

Legislative simplification and regulatory reform

Regulatory reform and administrative simplification are still at a relatively early stage in Jordan, with only incremental developments since the 2008 assessment. However, as part of the elaboration of the new National Entrepreneurship and SME Growth Strategy 2014-2018, JEDCO has conducted an extensive review of the legislation affecting SME operations and made recommendations to eliminate redundant legislation. In addition, a new Entrepreneurship and SME Development Law has been drafted and will be discussed by the Cabinet in the near future.

According to the IFC-World Bank (2013) *Doing Business* report, no significant regulatory reforms have been introduced in Jordan over the last three years in any of the areas covered by the report. However, new measures have been introduced regarding Tax Payments and Trading Across Borders and a new credit bureau is currently being established (see section on access to finance).

Jordan has no regulatory reform strategy, although a regulatory reform road map was drafted in 2010 by the National Innovation and Competitiveness Council, and the Ministry of Planning and International Co-operation has conducted pilot projects, mostly with donor support. For instance, a regulatory guillotine initiative was delivered in 2010 as a result of a pilot regulatory review conducted under the USAID-funded Jordan Economic Development Programme (SABEQ) 2006-2012. The programme led to the elimination of minimum capital requirements for company registration.

The introduction of regulatory impact assessment is at an early stage. The mandate to develop a regulatory impact assessment application system has been assigned to the Economic and Social Council established in 2009. An Evaluation and Impact Assessment Unit was established in 2012; pilot applications have been conducted with the support of the Ministry of Planning and International Co-operation and the European Commission.

Public-private consultations

The Economic and Social Council (ESC) is the main conduit for public-private consultations. The ESC meets twice a year. Additional consultations take place when major economic measures are proposed, but private sector organisations consider the current framework non-conducive to a productive dialogue, due to a lack of structural mechanisms.

The government is currently reviewing the draft of a new law for public-private consultations, and has established a new National Innovation and Competitiveness Council to work on elaborating the new 2012-15 innovation and R&D strategy. The council brings together private and public sector representatives and focuses on the improvement of the investment climate and on enhancing productivity in Jordanian enterprises. Intensive public-private consultations were conducted in 2012-13 as part of the preparation of the new National Entrepreneurship and SME Growth Strategy 2014-2018.

Establishing a conducive operational environment for business creation

Company registration and business start-up process

Jordan has achieved significant progress in reducing the cost and duration of company registration through: *1)* the introduction of a single identification number when dealing with the following administrative authorities: the Company Controller, Chambers of Commerce and Industry, the Greater Amman Municipality, and the Income and Sales Tax Department; and *2)* the reduction of the cost of obtaining a registration certificate to approximately EUR 10. While minimum capital requirements for company registration have been eliminated, the cost of starting a business remains relatively high. Moreover, the existing one-stop shops established by the Ministry of Industry in 2002 and by the Jordan Investment Board in 2004 have not extended their geographic scope.

Online registration services

There is currently no online registration system in Jordan. However, online registration forms can be found on the Company Control Department's website, and these can be filled in online. However, they have to be printed, signed and submitted by hand. There are plans to introduce online registration, as evidenced by the reference to an electronic registration process in the draft Investment Law.

Bankruptcy procedures and second chance

Jordan has an insolvency framework and is developing a new draft law on company reorganisation, bankruptcy and liquidation aimed at supporting the sustainability of enterprises facing financial difficulties. The law is currently being reviewed by parliament.

Facilitating SME access to finance and developing the legal and business environment

The global financial crisis and the instability in the region led to some deterioration of the overall financial markets sector in Jordan. Compared to the 2008 assessment, there was only a modest improvement in the sources of external finance for SMEs, except in the area of microfinance. More progress has been witnessed regarding the legal and regulatory environment with, for instance, the approval of a law on private credit information bureaus. As a way forward, Jordan should focus on enhancing creditor rights and promote alternative finance and equity instruments, such as Islamic financial tools and business angel and venture capital networks.

Sources of external finance for SMEs

Economic and political instability had a significant impact on lending and financing activities in Jordan in recent years. The economy witnessed significant declines in domestic credit to the private sector between 2008 and 2012, from 81% to 72% of GDP, after a peak of more than 90% in 2006.

The banking system in Jordan is almost entirely concentrated in the three biggest banks, leaving little room for bank competition. In 2008, the assets held by the three largest banks represented 95% of total assets. Nevertheless, there has been some improvement, since this ratio decreased to 88% in 2011. Still, medium-sized banks, the type of bank traditionally lending to the SME sector, suffer from a lack of liquidity. Bank loans to SMEs

in Jordan represent only 10% of total bank loans, a rate slightly lower than the average MENA region rate of 13.2%– excluding GCC countries (Farazi et al., 2011). This share is, however, well below the developed countries' average of 27%, according to a study by the World Bank in 2008 (Beck et al., 2008).

According to the assessment, credit guarantee schemes in Jordan witnessed only small signs of progress since 2008. The most significant was the agreement reached in 2011 to establish a USD 250 million SME loan guarantee programme with the support of the U.S. Overseas Private Investment Corporation (OPIC). The programme, not yet operational, would provide credit guarantee coverage ranging between 60% and 75%, provided collateral requested by the banks is limited to 30% of the value of the loan.

Microfinance activities expanded significantly in recent years. The sector witnessed an average annual growth rate of 28% between 2006 and 2010, translating into an increase in the number of active borrowers from 76 830 to 203 579. The sector also has a strong focus on women, who account for more than 75% of clients. However, microfinance activities lack a specific legal and regulatory framework and this hinders growth. Consequently, in 2011 Jordan reviewed and updated its national microfinance strategy adopted in 2005 and is currently reviewing the regulatory environment governing microfinance institutions in an effort to modernise this sector to better serve the country's development objectives.

Regarding leasing activities, Jordan tackled some specific concerns raised in the 2008 assessment. For instance, the law on leasing, which was developed with the assistance of the IFC, became fully effective and meets international good practice standards. Furthermore, in 2013 a governmental decision was issued exempting leasing institutions from sales tax, which was one of the problems mentioned in the 2008 assessment. Overall, according to the World Bank, the leasing volume in Jordan represents 1.1% of GDP, compared with only 0.4% in Egypt but almost 2% in Morocco.

As already recommended in the 2008 assessment, the institutional environment for improving access to finance could be complemented by, among other things, legislation on venture capital funds. According to the 2013 assessment, attempts spearheaded by JEDCO were undertaken to draft such legislation and a venture capital law is currently under development. In practice, there has also been some progress with respect to venture capital funds. JEDCO established a venture capital programme in 2009, in co-operation with the European Investment Bank, to support existing enterprises in their growth phase.

Two venture capital funds were launched by this programme, dedicated respectively to early stage and developing SMEs. Few other venture capital funds supporting firms in their early-stages exist in Jordan and few pilot projects and policy awareness plans are in place to develop business angel networks. Examples include Bedaya and Oasis 500 – the latter serves start-ups in the ICT, digital media, and mobile sectors. Finally, the Governorate Development Fund was established by HM King Abdullah II in 2012 as a pilot effort to improve access to equity finance in governorates across Jordan with a view to promoting development in marginalised areas.

Although the economy's capital stock represented more than 100% of GDP in 2011 – the highest ratio among the assessed MED economies – capital markets do not seem to provide a significant complement to bank finance for SMEs yet. The market capitalisation requirements for SMEs are stringent and entry is reserved for companies with an authorised capital of at least USD 700 000 (EUR 518 500).

Legal and regulatory environment

The Jordanian legal and regulatory framework for access to finance has witnessed some improvements during the last few years. The country has established a public credit information bureau, but the information is still not widely available and firms and individuals cannot access their data by law. Furthermore, the bureau is confined to financial institutions. In practice, this is reflected in the weak coverage of the bureau – only 2% of the population were covered in 2013 (IFC-World Bank, 2013). However, a private credit bureau, the Credit Bureau Corporation, is currently undergoing registration and is expected to open in 2014.

There have also been improvements regarding a collateral registry for movable assets since 2008, since a law for placing moveable assets as security was enacted in 2012. However, the implementing regulation has yet to be issued – thus the law is in place, but not yet fully operational.

The collateral regime is still restrictive, as reported in 2008, and provisioning requirements for loans under EUR 20 000 do not differ from large loans. Banks rely primarily on collateral-based lending rather than creditworthiness, leaving creditworthy SMEs, which often lack collateral, unfinanced. According to the assessment, most loans require collateral equal to about 123% of the loan value, and small firms report that they have to provide higher collateral than large ones.

With respect to creditor rights, the IFC is currently working with the Jordanian government to develop a secured transaction law for moveable property. According to *Doing Business*, secured creditors are able to seize their collateral after reorganisation, i.e. there is no "automatic stay", but most of the other rights protecting creditors are still missing in Jordan (IFC-World Bank, 2013).

Financial literacy

Few efforts were undertaken in Jordan to foster financial literacy, despite the fact that the promotion of financial literacy is stated as one of the main policy strategies under the Jordanian National Policy Framework for Microfinance.

Promoting a culture of entrepreneurship and skills development

Entrepreneurial learning has received high interest and attention from the Jordanian government and society in recent years. Several sector-specific development strategies identified the need for skilled workers, creating sufficient pressure for a national debate on entrepreneurial learning.

The National Agenda of Jordan is aiming for an upward trend of policy development in many areas of social and economic development where an articulated lifelong entrepreneurial learning policy can reasonably be integrated. Although Jordan does not yet have a specific national strategy, various initiatives in the country promote the exchange of good practices for lifelong entrepreneurial learning between schools. This is a major improvement on the assessment in 2008.

Jordan organises an annual conference associated with the Queen Rania Award for School Excellence to recognise schools showing excellence in entrepreneurial learning. As the United Nations Educational, Scientific and Cultural Organisation (UNESCO) supports entrepreneurial learning in lower secondary education, the Ministry of Education recognises entrepreneurial learning as a key competence in the national curriculum for

this stage of education. In addition, there are various initiatives funded and supported by donors, notably the ongoing activities of the non-governmental organisation INJAZ. This impressive improvement since the last assessment is reflected in the scores.

Jordan has also started to integrate entrepreneurial learning in upper secondary education, but still needs to fully extend the achievements of entrepreneurial learning in lower secondary education to upper secondary education. Policy specialists in the country are aware that the value of lifelong entrepreneurial learning depends not only on how thoroughly entrepreneurial learning tasks are carried out in one stage of education but require the achievement of goals in all stages.

Therefore, the higher education community in Jordan has prepared a national discussion paper on entrepreneurial learning in higher education. There are efforts in the higher education sector to exchange good practices on entrepreneurial learning, which can create more opportunities for networks of universities to connect their entrepreneurial learning with a national policy of education and economic development.

Jordan has not yet developed a national stakeholders network to arrange data, training-needs assessments, and market intelligence for small business training. There are several training programmes for SMEs, which are operational in the whole country, including funding arrangements, and online options for training are available. The role of JEDCO, Chambers of Commerce and Industry, the Business Development Centre (BDC), and other business associations remains prominent in organising and co-ordinating training provision for SMEs around the country. The training projects for small business internationalisation offer a holistic approach in terms of helping small business to access international markets. They design and deliver major components, including entrepreneurship training programmes, and training on access to finance, market information, business development, executive management and leadership, and export advisory services. Important issues such as quality assurance of trainers, training content, and the accreditation and establishment of quality assurance bodies are not dealt with systematically – only *ad hoc* solutions, mainly at project level, are in place.

To strategically address this weakness, JEDCO – with support from the European Investment Bank – will implement a Jordan SME Growth Programme financed by the Deauville Partnership Transition Fund. Capacity building is an integral part of the programme, which trains and accredits professional service providers to improve the quality of services they offer to entrepreneurs and SMEs.

Several organisations are involved with women's integration in the labour market and entrepreneurship activities, and the National Strategy for the Jordanian Woman (2013-17) includes a specific chapter on the economic empowerment of women. Despite these positive elements, a national dialogue aimed at developing a national policy for women's entrepreneurship in Jordan is missing. Jordan's score on women's participation in the labour market is hence the lowest in the region.

Enhancing SME competitiveness

Business information and services

The policy framework for business support services improved in Jordan compared with the last assessment. The country has a well-developed market for personalised business support services across the country covering a wide range of topics. SMEs receive support through JEDCO, the Tatweer Business Development Centre, Business Associations and

Chambers of Industry and Commerce. Information about these services can be found on their respective websites.

This assessment shows that Jordan has generally made progress in the area of information provision. The government delivers statistical information on the enterprise population and on new laws and regulations. This information is made available by different institutions through their websites, such as the Chambers of Industry, the Chambers of Commerce, the Greater Amman Municipality, the Industrial Development Directorate and the Ministry of Planning and International Co-operation. In addition, JEDCO publishes information on its website on the financial and technical services it provides. While an interactive single information portal providing SME-specific information is still lacking, JEDCO is in the process of establishing a National SME and Entrepreneurship Observatory that is expected to be operational in 2014.

Start-up support services in Jordan exist with well-established support programmes, although with limited resources and restricted geographical spread. Furthermore, the programmes focus only on the provision of basic establishment services. A chapter on incubation and start-ups has been incorporated in the new National Entrepreneurship and SME Growth Strategy 2014-2018, and publicly funded incubators managed and administered by Al Urdonia Lil Ibdaa (AULE, a public-private owned company) are in the pilot phase. Other private sector incubators, such as the Jordan Technology Group (JTG), are operational and have successfully incubated new start-ups.

Public procurement

In Jordan, there is no public procurement law yet that makes it possible to cut tenders into smaller lots. Public procurement opportunities are scattered among a variety of sources and only basic information on tenders is available in electronic format. There is also no regulation that ensures payments are made on time for General Supplies Department purchases. However in the case of the General Tenders Department and its associated legislation, strict deadlines for payments are imposed and penalties in the case of non-compliance are enforced. Furthermore, there are general provisions requiring public buyers to set proportionate qualification levels and financial requirements for considering bids for tenders agreed by the public sector entity.

The public procurement market is not open to foreign enterprises on the basis of open competition. In many cases, procurement conditions ask for a local representation or local registration certificate and there is a 15% price advantage for locally manufactured products.

Innovation

While there is as yet no official national innovation strategy in place, the Ministry of Planning and International Co-operation and the High Council for Science and Technology (HCST) are in the process of finalising a Science and Technology Innovation Policy and Strategy for 2013-17. Established by law no. 30 in 1987, the HCST will be the responsible body for innovation promotion in Jordan, although there is currently a lack of co-ordination between the different ministries and institutions involved in innovation promotion and implementation policies.

Jordan has established a number of initiatives to support innovation. The Jordan Innovation Centres Network (JICs), consisting of eight entities, including universities, has been launched and is administered by JEDCO. The eight incubators – still at an early stage

of development – are managed by AULE, with JEDCO being the main shareholder. Jordan also has several technology incubators, including Oasis 500, iPark and the JTG. Furthermore, Al Hassan Science City, one of the few operational science parks in Jordan, hosts the HCST, the Royal Scientific Society (RSS), and the Princess Sumaya University for Technology. It promotes public-private partnerships and linkages with universities and research institutes.

Some progress has been made in terms of strengthening linkages with academia and research. In 2012, the Intellectual Property Commercialisation Office (IPCO), a central technology transfer office, extended its network to seven universities. There are still efforts to be made in relation to the availability of information on innovation support service providers. Currently, there is no unified database, only scattered online websites of support services are available.

Public funding to R&D has increased. The financial allocation to the Scientific Research Fund grew from JOD 475 900 (EUR 367 400) in 2011 to JOD 15 million (EUR 10 894 900) in 2013, and support to the business and technology incubators increased from JOD 450 000 (EUR 347 488) in 2011 to JOD 20 million (EUR 14 526 500) in 2013. A number of angel funding and venture capital private entities have been established to support start-ups. The Jordan Technology Group (JTG), a private incubator, provides venture capital funding.

Green economy

A national policy framework which includes eco-efficiency and eco-innovation principles is not yet fully developed. However, the National Entrepreneurship and SME Growth Strategy 2014-2018 and the National Policy for Innovation, which are currently under preparation, comprise energy saving measures such as the promotion of eco-efficient business and eco-innovation.

Information regarding environmental issues is made available through several organisations, including Chambers of Commerce and Industry, local governments and NGOs. JEDCO's Energy Saving Services Programme, the Faculty for Factory, the Senior Dutch Volunteers Programme and various USAID and GIZ-funded programmes provide technical assistance and training. Energy and water efficiency programmes are also offered by the Business Association EDAMA and the Jordan Renewable Energy Efficiency Fund.

Information on Environmental Management Systems (EMS) and standards is made available by both JEDCO and the Amman Chamber of Industry through their Industries Support Programme for Certification of International Standards of Quality Management Systems and of National and International Conformity Certificates. While JEDCO introduced special grant schemes to facilitate SMEs obtaining ISO 14000 – a family of standards related to environmental management – the government still needs to put in place adequate funding and promote wider dissemination of standards to further develop the adoption of EMSs and standards for SMEs.

Export promotion

An export promotion strategy covering six economic sectors is currently being drafted by the Ministry of Industry and Trade, with the support of the International Trade Centre. In addition, *ad hoc* initiatives (trade missions, trade fairs, etc.) exist in various institutions. Jordan also has a number of trade and co-operation agreements with other MED and global economies.

Public and private agencies provide specific support for exporting firms, including SMEs. These include the Jordan Exporters Association, JEDCO and chambers of industry and trade.

In terms of the simplification and computerisation of procedures for foreign trade, Jordan implements UNCTAD's ASYCUDA platform and the Jordan customs website provides e-services. Yet, according to the independent assessment, actions remain disparate and uncoordinated. In addition, Amman Trade Point (hosted on JEDCO's website), provides information on export procedures and documents required for foreign trade, but it does not allow interactions such as the submission of electronic forms.

Euro-MED co-operation

Jordan has some pilot projects promoting Euro-MED networks and partnerships. These projects are funded by the EU and include initiatives that are also targeted at other MED economies participating in the Agadir agreement. According to the independent assessment, those measures are part of wider EU-led initiatives to promote a better business environment for SMEs, to reinforce the capacities of SME support agencies, and to support regional clusters in cultural and creative industries.

The way forward

As a way forward, Jordan should focus on further improving the regulatory framework to support entrepreneurship and SME development. As a relatively small, open economy without significant natural resources, Jordan should further develop a business environment conducive to attracting inward investment and promoting enterprise growth, particularly in non-energy-intensive and high-technology sectors, and continue to build a knowledge economy. It is thus recommended to focus on the constraints faced by enterprises operating in the leading sectors, such as the pharmaceutical industry, medical services and the ICT sector, in order to remove barriers to growth.

A revision of administrative requirements would be the first step. It is also recommended to introduce regulatory impact analysis in order to better monitor and evaluate the impact of new regulations and test their effectiveness. Such types of interventions have limited budget implications, and they may generate positive returns in terms of enterprise growth and employment generation.

A second priority should concern access to finance. Bank financing is the dominant source of external finance for SMEs in Jordan. The banking sector is highly concentrated and commercial banks adopt a conservative approach to SME financing, relying on established relations and by backing loans with real estate guarantees.

Strengthening creditor rights and limiting asymmetry of information would reduce collateral requirements and open access to bank financing to a larger number of SMEs, particularly those with intangible assets and promising growth potential. In addition, JEDCO should further promote the establishment of business angel networks in order to provide equity financing to business ventures that are too small to be covered by the existing equity fund. Finally, action should be taken to support innovative enterprises, particularly those operating in high value-added sectors. This could be done by further expanding the network of business incubators and by developing financial assistance tools for the enterprise expansion phase. Suggested tools could be seed equity financing or a credit guarantee fund combined with a credit line facility, including credit risk

assessment, which takes into consideration both the company's growth potential and its endowment of intangible assets. Kafalat in Lebanon could serve as a role model for the latter. Finally, to improve access to finance for SMEs, Jordan could expedite the approval and implementation of the new bankruptcy law and could implement a monitoring and evaluation system to track its effectiveness.

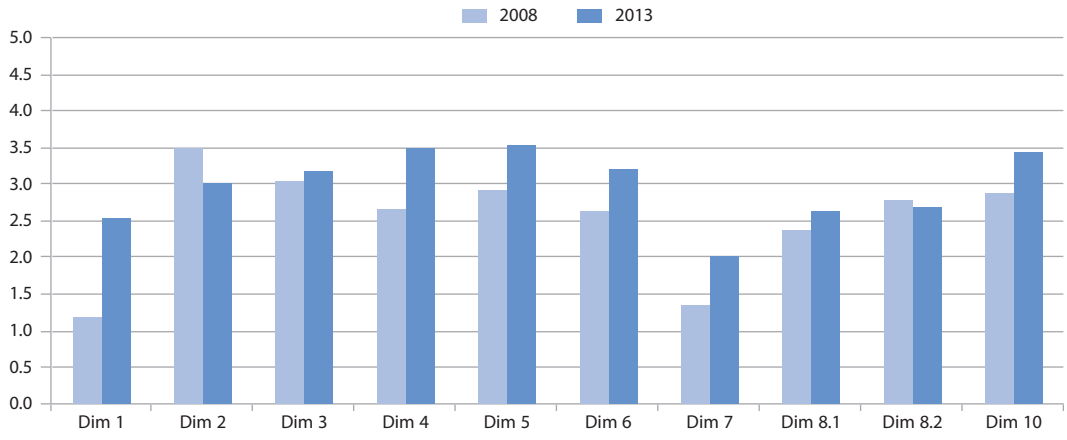
Jordan has several initiatives to support exporting SMEs, yet it is still lacking a comprehensive and cohesive approach. The prompt adoption and efficient implementation of the export promotion strategy could help Jordan increase the effectiveness of its support. However, there is no clear indication of when the strategy might be adopted and what its milestones would be.

EU-funded programmes to promote linkages and partnerships between Jordanian and MED enterprises could be extended to include linkages with European and other firms, as is the case in Egypt and Tunisia. Jordan could also join the Europe Enterprise Network and similar international initiatives to enhance the availability and quality of business support services for SMEs.

To promote a culture of entrepreneurship and skills development, Jordan should make use of steering and technical committees composed of representatives from the Ministry of Education, Ministry of Higher Education, private sector, non-governmental organisations, etc. to assign the leadership role and foster co-ordination in entrepreneurial learning for all levels of education. Furthermore, systematic training-needs analysis would help the Jordanian government in developing informed policies on entrepreneurship and enterprise skills development in the future. The private sector should be the main driver to negotiate and arrange national public-private partnerships on this issue.

Employability and economic empowerment of women and other disadvantaged segments of society remains a critical issue, limiting the scope for entrepreneurial activity in Jordan,

Figure 14.2. **Jordan: assessment results 2008 and 2013**



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

DIM 1: Education and training for entrepreneurship, including women's entrepreneurship; **DIM 2**: Efficient bankruptcy procedures and "second chance" for entrepreneurs; **DIM 3**: Institutional and regulatory framework for SME policy making; **DIM 4**: Operational environment for business creation; **DIM 5**: Support services for SMEs; **DIM 6**: Access to finance for SMEs; **DIM 7**: Supporting SMEs to benefit from Euro-MED networks and partnerships; **DIM 8.1**: Enterprise skills; **DIM 8.2**: Enterprise innovation; **DIM 9**: SMEs in a green economy; **DIM 10**: Internationalisation of SMEs.

Source: Government and independent assessments.

as is the case in other countries in the region. A better policy framework, institutional support and public-private dialogue would help create an environment conducive to female entrepreneurship (OECD, 2012). Government, the private sector and civic society should hence more closely collaborate towards the development of national entrepreneurship and/or small business skills strategies in order to further unlock private sector potential and to ensure Jordan's sustainable socio-economic development.

Notes

1. MENA oil importers include Egypt, Israel, Jordan, Lebanon, Morocco, PA and Tunisia.
2. Definition of SMEs (including micro, small and medium enterprises): up to 99 employees; micro enterprises: less than 5 employees.

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Chapter 15

Lebanon

Economic overview

With a GDP per capita exceeding USD 10 000 in 2012, Lebanon is classified by the World Bank as an upper middle income economy. The country witnessed four years of strong economic growth at an average annual rate of 7.8% between 2008 and 2010, led by high investment rates and a strong service sector. Known as a hub for finance and commerce, the economy has witnessed growth in the tourism, real estate and banking sectors.

However, the country continues to suffer from the prolonged effects of the civil war of 1975-90 and the consequences of the 2006 conflict, which have weakened the country's infrastructure and destabilised its political institutions. Moreover, the recent political instability combined with spillovers from the Syrian conflict contributed to declining trends in investor and consumer confidence, the disruption of trade, declining tourism and impaired external demand, which continue to weigh on growth prospects.

The external position of the Lebanese economy have weakened in recent years. The current account deficit widened to 16.2% of GDP in 2012 (12.4% in 2011) and net borrowing stood at 9% (see Table 15.1). With gross government debt at 140% of GDP, such expenditures are very high. Expansionary fiscal policy has increased inflationary pressure, with consumer price inflation at 6.6% in 2012 (compared to 5.0% in 2011).

Notwithstanding current macroeconomic challenges, the Lebanese economy remains well-integrated into the regional and global economy, with strong trade activities and a large and active diaspora. Foreign direct investment inflows remained sizeable at USD 3.8 billion in 2012. Gold continues to be the main export item, accounting for 31.4% of total exports in 2012. While export growth was moderate despite the global downturn, at an average annual rate of 6.3% between 2008 and 2012, imports grew at an even faster pace of 7%. Fuel imports constitute an increasing share in imports and continue to drive the large current account deficit.

Table 15.1. **Lebanon: Main macroeconomic indicators, 2008-13**

Indicator	2008	2009	2010	2011	2012	2013
GDP (current USD, billion)	29.7	34.7	37.1	39.0	41.3	43.5
GDP growth (real)	8.6	9	7	1.5	1.5	1.5
GDP per capita (current USD)	7,795	8,983	9,501	9,856	10,311	10,708
Current account balance (% of GDP)	-7.7	-9.3	-9.9	-12.4	-16.2	-16.7
General government primary net lending/borrowing (% of GDP)	-9.7	-8.3	-7.7	-6.1	-9.0	-10.4
Unemployment, total (% of total labour force)	n.a.	n.a.	9	n.a.	n.a.	n.a.
Inflation, consumer prices (annual average increase, %)	10.8	1.2	4.5	5.0	6.6	6.3
Foreign direct investment, net inflows (current USD, millions)	4,333	4,803	4,280	3,485	3,787	n.a
General government gross debt (% of GDP)	158	148	142	138	140	143

Data for 2012 and 2013 are estimates.

Source: IMF (2013), *World Economic Outlook database 2013*, October, Washington, DC, www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx; UNCTAD (2013), UNCTAD Stat Database, available at unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en.

Business environment

In addition to conflict spillovers and political uncertainty, the Lebanese business environment continues to suffer from inadequate infrastructure and underdeveloped legal institutions. High levels of education and market openness fail to raise private sector competitiveness due to a rigid labour market and a weak regulatory environment.

Despite these structural challenges, Lebanon remains relatively open to trade and foreign investment. Not only has the country been proactive in implementing measures to encourage investment but it also has a number of advantages that attract foreign companies. These include a free-market economy, the absence of controls on foreign exchange movements, a solid banking sector, a highly educated labour force and limited restrictions on investors.

Lebanon ranks 111th out of 189 economies in the ease of doing business index of the IFC-World Bank *Doing Business* report 2014. In particular, it performs poorly in Dealing with Construction Permits (179th), Enforcing Contracts (126th) and Starting a Business (120th). The World Economic Forum lists inadequate supply of infrastructure, corruption and inefficient government bureaucracy as the three most challenging areas for doing business in Lebanon. Overall, Lebanon ranks 103rd out of 148 economies in the Global Competitiveness Index 2013-2014, compared to 89th out of 142 in 2011-12.

Moreover, the weak judicial system fails to adequately secure property rights and fight corruption. Entrepreneurs face lengthy and costly licensing procedures, and inefficient bankruptcy procedures.

Overview of the state of SMEs

Recent statistics on Lebanese SMEs are scarce. According to the latest data from an IFC survey, SMEs (between 10-99 employees) were found mostly in the trade sector (62.6%), with smaller shares in services (21.4%) and manufacturing (11.2%) (IFC, 2011).

The Ministry of Economy and Trade has operated an SME support unit since 2005. The unit's mission is to improve the business environment for Lebanese entrepreneurs and SMEs and develop support strategies and incentives to promote enterprise development. The Ministry of Industry provides technical and financial assistance to manufacturing enterprises.

Box 15.1. **Definition of SMEs in Lebanon**

According to the Ministry of Economy and Trade, there is no formal definition of SMEs in Lebanon.

There is an informal understanding that is currently used to define SMEs as companies with less than 50 employees. Typically the definition used is 0-4 employees for micro, 5-9 for small and 10-49 for medium enterprises.

The Ministry of Economy and Trade, as part of its new support strategy for SMEs, is planning to officially set or formalise the definition of SMEs in line with the one mentioned above.

Assessment results

In the 2008 report, Lebanon was ranked relatively low in terms of policy performance, with scores across all the policy dimensions set around level 2, indicating that the government had yet to develop a comprehensive enterprise policy framework and that most of the policy initiatives were still at a pilot stage. The only exception was the access to finance dimension that was scored level three due to the strong banking sector and credit guarantee system.

Over the last five years, Lebanon has made incremental progress in a number of policy dimensions. The institutional framework for SME policy remains relatively weak and underdeveloped. Lebanon is characterised by 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 Kafalat (the credit guarantee institution), in a relative policy vacuum, as the central government lacks the institutions, the budget and the administrative capacity. This situation is compounded by the prevalent *laissez faire* government approach, whereby the government refrains from conducting a proactive SME policy.

At the same time, the quality of the business environment is affected by the presence of outdated regulations, while well-organised professional organisations defend their privileges and resist reforms, as is the case with the company registration process reform. Tension among the various political parties and communities, made more acute by the conflict in the Syrian Arab Republic, has led to prolonged legislative paralysis. Business legislation has therefore fallen behind international standards, as is the case for the code of commerce and bankruptcy legislation.

The 2013 assessment indicates that over the last three years, there have been limited improvements in the SME policy framework. The SME Support Unit, under the Ministry of Economy and Trade, has just started to elaborate a new SME development strategy. In 2010, the government launched a programme aimed at improving the business climate and improving the regulatory framework. On access to finance, the most noticeable development has been the introduction by Kafalat, with the support of the European Commission, of a scheme combining a credit line with a credit guarantee facility for innovative companies, in addition to the new central bank initiative that allows banks to invest around USD 400 million (EUR 295 million) in start-up equity.

Finally, despite the large number of existing policies, initiatives and programmes supporting SMEs, indications of the degree of implementation, effectiveness and impact remain limited.

The following sections outline the main results for Lebanon from the 2013 assessment. In order to facilitate the analysis, the policy dimensions are reorganised under five wider SME policy areas:

- Strengthening institutions and mechanisms for SME policy making (dimension 3);
- Establishing a conducive operational environment for SMEs (dimensions 2 and 4);
- Facilitating SME access to finance and developing the legal and business environment (dimension 6);
- Promoting a culture of entrepreneurship and skills development (dimensions 1 and 8);
- Enhancing SME competitiveness (dimensions 5, 7, 8, 9 and 10).

Figure 15.1. **Lebanon: 2013 assessment scores**

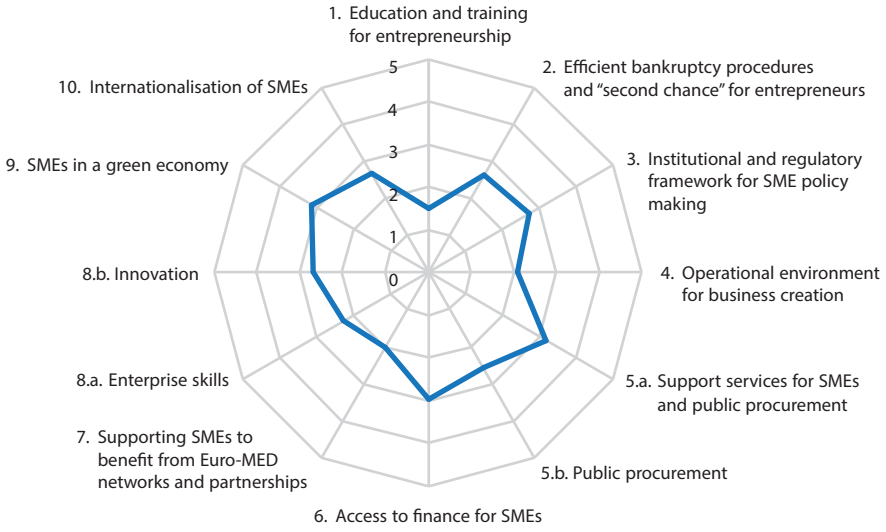


Figure 15.2 shows results comparable for both, the 2008 and 2013 assessments.
Source: Government and independent assessments.

Strengthening institutions and mechanisms for SME policy making

Institutional framework

The SME policy mandate in Lebanon is currently distributed across several institutions. The structure of the SME policy framework has evolved positively since 2008, with the Ministry of Economy and Trade taking a leading role in policy elaboration and co-ordination. Traditionally, Lebanon has paid limited attention to SME policy, having adopted a *laissez-faire* approach, with the government refraining from engaging in proactive support policy. The economic stagnation witnessed over the last two years has led to growing calls for a more active approach.

Other institutions intervene in the SME policy area: the Ministry of Industry covers industrial policy, including Euro-Med industrial co-operation; the Ministry of Agriculture covers SMEs operating in the agro-business sector; and the Ministry of Tourism deals with restaurants, travel agencies and hotels. Each ministry oversees the activity of a number of specialised implementation agencies. The Ministry of Economy and Trade closely co-operates with the country's three main business centres (Berytech, BIAT and SouthBIC) and supervises the unit in charge of promoting the application of quality and safety standards. It also maintains a close co-operation with Kafalat, the credit guarantee institution, operating under the Lebanese Deposit and Consignment Office and a consortium of Lebanese banks that runs several schemes supporting innovative enterprises. The Ministry of Industry oversees the Euro-Lebanese Centre for Industrial Modernisation (ELCIM), which provides technical and financial assistance to manufacturers and exporters.

Many of the SME support initiatives are conducted at a local level, with the support of donors and local community. However, Lebanon is still largely lacking a common framework for SME policy. The Presidency of the Ministers Council is more actively pursuing policy co-ordination, particularly in relation to the improvement of the business

climate and innovation. The Investment Development Authority of Lebanon (IDAL) is also an active player in SME policy, particularly in the area of investment promotion, business matching and export promotion in the agro-food sector. However, political tensions, combined with the conflict in the neighbouring Syrian Arab Republic and legislative paralysis, are slowing down business climate reforms and constraining the emergence of a common national SME policy.

Table 15.2. **Public institutions involved in SME promotion in Lebanon**

Institutions	Roles
Presidency of the Council of Ministers (PCM)	Coordination, Economic planning, and Improving the Business Environment in Lebanon initiative
Ministry of Economy and Trade	The Ministry of Economy and Trade (MoET) helps SMEs through the SME Support Unit (mentioned above and UNDP project) and the Qualeb project (EU-funded), which aims at providing assistance to Lebanese SMEs to match European practices in the field of Quality Management and Safety. MoET is the starting place of enterprise policy in Lebanon.
Ministry of Industry	The Ministry of Industry implemented ELCIM (Euro-Lebanese Centre for Industrial Modernisation) and IRI (Industrial Research Institute). ELCIM is a program that provides technical and financial assistance to manufacturing enterprises to help them grow and increase their exports. It meets its objectives through associating SMEs with partners that offer expertise in the technical and financial management fields. IRI is dedicated to industrial research and scientific testing and analysis.
Ministry of Finance	Subsidises loans by covering a percentage of interest costs and through tax breaks.
Ministry of Agriculture	Through a EUR 5 million fund that supports SMEs (mainly small-scale farmers).
Ministry of Education	Entrepreneurship culture and vocational training.
Banque du Liban (BDL – Central Bank)	Access to finance through various financial schemes and acts as an administrator. BDL defines rules and regulations and issues circulars – financing unit manages a subsidy programme initiated by the government in 1997. (Kafalat falls under the subsidy program, but is different from the BDL's scheme and is a private and independent entity).
Investment Development Authority of Lebanon (IDAL)	Business matching and export promotion, initially created to facilitate foreign investment in Lebanon.
Kafalat	Guarantees on loans and access to finance through various programs (a key player in SME development in Lebanon and acts as a hub beyond access to finance).
Chamber of Commerce, Industry, and Agriculture	Private entity, but provides essential services to its registered members such as issuing export certificates (prerequisite for export) and barcodes. It acts as an important and powerful lobby for the private sector (through its federation of chambers and business association representatives) in legislation, policy and law.

Source: Government and independent assessments.

Legislative simplification and regulatory reform

Despite the establishment of an office for administrative and regulatory reforms in 2005 and the launching of a programme for administrative simplification supported by the International Finance Corporation (IFC) in 2007, there has been very limited progress in this area. The country's overall ranking in the IFC-World Bank *Doing Business* report has deteriorated over the last few years and the reform of the company registration system involving the network of Lebanon Post offices through the country has never passed the pilot phase. However, a new inter-ministerial programme for the improvement of the business climate (IBEL) was launched in 2010 under the supervision of the Presidency of the Ministers Council, with wider participation than in the previous attempt. Steps have been taken to conduct reviews of current laws and regulations in the areas of business registration, issuing construction permits, trading across borders and dispute resolution, but no major regulatory reforms have yet taken shape. No steps have been taken to introduce regulatory impact analysis of new legislation and regulations.

Public-private consultation framework

There are many active private sector organisations in Lebanon with a high level of representation, particularly among professional associations. There is a tradition of public-private consultation, but an institutional framework is still lacking. Consultations take place *ad hoc*, when important legislative measures are drafted. In 2012, a new policy was introduced stating that any new draft law or amendment should be published for consultation, for a period of at least 15 days, during which the public is allowed and encouraged to provide comments and suggestions. Moreover, the launching of the IBEL programme, as well as the ongoing elaboration of the new SME strategy, have created the opportunity for a more structured dialogue with private sector organisations and professional associations on a number of business environment issues.

Establishing a conducive operational environment for business creation

Company registration and business start-up process

Lebanon's operational business environment is constrained by several factors. Although the company registration process is relatively fast, costs related to registration and minimum capital requirements are amongst the highest in the region. No one-stop shops specific to SMEs have been established since 2008. Amendments to the Investment Law 360 were proposed to make SMEs eligible for the benefits of the investment law, but this law is still awaiting approval by parliament. Moreover, an e-government strategy was proposed by the Office of the Minister of State for Administrative Reform (OMSAR) to create a Single Window Government with two portals: citizen-government and government-government.

Online services

There is currently no online registration service provision in Lebanon. However, an e-government strategy has been adopted that will eventually allow online registration.

Bankruptcy procedures and second chance

The government, through the IBEL initiative, is revising the legal framework for insolvency and drafting a modern bankruptcy law (currently part of the Code of Commerce which dates back to 1942, but has been revised and a large part of it has already been submitted to parliament), which is expected to be in line with international standards. This aims to establish an efficient loan recovery, restructuring and insolvency system – to allow unviable firms to exit efficiently, and viable (although financially distressed) firms to reorganise operations and restructure debt. In addition, work is being done on speeding up commercial and civil proceedings and ensuring faster trials, promulgating a law for faster proceedings for small trials (less than LBP 15 million, or EUR 7 300), institutionalising alternative dispute resolution practices to become an efficient alternative to courts and enacting a law on mediation.

Facilitating SME access to finance and developing the legal and business environment

As in 2008, financial markets in Lebanon are relatively well-developed and coped well with the various external shocks that have affected the region in recent years. However, there were only incremental improvements in the performance of the institutions offering external finance for SMEs, notably the introduction by Kafalat of new credit guarantee facilities to support innovative SMEs. The legal and regulatory environment in Lebanon, as in most of the other assessed economies, improved due to progress in improving the credit information system. Lebanon still needs to improve its cadastre system as well as to develop creditor rights and enforcement mechanisms.

Sources of external finance for SMEs

Financial markets in Lebanon do not appear to have been adversely affected by the global financial crisis or by recent events in the region. On the contrary, domestic credit to the private sector increased from around 74% of GDP in 2008 to more than 90% of GDP in 2012 (see Chapter 6), a rate that is well above the other assessed MED economies, with the exception of Israel. Also, the share of non-performing loans decreased substantially between 2008 and 2012, from 7.5% to 3.7%. Competition within the banking sector in Lebanon is relatively more developed than in other neighbouring economies, with the assets of the three largest banks representing only 50% of all commercial bank assets, compared to 85% in Israel and almost 90% in Morocco. Although sources of external financing for SMEs have not witnessed significant improvements since 2008, 16% of bank loans go to SMEs (Farazi et al., 2011), which is a higher share than the MENA average (13%, excluding GCC countries), but still below the average for high-income countries (22%) (Beck et al., 2011).

Kafalat, a credit guarantee institution, has operated as a well-established scheme for several years and is considered to be good practice in the MED region. The scheme is funded by its own equity, with some products co-funded by the European Commission. Almost 30 banks in Lebanon, both public and private, have signed agreements with Kafalat and are active in accepting loan guarantees. Several products are offered by the institution, with a focus on different aspects, such as innovative start-ups, or sectors, such as agriculture and energy. However, the presence of only one actor in this area reduces both competition and the potential range of credit guarantee products available to SMEs.

Equity mechanisms are still not very developed in Lebanon. Equity financing is growing, but is still constrained by the lack of exit strategies due to relatively weak capital markets. Indeed, stock market capitalisation in Lebanon was only around 26% of GDP in 2012, compared with more than 66% in Morocco. However, this might change with the establishment of the Capital Market Authority in 2011, following the approval by parliament of a new capital market law. Also, the central bank recently announced that it would make available up to USD 400 million (approximately EUR 295 million) over the next seven years for equity investments in start-ups. The central bank would guarantee 75% of equity investments made by banks in start-ups, accelerators/incubators or venture capital funds.

Moreover, the capital market authority issued a decision in 2013 that aims to develop crowd-funding activities in Lebanon. The decision details the conditions for conducting crowd funding either by Lebanese or foreign companies as well as detailing licensing requirements. Related to equity financing for early-stage companies, very few business angels exist in Lebanon, among them the Lebanese Business Angel. So far, there are no policy plans to develop or promote this type of financial facility.

Legal and regulatory environment

There has been some limited progress on the legal and regulatory framework. The cadastre system is still not fully operational, despite some improvements since 2008. The authorities are currently finalising an online cadastre inquiry system, through which property deeds will be available to citizens electronically.

As in most of the other assessed economies, Lebanon has made substantial progress with respect to credit information services. In 2011, the country improved its credit information system by allowing banks online access to the public credit registry's reports. Furthermore, the coverage of its public credit bureau reached almost 20% of the adult population in 2013, above the OECD average rate of 15.2%. However, this remains insufficient as there is no private credit bureau to provide information missing from the public system. With the assistance of the International Finance Corporation (IFC), work is in progress to establish legislation for a registration system for moveable assets. Creditor rights remain weak, which leads banks to demand higher collateral and other requirements when providing credit to companies.

Financial literacy

The Lebanese government has recently shown increased awareness of the need to improve financial literacy. According to a recent OECD publication (OECD, 2013), Lebanon is one of the countries that are at an advanced state of design of their national strategy for financial education.

Promoting a culture of entrepreneurship and skills development

Lebanon does not have a national policy on entrepreneurial learning and has not yet created a network of education institutions to regularly exchange good practices in entrepreneurial learning. This is due to gaps in co-ordination and communication between different parts of the government and education institutions. There has also been insufficient pressure from the private sector to demand more information and active involvement in education policies from the public sector. Despite efforts to promote non-formal entrepreneurial learning, such as entrepreneurship clubs and the MIT Arab business

plan competition, a lack of national policy on entrepreneurial learning is preventing Lebanon from making further progress with regard to this policy indicator.

In 2010, the Ministry of Education and Higher Education initiated a project jointly co-ordinated with the European Training Foundation (ETF). The project's objective is to embed entrepreneurial learning in a number of schools as a pilot exercise with the final aim of developing a lifelong entrepreneurial learning framework. This project is governed by a steering committee, chaired by the education minister, whose members are high-level officials from the education sector. In addition, a project executive committee oversees implementation.

As a result of this pilot project, an action plan was endorsed by the education minister for dissemination and implementation at national level. The action plan includes the redesign of curricula and piloting, nationalisation and development of a lifelong entrepreneurial learning framework. Entrepreneurial learning is currently embedded in the curricula of selected pilot schools: 15 vocation education and training schools and 20 from the general education sector. Capacity building of school management and teachers in relation to entrepreneurial learning is also provided.

There is no national policy for promoting entrepreneurial learning in higher education. There are 47 private universities and only one public university in Lebanon. 15 universities are associated through partnership agreements. This association is a good basis for universities to network, and could be used to promote information exchanges regarding entrepreneurial learning. There are some good practices, such as the Beirut Arab University, which has created a centre for entrepreneurship with the support of the EU Tempus programme. This centre has developed courses for entrepreneurship, enterprise fairs and other related entrepreneurial activities including start-up companies in collaboration with the Kaufman foundation. These actions, however, remain *ad hoc*, under the umbrella of specific donor projects and are limited to the efforts of individual higher education institutions.

On training needs analyses, Lebanon is still at the level of *ad hoc* actions driven by individual institutions and agencies that provide training for small enterprises. The chambers of commerce has a training centre for enterprises in which they regularly assess training needs for the purpose of designing and delivering training activities for enterprises. Several entities provide training for SMEs, such as the business development centres (Berytech, BIAT and SouthBIC), chambers and business associations. There are also support units or projects run by different ministries, such as IRI/ELCIM at the Ministry of Industry, the Institute of Finance at the Ministry of Finance and Ministry of Economy and Trade. Other relevant ministries also offer training services for SMEs. In addition, initiatives such as WAMDA (a platform designed to empower entrepreneurs in the Middle East and North Africa) organise many training events. They sometimes work jointly with universities; an example is the start-up weekend organised jointly by the Beirut Arab University and WAMDA.

Data and statistics on the share of start-ups that have benefitted from state-supported training are not available. While this indicator is primarily designed for measuring start-up training, it can also be used to build up enterprise data intelligence used for SME policy development. As with other indicators that require statistical information, this indicator can make a significant contribution to the development of an informed public policy in support of small enterprises. While Lebanon does not have any specific policy to promote women's entrepreneurship, some initiatives exist to support female entrepreneurs. A good example to increase access to finance for women is offered by BLC bank. Berytech also offers specific training to women.

Enhancing SME competitiveness

Business information and services

Lebanon has made significant progress in providing support and information to SMEs and start-ups since 2008. Business support services for SMEs are made available by public and private institutions alongside non-governmental organisations. Three business development centres (Berytech, BIAT and SouthBIC) are the main entities supporting SMEs. In addition, a number of co-working spaces and accelerators were recently established, such as Cloud 5, ALTCITY and Co-working 961. Other establishments such as the Euro-Lebanese Centre for Industrial Modernisation (ELCIM) offer more advanced services such as assessing business strategies and assisting businesses in improving production technology and production planning. The SME Support Unit/Enterprise Team at the Ministry of Economy and Trade is currently working on a new support strategy for SMEs to provide a strategic framework. Overall, business service providers offer a wide range of services in a variety of fields.

Despite some concrete improvements compared to the 2008 assessment, information for SMEs is still not systematically collected or centralised at the government level, while different ministries and organisations sometimes provide inconsistent information. However, the assessment notes that online information for enterprises is now available, notably through websites such as Entrepreneurs Lebanon and SME Toolkit. While Entrepreneurs Lebanon aims at connecting entrepreneurs with investors and entrepreneurs with each other, the SME Toolkit provides practical information on how to start a business. However, these two websites are only available in English, which reduces their impact.

Establishment services are provided in Lebanon by the business development centres, Berytech, BIAT, SouthBIC and others. Services include consulting, mentorship, hosting, business space, financial expertise, advice, networking, workshops and training. Some, such as Berytech, invest in innovative start-ups through the Berytech Fund. Most of these services are provided within the framework of operational incubators. Business incubators have increased their coverage and impact on firm creation over the last few years. Around ten incubators are active in Lebanon, some of them funded by the European Commission (Berytech, BIAT, SouthBIC), as part of the integrated SME Support Programme launched by the Ministry of Economy and Trade. According to the assessment, more than 80 start-ups were created in Berytech. BIAT, in place since 2006, supported the creation of start-ups that generated more than 3 500 jobs between 2006 and 2013. SouthBIC reports that 79% of jobs created from incubated start-ups were high-skilled jobs.

Public procurement

The 2013 assessment indicates that the public procurement system in Lebanon is relatively open to the participation of SMEs in public tenders, and in a number of cases proactive measures are in place to favour their participation. Information on public procurement is centralised at the national level and is available online and in newspapers. However, the country has made little effort to provide e-procurement solutions. Further efforts are needed to mainstream e-procurement in the public procurement processes. A law to regulate late payments exists but the penalty is not effectively enforced.

Innovation

Lebanon endorsed a national innovation strategy in 2006 in line with the government's national development strategy. There are two institutions that directly promote innovation in Lebanon: the National Council for Scientific Research (CNRS), through its Science, Technology and Innovation Policy initiative, and the Ministry of Industry, through the Industrial Research Institute (IRI). The IRI and the CNRS act as the main co-ordination bodies for innovation promotion in Lebanon. Moreover, the SME Support Unit within the Ministry of Economy and Trade aims, among other things, at developing innovative SMEs through its business development centres. However, there is no specific allocation of funding or budget provision at the central government level for the promotion of enterprise innovation.

Lebanon has put in place several innovation support mechanisms involving the private sector and universities. Berytech, the Business Incubation Association in Tripoli (BIAT) and the South Business Innovation Centre (SouthBIC) are business development centres which operate as innovation centres that incubate innovative start-ups in co-operation with universities such as the Université Saint Joseph (partner of Berytech) and Balamand University (partner of BIAT). In addition, several universities host a number of entrepreneurship/innovation centres such as the American University of Beirut (AUB) Darwazeh Innovation Centre. The Lebanese Industrial Research Achievement (LIRA) is one example of co-operation between SMEs, research institutes and the private sector. Also, the Lebanon Soft Shore, a pilot project, is a cluster of companies managed by the Euro-Lebanese Centre for Industrial Modernisation in Beirut. Integrated information on available innovation support service providers is still lacking. Online information is available only on incubators' websites.

Although there is no specific budget allocated at the central government level to support these initiatives, several funding schemes supported by the government exist. The Kafalat Innovative guarantee and the Innovation Voucher launched by the Centre for Innovation and Technology (co-funded by the European Commission and the Industrial Research Institute) are relevant examples. The Kafalat Innovative guarantee was set up to specifically support innovative start-ups and the Centre for Innovation and Technology promotes technological innovation in products and services in manufacturing. In 2012, the Ministry of Finance signed a USD 30 million (approximately EUR 22 million) loan with the World Bank to establish a fund at Kafalat aimed at providing concept development grants and early-stage equity financing for innovation start-ups and SMEs.

Green economy

A general policy framework which meets international standards for environmental sustainability and environmental friendly practices in doing business was established by law 444/2002. Aspects related to eco-efficiency and eco-innovation are defined in specific application decrees and national regulations related to this law. The most relevant to SMEs is the Environmental Compliance Decree (No. 8471/2012) which entrusted the Ministry of Environment, in co-ordination with the Ministry of Industry, to set deadlines for compliance of industries with national environmental standards before the end of 2015.

In order to promote the enforcement of the Environmental Compliance Decree, the Ministry of Environment provides technical expertise to over 30 industrial enterprises, including SMEs, on environmental management, including eco-efficiency and eco-innovation. Starting in 2014, the Ministry of Environment, in co-ordination with the Central Bank of Lebanon, initiated the Lebanon Environmental Pollution Abatement Project (LEPAP) that facilitates access to loans for SMEs, provides technical assistance

for selecting best available technologies for environmental management, and ensures nationwide support to industries for compliance with environmental standards.

More technical support related to environmental issues is provided for SMEs by the Lebanese Cleaner Production Centre (LCPC) with a view to improving their energy efficiency and reducing their energy consumption. The centre, which co-ordinates with government institutions such as the Ministry of Industry and the Ministry of Environment, lacks adequate funding and relies mainly on international donors. The LCPC also promotes the use of Environmental Management Systems (EMS) and other environmental standards similar to ISO 14001(a family of standards related to environmental management), especially a local system. However, the implementation of EMS and other standards remains limited – according to LCPC figures, only 10-12 enterprises use an EMS and an international accreditation body for EMS certification is missing. More co-ordinated measures to support EMS and standards would be useful.

Export promotion

Lebanon's export promotion situation has not changed much since 2008. The country counts on a number of initiatives to promote exports, yet there is still no formalised export promotion strategy as indicated in the 2008 assessment. A draft law for the establishment of an export promotion agency is being discussed by parliament.

IDAL assists in the support, promotion and marketing of Lebanese products, in particular, agricultural products and materials used in agro-industry, as well as agro-industrial products. Two programmes have also been put in place by IDAL providing financial and non-financial support to those sectors. In addition, there are support programmes on export capacity building such as compliance with standards, marketing and franchising.

Lebanon also implements a number of schemes for the computerisation of procedures for foreign trade, including ASYCUDA and others.[1] Furthermore, the Lebanese customs website (customs.gov.lb) offers extensive information on foreign trade, tariffs, trade statistics, laws and regulations. In addition, there is a European Commission-funded project (Strengthening of Quality Management, Capabilities and Infrastructure in Lebanon ENPI/2008/19-621) to put in place a National Technical/Trade Information Centre to offer trade services and information to exporters and importers.

Euro-MED co-operation

Lebanon participates in some regional and thematic programmes developed by the European Union and its member states such as Cross Border Co-operation in the Mediterranean, the EU Seventh Framework Programme for Research (FP7) and the FARO Fund for small, innovative projects undertaken in the MED region. Although those programmes do not specifically promote linkages and partnerships for Euro-MED enterprises, they could be a useful platform to develop inter-enterprise co-operation between Lebanese SMEs and other MED and EU companies.

The way forward

As a way forward, Lebanon should work on strengthening inter-ministerial co-ordination, particularly between the Ministry of Industry and the Ministry of Economy and Trade and their affiliated agencies as they have mandates related to the SME policy area. In particular, it would be useful to introduce a consultative committee on SME policy open to all

stakeholders, including independent experts, donors and private sector representatives. The consultative committee, which could be supported by the SME Support unit at the Ministry of Economy and Trade, should promote the exchange of information and good practices among various initiatives conducted at the local level or outside government structures.

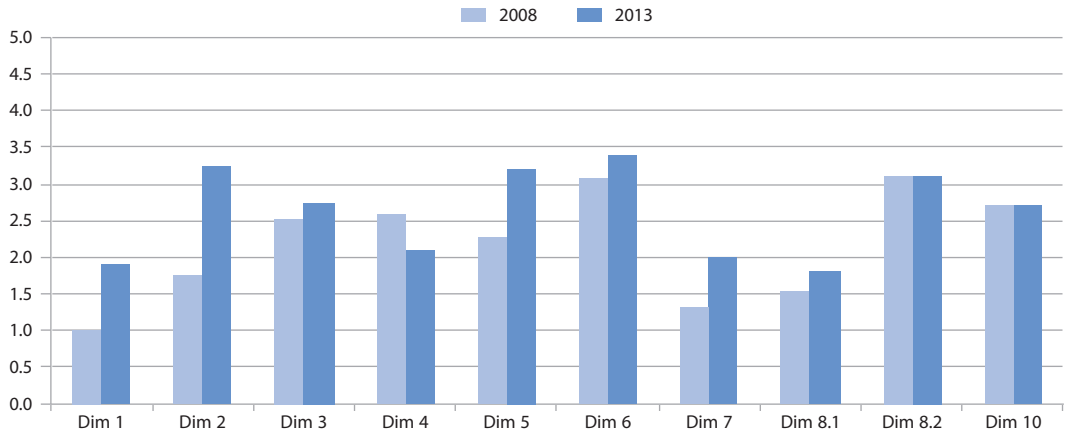
A second priority is related to the reform of the company registration process, which is by far the most expensive in the region, and the introduction of one-stop shops, reviving the reform plans designed with the support of the IFC.

Lebanon should ensure the prompt passing and implementation of the new bankruptcy law, and should develop a system to keep track of the efficiency of the bankruptcy framework.

Given that Lebanon is highly dependent on international trade, there should be a simplification of foreign trade procedures and the implementation of computerised procedures for customs clearance. Lebanon has a number of pilot or initial projects to foster foreign trade. More importantly, Lebanon should continue working towards the establishment of an export promotion agency but should also develop a comprehensive export promotion strategy, ideally as part of a wider economic development and competitiveness strategy or as a standalone document. The establishment of a National Technical/Trade Information Centre, with EU support, would also be a key development in facilitating SME access to foreign markets.

While in Lebanon there are several initiatives to promote entrepreneurial learning and entrepreneurship, more coherent dialogue and co-operation among all these initiatives should be put in place. Starting from the concrete example of the interest and engagement of the Ministry of Education and Higher Education in promoting entrepreneurship in education, the ministry could seek to influence the policy debate on particular issues related to entrepreneurial learning. The existing steering committee of the project, bringing

Figure 15.2. **Lebanon: assessment results 2008 and 2013**



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

DIM 1: Education and training for entrepreneurship, including women's entrepreneurship; **DIM 2**: Efficient bankruptcy procedures and "second chance" for entrepreneurs; **DIM 3**: Institutional and regulatory framework for SME policy making; **DIM 4**: Operational environment for business creation; **DIM 5**: Support services for SMEs; **DIM 6**: Access to finance for SMEs; **DIM 7**: Supporting SMEs to benefit from Euro-MED networks and partnerships; **DIM 8.1**: Enterprise skills; **DIM 8.2**: Enterprise innovation; **DIM 9**: SMEs in a green economy; **DIM 10**: Internationalisation of SMEs.

Source: Government and independent assessments.

together the three general directorates in the ministry and the Centre for Educational Research and Development (CRDP), could become the platform for this dialogue. At a later stage, this dialogue platform could have direct influence on actual policies, such as policies for government agencies and their partners from private and civil society. It is suggested that a key institution leads discussions on how to structure and carry out training skills analyses. The main training development organisations should harness their co-operation while promoting awareness and understanding of the value of intelligence systems among SMEs.

As is recommended for all other MED economies, Lebanon should also implement a system to monitor and evaluate the success of these nascent measures.

Note

1. The independent and government assessments cite the Simplified Harmonised Tariff System, Single Administrative Document, Simplified Clearance, Risk Management and modern Customs Law.

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Chapter 16

Overview of Libya

Introduction

This chapter is an SME policy review of Libya conducted in collaboration with local partners. Libya Enterprise, the national SME programme under the Ministry of Economy, provided the OECD with substantial information on the following principles: Regulatory framework for SME policy making, operational environment for SMEs, enhancing SME competitiveness and access to finance for SMEs. Regarding the principles on entrepreneurial learning and women's entrepreneurship (Principle 1) and enterprise skills (Principle 8a), the European Training Foundation conducted a preliminary assessment in collaboration with a Young Mediterranean Leader (YML) from Libya, Rafa Rejeibi. Information was collected from the Small and Medium Enterprise unit (SME), stakeholders in the Ministry of Economy and from the Office of Technical Co-operation in the Ministry of Higher Education to obtain a first sense of Libya's position regarding the implementation of the SBA for Europe.

The implementation of the full SBA has not been assessed in Libya nor compared with the rest of the MED economies. The policy review does not cover all dimensions because of the lack of information and support policies in some areas such as innovation and the green economy.

Economic overview

Libya is one of the smallest countries in the Middle East and North Africa (MENA) with a population of around 6.2 million. The economy is highly dependent on the oil sector, which generates most of the country's wealth. As a result, Libya has one of the highest levels of GDP per capita in the region: USD 11 046, as estimated by the IMF in 2013 (IMF, 2014). However, the predominance of the state and the lack of strong institutions have prevented the use of the significant financial resources to address major challenges in the country such as the high unemployment rate, estimated at 20% (IMF, 2013a), enterprise development and private sector development more generally.

Following the 2011 revolution, enterprise creation and growth have come to the forefront of the government's economic priorities as a means of diversifying the economy and providing employment and income opportunities. Hydrocarbons currently account for around 70% of GDP, 90% of government revenues and 95% of export earnings (World Bank, 2011), but only 5% of total employment. The contribution of non-oil sectors to GDP is limited. In 2011, the services sector (public and private) represented around 25% of GDP, agriculture accounted for 2% of GDP, and construction for 3% (AfDB et al., 2013). Small and medium-sized enterprises (SMEs) have the potential to be growth engines for Libya's private sector. They account for the vast majority of firms and have the potential to contribute substantially to non-oil employment as they mostly operate in the retail and construction sectors.

As a result of the lack of diversification, GDP trends are closely linked to oil production. Following the lifting of international economic sanctions in 2003, real GDP expanded at an average rate of 5.1% until 2007 (EIU, 2013). Despite the global financial crisis, which led to an 18.1% decrease in oil revenues, GDP continued growing at a 6.1% rate from 2007 to 2010, due to growing public demand. The turmoil of 2011 brought large parts of the oil industry to a standstill, leading to a drastic drop in export revenues (71%), in government expenditure (70%) and a marked GDP contraction (61.4%). Oil production was resumed as the conflict simmered down and elections were held. As a result, 2012 saw an equally dramatic recovery, with GDP expanding by 91.2% (AfDB et al., 2013). In 2013,

projections show a drop in GDP (5.1%; IMF, 2013b) due to the persistent social unrest and political instability witnessed in the fourth quarter of the year.

While hydrocarbon revenues give the government significant fiscal room for manoeuvre, they are highly vulnerable to swings in production levels and hydrocarbon prices. As a result, a slump in oil production meant that the government ran a deficit of 18.7% in 2011 and had to run down foreign currency reserves. Current liabilities dominate the budget; the public-sector payroll accounts for 36% of public spending (AfDB et al., 2013), and a complex redistribution system, inefficient state-owned enterprises and massive subsidies for oil and food staples drain resources available for much-needed investment in infrastructure. Moreover, consumer prices have been very volatile. During 2011, inflation reached 15.9% and is estimated to drop to 3% in 2014 (IMF, 2013b). Volatile inflation is closely linked to high imports, mostly of food products, which constitute 70% of total imports. An import-substitution strategy is thus needed as part of efforts to stabilise inflation.

Business environment

The Libyan business and investment environment continues to suffer from a weak legal framework, political uncertainty and domestic insecurity. The 2011 conflict has led to an uncertain security situation becoming a major constraint to the country's attractiveness to investors and businesses. As a result, net foreign direct investment (FDI) inflows dropped by 89% between 2010 and 2011 from USD 1.8 billion (4.41% of GDP) to USD 200 million (2.2% of GDP). This drop was particularly sharp in the oil sector.

Efforts have been made to restore investors' confidence in the Libyan economy. In 2010, Investment Law No. 9 was issued to provide fiscal incentives for investors in specific sectors and the Privatisation and Investment Board (PIB) was established to oversee and regulate FDI activities in the industrial sector. According to a document of the United Kingdom's presidency of the G8, the PIB has not efficiently fulfilled its role as an investment promotion agency. It currently acts only as an administrative body that delivers operating licenses to foreign investors (United Kingdom's Presidency of the G8, 2013).

Despite these efforts, Libya continues to impose heavy restrictions on foreign investment. A series of ministerial decrees issued in 2012 and 2013 limit foreign participation in joint ventures and prohibit foreign-owned limited liability corporations. Investors that seek to establish a business in oil services, construction, industry, electricity, communications, transportation, agribusiness or the marine sector are required to establish a joint venture company with Libyan nationals. The share of foreign nationals is limited to 65% (OECD, 2013).

Moreover, access to land is a major constraint to both local and foreign investors because of the lack of infrastructure supporting urban land development, long procedures for obtaining building permits, the absence of a transparent legal framework for land allocation and uncertain property rights. Foreign companies face the additional restriction of not being allowed to own land.

The 2011 conflict has negatively affected the Libyan business environment. Under the previous regime, the business environment was already weakly regulated and had complex administrative procedures. Today, according to the 2014 *Doing Business* index, Libya ranks 187th out of 189 economies. Major challenges to businesses include starting a business (171st), getting credit (186th), paying taxes (116th) and enforcing contracts (150th) (IFC-World Bank, 2013). Regulatory uncertainty is a limitation as businesses spend considerable time with regulatory procedures and compliance, which are often unclear and contradictory.

Overview of the state of SMEs

While there is little accurate, up-to-date data on the private sector in Libya, a study estimates that 96.8% of enterprises are micro enterprises (UNECA, 2008) which contribute a small fraction of GDP. According to the 2011 World Bank Investment Climate Assessment, 70% of private sector enterprises operate in the commercial/retail sector, 16% in the manufacturing sector and 14% in the services sector. Recruitment of staff is considered as a major obstacle for SMEs. Firms rely heavily on foreign workers, as they struggle finding Libyan workers with the adequate skills and willingness to work in the private sector (since the public sector offers often higher salaries and compensation packages).

Box 16.1. **Definition of SMEs in Libya**

In 2006, the General National Congress, Libya's interim government, decided that SMEs are enterprises employing less than 50 people and having invested less than LYD 5 million (Libyan dinars, EUR 3 million) (OECD and African Development Bank, 2008).

Policy overview

Institutional policy framework

Support for SMEs has been characterised in recent years by a number of scattered national programmes and action plans. Before the events of 2011, the National Economic Development Board (NEDB), a public institution reporting to the General National Congress, was established to advise the government on the elaboration and implementation of key economic reforms. The NEDB set up a national SME Programme in 2007 to boost the country's competitiveness through support to SMEs and entrepreneurship, innovative start-ups and human capital enhancement. After the revolution, the national SME Programme was transformed into an SME development agency called Libya Enterprise, operating since 2012 under the Ministry of Economy. Libya Enterprise kept the same mandate of supporting business start-ups and developed a network of incubators and business centres throughout the country. Since 2013, the government has been considering transforming Libya Enterprise into one of the five regional investment funds, the Tripoli Fund, that the Ministry of Economy aims to establish to support SMEs.

Until today, there is no formal SME development strategy for Libya but only elements of support for SMEs. The government started to take into consideration the growing need to establish a long-term SME development strategy as part of a broader economic development plan for the country. For that purpose, a national committee, the 2030 Vision Committee, was created. Under the supervision of the Prime Minister's Office, the Committee aims to address Libya's economic, social and institutional challenges. It involves more than 50 experts from different areas of expertise and regions, with a female representation of 14%. Although the 2030 Vision does not focus on SME development, the committee considers private sector development, particularly SME promotion, as one of the main components of its plan.

There is no single institution in charge of SME policy implementation. Before the revolution, the NEDB had a mandate to implement key economic reforms, not just SME

development, under the General People's Committee. Since the revolution, three ministries have been involved in enterprise development: the Ministry of Economy, the Ministry of Industry, which oversees state-owned enterprises through the General Authority for Industrialisation and the Chambers of Commerce, and the Ministry of Labour through regional funds and business centres. In particular, the Ministry of Economy is in the process of establishing an SME policy unit in charge of policy evaluation, monitoring and international relations. It is supervised by an inter-ministerial body composed of the Ministries of Economy, Labour, Planning, Industry, Finance and the Veterans Association.[1]

Finally, the international donor community is involved in building the capacity of institutions for private sector development. The OECD is currently implementing a project to support the development of a SME strategy for Libya. The project is supported by the G8 Deauville Partnership Transition Fund and aims to strengthen the institutional and legal frameworks for SME development in the country. The project's objective is to assess the existing situation and guide and co-ordinate policies and tools intended to support the development of the private sector, in particular with a view to diversifying the Libyan economy away from oil dependence and to create jobs. It includes five components: a diagnostic phase of the private sector, an SME development strategy, a legal framework for enterprise creation and growth, assistance in the implementation of the SME strategy and access to finance for SMEs.

The European Commission funds a project led by ADETEF, the French overseas development agency under the Ministry of Economy and Finance, to support Libya's regional economic integration and regional business support services. The World Bank is also implementing a project to strengthen the capacity of key Libyan financial institutions to assess and reform the fundamental elements of financial infrastructure; and to reinforce the capacity of institutions responsible for promoting private investment and private sector development. Additional SME projects are being conducted, notably by the United Kingdom's Department for International Development (DFID).

In order to co-ordinate these donor-funded projects in Libya, the OECD has put in place a platform that will hold regular meetings to exchange information about the different projects, their mandates, objectives and activities. It aims to provide a first step to avoid substantial overlaps and reinforce buy-in of the policy recommendations emerging from the different projects.

Company registration and business start-up processes

As mentioned, Libya ranks 187th out of 189 economies, well below the Middle East and North Africa (MENA) average of 107, for the ease of doing business index (IFC-World Bank, 2013). In particular, business registration procedures are lengthy, complex and not uniform across all companies. There are different procedures depending on the type of company: private limited company, trading company, self-employment or joint-venture.

For private limited companies, entrepreneurs can obtain a company registration certificate at the commercial registry run by the Chamber of Commerce. The process takes 35 days and 10 steps, compared to averages of 10 days and 8 steps in the MENA region. However, starting a business is less costly compared to other MENA economies. The cost of starting a business constitutes 19.1% of income per capita (compared to a 28.9% average in MENA) and the minimum capital requirement is 34.5% of income per capita (compared to a 45.4% average in MENA). Based on an OECD fact-finding mission, interviewees noted that in practice minimum capital requirements are much higher and can reach EUR 2 900 due to legal fees.

To accelerate the registration process, a one-stop shop, with 22 regional offices, was established in Tripoli before the revolution. The one-stop shop's mandate is to provide company registration certificates with access to all notaries. Following the revolution, the management of the central company registry was disrupted. As a result, company registration procedures have to be completed in Tripoli, and notaries from other cities are required to come to Tripoli to finalise the process as there is no national electronic company registry. Given this situation, the regional one-stop shops have stopped their registry operations.

Obtaining business licensing and permits is also a lengthy process that can last several months. The World Bank's 2011 investment climate assessment notes that obtaining a licence requires the approval of a commission represented by multiple agencies, including the social security administration, labour administration, tax administration, the Ministry of Interior and the Ministry of Economy, which meets every other week. Delays and refusals are frequent and unpredictable, according to the assessment.

Main structural challenges in the financial sector

Libya's financial sector is underdeveloped and largely dominated by the public sector. State-owned banks are the main source of financing in the economy and non-bank activities are still underdeveloped. Access to finance is considered as a major constraint to the private sector, particularly to SMEs. The World Bank's 2011 investment climate assessment notes that 58% of firms surveyed perceive access to finance as a major or very severe constraint.

The Libyan financial sector faces a number of challenges and distortions. The economy is characterised by low levels of financial intermediation. Before the conflict, domestic credit to the private sector amounted to only 12.4% of GDP, far below the regional average of 57.2% (World Bank, 2013). In addition, domestic credit to GDP dropped from 22.7% to 9.8% between 2000 and 2009 (Farazi et al., 2011). There is no issue of liquidity in the Libyan economy as bank deposits expanded from LYD 5 billion (EUR 3 billion) in 2003 to LYD 30 billion (EUR 18 billion) in 2010 as a result of increasing public spending (World Bank, 2013). However, bank liquidity is not invested in productive private sector activities due to the lack of intermediation mechanisms. As a result, commercial banks only lend on a short-term basis to low-risk activities such as trade financing.

There is a high level of non-performing loans in the economy, amplified by the wide spread of state-backed credit guarantees. In 2012, the ratio of non-performing loans reached 21%, which is particularly high both in absolute terms and by regional standards (IMF, 2013b). As a result, commercial banks limit their activities to short-term collateral-backed loans.

The banking sector's state-owned specialised credit institutions create market distortions. They were initially established to supplement commercial banks' activities by contributing to the country's socio-economic development. Over the years, these institutions expanded rapidly, accounting for about half of all outstanding credit in the country. As a result, they constitute a market distortion in the banking sector as they compete with commercial banks and benefit from lax lending policy as they are not regulated by the central bank. This has crowded out some commercial banks from several market segments. A serious conflict of interest exists in the financial sector as the Central Bank of Libya is both a shareholder in four public banks and the regulatory body.

The recent Islamic Banking Law to be applied in 2015 is likely to cause further distortions in the financial sector. It requires all commercial banks to shift to Islamic

finance. This shift creates many challenges, such as the huge transaction costs linked to the redenomination of existing loans by 2015 and the lack of implementing regulations which are yet to be defined. Moreover, there is no indication whether banks have the expertise or the capacity to shift from conventional to Islamic banking. In addition, the central bank needs to develop a new legal framework to regulate and supervise Islamic financial institutions.

Sources of external finance

As in other MED economies, bank lending is the main source of financing in the Libyan economy. According to the World Bank (2013), 81% of total assets in the financial sector were held by commercial banks in 2012, while the rest is mostly held by state-owned specialised credit institutions (13%) and pension funds (3%). The stock exchange and insurance companies account for the remainder of total assets. The financial sector is also largely dominated by state-owned institutions. According to data from the Central Bank of Libya, state-owned commercial banks (5 banks) and specialised credit institutions accounted for 95% of the total credit, while privately owned banks only represented 5% of total credit (World Bank, 2011).

The 2011 events paralysed the activities of the Libyan Stock Market (LSM) that was established in 2007 to support the privatisation of state-owned enterprises. The LSM was re-launched in 2012 but is still small and underdeveloped. As of June 2012, 12 companies were listed on the LSM and market capitalisation accounted for 3.9% of GDP in 2010 compared to an average of 64.2% in the MENA region (World Bank, 2013).

Other sources of finance and guarantee mechanisms are still underdeveloped. There is no official credit guarantee scheme for SMEs in Libya. A Libyan Fund for credit guarantees was established in 2008 under the supervision of the Ministry of Economy. The fund draws up agreements with individual commercial banks to facilitate access to finance for companies. The fund guarantees, for instance, up to 40% of loans provided by the Jumhuriah Bank, a large state-owned bank. There is no clear indication of how effective the scheme is, but there are a number of issues: the process of reimbursing commercial banks in case of business failure takes six to seven years; the scheme does not cover all banks; and it is not an independent entity.

There are no private equity funds in Libya. Instead, a number of publicly-owned funds have been established over the years to support Libya's economic diversification and private sector development, but they have weak governance structures, lack transparent and clear legal and regulatory frameworks and are often scattered and uncoordinated.

Two funds support investment and enterprise development: the Economic and Social Development Fund (ESDF) (established in 2006 with a portfolio of LYD 16 billion, or EUR 9.4 billion) and the Libyan Internal Investment and Development Fund (LIIDF) (established in 2009 with an initial capital of LYD 20 billion, or EUR 11.8 billion) (World Bank, 2013). Five regional investment funds are to be established in Tripoli, Benghazi, Misrata, Sabha and Zawiya. These funds will be capitalised with USD 200 million (EUR 144 million) each and will provide equity of up to 25% of project capital, while the rest of the credit would be guaranteed. The funds will target only start-ups and firm creation, excluding existing firms. The funds are not yet operational and remain subject to the allocation of financing by the Ministry of Planning, which is currently paralysed by the political situation.

Legal and regulatory framework

The Libyan financial sector is weakly regulated. The different financial mechanisms mentioned above suffer from weak governance and transparency structures and sometimes face conflicts of interest. Despite the lack of strong legal and regulatory frameworks, the government has made efforts to improve its credit information services. In 2009, the Central Bank of Libya established a public credit bureau in charge of providing commercial banks with relevant data and information to monitor the creditworthiness of their clients. However, the coverage of the public registry is very low (0.5% of the adult population) compared to the MENA region average (8.3% of the adult population) (World Bank, 2013).

Land is the main source of collateral in Libya. However, a number of weaknesses in the legal and registry systems of land ownership hamper access to finance. The Libyan cadastre, which provides complete registration of land ownership, has been closed since 2011. There is no clear law regulating land ownership and property rights. Land price evaluation is problematic and the government reserves the right to take over land from an owner at any time. Banks are thus reluctant to provide loans backed by land as collateral, resulting in a serious constraint on access to finance for companies.

Promoting a culture of entrepreneurship and skills development

Improving the educational system is one of the highest priorities for the interim government and for civil society organisations in Libya to respond to people's expectations after the revolution. However, the country's political instability has hampered those efforts. With three successive governments in less than three years, the country has been unable to reach a consensus on accrediting strategies in entrepreneurial learning. Therefore, there is no published government strategy for adopting entrepreneurial learning in formal education.

Despite the lack of a strategy, there are some *ad hoc* entrepreneurial learning and training activities in the form of conferences and workshops. There is a range of co-operative initiatives between governmental and private organisations (e.g. Ministry of General Education, Board of Vocational Training and Libya Enterprise), local businesses and international donors (e.g. the British Council and the U.S. Embassy). What is promising, at this stage, is the level of awareness and interest the Libyan government and stakeholders have expressed in establishing a strategy to integrate entrepreneurial learning in the national curriculum.

Engaging entrepreneurial learning in non-formal education has primarily been called for by civil society organisations. There have been some activities aimed at introducing entrepreneurial learning between local and international civil society organisations, government institutes and local companies, for example the Start-up Weekend Forum. The forum first took place in September 2012 and was repeated in September 2013. The forum aims to empower entrepreneurs who are learning the basics of founding start-ups and launching successful ventures. It brought entrepreneurs from all over the world to share their experiences and encourage the adoption of best practices.

As for higher education, there has been some co-operation between higher education institutions and businesses aimed at improving competitiveness and promoting the employment prospects of students. The Ministry of Higher Education and the Board for Vocational Education Training organised the first entrepreneurship contest conference among students in higher education institutes in 2012. There has been a contribution from local businesses, international organisations and civil society organisations. Although there is no national strategy governing entrepreneurial learning in higher education, there

are some activities such as conferences and workshops taking place in this field. In 2013, the Ministry of Higher Education and the Board of Vocational Training held the first workshop on entrepreneurial learning and the means available to incorporate it into the school curriculum.

The evidence regarding SME training programmes shows that the Libyan authorities had an interest in building a strong SME framework programme even before the revolution. The Ministerial Decision (472) stipulated the creation of the SME unit that works under the Ministry of Economy. One of the results of this legislative initiative was the establishment of the Libyan Enterprise Award programme along with various incubators that provide services for SMEs.

There is a joint co-operation between the African bank and the Academy of Graduate Studies working on strengthening SMEs, establishing entrepreneurship centres and providing training opportunities for start-up projects. However, the lack of documentation makes it difficult to measure progress.

The annual Entrepreneurship and Innovation conference is a good example of the government's efforts at developing a national innovation system and in identifying key stakeholders. One of the objectives of the conference is to learn from the experiences of other countries in the field of innovation, entrepreneurship and technology transfer. This indicates that Libya is open to learn from international experience in the field.

Libya Enterprise has an established incubator for supporting and training women entrepreneurs, which is an *ad hoc* example of training services for women entrepreneurs provided by the government. Evidence shows that civil society is ahead of the government in terms of efforts to help women entrepreneurs, exemplified by the launch of the Libya Women's Economic Empowerment Programme.

Enhancing SME competitiveness

Business information and services

Libya has a limited number of business development services programmes supporting SMEs and focusing on start-ups. These are often at an early stage of development or are inefficient because of non-qualified trainers, inadequate training, a lack of follow-up assistance to entrepreneurs and the absence of targeted campaigns to raise awareness of their activities. In addition, there is no co-ordination between the different programmes, and their objectives and activities often overlap.

Libya Enterprise is one of the main business development service providers in Libya. The National Programme for SMEs was established by the General National Congress in 2007. Libya Enterprise's mandate is to promote entrepreneurship and provide business support to start-ups through a range of services including incubators and business centres, training schemes and coaching, facilitating access to finance, and technology and knowledge transfers. Libya Enterprise currently runs eight networks of incubators and business centres. They are located in most regions, namely Tripoli, Benghazi, Sebha and Misrata, including a business centre dedicated to women entrepreneurs and other incubators specialising in information and communication technologies and agriculture. Based on OECD consultations with stakeholders, while an important fraction of firms are aware of the existence of Libya Enterprise, only a few of them receive support from this institution.

It appears that the coaching process used by Libya Enterprise for entrepreneurs needs to be upgraded and intensified. Currently, no business plans are required from

entrepreneurs and training schemes are optional and only last for eight days. Moreover, Libya Enterprise relies on university staff for training rather than professional trainers, and does not provide follow-up services. Even these basic services are limited to start-ups and are not available to existing SMEs.

Additional public business development service providers have been established recently. A new institution has been set up under the Ministry of Labour to create job centres operating as business centres in different cities. The Ministry of Industry is planning to create business centres focusing on SMEs in the industrial sector. The Veterans' Association is also involved in SME support. It operates in three cities, Benghazi, Tripoli and Sebha, and supports around 70 000 former combatants through their involvement in SMEs over a four-year programme, with 8 000 SMEs being created (Upper Quartile, 2013).

There appears to be considerable confusion regarding to the extent to which these services complement or overlap with each other; in particular, few checks and balances are in place to ensure that valuable resources are allocated to the most viable and strategically valuable projects. As a consequence, there is a clear need for a strategy to provide guidance based on a firm understanding of the resources available and binding constraints in the economy.

Finally, there is no database accessible for SME managers. Libya Enterprise only offers information through its website, and organises promotional fairs through media. Basic information can be found online through ministerial decision and legal codes. Access to economic studies conducted by public or independent institutions is more limited.

Export promotion

The Libyan Export Promotion Centre (LEPC) operates under the Ministry of Economy. Based in Tripoli, it has two regional offices in Benghazi and Sebha. The LEPC's mandate includes putting in place appropriate procedures and policies to promote exports, assisting local companies in doing business abroad, serving as a focal point for co-ordination of export information with the private sector, and training traders.

There is currently no export promotion strategy approved by the government. An action plan was developed in 2013 by the LEPC, which has introduced new measures to encourage exports such as direct subsidies to exporters, contributions to participation costs for national and international trade fairs, and assistance in the design, production and marketing of exported goods. The main products targeted by the LEPC are dates, olive oil, honey and fishery products.

The LEPC has established a one-stop desk to deal with foreign trade procedures, at which representatives of all relevant establishments offer trade-related services. Trade facilitation processes remain relatively cumbersome. According to the investment climate assessment for Libya (World Bank, 2011), customs clearance and technical control lack an electronic clearance system. Instead, procedures are handled manually and through paper documents.

Euro-MED co-operation

Libya is a member of the Euro-Med Partnership (EMP), also known as the Barcelona Process, which aims to encourage economic dialogue between the European Union (EU) and 12 Mediterranean countries. In addition, negotiations on a framework agreement between the EU and Libya started in November 2008 and were intended to lead to

a free-trade agreement covering trade in goods, services and investment. However, negotiations were suspended due to the events of 2011.

On a national level, there is no indication of networks, linkages or clusters among Libyan and Euro-MED enterprises. Nevertheless, Libya has recently concluded a number of agreements to foster international and regional trade relations. Libya has signed several bilateral economic co-operation agreements with European Union member states, and with Turkey, Tunisia, Kenya, Singapore and others (U.S. Department of State, 2011). Libya also concluded a trade and investment framework agreement (TIFA) with the United States in April 2010, to tackle barriers to trade and investment and to deepen the commercial relationship between the two countries.

Libya is not a World Trade Organisation (WTO) member, even though it started the accession process in 2004. Libya is a member of the 1989 Arab Maghreb Union (Tunisia, Algeria, Morocco and Mauritania) which requires duty-free trade among its members. Furthermore, Libya is a founding member of the Community of Sahel-Saharan States which aims to create a free-trade area within Africa, although it has not made great progress toward this goal. Libya is also a part of the Greater Arab Free Trade Area (GAFTA, or Pan Arab Free Trade Agreement). Since 2005, GAFTA member states have achieved full liberalisation of trade in goods through the elimination of most tariffs.

The way forward

A key priority for Libya is to progressively diversify its economy, reducing the nearly total dependence on the oil and gas sector and making the economy more resilient to oil price shocks and changes in the volume of hydrocarbon production. SME development should therefore be viewed as part of the strategy of economic diversification, including opening up new sectors to private sector investment, building a local productive sector able to compete with imports and promoting a new class of local entrepreneurs.

SME policy in Libya is at an early stage of development, while the country is still struggling to define its economic diversification strategy. Many of the crucial components of the policy framework are still missing. The definition of SMEs is unclear and outdated, SME policy institutions are still under development, and the operational environment for private enterprises remains opaque. At the same time, political instability limits the scope for reforms.

At this stage Libya should focus on developing the institutional framework for SME policy implementation, identifying the priority areas, linking SME policy to economic diversification and building administrative capacity, before allocating significant resources to the support of SMEs.

At the institutional level, government action should build on the initial steps taken so far. An SME policy unit has been developed under the Ministry of Economy, providing the nucleus around which the institutional framework can be built. At the moment there are no indications as to whether the SME policy unit is operational and whether a clear mandate and objectives have been defined. Staff in the unit needs to be recruited and trained, given the current lack of qualified staff. Administrative procedures and reporting lines need to be established and staff stability assured.

One of the first tasks of the SME policy unit should be to review all existing tools and facilities operating under the mandate of different ministries and funds. At the same time, the SME policy unit should collect data and information about the current status of SMEs

and the main challenges they are facing. This will set the basis for starting the elaboration of a medium-term strategy, complemented by shorter term action plans. This is a difficult task for a new institution and the SME policy unit would benefit from external assistance. The OECD is currently conducting a project to assist the Ministry of Economy to develop such a strategy, which aims to boost diversification through private sector development, while other international and bilateral organisations are active in the private sector development area.

Government action should also be related to the reform of the financial sector, which is still dominated by the public sector banks and funds and lacks financial intermediation mechanisms. The main issue facing the sector at the moment is the blurred distinction between regulatory and operational functions. First, the central bank's independence should be further enhanced by separating its regulatory function from its role as a shareholder in public banks. Moreover, in light of the new Islamic finance law, the central bank's role needs to be redefined and the regulatory framework adapted. Second, the number of state-backed credit instruments should be reduced and a wider range of financial products and financial intermediation mechanisms needs to be developed. The issue of non-performing loans should be tackled, rebuilding the banks' capital bases and putting them in a position to resume lending on a more solid basis. Finally, as land is the main source of collateral in Libya, cadastre's activity needs to be re-launched and clear and transparent regulations regarding land ownership needs to be implemented.

As a first step towards the establishment of a national policy framework for entrepreneurial learning in the educational system and in SME programmes, the Technical and Vocational Education Strategy 2020 (currently under preparation) should include teaching entrepreneurial skills to every student. The board in charge of the elaboration of the strategy should liaise with universities piloting entrepreneurial learning programmes and should consider experiences from good practices.

Additionally, the newly established sector skills councils in the tourism and construction sectors should set up a permanent mechanism to monitor the evolving needs of SMEs in terms of methodologies, tools, IT support, and staff requirements. The experiences obtained from such pilot projects should be shared and replicated in other sectors in the medium term. Concerning training for women entrepreneurs, Libya Enterprise should co-ordinate with and support civil society organisations in the implementation of successful initiatives. A dialogue to define a policy framework for women entrepreneurs should also be launched.

Note

1. The Veterans Association was established by the Prime Minister's office and the National Transitional Council, with the assistance of the UN, to reintegrate all armed and non-armed combatants either through skills/job training, further education, or integration in the National Police and Army (Upper Quartile, 2013).

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Chapter 17

Morocco

Economic overview

Morocco is classified by the World Bank as a lower middle-income economy. The country is characterised by significant potential for growth thanks to its economic diversification, which compares favourably with other countries in the region. Despite the global financial crisis and political unrest in the region, the Moroccan economy has exhibited strong growth in real GDP: an average increase of 4.6% between 2008 and 2010, and another 5% in 2011. However, growth slowed significantly in 2012 to a rate of 2.7% (Table 17.1).

The economy has one of the highest investment rates in the region, reaching 35.7% of GDP in 2012, thanks, in particular, to the many government initiatives geared towards improving the business and investment environment. Unemployment dropped to below 9% in 2012, down from 13.4% in 2000. However, the rate for the young and the educated is about twice this overall rate. More than half of all 15-29 year olds in Morocco are out of school and out of work, according to the World Bank.

As in other economies of the region, Morocco's external and fiscal positions have deteriorated in the face of ongoing political uncertainty and a slowing world economy. The impact is especially pronounced due to Morocco's strong links with Europe through trade, remittance and investment flows. The current account deficit, which rose to a high rate of 10% in 2012, slower growth and elevated levels of public expenditure, notably for food and fuel subsidies, have led to mounting fiscal pressure. Net lending soared to 6.7% of GDP in 2011 and 7.6% in 2012. Still, government debt is relatively sustainable at 60% of GDP in 2012, and FDI inflows recovered to USD 2.8 billion in 2012 (3% of GDP) from USD 1.6 billion (1.7% of GDP) in 2010.

Table 17.1. **Morocco: Main macroeconomic indicators, 2008-13**

Indicator	2008	2009	2010	2011	2012	2013
GDP (current USD, billion)	88.9	90.9	90.8	99.2	96.1	104.8
GDP growth (real)	5.6	4.8	3.6	5.0	2.7	5.1
GDP per capita (current USD)	2 851	2 885	2 850	3 082	2 956	3 190
Current account balance (% of GDP)	-5.2	-5.4	-4.1	-8.1	-9.9	-7.2
General government primary net lending/borrowing (% of GDP)	0.7	-1.8	-4.4	-6.7	-7.6	-5.5
Unemployment, total (% of total labour force)	9.6	9.1	9.0	8.9	9.0	8.9
Inflation, consumer prices (annual average increase, %)	3.5	1.0	1.0	0.9	1.3	2.3
Foreign direct investment, net inflows (current USD, millions)	2 487	1 952	1 574	2 568	2 836	n.d.
General government gross debt (% of GDP)	48.2	48.0	51.3	54.4	60.5	61.8

Data for 2012 and 2013 are estimates.

Source: IMF (2013), *World Economic Outlook database 2013*, October, Washington, DC, www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx; UNCTAD (2013), UNCTAD Stat Database, available at unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en.

Business environment

The political transition in the region has had little effect on Morocco's business climate. Instead, the government has been very keen to implement reforms to boost the business environment. Important steps have been taken to attract investors, such as the creation in 2009 of the Moroccan Investment Development Agency (AMDI), the strengthening of regional investment centres, the simplification and improvement of the transparency of administrative procedures, and the establishment of the National Committee of the Business Climate (CNEA). In terms of foreign trade, Morocco has exhibited increased openness, including through negotiations with the European Union on the Complete and Thorough Free Trade Agreement (CAFTA) (OECD, 2011).

To maintain the attractiveness of the Moroccan business climate, measures could be taken to improve the legal investment framework, particularly by further protecting foreign investors through a revision (in progress) of the Investment Charter, strengthening the institutional framework for public-private partnerships, limiting the risks of corruption and promoting integrity in business (United Kingdom's Presidency of the G8, 2013).

Morocco ranks 87th out of 189 economies in the "ease of doing business" index of the IFC-World Bank (*Doing Business* 2014), improving by 10 places globally compared to 2013, and a total of 30 places between 2011 and 2013. In particular, the economy performs rather well in Trading Across Borders (37th) and Starting a Business (39th). The greatest challenges remain in Registering Property (156th) and Protecting Investors (115th). While the World Economic Forum (2013) lists inefficient government bureaucracy, corruption, and access to financing as the three most common problem areas for doing business, efforts have been made in these areas. In the area of access to finance, the Moroccan government has passed new laws that expand the scope of securitisation and financing alternatives to companies. However, Morocco is still ranked 77th out of 148 countries in the Global Competitiveness Index 2013-2014, compared to 70th out of 142 in 2011-12.

Overview of the state of SMEs

According to a report by the Moroccan financial market authority (CDVM), SMEs in Morocco accounted for 40% of GDP and 31% of total exports in 2011. The majority of these SMEs are active in the areas of trade (41%) and manufacturing (37%). According to a 2011 International Finance Corporation survey, micro, small and medium enterprises in Morocco at that time totalled 750 202, employing 21.6% of the overall workforce. As in other economies of the region, most SMEs are classified as micro enterprises, which constitute 97.8% of the total number of enterprises in the country.

Box 17.1. **Definition of SMEs in Morocco**

The National Agency for the Promotion of Small and Medium Enterprise (ANPME) defines the size of a company based on its turnover:

- Micro enterprise: less than MAD 3 million (Moroccan dirhams, EUR 268 000).
- The small and medium enterprises: between MAD 3 and MAD 175 million (between EUR 268 000 and EUR 15.6 million)

The rate of business creation is relatively high in Morocco. On average, between 2004 and 2009, 0.96 limited liability companies per 1 000 working-age inhabitants were created (World Bank, 2013), a rate above the average of 0.6 companies for the whole MENA region (World Economic Forum and OECD, 2011).

Assessment results

Over the last five years, Morocco has made progress in the implementation of policies to promote entrepreneurship and support the SME sector. Progress has been achieved in most dimensions of the Small Business Act (SBA) for Europe. In a systematic and continuous manner, Morocco has developed an institutional framework for SME policy, improved the quality of its institutions, and developed several support programmes covering all sectors of the SME population, especially new entrepreneurs, established businesses and high-growth enterprises.

The quality of its policy framework is similar to that in the EU-12, and the level of convergence towards EU policies in the SME sector is quite advanced. Although there is still potential for improvement in certain areas, such as bankruptcy and second chance, access to finance and skills development, Morocco has demonstrated a greater ability to implement complex reforms.

Over the years, Morocco has developed a participatory approach to the development of SME policy. Representatives of the private sector increasingly contribute to decision making, strategic direction, and policy development and implementation. In addition, SME policy is now integrated into the strategic plan for the medium-term development of the private sector (the National Pact for Industrial Emergence – PNEI), and the implementation of the strategy is regularly monitored.

The greatest achievements over the past five years have been the establishment of the CNEA and the launch of an action plan on regulatory reform and the improvement of business legislation. Strategic direction has been supplemented by the development of a strategy dedicated to micro enterprises, and the launch by the ANPME of a first impact assessment of its primary support programmes. The development of an innovation strategy, including for the SME sector, and the launch of a number of programmes to support innovative companies were also important steps.

Finally, in spite of the high number of SME policies, initiatives and programmes, there is little indication of their implementation, efficiency and impact, which makes it impossible to know whether follow-up is sufficient.

The following sections present a basic overview of the results Morocco obtained in the 2013 assessment. The assessed dimensions were grouped into five broad areas pertaining to SME policies:

- Strengthening institutions and mechanisms for SME policy making (dimension 3);
- Creating an operational environment favourable to SMEs (dimensions 2 and 4);
- Facilitating the access of SMEs to finance, and improving the legal and commercial environment (dimension 6);
- Promoting a culture of entrepreneurship and skills development (dimensions 1 and 8);
- Improving SME Competitiveness (dimensions 5, 7, 8, 9 and 10).

Figure 17.1. **Morocco: 2013 assessment scores**

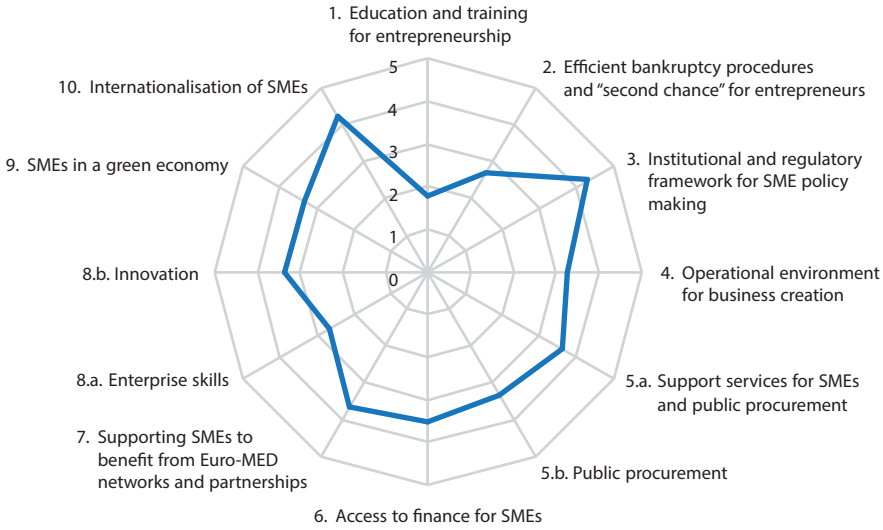


Figure 17.2 shows results comparable for both the 2008 and 2013 assessments.

Source: Government and independent assessments.

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

Over the last five years, Morocco has improved its SME policy framework. Although the institutional framework remains unchanged, since 2008 the government has established a clear distribution of the responsibilities involving enterprise policy. The ANPME, under the authority of the Ministry of Industry, Trade, Investment and Digital Economy (MICNT), is responsible for overall SME policy and guides all of the country's sectoral strategies. The Ministry of Foreign Trade oversees trade policy and export promotion, while the Ministry of Interior regulates the operations of the Regional Investment Centres, which are under the control of local authorities. The Ministry of General Affairs and Governance is in charge of improving the business climate, and acts as co-ordinator of the activities performed in this area by the other ministries.

The CNEA was created in 2009 to foster enterprise policy co-ordination and consultation among these institutions. Directed by the Prime Minister, its permanent secretariat is supported by the Ministry of General Affairs and Governance. Within this framework, and in conformity with the memorandum of understanding signed between the Head of Government and the General Confederation of Moroccan Enterprises (CGEM) on 6 March 2012, a platform on the business environment and public-private partnerships was launched to better involve the private sector in the CNEA action plan.

In terms of strategic direction, a new strategy promoting micro enterprises was developed and adopted in 2013. It is part of the national policy for improving the business environment and facilitating enterprise creation and investment. The ANPME's SME support strategy was integrated into the National Pact for Industrial Emergence (PNEI) 2009-2015, with a set of detailed objectives and the identification of related policy instruments.

Administrative simplification and regulatory reform

Morocco has made significant progress in the area of regulatory reform in recent years. The CNEA is working on nine strategic axes that affect various aspects of regulatory reform each year. A working group is created for each proposed regulatory reform. Preliminary work of diagnosis, review and regulatory analysis is conducted before starting the reform process. This process has led to the implementation of several draft regulatory reforms, such as the reform of public procurement, the reform of building permits, and the reform of payment terms. To measure the impact of these reforms, a new project of performance indicators was initiated in three pilot components, including payment deadlines, building permits and value-added tax refunds.

The simplification of administrative procedures (strategic axis 1) represents one of the major projects on which the CNEA is working. The government has made progress in this area, in particular with the approval in May 2013, during an inter-ministerial meeting presided over by the head of government, of 68 simplification measures related to four procedures: starting a business, paying taxes, electricity connection and the transfer of ownership.

Public-private consultations

Morocco possesses a well-established participatory approach to the elaboration and implementation of SME policy. Private sector organisations are increasingly consulted during the development of all the key SME policy measures, as well as other measures related to the improvement of the business environment. The private sector is represented in the CNEA and within the steering committee of the recently launched strategy for micro enterprises. The CGEM, which, with 30 professional federations, is the leading entrepreneur network in Morocco, as well as the largest association representing the private sector, is highly involved in consultations with the public sector. Its structure includes 22 permanent thematic committees (including employment and social relations, taxation, ethics and good governance, investment, competitiveness and industrial strategy, SME-large enterprise partnerships, and SMEs) aiming to leverage their expertise in order to assist companies in their development and strengthen their competitiveness.

A project to establish an observatory for SMEs is underway. It will give the country a unified source of data about the demography of these companies, their financial situation and their economic behaviour. The observatory, which has the status of a foundation, is supported by all stakeholders involved in SME support (public sector, private sector and particularly the banking sector).

Establishing a conducive operational environment for business creation

Company registration and business start-up process

According to the IFC-World Bank's *Doing Business* index for 2014, Morocco eliminated its minimum capital requirement for starting a business. This has contributed greatly to improving the operational business environment for SMEs. While this represents major progress, costs related to registration (exceeding EUR 150) are still relatively high compared with other economies in the region.

Morocco has an extensive network of one-stop shops managed by 16 regional investment centres. However, further improvements could be achieved to accelerate the company registration process by introducing a single identification number and by reducing the number of interactions for the registration/notification/compliance process within one-stop shops.

Online registration services

There is currently no online company registration system in Morocco. However, a project, CREOL, is being conceived to launch online enterprise creation under the authority of the Tax General Directorate.

Bankruptcy procedures and second chance

Law No. 15-95 of the Code of Commerce constitutes the bankruptcy framework in the country. However, there is no concrete evidence on its implementation. The 2014 *Doing Business* report points to a relatively efficient bankruptcy system, although with significant room for improvement, especially in terms of costs (currently at 18% of estate value, compared to an OECD average of 9%) and recovery rate (38 cents on the dollar, compared to 71% in the OECD).

Facilitating SME access to finance and developing the legal and business environment

The Moroccan financial sector has improved since the last assessment in 2008. Besides the already high proportion of bank lending going to SMEs, institutions offering financial support to SMEs increased their outreach and the authorities improved the framework regulating them. However, the country still needs to enhance creditor rights, ease the stringent requirements for access to capital markets, and promote business angel networks.

Sources of external finance for SMEs

Bank lending in Morocco remained largely unaffected by the global financial crisis, even during its peak, thanks to the limited integration of the country's domestic banking and financial institutions in the global financial system. Morocco, which experienced a more stable economic and political environment than its neighbours, even recorded an expansion of credit activity. The share of credit to the private sector has increased from around 40% in 2003 to more than 70% in 2012 (see Chapter 6). Bank concentration (defined as the percentage of the country's total bank assets held by its three largest banks), which is a proxy indicator of the level of competition in the banking sector, is still relatively high, reaching 90% in 2011 (Chapter 6). Regarding SME financing, bank loans granted in Morocco represent 24% of total bank lending, a rate close to the ratio of more developed economies (more than 22%) (Beck et al., 2008).

Credit guarantee schemes in Morocco have expanded since 2008. While the 2008 assessment reported the existence of 11 guarantee schemes, there are currently 20, with some targeting specific sectors, such as the Hassan II Fund focusing on high-tech industries (automotive, electronics, aeronautics). Funded by both public and private sources, as was already the case in 2008, Morocco's schemes are operated by two specialised entities, the Central Guarantee Fund (CCG) and Dar Addamane. The latter, which has legally been a private entity since 1989, is funded partly by private banks but also by public contributions, such as the Hassan II Fund. The institution offers guarantees backed by its own equity, but also manages other funds on behalf of the state.

Morocco possesses a regulatory framework for microfinance and leasing institutions, with the Central Bank acting as a supervisory and regulatory institution. The legal framework for microfinance institutions was improved in 2011 to allow them to leverage the necessary resources through private bank support. Information on enterprises has become

more transparent. The banking law entitles leasing institutions to report information to the public credit bureau.

Between 2008 and 2011 the stock of equity capital in Morocco increased from 68% to 90% of GDP (see Chapter 6), which is one of the highest ratios among the assessed countries. However, despite high market capitalisation, financial markets in Morocco do not seem to provide a significant complement to bank finance for SMEs. Indeed, while different sub-sectors in the Casablanca Stock Exchange have been created in order to allow firms with lower capital to enter, the vast majority of enterprises still do not meet the criteria. A draft amendment of the law relative to capital markets is currently under finalisation. Its goal is to create an alternative market dedicated to SMEs.

Regarding early-stage financing, only one business angel association, Atlas Business Angels, exists in Morocco. This non-profit association aims to help in creating and developing a network of business angels in several regions of the country. Few other pilot projects and policy awareness plans exist to develop business angel networks in Morocco.

Legal and regulatory environment

Morocco has made very substantial progress regarding the legal, financial and regulatory environment for SME access to finance. Since the last assessment, new regulations have been established guaranteeing the right of borrowers to examine the data available in the public credit registry. On the institutional side, a Moroccan credit information bureau started operating in 2009. Based on a hybrid model, it is regulated by the Central Bank but managed by a private firm selected through an open tender (Farazi et al., 2011). Since then, the activity of the credit bureau has improved progressively, with more systematic consultation of credit reports before the granting of loans, and improvement in the quality of data provided by credit establishments. However, the private credit information bureau covered only 20% of the adult population in 2013, a rate still well below the OECD average of 66.7% (IFC-World Bank, 2013).

The assessment also reveals a considerable improvement in the registration system for movable assets. The CNEA developed an action plan in 2013 aiming to prepare the ground for a modern and comprehensive reform of the movable securities system, with the assistance of the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD). Yet creditor rights and their enforcement remain a crucial issue in Morocco, particularly excessive collateral requirements.

Financial literacy

One of the priorities mentioned in the 2008 assessment was the need to provide financial information to entrepreneurs, especially regarding alternative financial instruments. As a response to that, the Moroccan government has recently shown increasing awareness of the need to increase financial literacy. In 2012 the authorities established a foundation that is in charge of implementing a strategy for improving financial literacy over the period between 2013 and 2015. One of the axes of this strategy will be to put in place awareness-building programmes adapted to different segments of the population.

Promoting a culture of entrepreneurship and skills development

The assessment underlines the need for a concerted effort by the education authorities to develop a more strategic framework for lifelong entrepreneurial learning. Since the 2008 assessment, Morocco has missed the opportunity to establish entrepreneurship as

a more strategic factor in the country's development agenda through the 2008-12 Najah Programme and the 2009-15 industrial strategy. The role of education in building a more entrepreneurial environment was not reinforced. In spite of the efforts of UNESCO (the United Nations Education, Science, and Culture Organisation) to establish a more strategic framework for lifelong entrepreneurial learning, a strategic partnership involving all levels of the educational system, including the non-formal learning sector, has yet to be developed. The cross-stakeholder dynamic generated through the assessment produced a sound debate on ways forward for lifelong entrepreneurial learning. However, the fullest commitment and leadership from the education authorities (general, vocational and higher education) will be necessary to ensure policy progress. Expert groups (general and higher education) established by the UNESCO project could be re-mobilised to look at issues and options for strategy building and forward planning.

The UNESCO project is the first significant attempt by the Ministry of National Education to specifically integrate entrepreneurship into secondary school curricula (lower and upper levels). The challenge for 2015 will be to include entrepreneurship as a key competence within the curriculum reforms for both general and vocational education. This will have implications for teachers' development and assessment. School-enterprise co-operation should also feature in the proposed developments. While efforts to promote entrepreneurship in higher education fundamentally depend on the development of university incubators, it will be important to extend these programmes and support services to non-technical or business schools. To this end, the National Forum for University Entrepreneurship and the National Student Organisation for Innovation and Entrepreneurship, both of which promote good practice in entrepreneurial learning as shown in the assessment, could lobby policy makers for policies that increasingly promote entrepreneurship in higher education and university-enterprise co-operation.

Discussions that have taken place around the assessment have highlighted the necessity of a broader good-practice exchange framework, bringing together education and training providers from all levels, including non-formal education and training, in order to improve the efficiency of entrepreneurship promotion efforts. Public, private or civic interest groups could take initiatives toward this goal. The Centre for Young Business Leaders stands out for its events in the areas of information exchange, networking, partnership building and good-practice sharing.

While national policy specifically addressing women's entrepreneurship has yet to be defined, a co-operation and dialogue framework involving government, the private sector and all interested parties from civil society would provide a sound basis for policy development. In spite of a wide range of grassroots initiatives to support training for women entrepreneurs and excellent examples of innovation and outreach to women entrepreneurs, policy dialogue and development should borrow the knowledge, know-how and inspiration of those directly engaged in training and mentoring women entrepreneurs. Reinforced efforts to link expert networks at the regional and European levels should be considered.

Ensuring that investment in training for small businesses is correctly targeted requires systematic data to allow for better policy focus. The assessment points to a range of data sources on training for small businesses, primarily training providers, but without any comprehensive pooling or assessment framework. A recent national industrial strategy pinpoints the human capital concerns for priority economic sectors. This strategy could lead to the creation of a multi-sectoral platform for systematically collecting data on the skills needed by SMEs and on their respective industrial sectors. This is particularly

important for businesses that seek to develop and improve their competitiveness. The Interprofessional Consultancy Groups already gather enterprise intelligence by sector. This network of service providers could be the preferred vehicle for regularly collecting data. It could be used by both policy makers and training providers to help them meet the specific training requirements of businesses.

The broader concerns about the data on small business training equally apply to training for business start-ups. Data is available but is often hosted by key training providers. No comprehensive data set is available. Despite the significant investments made in venture funds in the country, no assessment of the number of new businesses is possible due to the lack of a single and reliable intelligence source. The assessment has shown that a solution would be to include a specific question on training at the business registration stage. While training provision (public, private and not-for-profit providers) is well developed across the country, and backed up with a quality assurance framework for training providers, online training, which would facilitate access to training for small businesses in particular, is underdeveloped. Training development and provision will need to be more innovative and shaped to the needs of more digitally engaged businesses. Above all, the good efforts on training to help small businesses trade in international markets could be reinforced by online learning provision.

Concerning financing for on-the-job training development, a skills development levy on businesses could provide an important source of finance. Yet, discussions with stakeholders suggest priority allocation of tax funds to support the training of young people. This lack of resources for employee training (including the potentially unemployed) sets back the updating of their skills, with negative effects on the company. Employee training could take shape through new modalities, such as individual training vouchers, as suggested by the discussions around the new professional training strategy. Finally, more attention should be paid to developing SME awareness of the need for environmental compliance and sustainable growth.

Enhancing SME competitiveness

Business information and services

Morocco's policy framework for business services has witnessed only marginal progress since 2008. The country has a well-developed market for personalised business services, with a high level of internal competition among services providers, including private ones. SMEs have access to support services from government agencies such as ANPME, and from several associations and private providers. The ANPME has an online database of private consultants as well as specific information on the programmes it provides. The ANPME has carried out increasingly targeted actions, particularly through a range of support programmes that are differentiated by the level of enterprise competitiveness. These programmes are designed to support businesses in achieving their development projects (Imtiaz programme), to strengthen their competitive potential through the implementation of functional actions to improve productivity (Moussanada programme), and to help them in their operational transformation through the dissemination of lean practices (Inmaa programme). However, the evaluation does not give any indication of the effectiveness, impact and monitoring of these programmes.

Since 2012, the ANPME has conducted independent impact assessments of its support services. Indeed, it has strengthened evaluation of its support programmes and of its actions in general. Tools for assessing performance are already in place: the semi-annual satisfaction survey of supported companies, and the annual monitoring of programme achievements.

Other organisations such as the Association of Women Entrepreneurs (AFEM), the National Agency for the Promotion of Employment and Skills (ANAPEC), and the Entrepreneurship Foundation-*Banque Populaire* provide specialised services to businesses, including start-ups. The AFEM, which is considered a model support organisation for women entrepreneurs in the region, provides development (e.g. support and training), incubation and pre-incubation services to women.

In Morocco, the High Planning Commission (HCP) is the largest producer of statistical, economic, demographic and social information. It is responsible for the preparation of national accounts. It can be considered the core of the Moroccan system of statistical information and is currently undergoing a restructuring. Thus, the Coordination and Statistical Studies Committee (COCOES), established by the legal provisions of the 1968 Statistics Act, is scheduled to be replaced by a new body, the National Statistical Information Council (CNIS) provided for by the new law on national statistics, and sent to the General Secretariat of the government for promulgation. The CNIS would be required to co-ordinate and promote statistical research, disseminate information and ensure alignment with statistical standards. Moreover, sectoral statistical systems have been set up and collect, process, analyse and disseminate information related to their areas of supervision.

Under the e-government programme, public institutions in Morocco have established several online portals such as electronic regulations, e-invest and data.gov.ma, which provide online information for SMEs. Nevertheless, a dedicated SME portal is not yet operational, but is planned as part of the creation in 2014 of a SME Observatory.

Public procurement

Morocco is relatively proactive in improving the access of SMEs to public procurement. In fact, a law on public procurement was enacted in 2013 to reserve 20% of public procurement to SMEs. The authorities are currently in the process of establishing an e-procurement portal, in order to integrate e-procurement into the public procurement processes. Late payment provisions are included in the Moroccan law, which imposes strict deadlines for payments and penalties in case of non-compliance with these deadlines. Moroccan domestic firms are granted priority if their bid does not exceed the lowest foreign bid by more than 15%, favouring domestic operators over foreign-based companies competing for public tenders. Finally, Morocco has introduced general provisions requiring buyers to set qualification levels and financial requirements proportionate with the number of years of experience, annual turnover or volume of annual production.

Innovation

Since June 2009, Morocco has had a national innovation strategy (the Innovation Initiative for Morocco), which became operational in March 2011. It involves several public and private parties such as the Ministry of Industry, Trade, Investment, and the Digital Economy; the Ministry of Higher Education, Scientific Research and Management Training; the CGEM; universities and financial institutions. Since 2011, the innovation strategy has been co-ordinated by the Moroccan Innovation Centre. There have been efforts to increase co-ordination between relevant institutions. A national inter-ministerial committee for scientific research and technology development was established in 2011 to co-ordinate public action in the field of research, and the establishment of a national committee for innovation and industrial research is under review to institutionalise the strategy's public-private governance.

There are a large number of programmes and initiatives to support innovation in SMEs. The Moroccan Innovation Centre provides innovative project leaders with a one-stop shop and manages innovation support programmes and funds. However, these efforts are often scattered, in some cases only in the pilot phase and uncoordinated. Morocco has a wide network of technology and innovation centres: four innovation centres are being developed with the objective of reaching 14 centres by 2016; ten competitive clusters are already operational in different regions and in different sectors such as agro-food, microelectronics and mechanics; ten industrial technical centres also exist to support innovation promotion.

Several programmes have been established to support co-operation with universities and research centres, such as Protars, Innovact, Iresen, and Tatwir, as well as the Innovation and Technological Development Support Programme (PTR) instruments managed by the ANPME. In addition, Morocco has developed a network of technological incubators, via the Moroccan Incubation Network (RMIE). However, institutionalising this network remains a challenge because incubators only constitute a small part of university services. The development of science parks is still in its pilot phase. A programme, P2I, aims to progressively establish a network of 22 integrated industrial platforms. Some technology parks (Haliotis, Technopolis, Agropolis, and Chemparc) are already in place and operational.

Morocco has good accessibility of information regarding innovation support services for SMEs. An updated online database, Club de l'Innovation, provides information on the selection criteria for firms to participate in all types of innovation support programmes.

Several financial mechanisms exist in Morocco to support innovation promotion, but some are not yet fully operational. Public funds, such as the National Fund for Supporting Scientific Research and Technological Development and the Advanced Technologies R&D Fund (consisting on EUR 4.5 million to finance 50 projects), are still at the pilot stage. More developed funds specific to innovation exist, such as the SINDIBAD and INTILAK seed funds, PTR, TATWIR programmes of the ANPME, and the RDTA programme for research and technology.

Green economy

In Morocco, the promotion of the green economy and of eco-innovation is integrated in the national policy framework through the National Charter for the Environment and Sustainable Development and the National Environment Strategy. As part of its industrial development strategy, Morocco has established a legal and regulatory framework of laws relative to the protection of the environment, such as laws on renewable energies and energetic efficiency.

In Morocco, the CGEM, ANPME and the Moroccan Centre for Clean Production (CMPP) provide technical support on the implementation of the National Charter for the Environment and Sustainable Development, financial incentives to invest in green technologies, and training on energy efficiency. The ANPME lists several experts who can be contacted by SMEs for support in these areas.

Morocco has specific funding available for the implementation of Environmental Management Systems (EMSs) and standards through ANPME's Moussanada Programme, which finances up to 60% of SME EMS certification costs. The label is called Company Social Responsibility and is provided by the CGEM. Furthermore, the Moroccan Institute of Standardisation (IMANOR) provides information and training on standards in the area of renewable energy and energy efficiency. In addition, the Office for Professional Training and Promotion of Work (OFPPT) offers free training sessions on environmental issues.

Export promotion

Since 2009, Morocco has been implementing export promotion measures within the context of its wider national strategy for export promotion, Maroc Export Plus. In order to increase the competitiveness of Moroccan exports, this strategy includes sectoral, horizontal and organisational targeting measures for specific markets and business support. This export promotion strategy aims at doubling exports by 2015 and trebling them by 2018.

Morocco also has a number of trade and co-operation agreements with other MED economies and supports access to information on foreign markets and support services for exporting SMEs. The country works towards trade facilitation and has a number of initiatives to promote the computerisation of foreign trade procedures: for instance, PortNet, which is a virtual one-stop shop to deal with the formalities of foreign trade in ports, or the Badr system, which includes several functions such as consultation of tariffs, electronic payments, electronic certificates, etc. Furthermore, there is an inter-ministerial committee to share and publish information related to foreign trade, including by electronic means.

Euro-MED co-operation

As a means to foster innovation, the Morocco Innovation Initiative supports the development of high-level clusters focused on R&D and innovative projects. Three pilot clusters were established under this programme: clusters in ICTs (four excellence niches); clusters in microelectronics; electronic and mechatronic groups. These clusters are represented in the Europe Enterprise Network, the ANIMA Investment Network, and the Network of Enterprises and Federations for the Environment from the Maghreb Region (REME).

The Ministry of Industry, Trade, Investment and the Digital Economy (MICNT) has also put in place a cluster development strategy in industrial and technological sectors and seeks to stimulate the development of collaborative projects on innovation. In addition, Morocco has signed a memorandum of understanding between the MICNT and European institutions. The agreement aims at supporting Euro-Med innovative entrepreneurship through the promotion of excellence in the areas of cluster management, support training for innovation management, collaboration between clusters, enterprises and networks of incubators, and support for the internationalisation of SMEs.

In terms of the availability of Euro-MED business support services, Morocco participates in all of the Mediterranean and European Union networks of business associations and providers of business support services (see Chapter 7).

The way forward

First, Morocco needs to upgrade its ability to collect timely and comprehensive data and information on the composition and dynamics of the SME sector. This will enable the country to better monitor and evaluate the impact of different policy instruments. The ANPME, in co-operation with the CGEM and other Moroccan public and private organisations, has proposed the establishment of an SME Observatory. The project has been under elaboration for some time and should now move to the implementation phase.

A second priority concerns the introduction of a single company identification number, which will make communication between enterprises and government services more efficient and will contribute to the production of better business statistics, including data on business demography.

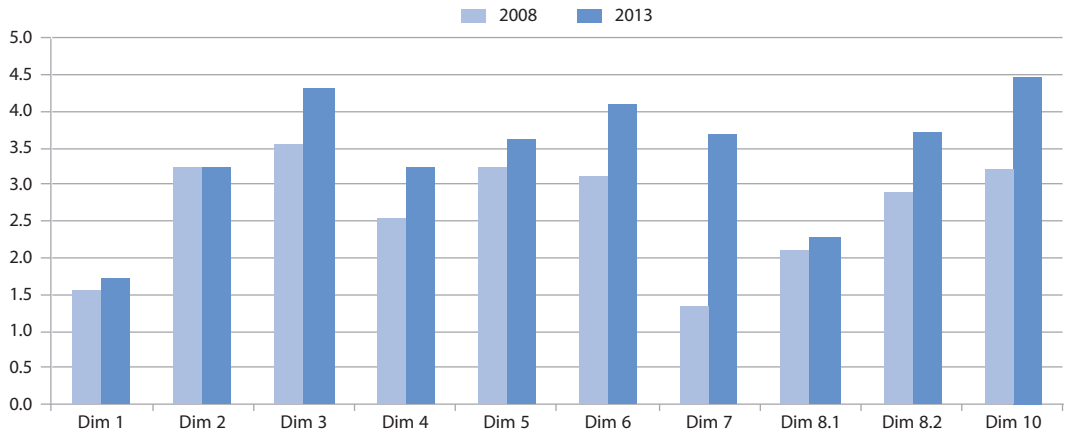
A third priority concerns access to finance. While progress has been achieved in several areas, including the establishment of a private credit bureau, it is important to enhance credit rights in order to reduce collateral requirements and diversify the sources of external finance available to high-growth SMEs, for instance by developing networks of business angels.

In terms of access to information on foreign markets, apart from the existence of an inter-ministerial committee and other measures to facilitate access to information (through Morocco Export, Foreign Trade Observatory, etc.), Morocco could establish a one-stop shop to give SMEs access to information relating to external trade and allow them to complete paperwork electronically. The PortNet initiative is a good example, but applies only to trade through the ports. Morocco could therefore develop a more comprehensive one-stop shop, including all forms and modalities of exchange rather than just trade in goods through ports.

In terms of promoting Euro-MED linkages and partnerships, Morocco could enhance its co-operation with other MED economies by providing good practices and support in the implementation of similar initiatives.

Regarding the dimensions relative to education and entrepreneurship, the assessment results point to three areas for development as a way forward: *a)* the establishment of a partnership arrangement involving all education, professional training and higher education stakeholders with the objective of developing a national framework for lifelong entrepreneurial learning, with the Ministry of National Education playing the leading role; *b)* the elaboration of a national policy on women's entrepreneurship, including a training and mentoring support framework building on existing networks and capacity; and *c)* the establishment of an enterprise skills analysis framework to inform the state (the main training provider) and all other training providers, as well as professional branches and

Figure 17.2. **Morocco: assessment results 2008 and 2013**



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

DIM 1: Education and training for entrepreneurship, including women's entrepreneurship; **DIM 2**: Efficient bankruptcy procedures and "second chance" for entrepreneurs; **DIM 3**: Institutional and regulatory framework for SME policy making; **DIM 4**: Operational environment for business creation; **DIM 5**: Support services for SMEs; **DIM 6**: Access to finance for SMEs; **DIM 7**: Supporting SMEs to benefit from Euro-MED networks and partnerships; **DIM 8.1**: Enterprise skills; **DIM 8.2**: Enterprise innovation; **DIM 9**: SMEs in a green economy; **DIM 10**: Internationalisation of SMEs.

Source: Government and independent assessments.

SMEs, about skills needs in order to support sectoral and national economic development planning. Only evidence-based approaches and multiparty solutions that include the state and social partners can ensure the high quality and relevance of training.

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Chapter 18

PA

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. This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the EU Member States on this issue.

Economic overview

Economic growth in PA remains strong, although it slowed significantly from 12.2% in 2011 to 5.9% in 2012. This slowdown was mainly due to heightened political uncertainty and decreased donor support. Recent years saw a strong upward trend, with real GDP growth rates exceeding an average of 8% per annum since 2007. This trend was supported by increasing political stability, ongoing reform efforts, strong donor support, and better internal movement of people and goods. However, the economy remains subject to logistical challenges that raise trade transaction costs.

PA remains the poorest economy among those analysed in this report, with GDP per capita of around USD 2 389 in 2012. Economic growth has been extremely volatile over the past decade. The Palestinian economy suffers from a poor and deteriorating external and fiscal position. Only substantial external support has kept the current account at manageable levels in the face of large trade deficits over the past decade. However, with donor support decreasing drastically, the current account deficit widened to 28.9% of GDP in 2012. Palestinian bilateral trade is dominated by links with Israel. In 2011, 86% of Palestinian exports went to and 70% of all imports came from Israel. Outside of Israel, the largest trading partners of PA are Turkey, China, Jordan and Germany. Exports are not very diversified and contain few sophisticated goods. Building stone (17.2% in 2011) as well as food and livestock (14.6% in 2011) constitute significant shares of the export basket.

The National Development Plan (NDP) for 2011-13 focuses on private sector growth, in particular in the agriculture and tourism sectors, as well as regulatory reform, infrastructure investment and foreign trade promotion. The investment law that was amended in 2011 aims to promote industries based on high human capital, notably the growing information and communication technology (ICT) sector. The Palestinian economy remains strongly service-oriented, with this sector contributing over 77% to GDP in 2011, while the industrial sector accounts for only about 17% of GDP. According to the Palestine Economic Policy Research Institute's (MAS) *Economic Bulletin*, in the third quarter of 2013, GDP was 2.6% higher than in the same quarter of 2012 in real terms. In the same period, total unemployment remained high and reached 23.7%, up from 20.6% in the second quarter of 2013.

Macroeconomic data for PA remain less readily available than for other economies and are subject to stronger variation and corrections.

Table 18.1. **PA: Main macroeconomic indicators, 2010-12**

Indicator	2010	2011	2012
GDP growth (real)	9.3	12.2	5.9
Current account balance (% of GDP)	-10.6	-23.6	-28.9
General government primary net lending/borrowing (% of GDP)	36.8	34.0	34.4
Unemployment, total (% of total labour force)	24	21	23
Inflation, consumer prices (annual average increase, %)	3.7	2.9	2.8
Public debt (% of GDP, commitment, before external support)	-17.8	-16.9	-16.5

Source: IMF (2013), *World Economic Outlook database 2013*, October, Washington, DC, www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx; UNCTAD (2013), UNCTAD Stat Database, available at unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en.

Business environment

The business environment in PA has improved in recent years due to better access to internal and foreign markets, greater engagement of the government in improving the investment climate and further trade agreements. The government recognises the role of the private sector in enabling the investment environment and further attracting foreign investors. A Palestinian Development and Reform Plan (PDRP) was established for 2008-10 to stimulate growth through private sector investment and public finance consolidation. Moreover, several legal reforms were initiated, such as the drafting of new laws on competition, trademark/copyright, bankruptcy and amendments to the investment law. PA has increased its participation in foreign trade through the finalisation of trade agreements with Russia, Jordan, Egypt, the Gulf States, Morocco and Tunisia. It also participated, in 2009, in the World Trade Organisation (WTO) ministerial meeting as an *ad hoc* observer (U.S. Department of State, 2011).

In terms of doing business, PA enterprises still face many constraints. According to the IFC-World Bank *Doing Business* report 2014 (West Bank and Gaza Strip), PA ranks 138th out of 189 economies in the ease of doing business. In particular, it ranks last in Resolving Insolvency (189th) and close to last in Getting Credit (165th). Starting a Business (143rd) remains difficult.

Overview of the state of SMEs

SMEs represent a key component of the Palestinian economy, with 82% of the total workforce employed by enterprises of up to 99 employees in 2007. Of these, 96.9% employed less than 10 persons (micro enterprises) and operated mostly in the trade sector (55.3%), services (24.9%) and manufacturing (13.3%). Meanwhile, SMEs (between 10 and 99 employees) operated predominantly in services (49.6%), manufacturing (35.5%) and less so in trade (13.8%) (IFC 2011).

Table 18.2. **Definition of SMEs in PA**

Enterprise classification	Number of employees	Annual Turnover (USD)	Registered capital (USD)
Micro	1-4	Up to 20 000	Up to 5 000
Small	5-9	From 20 001 to 200 000	From 5 001 to 50 000
Medium	10-19	200 001 to 500 000	From 50 001 to 100 000

Source: Government and independent assessments.

Assessment results

In the 2008 report, PA was ranked in the group of economies that, largely due to political instability and external factors, had made limited progress in developing public policies supporting private enterprises. Despite continued external factors limiting the scope for policy development and the fact that legislative activity remains blocked, the 2013 assessment results show that PA has made incremental progress in a number of policy dimensions, particularly on access to finance. Its scores are broadly at around level 2.5, indicating that PA is still making progress in elaborating policies and strategies and introducing new policy instruments, but policy implementation remains limited and is often on a pilot basis.

The main developments over the last five years concern access to finance. PA has been able to successfully launch two credit guarantee schemes, improve the regulatory framework for micro-finance institutions, set up equity funds covering the SME sector and establish a state-of-the-art credit bureau. The Palestinian Monetary Authority, which is not constrained by the legislative blockage, has contributed substantially to the improvement of the regulatory framework and provided technical support for the implementation of the different projects.

PA has an SME definition and an implementing agency operating under the Ministry of National Economy, Directorate of Industry and National Resources. However, the institutional framework remains incomplete, as PA lacks an SME development strategy. Progress has been made on policy co-ordination 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 requirement in the company registration process.

Finally, despite the large number of existing policies, initiatives and programmes supporting SMEs, information on the degree of their implementation, effectiveness and impact remains limited.

The following sections outline the main results for PA from the 2013 assessment. In order to facilitate the analysis, the policy dimensions are reorganised under five wider SME policy areas:

- Strengthening institutions and mechanisms for SME policy making (dimension 3)
- Establishing a conducive operational environment for SMEs (dimensions 2 and 4)
- Facilitating SME access to finance and developing the legal and business environment (dimension 6)
- Promoting a culture of entrepreneurship and skills development (dimensions 1 and 8)
- Enhancing SME competitiveness (dimensions 5, 7, 8, 9 and 10)

Figure 18.1. **PA: 2013 assessment scores**

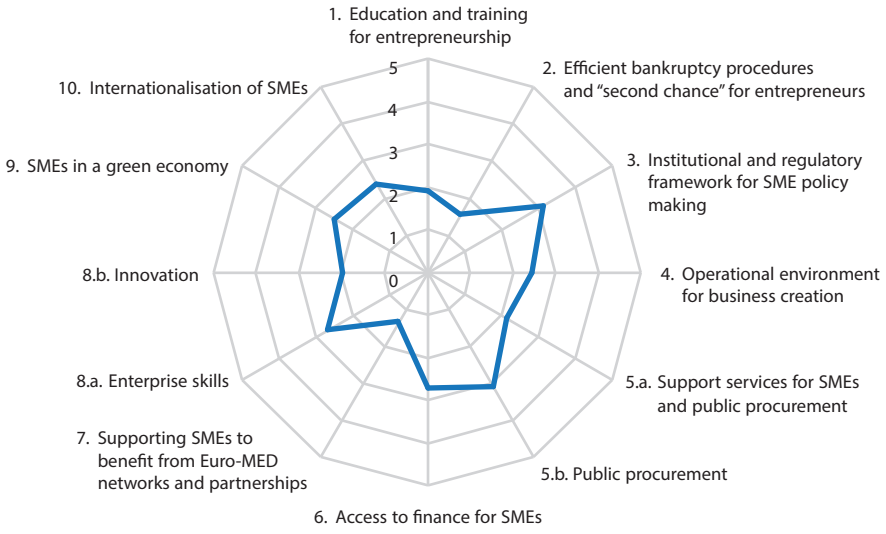


Figure 18.2 shows results comparable for both, the 2008 and 2013 assessments.

Source: Government and independent assessments.

Strengthening institutions and mechanisms for SME policy making

Institutional framework

As per the 1993 Oslo Agreement, PA has direct and exclusive competence over a number of areas related to the broad business environment and enterprise development agenda, including SME policy, business regulations, access to finance, innovation, entrepreneurship education and training. However, PA has *de facto* no control over external trade and its natural resources in Area C, and reduced jurisdiction over territorial development. In the West Bank, PA has full authority over most urban areas (Area A), including the concession of building permits and the establishment of enterprise zones. It exercises limited civilian functions over Area B and it has no authority over Area C.

Over the last five years, PA has made institution building and the strengthening of administrative capacity a key priority. However, legislative activity is highly constrained, as the Palestinian Legislative Council has not been convened since 2006, pending national reconciliation and new elections. Under current circumstances, new legislation can only be introduced through presidential decrees.

The overall institutional policy framework has not significantly changed over the last five years. The Ministry of National Economy is in charge of private sector development and the improvement of the business environment. It supervises the activity of the Palestinian Investment Promotion Agency (PIPA), which is in charge of FDI attraction and domestic investment promotion, of the Palestinian Trade Centre (PalTrade, the trade promotion board) and of the Standard and Metrology Institute. PA has not yet introduced a defined SME policy. Although the economy is made up mostly of micro and small enterprises, there is no SME development strategy. However, a multi-year SME strategy is under elaboration by the Ministry of National Economy with the support of the International Finance Corporation (IFC). Competence over enterprise development is spread over different government agencies, with PIPA playing a role in facilitating new investments. As the government faces significant financial constraints, most enterprise support activities are financed by donors, and managed at the local level by entrepreneurs' associations and NGOs.

Over the last five years, PA has achieved incremental progress across all the indicators included in the sub-dimension. Policy co-ordination and public-private policy dialogue have improved with the establishment of a Private Sector Institutions Coordination Council, while the Palestinian Reform Development Plan has provided strategic direction for the improvement of the business climate.

Legislative simplification and regulatory reform

Current PA legislation includes laws and regulations enacted before 1967. The pre-1967 legislation in the West Bank and Gaza Strip was made under different legislative systems, which further increases legislative complexity. A comprehensive database of legislation enacted since the Ottoman period, called Al-Muqtafi, is in place and it is widely consulted (OECD 2013), but regulatory reform and administrative simplification is at an early stage. A Core Technical Team, including representatives from public institutions and private sector associations, co-ordinated by the Ministry of National Economy, is working on administrative simplification, focusing on the areas covered by the World Bank *Doing Business* report. A first positive step has been achieved with the partial simplification of company registration procedures and the abolition of the minimum capital requirement.

The 2011-13 National Development Plan included provisions for administrative simplification; but the inactivity of the Palestinian Legislative Council is an obstacle to more structural interventions requiring legislative modification. The introduction of regulatory impact analysis is still at a very early stage. PA has completed a first draft of a manual for primary and secondary legislation (OECD, 2013).

Public-private consultations

There is a practice of public-private dialogue in PA; the last public-private dialogue conference was held on 5 February 2014. Private sector organisations and NGOs act as channels for the implementation of many enterprise and community support programmes, often supported by donors. Private sector representatives sit on the boards of the main business support agencies (PIPA and Paltrade) and the Palestinian Investment Fund. The main forum for public-private consultation is the Private Sector Coordination Council. Consultations are frequent, but tend to focus on key economic measures, such as the tax code. SME policy issues are relatively sidelined due to the limited role played by SME associations. PA has also established regular consultation channels with the donor community that play a very significant role in supporting the Palestinian economy, using the National Development Plan as a platform to co-ordinate government and donor actions.

Establishing a conducive operational environment for business creation

Company registration and business start-up process

The PA company registration process is complex and lengthy. However, over the last two years PA has undertaken major reforms to improve its operational business environment. Minimum capital requirements for business start-ups have been completely abolished and a single identification number has been introduced. While this has contributed to a faster and cheaper company registration system, official costs related to registration are still relatively high, exceeding EUR 150. As in 2008, a one-stop shop managed by PIPA exists but is not yet fully operational. Two projects are currently ongoing with the IFC and the Private Sector Development Programme to simplify registration processes and increase decentralisation.

Provision of e-registration services

PA has not taken any recent initiatives to provide e-registration services. The absence of adequate infrastructure is one of the main reasons for not initiating an online registration system.

Bankruptcy procedures and second chance

The bankruptcy framework is based on two laws that date back several decades: The first is Jordanian commercial law number 12 of 1966, which is valid only in the West Bank. The other is (British Mandate) bankruptcy ordinance number 3 of 1936 which is valid only in the Gaza Strip. A draft new debt resolution (bankruptcy) law is currently under review. According to the *Doing Business* 2013 report, PA is classified amongst the most difficult economies in which to close a business.

Facilitating SME access to finance and developing the legal and business environment

While the overall financial sector in PA remains small, the economy made progress in most of the indicators related to access to finance assessed in 2008. In particular, three credit guarantee schemes expanded their operations, the number of risk capital institutions increased, and the legal framework for credit information was strengthened with the introduction of a private credit bureau. Land registration, as well as creditor rights, remain major issues in PA to improve access to finance for SMEs.

Sources of external finance for SMEs

Financial market development in PA is limited, as domestic credit to the private sector remains relatively low, at only 24% of GDP in 2011 according to the MAS. However, the ratio of non-performing loans has decreased substantially in recent years, reaching only 3.3% in 2012, a level that is well below other MENA economies. Regarding SME financing, the share of bank credit to SMEs was only 6% of total bank loans (Farazi et al., 2011), while the average for the MENA region (excluding GCC countries) was more than 13% (Beck et al., 2011). According to MAS, a survey conducted in 2011 revealed that personal contributions generally constituted the primary source of financing for around 80% of SMEs while bank credit accounted only for 8.2%. This low rate of bank lending prevails despite the fact that 60% of enterprises surveyed stated that they need external sources of financing.

Compared to 2008, the two main credit guarantee schemes in PA, both funded by public and/or foreign donors, considerably expanded the number of partnerships with commercial banks, leading to an increase in coverage. The European-Palestinian Credit Guarantee Fund (EPCGF), financed by the European Commission and the KfW development bank, is working in co-operation with nine partner banks and has so far provided 3 000 loan guarantees for a cumulative amount of USD 104 million (EUR 77 million). The Loan Guarantee Facility, funded by the Overseas Private Investment Corporation (OPIC) and the Palestinian Investment Fund and managed by The Middle East Investment Initiative (MEII), had partnerships with nine banks in 2013, compared to only two in 2008. In 2012, this facility provided guarantees for approximately USD 85 million (EUR 63 million) in loans to 446 SMEs. Overall, both schemes guarantee between 60% and 70% of the value of the loans, and the most important qualifying criteria are meeting the definition of an SME and generating sufficient cash flow for the repayment of the loan.

The regulatory framework for microfinance activities has improved in comparison with the 2008 assessment. Since 2011, the Palestinian Monetary Authority is responsible for licencing microfinance institutions and is in charge of their supervision. Furthermore, more than 80% of microfinance institutions are currently sharing their credit information with the public credit information bureau. Overall, the microfinance sector in PA is still dominated by NGOs, funded by grants and donations, with only a few commercial banks providing microfinance services. In 2013, there were 50 000 active clients, more than half of them women (57%). Leasing activities in PA are regulated by the leasing law, approved in 2013, and the sector is supervised and monitored by the Palestinian Capital Market Authority (PCMA). In 2012, the number of licensed leasing companies in PA reached eight, mostly dealing with vehicles.

Other sources of finance, such as venture capital and private equity, have expanded since the last assessment in 2008, although without the implementation of any specific legislation. Four private equity/venture capital funds started operating, mainly focusing

on SMEs and start-ups. Two of these four existing funds were established by the Palestine Investment Fund, in partnership with local and international investors, while the other two are private funds, with one of them investing in the ICT sector. However, private equity and venture capital firms are not subject to any registration requirements or other regulatory measures imposed by the PCMA. One of the main exit options for these funds is an initial public offering on the Palestine Exchange (PEX). In this regard, PA witnessed a significant improvement as the new regulations in 2013 distinguish between a main market and a secondary market with lower capitalisation. However, SME financing through capital markets is still very limited as the minimum capital requirement for entry is USD 500 000 (EUR 369 000) and the required number of shareholders is a minimum of 50.

Legal and regulatory environment

The legal and regulatory framework has witnessed important progress in recent years. Regarding credit information services, the Palestine Monetary Authority (PMA) has established one of the most effective public credit information bureaus in the region, with all banks and other financial institutions, such as microfinance institutions, being part of the information sharing system (Farazi et al., 2011). On the legal side, an important reform took place in 2013, guaranteeing by law that individuals and firms can access their credit data. Nevertheless, some progress is still needed regarding the coverage of the bureau, as it currently covers only 8.8% of the adult population.

Despite some improvements, the legal and regulatory environment still faces considerable challenges. There is no registry for moveable assets, and banks operating in PA do not accept moveable property as collateral. A draft law on secured transactions regulating moveable assets exists but still needs to be approved. Creditor rights remain weak, and this is one of the main reasons why banks require excessive collateral, reaching almost 160% of the value of the loan, compared to an average of 145% in the MENA region.

Financial literacy

Financial literacy is relatively low in PA, especially in some regions and segments of the population. Some disparate initiatives were undertaken by the authorities to raise awareness and promote financial education, but there is no comprehensive and co-ordinated national strategy to better develop financial literacy among all segments of the population.

Promoting a culture of entrepreneurship and skills development

There are many dispersed initiatives in entrepreneurial learning at various education levels (in the national curriculum, donor-driven projects and non-formal activities). Policy dialogue level, involving a cross-stakeholder co-ordination group, led by the Ministry of Higher Education, began in April 2013 with the aim of elaborating a national lifelong entrepreneurial learning strategy and linking the various initiatives within a coherent system for greater national impact. Good practice sharing is occurring at national level mostly due to national competitions and exhibitions resulting from non-formal learning initiatives, for example Al Nayzak, a non-profit Palestinian organisation. Al Nayzak has strategic partnership agreements with the Ministries of Education and Higher Education to develop projects and curricula in schools. A joint project of the Ministries of Education and Higher Education and the Food and Agriculture Organisation of the United Nations, the Young Farmer Project, has been successfully replicated in a number of governorates over several academic years. Existing good practice developments could be further

capitalised upon within a national strategy to build, improve and ensure effective spending on entrepreneurial learning.

A number of *ad hoc* school-based initiatives on entrepreneurship occur at lower secondary level. At upper secondary level, improvements in Technical Vocational Education and Training (TVET) have improved the reach of entrepreneurship promotion through national and donor driven initiatives, e.g. the Know about Business training modules designed by the International Labour Organisation (ILO). Greater teacher engagement is required for embedding entrepreneurship further in the curriculum at all education levels beyond *ad hoc* pilot projects. Exposing teachers to the entrepreneurship key competence in pre-service and in-service training is essential.

In tertiary education, whilst all universities are relatively engaged in entrepreneurial activities, including agreements with the private sector, they are not co-ordinated. Agreement on higher education policy on cross-campus entrepreneurial learning and business co-operation, and the creation of synergies amongst institutions and the private sector, will have the greatest potential for economic impact. A national dissemination event on entrepreneurship in higher education led by the Palestine Technical University Kadoorie in 2011, rather than being a one-off event, could become an annual event with different universities taking the lead each time.

Significant progress in addressing training for women's entrepreneurship is being made with the establishment in 2013 of a cross-stakeholder working group led by the Ministry of Women's Affairs and the Business Women Forum. The focus of the working group is to support the enabling environment for women entrepreneurs, enhance their technical capacity through training and mentoring and develop appropriate tools and services. The strategy will be put forward to the national cabinet by the Ministry for Women's Affairs for endorsement and approval.

One of the key features of the Small Business Act for Europe is to foster an enabling policy environment for improved skills for small businesses. This is particularly relevant in the aftermath of the global economic crisis. Regular and reliable data on training within small business communities is required for effective policy making and decisions regarding financial support. In PA, a national training-needs analysis framework does not exist, and training for small businesses in general is limited. Nonetheless, a number of key initiatives exist which could form the pillars of a centralised focal point providing a comprehensive data overview. Such initiatives include the Local Employment and Technical and Vocational Education and Training Councils, Chamber of Commerce programmes, regional studies, and donor driven activities such as the TVET Centre for the marble and stone industry sponsored by the United Nations Industrial Development Organisation (UNIDO). A centralised data-gathering focal point would be able to provide statistics for the indicators on start-ups, enterprise growth and broader enterprise training.

Access to training is limited due to mobility constraints. A database in the TVET website ensures that information on training providers and their programmes is available to the small business community. Online training could provide an economical alternative in augmenting access to enterprise training, especially in key growth sectors, beyond training provision from the Palestinian Federation of Industries, PALTrade and the Small Enterprise Centre. Clearer identification of national training needs and improvement of the corresponding training offer will benefit from initiatives by the Ministry of National Economy – which has set up an internal training centre with EU support and has an ongoing project on Government Business Development Services, including data gathering on SMEs – and the Palestinian Central Bureau of Statistics, which conducts bi-annual

economic surveys. Steps towards quality assurance of training providers in TVET have already been taken by the Accreditation and Quality Assurance Commission (AQAC), established in 2002, within the national TVET Strategy 2010. AQACs mandate could be extended to accreditation of all public and private enterprise training providers.

Palestinian universities have taken the lead in offering targeted training on environmental sustainability. Birzeit University, for example, has been working to enhance olive oil quality and train producers on environmental awareness, bridging the gap between education and business practices. Much of the development in sustainable enterprise policy in recent years has been in the form of *ad hoc* projects. In June 2013, a key stakeholder meeting, led by the Ministry of National Economy, took place in Ramallah with the aim of generating reform at system level and identifying opportunities for further progress.

Enhancing SME competitiveness

Business information and services

SMEs in PA have access to a network of public and donor-funded business service providers, which has slightly improved since the 2008 assessment. Specific business services focusing on export opportunities and international marketing are provided by the Federation of Chambers, the Federation of Industries, Paltrade and the Shippers' Council. The Federation of the Palestinian Chambers of Commerce, Industry and Agriculture is currently establishing a Businesswomen Support Unit, providing specific services to women, including capacity building, start-up support and marketing courses. Information about business support service providers can be found on their respective websites or the websites of regional chambers, but there is no central database or online portal. This is also the case with information for SMEs, which is not systematically collected and is sometimes inconsistent. Online information is limited and not centralised.

Establishment support programmes are in the pilot phase. The Al-Nayzak organisation offers some pre-incubation services such as technical training, financial support and business plan writing training. Several business incubator initiatives have been launched, mainly with donor support. So far, the Palestine Information and Communication Technology Incubator and the Al Bireh-Ramallah incubator, managed by Leaders – Qiadat, are operational.

Public procurement

PA public procurement law makes it possible to cut tenders into small lots. A visible effort has also been made to publish information on public procurement. This information is centralised at a national level and is available online and in newspapers, free of charge or at negligible cost. However, the authorities have made little effort to provide e-procurement solutions and limited information concerning tendering is available in electronic format. PA also has a law to regulate late payments but the penalties are not enforced effectively.

Innovation

PA innovation policy infrastructure is relatively underdeveloped. An innovation strategy does not exist and only elements of it are present in the ICT strategy of the Palestine IT Association (PITA). Innovation initiatives are uncoordinated and taken *ad hoc* by public and private agencies such as the Ministry of Economy, the Chamber of Commerce and the ICT Association. However, recently an initiative was started by the president's office to launch a Supreme Council for Excellence and Innovation, representing

the public and private sector and academics with the aim of improving the strategic approach to innovation policy. There is no specific allocation of public funding to promote enterprise innovation and most of the initiatives are privately or donor funded.

PA established its first Business and Innovation Centre in 2012. Furthermore, PA set up a business incubator in 2004 specifically serving innovative start-ups, called Palestine ICT Incubator. It is financed by international donors, the Palestinian National Authority and private international groups. This incubator funds R&D projects at different universities and has signed several agreements with universities to establish centres of excellence. There are no science parks in PA.

Various financial support schemes for innovative firms are available, ranging from grants, subsidies and seed funding to venture capital funds (see Chapter 6). There is no centralised database on innovation support providers.

Green economy

Efforts have been made to embed environmental issues in the national policy framework. However, while dealing with industry in general, the Environment Sector Strategy of 2010 does not focus on SMEs in particular and also lacks clear targets and objectives.

Information on environmental issues and tools remains scarce. While the Ministry of Environmental Affairs provides information on the national level on the Palestinian Environmental Law, which constitutes the legal framework under which businesses operate, NGOs and local authorities do not provide environmental support.

While some companies are aware of Environmental Management Systems (EMS) and use the system, a government dissemination strategy is lacking.

Export promotion

PA has finalised the formulation of a National Export Strategy with the support of the EU and Paltrade. Its full implementation could help PA in getting the most from its existing trade and co-operation agreements with economies in the MED region and beyond (EU, USA, Canada and Mercosur). The EU funding for setting up an implementing agency is being explored.

The PA also has a number of initiatives to support SME access to foreign markets. For instance, Paltrade conducts programmes and activities to help exporters access information on international markets. An e-guide for exporters prepared by Paltrade and funded by the EU is now available. The Palestinian Standards Institute (PSI) provides access to national and global standards, accredited testing facilities, calibration services and certification. The PSI's capacities and testing facilities are being strengthened under an EU-funded project. The Palestinian Industrial Estate and Free Zone Authority has initiatives to establish a Business Development Centre to provide information on international markets (product features, prices, buyers, regulations, etc.). However, those and other initiatives by donors are uncoordinated.

In terms of facilitating access to regulatory information on foreign trade and on facilitating procedures through electronic means, PA uses the ASYCUDA platform. According to the independent assessment, there are 70 companies (mainly trading in cars and food products) that enter their trade information electronically through a username and password provided to them by the ASYCUDA system. Yet, information on procedures for foreign trade in general is spread through several institutions (Ministry of Agriculture, Ministry of National Economy, Ministry of Finance, Palestine Standards Institute, etc.).

Euro-MED co-operation

There are very few initiatives to promote linkages and partnerships with Euro-MED SMEs, among them the European Palestinian Chamber of Commerce, and the European Economic Chamber of Trade, Commerce and Industry.

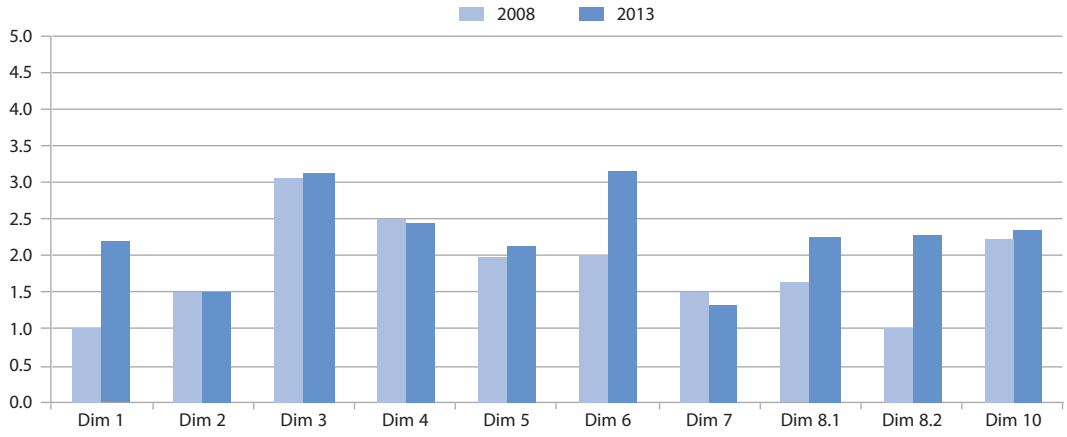
The way forward

PA should focus on strengthening the institutional framework, by the elaboration of a multi-year SME development strategy. This will allow the setting of common objectives shared by all SME stakeholders and the establishment of a common platform integrating projects currently conducted by a variety of actors, including NGOs, donors, private sector organisations and government agencies. In addition, it may contribute to sharing experiences among the different stakeholders.

A second priority concerns the upgrading of business legislation and particularly the introduction of a new company law. Extensive preparatory work has been conducted, but the blockage of legislative activity has hampered the finalisation of the new legislation. The cost of operating on the basis of outdated legislation is considerable, as most business disputes end up being regulated outside the court system, and bankruptcy and legal procedures dealing with companies in financial distress are absent.

Finally, PA should complete the reform of the company registration and business start-up process, which is currently ongoing with the support of the IFC. The reform should aim at cutting the time and cost of establishing new enterprises, thereby reducing informality. It should also contribute to the establishment of a reliable company register and improve data and information collection on private sector activity.

Figure 18.2. **PA: assessment results 2008 and 2013**



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

DIM 1: Education and training for entrepreneurship, including women's entrepreneurship; **DIM 2**: Efficient bankruptcy procedures and "second chance" for entrepreneurs; **DIM 3**: Institutional and regulatory framework for SME policy making; **DIM 4**: Operational environment for business creation; **DIM 5**: Support services for SMEs; **DIM 6**: Access to finance for SMEs; **DIM 7**: Supporting SMEs to benefit from Euro-MED networks and partnerships; **DIM 8.1**: Enterprise skills; **DIM 8.2**: Enterprise innovation; **DIM 9**: SMEs in a green economy; **DIM 10**: Internationalisation of SMEs.

Source: Government and independent assessments.

PA could also step up efforts to assist exporting SMEs by, for instance, improving the co-ordination among different agencies and initiatives. The establishment of an inter-institutional committee and a single window or one-stop shop, including a virtual one-stop shop, could be relevant for disseminating information and dealing with the formalities of foreign trade. Other MED economies such as Morocco and Tunisia could provide relevant insights.

As a result of the assessment, it is recommended that a national lifelong entrepreneurial learning strategy and work programme, including a mapping of all existing entrepreneurial learning initiatives, be elaborated, in synergy with the Ministry of Education Strategy for Lifelong Learning 2013. A national network of women entrepreneurship ambassadors, able to monitor and advise on policy (with a particular focus on mentoring and support), should be created. This network would link with similar networks in other countries and at an international level. A national training-needs analysis framework, based on consultation with all concerned stakeholders and bodies, should be established. It should include the Accreditation and Quality Assurance Commission, ensuring links with ongoing National Qualification Framework developments with the nomination of a lead body.

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Chapter 19

Tunisia

Economic overview

Tunisia is an upper middle-income economy, with a GDP per capita of USD 4 213 and a population of 10.7 million in 2012 (World Bank 2014). Being a net importer of oil and with fewer natural resources than its neighbours, the Tunisian economy is more diversified and integrated through international trade. This led to strong economic growth during recent decades. The integration of the Tunisian economy into the global economy through new trade agreements, in particular with the European Union, which is Tunisia's leading economic partner, has contributed to the country's economic growth.

Yet, the Tunisian economy has been deeply affected by events in the country and in the region as a whole. Before the global financial crisis Tunisia experienced a period of economic development, with real GDP growing at an average of 4.7% annually between 2000 and 2007. While economic growth remained relatively robust during the financial crisis of 2007-09, the political changes in 2011 caused a contraction of 1.9% that year. Since then, growth has been moderate at 3.6% in 2012 and 3% in 2013.

Inflationary pressures have increased with the consumer price index reaching 5.6% in 2012. During the same period, Tunisia's external position deteriorated, reflecting both the ongoing political transition and the slowdown of the global economy. Tunisia's current account deficit rose to 8% of GDP in 2012. Slowing growth and high levels of public spending, including subsidies and social security spending, have contributed to an increase in the tax burden. The government net borrowing rose to 3.4% of GDP in 2011 and 4.9% in 2012. However, the level of public debt remains relatively low, representing 44% of GDP in 2012. Foreign direct investment (FDI) recovered to USD 1.9 billion (UNCTAD), or 3% of GDP, in 2012, compared with only USD 1.1 billion in 2011 (2% of GDP). However, this was still below the levels reached in 2008 (USD 2.8 billion or 6% of GDP), before the full effects of the crisis were felt in the economy.

High unemployment, especially among young people, remains a major challenge. The unemployment rate stood at 17.6% in 2012, significantly more than the 12.4% recorded in 2008. In particular, the unemployment rate among graduates of higher education reached the exceptionally high rate of 29.2%, while this rate was only 14.4% in 2005, according to

Table 19.1. **Tunisia: Main macroeconomic indicators, 2008-13**

Indicator	2008	2009	2010	2011	2012	2013
GDP (current USD, billion)	44.9	43.6	44.3	46.4	45.4	48.4
GDP growth (real)	4.5	3.1	2.9	-1.9	3.6	3.0
GDP per capita (current USD)	4 345	4 177	4 199.3	4 350	4 213	4 431
Current account balance (% of GDP)	-3.8	-2.8	-4.8	-7.3	-8.1	
General government primary net lending/borrowing (% of GDP)	-0.6	-1.2	-0.9	-3.4	-4.9	-6.8
Unemployment, total (% of total labour force)	12.4	13.3	13.0	18.3	17.6	16.7
Inflation, consumer prices (annual average increase, %)	4.9	3.5	4.4	3.5	5.6	6.0
Foreign direct investment, net inflows (current USD, millions)	2758.6	1687.8	1512.5	1147.8	1918.2	n.a
General government gross debt (% of GDP)	43.3	42.8	40.4	44.0	44.0	45.5

Data for 2012 and 2013 are estimates.

Source: IMF (2013), *World Economic Outlook database 2013*, October, Washington, DC, www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx; UNCTAD (2013), UNCTAD Stat Database, available at unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en.

official sources. Beyond the need for stronger economic activity to absorb job seekers, the Tunisian labour market also suffers from more structural difficulties, such as the mismatch between the skills of young people and those required by companies.

Business environment

Tunisia remains one of the MED economies with the most favourable business climates. Among other elements, in 2012, Tunisia adhered to the OECD Declaration on International Investment and Multinational Enterprises, reflecting the country's desire to foster investment liberalisation, increase integration into the global economy and promote responsible business conduct (OECD 2012). However, other elements related to the business climate, such as the rigidity of the labour market and the high fiscal costs borne by businesses, could be reformed.

In 2013, Tunisia was ranked 51st out of the 189 countries in the 2014 *Doing Business* ranking, and was first among the MED countries, excluding Israel. Yet Tunisia edged down two places from its 2012 ranking. In particular, the Tunisian business climate is relatively attractive in terms of trading across borders (31st) and resolution of insolvency (39th). The biggest challenges that remain are dealing with construction permits (122nd) and getting credit (109th). The World Economic Forum lists political instability, the inefficient government bureaucracy, and access to finance as the three toughest challenges to doing business in Tunisia, as noted in its annual report on global competitiveness in 2013-14. Overall, Tunisia is ranked 83rd out of 148 countries in the 2013-2014 Global Competitiveness Index.

Overview of the state of SMEs

Thanks to a fairly good business climate and a relatively diversified economy, Tunisia has experienced rates of new business creation that are relatively high compared to other countries in the region. According to a World Bank survey on global entrepreneurship (World Bank, 2012), 1.03 limited liability companies per 1 000 inhabitants of working age were created per year during the 2004-09 period, a rate which is high in comparison to the 0.6 company per year rate of the Middle East and North Africa (MENA) region, but well below the average rate of OECD member countries of 4.8 companies per year. Moreover, this rate significantly increased in 2010 and 2011 to reach over 1.5 companies per year (World Bank 2012). The number of newly created SMEs has steadily increased, according to the Tunisian National Statistics Institute (INS). This figure was 43 777 new businesses in 2006 and climbed to 53 367 in 2011.

According to the INS, 601 416 SMEs (with fewer than 200 employees) operated in Tunisia in 2011 and employed 59% of the total workforce. SMEs account for over 99% of Tunisian companies. Around half of them are micro enterprises, which employ only 10.4% of the private sector workforce (Figure 19.1). SMEs are particularly active in the areas of retail trade (33.5%), transportation and telecommunications (17.4%) and, to a lesser extent, industry (11.9%). SMEs in the industrial sector are mainly present in the textile and clothing sector (35%), as well as in food products (18.2%). With respect to both size and areas of activity, Tunisian SMEs are more diversified than other economies in the region.

Monitoring the generation of SMEs created in 2000 indicates a failure rate of nearly 47% for the entire generation (Ghali and Rezgui, 2011). However, this rate is not uniform for all SMEs as defined by the number of employees. A World Bank study (2013) shows

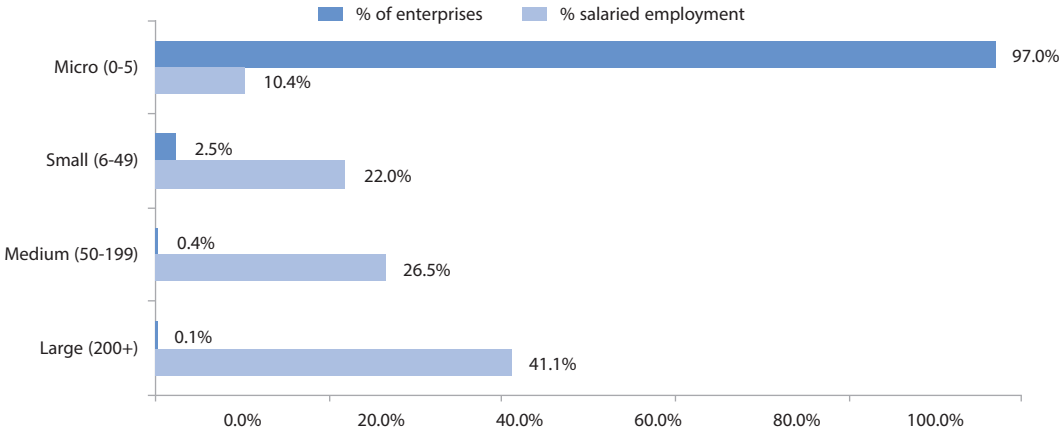
that the failure rate decreases with increasing business size. However, the same study shows that the enterprise growth rate, especially for micro and small enterprises, is quite limited in Tunisia, mainly for tax reasons (exceeding the flat-rate tax regime) and for legal reasons related to the labour code.

Box 19.1. **Definition of SMEs in Tunisia**

There is no harmonised definition of SMEs in Tunisia. The National Institute of Statistics (INS) categorises SMEs according to number of employees:

- Micro enterprises: less than 6 employees
- Small enterprises: between 6 and 49 employees
- Medium enterprises: between 50 and 199 employees

Figure 19.1. **Distribution of enterprises by size and by salaried jobs (%, 2011)**



Source: Tunisian National Institute of Statistics and Ghali and Rezgui (2011), *Méchanismes d'appui aux petites et moyennes entreprises en Tunisie*, Rapport du consultant indépendant, Tunis.

Assessment results

In the 2008 assessment Tunisia was among the MED economies that had established a policy framework for private sector development. The results of the 2013 assessment confirm this. However, over the last five years, Tunisia has made only incremental improvements on a few of the selected indicators, while its performance has remained generally unchanged in most policy dimensions (see Figure 19.2).

The political transition phase that began in 2011 has constrained government activity, which has slowed down the approval of major reforms, such as the introduction of the new investment code. The government has been forced to focus on short-term support for SMEs, many of which were going through a period of financial distress. However, Tunisia has managed to continue the implementation of previously planned initiatives and programmes, and its 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 political instability.

The main achievements over the last five years have been the continued improvement 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 technology parks. While non-existent in 2008, a collateral registry for movable assets is now in place, although it is not fully operational.

Finally, in spite of the high number of SME policies, initiatives and programmes in place, there is little indication on the degree of implementation, their efficiency or their impact, a situation that makes it impossible to know whether monitoring is sufficient or not.

The following sections present the main results for Tunisia in the 2013 assessment. The dimensions assessed were grouped into five broad areas pertaining to SME policies:

- Strengthening institutions and mechanisms for SME policy making (dimension 3);
- Creating an operational environment favourable to SMEs (dimensions 2 and 4);
- Facilitating the access of SMEs to finance and improving the legal and commercial environment (dimension 6);
- Promoting a culture of entrepreneurship and skills development (dimensions 1 and 8);
- Improving SME Competitiveness (dimensions 5, 7, 8, 9 and 10).

Figure 19.2. **Tunisia: 2013 assessment scores**

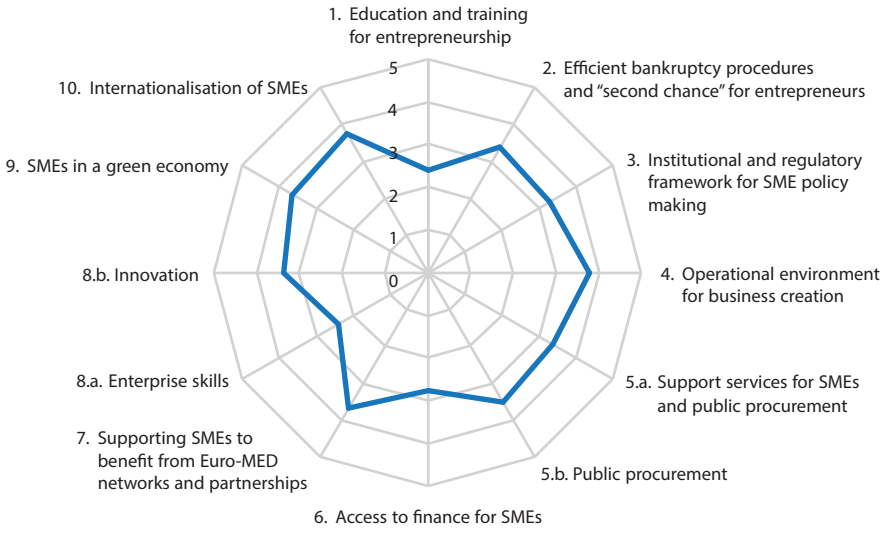


Figure 19.3 shows results comparable for both, the 2008 and 2013 assessments.

Source: Government and independent assessments.

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

The institutional framework for SME policy in Tunisia has changed very little over the past five years, despite the profound political changes that have occurred since the beginning of 2011. The framework is complex, with a mandate for enterprise policy being shared mainly between two ministries: the Ministry of Trade and Craft Industries and the Ministry of Industry. Responsibility for policy implementation is assigned to a number of government agencies, but co-ordination between them is limited.

Thus, the jurisdiction of SME policy falls under the Ministry of Trade and Craft Industries, which encompasses the General Directorate of SME Policy. The Ministry also manages the Fund for the Promotion of Crafts (FONOPROM). Moreover, the Ministry of Industry also includes a specific General Directorate for the Promotion of SMEs (DGPPME) and is directly responsible for managing the SME upgrading programme, launched in 1996, and the competitiveness programme. The Ministry also oversees the activities of the Agency for the Promotion of Industry and Innovation (API), responsible for policy implementation, and it manages the Fund for Promotion and Industrial Decentralisation (FOPRODI). In addition, the Ministry of Development and International Co-operation oversees the activities of the agency for the promotion of foreign investment.

The API is the main body interacting with Tunisian companies, but without a specific mandate for SMEs. At the regional level, the API is represented by 24 regional directorates, one for each governorate. The API manages the network of one-stop shops. It is active in the creation of companies offering training for new entrepreneurs and supporting business incubators. The institution was established with the task of implementing the programme of industrial upgrading. Its mandate was gradually extended to include industrial services, and, recently, innovation. Other relevant institutions operating in the field of SME policy are the Export Promotion Centre (CEPEX) and the State Bank for the Financing of SMEs (BFPME). Difficulties in terms of co-ordination are all the more complex since there is no overall development strategy focused on SMEs.

The main strategic document related to enterprise development is the National Industrial Strategy, which was designed in 2008 and is valid until 2016. An inter-ministerial co-ordination/steering committee is in place, but its mandate is limited to the implementation of the upgrading programme. Over the years Tunisia has established a considerable number of schemes, incentives and funds supporting direct investment, often with a sectoral focus. However, there is limited information regarding the performance and impact of the different schemes. The government is completing the elaboration of a new investment code, aiming at rationalising investment incentives and addressing the distortions associated with the offshore regime, which up to 2011 contributed to the expansion of the export processing sector, but at the same time concentrated economic growth in a few coastal areas and failed to promote a move towards higher value-added products.

Legislative simplification and regulatory reform

Regulatory reform is led by the General Directorate for Administrative Reform (DGRA) operating under the Council of Ministers. Until recently Tunisia pursued an approach directed at identifying quick wins, looking for short-term results. The DGRA is currently developing a new strategy for regulatory reform that will be based on a systematic approach, in accordance with the government decree issued in August 2012. It is also working on an inventory of over 1 000 laws and regulations related to business

Table 19.2. **Tunisian institutions involved in SME promotion and their roles**

Institutions	Roles
The Agency for the Promotion of Industry and Innovation (API)	• Providing assistance to entrepreneurs and SMEs. • Implementing expedite and streamlined processes through one-stop shops. • Supporting entrepreneurs in the project preparation stage through the provision of training and local support. • Managing the National Network of Business Incubators (RNPE) which is composed of 19 incubators. • Identifying potential subcontracting Tunisian companies, organising international sectoral partnerships in Tunisia and abroad, and seeking foreign partners for Tunisian companies based on their co-operation profiles. • Promoting and disseminating a culture of innovation among SMEs. • Building capacities in innovation management, supporting the implementation of R&D activities in companies, and providing financial support for innovation initiatives. • Coordinating and supporting companies in their innovation endeavours. • Providing consulting services in the areas of business-to-business co-operation, internationalisation, innovation, and technological transfers. • Preparing SMEs for their participation in the EU framework programme for research and development.
The Export Promotion Centre	• Participating in the development of national foreign trade policy. • Supporting Tunisian exporters, and more particularly SMEs in their internationalisation efforts. • Providing personalised assistance and technical, administrative and business advice to exporters. • Developing the national programme of fairs and exhibitions. • Organising training seminars for SME managers on topics related to international trade. • Developing market research for specific sectors, and disseminating relevant information through newsletters, publications, and a database on the different types of export markets and exporter profiles. • Financially supporting exporters through the FOPRODEX (Export Promotion Fund)
State Bank for SME Financing	• Granting loans specifically to SMEs for any goods and services production activity, with the exception of tourism and real estate development. • Financing investment projects, whether new ones or expanded projects, which cost between 100,000 and 5 million Tunisian dinars.
Chambers of Commerce and Industry	• Setting up “export outlets”. • Promoting the private sector and stimulating investment in the country’s regions. • Providing public authorities with any information, opinion, and proposals they might need on issues directly or indirectly related to industry, trade and crafts. • Undertaking any initiative aiming any settlement and mediation action at the regional, national, or international level. • Signing trade co-operation agreements with foreign chambers of commerce and industry. • Organising training cycles on management, international trade, and administrative formalities that are taught in licensed training schools, as well as introductory and outreach seminars on the new regulations. • Offering services such as licensing and re-licensing with the registry of businesses, access to databases, granting of certificates, booklets, and other foreign trade documents, as well as member legal, financial and other forms of assistance.

Source: Government and independent assessments.

activities with the intention of ultimately setting up a regulatory guillotine, in spite of the uncertainties created by political instability and an extended electoral cycle.

According to the provisions of Circular No. 14, issued in May 2011, an impact assessment is required for any new law and regulation. In practice, a preliminary impact evaluation is only conducted for a limited number of laws and regulations, and focuses on the social effects and the impact on employment levels, the environment, public finances and the administrative burden (OECD 2013). In August 2012, a government decree provided for the creation of a cycle of training courses on regulatory impact, managed by the DGRA.

Public-private consultations

Until the end of 2010, the Tunisian Union of Industry, Commerce and Craftsmanship (UTICA) was the sole organisation authorised to represent the private sector in public-private consultations. UTICA was consulted during the legislative and regulatory process and its leadership was closely associated with the presidency and the government. In practice, private sector representatives were not allowed to express critical and independent views of government policies.

Since the beginning of 2011, political changes have significantly modified the framework and the way public-private consultations are conducted. UTICA's monopoly on private sector representation has been abolished, but it remains the largest employers association in Tunisia. It has changed its leadership and improved its internal governance. New private sector organisations have been established, such as the Confederation of Tunisian Enterprises and Citizens (CONECT), while organisations such the Arab Institute of Business Managers (IACE) make regular contributions to the policy debate with analyses and white papers. For its part, the "mission for growth" that the EU undertook in Tunisia in 2012 with the participation of 40 European entrepreneurs, led to the creation of the EU-Tunisia Council for Entrepreneurship. This council is intended to advise the Tunisian and European authorities on the necessary reforms to improve the business environment, promote entrepreneurship, and help Tunisian and European SMEs to grow and become more competitive in the global economy.

Despite this recent progress, frequent changes in government and the political transition have caused disruption in the regular consultation process. The assessment has shown that while there has been a wide and open debate over the preparation of the new Tunisian investment code, private sector organisations find it difficult to engage in discussions with the government over medium-term economic plans and reforms.

Establishing a conducive operational environment for business creation

Company registration and business start-up process

Tunisia's operational business environment is characterised by one of the most efficient and cheapest company registration systems in the region. Major reforms have been undertaken to facilitate company registration and ease business start-up processes by introducing a single identification number when dealing with the three administrations of the Ministry of Finance that are involved, and abolishing minimum capital requirements for start-up businesses. Since 2008, Tunisia has extended its network of one-stop shops, which now cover 19 regions throughout the country. Improvements could still be made to reduce the cost of registration, which currently stands at EUR 117 for obtaining a registration certificate.

Online registration services

Tunisia has an online registration system that only covers the city of Tunis and is specific to declarations of investment projects. Managed by the Agency of Industrial Promotion and Innovation, the system is currently undergoing improvements, and is not fully operational.

Bankruptcy procedures and second chance

There is a law in Tunisia pertaining to the turnaround of companies in financial difficulty (Law 95-34 of 17 April 1995). However, according to interviews conducted during the assessment with executives from the DGPPME, including those employed at the support office for enterprises, the frequency of meetings of this office has increased since the political change in Tunisia, which both reflects the negative effect of economic conditions on certain sectors (tourism and textiles) and explains the growing number of enterprises requesting a turnaround.

Facilitating SME access to finance and improving the legal and regulatory environment

Overall, domestic credit to the private sector has improved in Tunisia over the last few years. Yet external financing options for SMEs have not made any significant progress since 2008, as several draft laws and regulations were prepared but have not yet been enacted. Nevertheless, there have been some improvements regarding the overall legal and regulatory framework, including increased coverage by the public credit information bureau and the establishment of a registry for movable assets (although the registry is not yet operational). Two major challenges must be met before the collateral requirements of banks can be reduced: reinforcing the rights of creditors and enforcing existing contracts.

Sources of external finance for SMEs

Tunisia has not been significantly affected by the global financial crisis in comparison with other countries whose financial markets are more integrated with the global economy. Remarkably, Tunisia's share of credit to the private sector even increased gradually from 60% in 2008 to 75% in 2011. Subsequently, affected by the country's economic and political instability, it remained at the same rate in 2012. Bank competition in Tunisia is relatively more developed than in the other MED economies, with the assets of the three biggest banks representing only 45% of total assets in 2011. Overall, bank lending to SMEs in Tunisia remains limited, although the share of bank credits to SMEs represents 15% of the total loans granted by commercial banks (Farazi et al., 2011). This is slightly above the MENA region's average, but well below the 22% average of the developed OECD member countries (Beck et al., 2008).

Financing instruments such as credit guarantee schemes and other financing sources like microcredits and leasing are in place in Tunisia, but they have not significantly improved or developed since 2008. For instance, Tunisia still does not have a specific regulatory framework for microfinance institutions. While the sector is relatively large, it remains fragmented with a lack of special facilities targeting specific groups such as youth and women. As for credit guarantee schemes, the ongoing guarantees represented over 8% of total credit to SMEs in 2009 (Farazi et al., 2011), a rate relatively close to those in Egypt (9%) and Lebanon (10%), but way below that of PA (33%).

Specific legislation for venture capital/private equity/investment funds is in place in Tunisia. However, according to the assessment, in most cases this legislation is not fully in line with international good practices. Regarding capital markets, the capital stock in

Tunisia increased substantially between 2008 and 2011, from less than 10% of GDP to 22%, a ratio that is still relatively low compared to the other economies in the region. There is an alternative market in Tunisia for companies with capitalisation but the entry conditions are stringent. While there is no minimum capital requirement for entry to the alternative market, the company must be held by at least 100 different shareholders.

Equity financing for early-stage start-ups is still lacking in Tunisia, as in most of the MED economies. Nevertheless, a few pilot projects and policy awareness plans to develop business angels networks exist. For instance, in 2010 the Carthage Business Angels Association submitted a draft to the Ministry of Industry, consisting mostly of fiscal measures, to elaborate a regulatory framework that would be favourable for the development of BANs. Overall, the financing of innovative projects in Tunisia can take place under two possible frameworks: either through the creation of a private limited liability company (SARL), or by setting up seed funds requiring the creation of a public limited liability company (SA). The first corporate form implies high fiscal costs due to the lack of a tax exemption on share issuances. The second form creates a restrictive administrative framework that is incompatible with the management flexibility required for innovative projects, in spite of the tax incentives granted to SAs.

Legal and regulatory environment

Concerning the legal and regulatory environment, Tunisia has made some improvements, especially regarding its public credit information bureau. In 2008, a reform was enacted that guaranteed by law that individuals and firms can obtain information on data declared and registered in their name by requesting access from the credit offices of which they are clients. The credit information bureau is now also collecting and distributing more detailed information from banks, including positive information, like loan amounts, and negative information, such as arrears and defaults. Overall, the coverage of almost 30% of adults by the Tunisian public credit bureau is well above both the MENA and OECD averages (IFC-World Bank 2013). Yet Tunisia still lacks the presence of a private credit bureau. Such a bureau would collect more information because it would not limit itself to the financial entities regulated by the central bank.

There have also been some improvements in collateral registries for movable assets. A registry for moveable assets, non-existent in 2008, is now in place. However, the registry is not yet fully operational and information is not easily accessible or fully reliable.

Financial literacy

The level of financial literacy remains relatively weak in Tunisia, except among executives operating in financial establishments. There is currently no national financial literacy strategy and only a few individual initiatives emanating from civil society to promote financial education.

Promoting a culture of entrepreneurship and skills development

The promotion of skills for entrepreneurship, an objective mentioned in numerous regulatory texts, has for several years been presented as a government priority. The current economic situation, which is in need of stronger growth and increased competitive performance, provides an enabling context for moving ahead from mere declarations of intent to actual reform implementation. Since the profound changes that occurred in 2011, finding quick yet sustainable solutions to the high level of unemployment has become a key priority of successive governments. The tough economic context reduces the number

of salaried jobs offered by existing companies and requires the development of other forms of employment, such as self-employment and entrepreneurship.

Human resources development and entrepreneurial learning, both in the formal and informal systems, are key levers for improving a country's competitiveness. Tunisia led the region in these areas in the 2008 assessment. At that time, Tunisia made some progress on the development of a law to promote entrepreneurial learning in the formal system; however, its implementation and expansion to all levels and modes of learning is still very limited.

Indeed this law has not been accompanied by a specific implementation plan. As a consequence, the implementation of entrepreneurship learning remains difficult and is not always efficient (although there is no information to precisely assess this point and make progress in this area). No statistics on the number of schools efficiently delivering entrepreneurial skills was provided. However, it is indicative that the 12 vocational education, training and self-employment centres (CFPTI), which are responsible to provide the key competences of entrepreneurship and support to would-be entrepreneurs, are not really operational yet. The ETF, the German Society for International Co-operation (GIZ) and the OECD are currently collaborating on a project to better document the situation of entrepreneurship learning in vocational education.

Non-formal entrepreneurial learning is mainly supported by donors and international non-governmental organisations through several projects that are often designed by them in collaboration with national institutions such as the public employment agency (ANETI), the API, tertiary technical education institutes such as the Higher Technical Education Institute (ISET), and local organisations such as Tunisian Association for Entrepreneurship (ATUPEE). These initiatives seek to promote entrepreneurial learning in the universities and in vocational training centres. For these initiatives to be successful and sustainable, stronger leadership from national institutions is necessary, as well as better co-ordination between the various actors involved. As regards good practices, increased efforts could be made to ensure that existing local know-how is better capitalised on and disseminated nationally.

Finally, regarding higher education, entrepreneurship is an integral part of the curriculum in institutions of higher education (universities, engineering schools, technical higher education institutes, etc.). Ministerial Circular 103/208 makes the delivery of three entrepreneurship modules in all specialties mandatory: 30 teaching hours in the first year (management, marketing, accounting, etc.), 15 hours in the second year (entrepreneurial culture, types of business and ideas generation, etc.), and 15 hours in the third year (start-up and business growth). Institutions of higher education also provide services to support start-ups, such as business incubators, and work within a network of other Tunisian business service providers. Support and coaching centres for students who are would-be entrepreneurs exist in some institutions of higher education (eg. University of Sfax). Moreover, a law foresees the establishment of a business centre within each national university.

As for the development of SMEs skills, a broad range of funding mechanisms and business support services exists either to help create a business or to help develop existing ones. However, the issue of training is not yet dealt with in any systematic way: certainly, funding instruments exist (e.g. a drawing right or tax credit linked to the payment of the business tax, or the national programmes of the ANETI, the API, and the National Centre for Adult Education and Professional Development (CNFCPP). However, this effort is not supported by a systematic analysis of training needs, which are only sporadically assessed in a few sectors and for a few specific trades.

Tunisia has established public and private entrepreneurship training services specifically dedicated to supporting the creation, development and internationalisation of enterprises.

However, there is a lack of coherence and synergy between the various initiatives due to the scarcity of mechanisms for co-ordinating and harmonising the country's existing schemes. In addition, data and statistics are sorely lacking, so that the results of this policy and the services offered are not visible and difficult to monitor and evaluate.

Tunisia lacks specific support measures for women's entrepreneurship on the grounds of equal treatment between the sexes, which is a central principle of the Tunisian state. However, a vibrant civil society is working on issues related to women's entrepreneurship (e.g. the National Chamber of Women Entrepreneurs (CNFCE), INJAZ Tunisia). There is no evidence of a national dialogue or other initiatives to develop specific entrepreneurial training for women. It is important to mention here the new Entrepreneurial Tent initiative. Targeting the entire population, it visited more than 40 cities in Tunisia between March and December of 2013 and encouraged collaboration between the educational system, businesses and potential entrepreneurs.

Although the challenges of sustainable development for companies are well known and good industry practices exist with regard to skills in this area (eg. tourism, Shmile 2), there is no systematic approach to promoting skills for sustainable enterprise development.

Quality training for SMEs is theoretically governed by existing quality assurance mechanisms: the National Repository on Vocational Training Quality (RNQFP) for vocational training institutions and the ISO certification 9001. However, these two schemes do not come close to covering all enterprises, and no progress has been made in this area in recent years, as evidenced by the fact that no new quality certification has been granted since 2011.

In conclusion, Tunisia needs to develop solid monitoring and evaluation mechanisms, which will enable it to better capitalise on the variety of past or current initiatives, whether they concern business creation support, business development or the internationalisation of SMEs.

Improving the competitiveness of SMEs

Business information and services

Business information and services are available in Tunisia, but only a few improvements have been made since 2008. Public and private institutions, alongside NGOs, offer a range of services for SMEs in various fields. The government provides support through the Industrial Upgrade and Modernisation Programme, with private sector consultants and associations complementing these services. However, there is still no online portal and evaluation of support programmes to ensure their effectiveness. The government provides statistical information on the business population and publishes the relevant laws and regulations on various government websites, such as the API and the National Institute of Statistics. However, there is no dedicated interactive portal to provide information specific to SMEs.

In Tunisia, there is a diverse and well-structured system to help start-ups. This system covers the different regions with 24 business centres affiliated with the API's regional offices. The Ministry of Trade also provides support to start-ups. Among the 26 incubators in existence, six of them are ISO certified and focus on innovative projects.

Public procurement

The 2013 assessment indicates that Tunisia's system of public procurement is relatively open to the participation of SMEs and is widely used. Since 2002, a law reserves 20% of public procurement to SMEs. A visible effort has also been made regarding the publication

of information on public procurement. This information is centralised at the national level and is available online and in newspapers for free or at a negligible cost. A new website on public procurement was established in April 2013. This platform is used by ten government agencies, allows full electronic processing, and does not require a formal paper-based procedure (electronic communication throughout the supply chain, e-invoicing etc.).

Tunisia has clear provisions on late payment by public authorities. These provisions are specified in a decree on the regulation of public procurement published in 2002. They impose strict deadlines for payments and penalties for non-compliance with these deadlines. Finally, the conditions of public procurement in Tunisia require foreign bidders to abide by a national outsourcing provision that gives the maximum number of lots to local suppliers when they are able to meet the requirements of parts of the tender. However, according to INC figures, foreign companies account for over 18% of employment while representing less than 2% of companies in Tunisia.

Innovation

Tunisia has several structures to support innovation: the National Agency for the Promotion of Research (ANPR), universities and research centres, and the API. The latter, in addition to the other duties assigned to it and mentioned above, also possesses the role of spreading the culture of technological innovation and co-ordinating the various existing innovation initiatives. A national guide to innovation has been developed and covers many aspects of innovation, such as structures dedicated to innovation, public and private mechanisms of financial assistance and support programmes for SMEs, and integration into international innovation support networks. This guide is comprehensive and serves as a national strategy for the various actors involved in the promotion of innovation. In addition, Tunisia has developed the Strategy of Tunisian Industry by 2016, which forecasts growth in exports from innovative activities from 25% to 50% of total exports. Despite the existence of these solid structures, additional efforts should be made to increase the level of co-ordination between the different actors and to avoid institutional redundancy. To support innovation in SMEs, part of the Ministry of Finance annual public budget is allocated to some of the institutions mentioned above.

Tunisia has a solid structure of support projects and programmes involving public, private and research institutions devoted to the promotion of innovation. Some initiatives have been launched recently. Two new departments were created within the Ministry of Industry, one responsible for the industrial and technological infrastructure, and the other for innovation and technological development. The Centre for Innovation and Technological Development (CIDT) was created by the API. It is supported by four regional centres in order to strengthen the results of research and technology transfers, and to contribute to the competitiveness and productivity of innovative companies. In 2012, the Research and Innovation System Support Project (PASRI) was launched to provide high-quality management training in the areas of research and innovation. New public-private parks for private sector innovation have been created to promote research in innovative projects. In addition to these centres of innovation, Tunisia has a good network of 30 business incubators established since 1999 at universities, science parks and research centres, all of which are dedicated to innovative start-ups. In addition, 10 competitiveness clusters were also created. However, the regulatory framework for public-private partnerships for these groups is still under development.

Tunisia has a variety of publicly funded financial support mechanisms, specific to certain types of innovative companies and sectors. Two funds, FOPRODI and RICITIC,

are managed by the PLC to finance projects in the industrial sector and the ICT sector. A seed fund is available for pre-startup activities. Three other funding mechanisms exist: VCF-In-Tech is a new venture capital fund for the creation and development of innovative enterprises; the DRIC provides funds for research and prototyping, as well as for technical and scientific equipment; and the PNRI finances research, development and innovation projects through better co-operation between industrial companies and technical and research centres.

Green economy

Tunisia is one of the very few countries in the region to have an elaborated policy framework for eco-efficiency and eco-innovation in place. The National Strategy for Sustainable Development identifies priority actions in key sectors, including industry. Furthermore, specialised institutions have been established that provide more detailed actions and targets, such as the National Committee for Sustainable Development, the National Agency for the Protection of the Environment and the Tunisian Observatory for Environment and Sustainable Development.

Information on environmental issues and tools for SMEs is made available mainly by the International Centre of Environmental Technologies of Tunis (CITET) through its Environmental Upgrading Programme. This programme provides technical assistance, such as detailed environmental diagnostics and management training for profitable environmental management. The centre is linked to academic and research institutions, various industries and international partners. A specific programme for waste reduction in production processes through the use of green technologies and materials is offered by the National Agency for Waste Management (ANGED).

Information on the requirements of the Environmental Management System is provided by the International Centre of Environmental Technologies of Tunis (CITET), which offers technical assistance to SMEs to help them adhere to national and international environmental norms, such as ISO 14001.

Export promotion

Tunisia's foreign trade policy is based on three main principles: trade liberalisation, diversification of the export base and market diversification. Tunisia has elaborated sectoral export strategies that are at different stages of implementation, such as a strategy for agrifood products and services, health services, olive oil, and textiles and clothing. However, to be able to assess the efficiency of these strategies, monitoring and evaluation mechanisms should be established or reinforced.

In terms of access to information, Tunisia has implemented a monitoring network and business intelligence system (CZLife), organised by the Ministry of Commerce and composed of several institutions such as the Chamber of Commerce and Industry, CEPEX and the National Institute of Harmonisation and of Intellectual Property. CZLife is a platform for the collection and analysis of information on economic trends and regulatory changes in partner countries. It also serves to identify challenges and opportunities for Tunisian enterprises in the international market.

With regard to the computerisation of foreign trade procedures and access to information on procedures, Tunisia, with the support of the World Bank, has prepared an export development project (PDE1), which includes, among other elements, the automation of customs procedures to reduce the cost and duration of foreign trade operations. The

reforms undertaken in the PDE1 project facilitate computerisation of customs documents, in particular through the proposed Single Bundle, which aims to provide paperless foreign trade formalities and customs clearance. Most of the documents are now transmitted through a single electronic system (Tunis Trade Net-TTN).

Euro-MED co-operation

Tunisia has made progress since the last assessment in 2008. The country promotes a certain number of technological poles (mecatronics) and other sectors (textile, agribusiness, renewable energy etc.). Moreover, the creation of "technopoles" and "competitiveness clusters" contributes to the country's industrial and technological upgrading.

As is the case in Morocco, Tunisia has signed several co-operation agreements between the API and European institutions in order to promote the development of clusters and business networks. Thus, Tunisia is a member of the Enterprise Europe Network (EEN), which should facilitate encounters between European and Tunisian firms. In addition, Tunisia has signed a memorandum of understanding between the API and European institutions, whose goal is to support Euro-Mediterranean innovative entrepreneurship to promote "excellence" in cluster management, support training in innovation management, foster collaboration between clusters, enterprises and incubator networks, and encourage the internationalisation of SMEs.

Tunisia also participates in the Union of Mediterranean Enterprise Confederations (UMCE), which is based in Tunis and also covers Algeria, Egypt, Israel, Jordan, Lebanon, Morocco and PA. The UMCE promotes co-operation, technology transfers and partnerships between members.

The way forward

As a way forward, Tunisia should improve co-ordination among the various institutions and funds providing support to SMEs. It should start by developing a comprehensive multi-year SME development strategy, including a review of the current institutional framework and an evaluation of the existing programmes and support schemes.

A second priority concerns the improvement of the business environment. Tunisia should move forward with the regulatory reform programme started with the support of IFC. Following the model established by Morocco, which created the National Committee on Business Climate (CNE) in 2009, Tunisia should establish a national committee including representatives from private sector organisations to steer programme implementation.

Finally regarding access to finance, Tunisia should take action to improve creditor rights in order 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 higher risk profiles, but also higher growth potential. As for alternative funding instruments, Tunisia should establish a regulatory framework for microfinance institutions and streamline the legal framework governing equity financing for innovative projects.

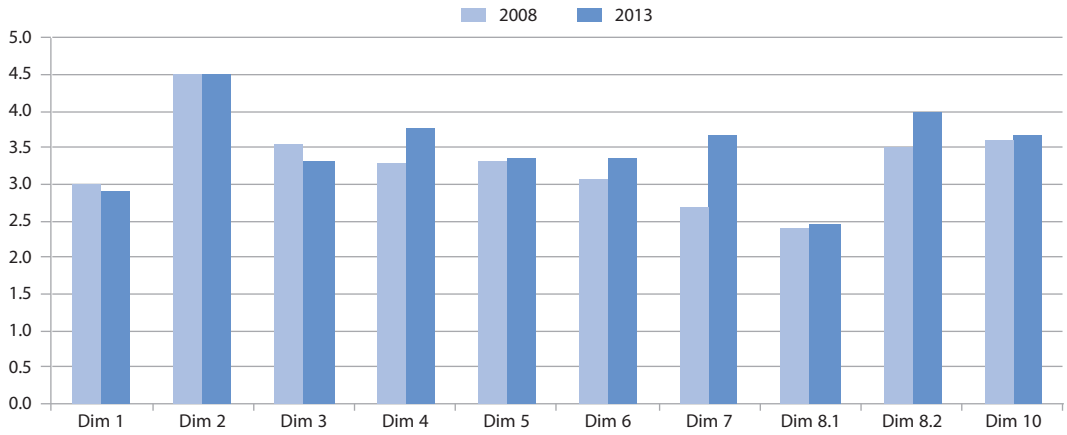
In the area of entrepreneurial learning and SME skills development, Tunisia should increase youth employability through initiatives such as the social pact entered into by the government and social partners. The country should develop an action plan to develop entrepreneurial skills at all levels and in all modes of the education and training systems. Furthermore, the establishment of a national training-needs analysis system with particular

reference to skill gaps, weaknesses and future skills requirements should be at the heart of SME support measures. This will require the creation of a structured system for regular data collection, monitoring and evaluation. This could help better consolidate innovative approaches, capitalise on positive (often pilot) experiences, and reduce the gap between training demand and supply.

Tunisia has examples of good practices to facilitate foreign trade for SMEs, notably the establishment of the Tunis Trade Net system and the Intelligence and Economic Surveillance Network. Both initiatives are especially relevant for international SMEs since they facilitate access to and treatment of information and reduce transaction costs. Nevertheless, Tunisia could adopt a more strategic approach towards the promotion of exports: it could replace its sector-specific export strategies with a single strategy covering all sectors and embedded within a global economic policy for the promotion of competitiveness.

Regarding women's entrepreneurship, Tunisia is very well advanced in terms of women rights thanks to the Personal Status Code of 1956. This explains why many policies do not propose a dedicated focus on women. However, in the case of women's entrepreneurship, there are a number of gender-specific obstacles to becoming an entrepreneur. These obstacles are related to family, mobility and other socio-cultural constraints. Specific support to female entrepreneurs should therefore be considered. The private sector, in particular the National Chamber of Women Entrepreneurs (CNFCE) could support the government by leading the design process of such support programmes.

Figure 19.3. **Tunisia: assessment results 2008 and 2013**



For comparability purposes, the indicators for 2008 were rearranged to correspond to the framework in 2013.

DIM 1: Education and training for entrepreneurship, including women's entrepreneurship; **DIM 2**: Efficient bankruptcy procedures and "second chance" for entrepreneurs; **DIM 3**: Institutional and regulatory framework for SME policy making; **DIM 4**: Operational environment for business creation; **DIM 5**: Support services for SMEs; **DIM 6**: Access to finance for SMEs; **DIM 7**: Supporting SMEs to benefit from Euro-MED networks and partnerships; **DIM 8.1**: Enterprise skills; **DIM 8.2**: Enterprise innovation; **DIM 9**: SMEs in a green economy; **DIM 10**: Internationalisation of SMEs.

Source: Government and independent assessments.

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Annex A

Assessment grid and weights

Table A.1. **Education and training for entrepreneurship, including training for women's entrepreneurship**

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	1.1 Policy framework for entrepreneurial learning (EL) *(former dimension 2)*						
1.1.1	**Policy framework** *(former 2.1)*	Government, key stakeholders and business community do not have a nationally agreed strategy to promote lifelong entrepreneurial learning.	Key stakeholders are engaged in a dialogue to reach consensus on national lifelong entrepreneurial learning strategy. Lifelong entrepreneurial learning strategy covers all levels and types of education.[a]	A national lifelong entrepreneurial learning strategy is agreed between key stakeholders and is included within national enterprise, education, employment, R&D and regional and/or local development policies. Work programme to implement lifelong entrepreneurial learning strategy promotes *inter alia* training needs analysis, career guidance, and non-formal entrepreneurial learning.	Annual work programme is approved and under implementation to meet the set objectives. Implementation of the work programme is followed by key stakeholders working in partnership.	Results from independent evaluations or peer reviews are shared with key stakeholders. Recommendations from evaluations and peer reviews feed back into further developments in entrepreneurial learning.	3
1.1.2	**Good practice exchange** *(former 2.4)*	There is no systematic exchange of good practice between lifelong EL providers.	A national network of life-long EL providers meets on a regular basis to exchange good practice.	Examples of adapted EL good practice (domestic and/or international) are being piloted in the country.	Results of domestic good practice are being disseminated nationally (at least one annual event).	Within the reporting period, at least one domestic good practice has been transferred to another country.	2
1.1.3	**Non-formal learning** *(former 2.5)*	There is no system to inform about actions which promote non-formal entrepreneurial learning (privately and/or publicly supported).	Non-formal entrepreneurial learning is monitored as part of a national entrepreneurial learning strategy and identifies areas for improvement. Evidence of at least one quarterly high-level press coverage (national specialized newspaper or RV) of entrepreneurial learning policy or delivery.	Examples of agreements established between public authorities, enterprise, and NGOs to develop entrepreneurial spirit and skills across society with particular reference to children and young people.	At least one annual, high-profile event at national level to promote awareness and information on broader entrepreneurial learning (formal and non-formal) to highlight successful projects. High-profile event includes national recognition or awards for entrepreneurial learning practice.	Transfer of know-how: principles or practice from at least 2 of the non-formal show-case projects from the previous year's high profile event are integrated into other entrepreneurial learning environments nationally or internationally.	2

Table A.1. **Education and training for entrepreneurship, including training for women's entrepreneurship** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	1.2 Secondary education						
1.2.1	**Lower secondary education (ISCED 2)**[b] *(former 2.2)*	There is no systematic promotion of entrepreneurial learning at ISCED level 2 (lower secondary education). Entrepreneurship in lower secondary education is confined to *ad hoc* projects which are not part of mainstream education curricula.	National policy under discussion for developing entrepreneurial learning in lower secondary education. Entrepreneurial learning in lower secondary education is confined to school-based individual initiatives which are known to the education authorities. Policy includes school-enterprise co-operation.	Entrepreneurship as a key competence is an integral feature of the national curriculum. Teaching materials are in preparation and being piloted in 5% of schools. At least 5% of lower secondary schools have established structured partnership with local enterprises.	Teacher training curriculum includes entrepreneurship as a key competence. Teachers and school principals have access to in-service training and other professional development opportunities for entrepreneurship as a key competence. At least 50% of lower secondary schools have knowledge and skills for teaching entrepreneurship as a key competence. At least 50% of lower secondary schools have adopted entrepreneurship as a key competence in their curricula. At least 10% of lower secondary schools have established structured partnerships with local enterprises.	Entrepreneurship as a key competence is included in curriculum of all lower secondary schools. All lower secondary schools provide data on range of entrepreneurship promotion activities for national monitoring, evaluation and further policy development purposes.	2

Table A.1. **Education and training for entrepreneurship, including training for women's entrepreneurship** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
1.2.2	**Upper secondary education (ISCED 3)**[c] *(former 2.3)*	There is no systematic promotion of entrepreneurial learning at ISCED level 3 (upper secondary education). Entrepreneurship in upper secondary education is confined to *ad hoc* projects which are not part of mainstream education curricula.	National policy under discussion for developing entrepreneurial learning in educational institutions in this level. Entrepreneurial learning in educational institutions in this level is confined to school-based individual initiatives which are known to the education authorities. Policy includes school-enterprise co-operation.	Entrepreneurship as a key competence is an integral feature of the national curriculum. Curriculum includes elements of entrepreneurship education (subject, module, course, extra-curricular activity, work placements etc.).	Teacher training curriculum includes entrepreneurship as a key competence. Upper secondary school teachers and principals have access to in-service training and other professional development opportunities for entrepreneurship as a key competence. At least 50% of upper secondary schools have knowledge and skills for teaching entrepreneurship key competence. At least 50% of upper secondary schools have adopted entrepreneurship as a key competence in their curricula. At least 10% of upper secondary schools have established structured partnerships with local enterprises.	Entrepreneurship as a key competence is included in curriculum of all upper secondary schools. All upper secondary schools provide data on range of entrepreneurship promotion activities for national monitoring, evaluation and further policy development purposes. All upper secondary schools have entrepreneurial characteristics in their organisation.	2

Table A.1. **Education and training for entrepreneurship, including training for women's entrepreneurship** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	1.3 Tertiary education						
1.3.1	**National higher education policy on entrepreneurial learning** *(Not assessed in 2008)*	There is no discussion amongst key stakeholders (rectors, national education authorities, R&D community and enterprise) on promotion of the "across-campus" concept of entrepreneurial learning.	A higher education policy discussion paper has been elaborated by the education ministry for the purposes of promoting understanding amongst key stakeholders of the value of "across-campus" entrepreneurial learning for students, third level education establishments and the local, regional and national economy.[d] The higher education policy discussion paper includes provisions for promoting equal opportunities for university staff and students in all entrepreneurial learning developments. The higher education policy discussion paper forms part of a wider national effort to promote life-long entrepreneurial learning defined within a national lifelong entrepreneurial learning strategy.[e]	A national seminar organised by the education ministry or national academic body and involving key stakeholders is held annually *a)* review progress within third level education on "across-campus" developments in entrepreneurial learning and *b)* to generate further policy discussion and policy guidelines on "across campus" entrepreneurial learning within third level education.	A network of universities cooperates to determine feasibility of the policy guidelines on "across-campus" entrepreneurial learning within third level education. Experience from the network is disseminated amongst government, academic institutions and business world.	A national higher education policy, with clear provisions for promoting equal opportunities has been agreed amongst key stakeholders for promotion of "across campus" entrepreneurial learning within third level education. The agreed policy includes a monitoring and evaluation component that *a)* ensures an annual review of key activities and *b)* recommended improvements to be addressed in the 12 months following the national seminar (level 3).	3

Table A.1. **Education and training for entrepreneurship, including training for women's entrepreneurship** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
1.3.2	**Good Practice in higher education** *(Not assessed in 2008)*	There is no systematic effort to identify, build on or exchange good practice on *a)* entrepreneurial learning and *b)* university-enterprise co-operation between institutions of higher education in the country.	At least one national event involving higher education institutions has been held in the 12 months prior to the assessment with the objective of exchanging information about good practice on *a)* entrepreneurial learning and *b)* university-enterprise co-operation between institutions of higher education in the country.	A national network of higher education institutions exchanges information about good practice on *a)* entrepreneurial learning and *b)* university-enterprise co-operation between institutions of higher education in the country. The network has agreed a set of criteria for determining good practice on *a)* entrepreneurial learning and *b)* university-enterprise co-operation between institutions of higher education in the country.	Good practice in *a)* entrepreneurial learning (defined by level 3 criteria) and *b)* university-enterprise co-operation is disseminated by the network nationally. Dissemination methods include a website facility to promote good practice to the wider public. Examples of "level 3" good practice within higher education institutions are adopted or adapted by fellow higher education institutions in the country. The network has agreed guidelines to measure and evaluate the impact of "level 3" good practice.	Examples of "level 3" good practice are disseminated internationally. Examples of "level 3" good practice are adopted or adapted by higher education institutions at the international level.* The national network of higher education institutions has joined an international network of entrepreneurial universities which ensures evaluation, accreditation and dissemination of good practice on *a)* entrepreneurial learning and *b)* university-enterprise co-operation between institutions of higher education in the country.	1
1.3.3	**Higher education co-operation with the world of business** *(Not assessed in 2008)*	There is no discussion amongst key stakeholders[f] on promotion of higher education co-operation with the business world.[g]	A discussion paper[h] on co-operation between the higher education establishment and business has been elaborated and discussed by stakeholders (e.g. workshop, conference, seminar). The paper includes the contribution of business to curricula, governance structures and university financing. The paper forms part of a wider national effort to promote life-long entrepreneurial learning defined within a national lifelong learning strategy.	A national policy on co-operation between higher education and business world has been approved by key stakeholders. The policy defines the contribution of business to curricula, governance structures and university financing and includes a national monitoring and evaluation framework. Set against national policy, at least 50% of higher education institutions have developed strategies for co-operation with business.	At least 50% of higher education institutions have developed action plans for implementation of national policy for higher education – business co-operation. In the reporting period, an annual meeting involving the higher education establishment and world of business has been held *a)* to review progress on national policy with *b)* recommendations for improvements to be addressed in the 12 months following the national annual meeting.	At least 75% of higher education institutions have developed action plans for implementation of national policy for higher education – business co-operation. In the reporting period, an annual meeting involving the higher education establishment and world of business has been held *a)* to review progress on national policy with *b)* recommendations for improvements to be addressed in the 12 months following the national annual meeting.	2

Table A.1. **Education and training for entrepreneurship, including training for women's entrepreneurship** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	1.4 Women's entrepreneurship						
1.4.1	**Women's entrepreneurship training** *(Not assessed in 2008)*	There are *ad hoc* examples of training services with dedicated provision for women entrepreneurs.[i] Apart from project-based developments, there is no system approach to defining and monitoring training needs of women entrepreneurs.	A national cross-stakeholder working group (government, private sector, civic interest groups) meets to discuss issues and options for inclusion of women's entrepreneurship within national policy.	A national cross-stakeholder working group has agreed on a set of policy provisions and an action plan for promoting women's entrepreneurship. There are examples of dedicated training provision (through both public and private providers) for women entrepreneurs on websites with *a)* national, *b)* regional and *c)* local level development interests. Since the last SBA assessment, there has been at least one analytical study (national, regional or sectoral) which includes both training needs of women entrepreneurs and training provision.	In the 18 months prior to the SBA assessment, a national report on women entrepreneurship, with a dedicated chapter on training for women entrepreneurs, has been published by government. Government policy and programme for women's entrepreneurship have been adopted which includes financial support for training of women entrepreneurs.	All training actions defined within an on-going Government programme on women's entrepreneurs are being implemented or have been completed and evaluated. At least one of the training actions must be coupled with measures to ensure women's access to finance for start-up or growth of enterprises. Data on women's entrepreneurship, including training of women entrepreneurs, is included in annual report of national statistics office.	3

Notes: a. Lifelong entrepreneurial learning strategy complements the national action plan for "Education for All" (UNESCO) which particularly underlines the improvement of literacy rates and girls/women's access to education.

b. Indicators for lower secondary education (ISCED 2) are particularly concerned with promoting teaching and learning arrangements which will contribute to entrepreneurial mindsets and behaviour (curiosity, creativity, autonomy, initiative, team spirit) in keeping with the recommendations of the EU's Oslo Agenda.

c. This indicator is particularly concerned with promoting teaching and learning arrangements which will contribute to entrepreneurial mindsets and behaviour (curiosity, creativity, initiative, team spirit) in keeping with the recommendations of the EU's Oslo Agenda. At ISCED Level 3 education, entrepreneurship as a key competence should continue to be an integral part of the national curriculum reinforcing the contribution made at ISCED level 2. At ISCED 3 level, the entrepreneurship key competence could be supplemented with harder business skills (e.g. business planning, start-up training, marketing, book-keeping) developed through business-related studies as a compulsory or as an elective subject within the curriculum.

d. The policy discussion paper is upgraded annually borrowing on key developments on entrepreneurial learning within the country, including good practice (national and international).

e. The policy discussion paper builds on the broader life-long entrepreneurial learning policy developments foreseen within the indicator specifically addressing entrepreneurship across all levels of education

f. Key stakeholders include ministries responsible for higher education, industry, economy, trade, rectors' conference, civic interest groups.

g. Co-operation between the higher education and business includes the following elements: *A) Business to university co-operation*: *1.* Business men and women are encouraged to teach at universities. *2.* Business finances applied research; *3.* Business is involved in research, piloting and development of curriculum; *4.* Business is involved in the governance of the universities; *5.* Business co-operates in student projects, hosts interns and university staff placements. *B) University to business*

co-operation: *1.* Academic staff directly involved in business activities; *2.* Options for universities to invest in businesses; *3.* Options for universities to sell patents & licensing; *4.* Universities provide customised education and training services to businesses; *5.* Universities undertake applied research; *6.* Universities provide support structures (e.g. incubators, technology transfer centres, centres for entrepreneurship), etc.

h. The policy discussion paper builds on the broader life-long entrepreneurial learning policy developments foreseen within the indicator specifically addressing entrepreneurship across all levels of education.

i. For the purposes of this indicator, women entrepreneurs includes *a)* women considering entrepreneurship as a career development option, *b)* woman who run or own a business as well as *c)* women who take on self-employment as an alternative to waged employment or unemployment.

Table A.2. **Efficient bankruptcy procedures and "second chance" for entrepreneurs**

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	2.1 Bankruptcy procedures						
2.1.1	**Laws and procedures on distressed companies, receivership and bankruptcy** (*former 4.1.3*)	No specific laws and/or other procedures on distressed companies, receivership and bankruptcy.	Distressed company, receivership and bankruptcy laws and/or procedures in drafting stage.	Distressed company, receivership and bankruptcy laws and/or procedures formally in-place. Legislation not systematic and at an early stage of implementation.	Evidence of implementation of distressed company, receivership and bankruptcy laws and/or procedures in line with international standards and fully integrated in and consistent with commercial law and practice. Backlog of old cases has been reduced. Bankruptcy procedures also apply to state-owned enterprises.	Distressed company, receivership and bankruptcy laws and/or procedures effectively and systematically applied in a transparent way. Bankruptcy procedures also apply to state-owned enterprises. There is ample evidence for this.	2
2.1.2	**Bankruptcy Time (Doing Business indicator)** (*former 1.3.13*)	Bankruptcy time is more than 5 years	Bankruptcy time is more than 4.1 years but less than 5 years	Bankruptcy time is more than 3.1 years but less than 4 years	Bankruptcy time is more than 2.1 years but less than 3 years	Bankruptcy completed within 2.1 years	1
2.1.3	***Cost (% of the estate)* (Doing Business *indicator)*** (*former 1.3.14*)	Costs are more than 23% of the estate	Costs are between 18% but less than 22.9% the estate	Costs are more than 13% but less than 17.9% of the estate	Costs are more than 8% but less than 12.9% of the estate	Less than 7.9%	1
2.1.4	**Recovery rate (cents on the dollar) (Doing Business indicator)** (*Not assessed in 2008*)	Recovery rate is less than 25% of the estate	Recovery rate is less than 40% but more than 25% of the estate	Recovery rate is less than 55% but more than 40% of the estate	Recovery rate is less than 70% but more than 55% of the estate	More than 70%	2

Table A.2. **Efficient bankruptcy procedures and "second chance" for entrepreneurs** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	2.2 Second chance (Not assessed in 2008)						
2.2.1	**Promoting positive attitudes towards giving entrepreneurs a fresh start** *(Not assessed in 2008)*	The public administration has no information campaign on second chance	A package of measures to promote second chance is under preparation.	Information campaigns on second chance are in place.	Information campaigns on second chance are in place and some measures to help entrepreneurs start afresh (information on procedures, training, etc.)	Information campaigns on second chance are in place and well developed measures to help entrepreneurs start afresh (information on procedures, training, etc.)	1
2.2.2	**Discharge from bankruptcy** *(Not assessed in 2008)*	Discharge from bankruptcy is not determined	Discharge procedures are under consideration.	Discharge procedures have been adopted in line with the Review of the Small Business Act	Discharge from bankruptcy is done after final court decision on the discharge from bankruptcy and removal from court register	Discharge from bankruptcy is done automatically and does not take longer than 3 years. Removal from bankruptcy register is done automatically after all obligations payments.	1
2.2.3	**Access to credit** *(Not assessed in 2008)*	The entrepreneurs who underwent bankruptcy procedures cannot receive loans and support from institutions even after the debt clearance	The entrepreneurs who underwent non-fraudulent bankruptcy can receive loans and support from institutions only after debt clearance and after three years from the bankruptcy procedures were completed. The de-registration from the insolvency register is not automatic.	The entrepreneurs who underwent non-fraudulent bankruptcy can receive loans and support from institutions only after debt clearance and after two years of bankruptcy. The de-registration from the insolvency register is not automatic.	The entrepreneurs who underwent non-fraudulent bankruptcy can receive loans and support from institutions only after debt clearance and after one years of bankruptcy	The entrepreneurs who underwent non-fraudulent bankruptcy can receive loans and support from institutions in less than one year. The de-registration from the insolvency register is automatic.	1
2.2.4	**Discrimination against re-starters** *(Not assessed in 2008)*	The attitude towards entrepreneurs starting afresh is not determined	Entrepreneurs starting afresh have administrative barriers to re-start a business	There are no administrative barriers to business re-start, but entrepreneurs starting afresh cannot participate in public procurement or benefit from support schemes.	There are no discriminatory provisions to access public procurement for entrepreneurs who underwent non-fraudulent bankruptcy	There are no discriminatory provisions to access public procurement and support schemes for entrepreneurs who underwent non-fraudulent bankruptcy.	1

Table A.3. **Institutional and regulatory framework for SME policy making**

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	3.1 Institutional framework for SME policy						
3.1.1	**Delegation of responsibility for SME policy** *(former 1.1.1)*	Measures concerning SME policy are taken *ad hoc* by the concerned ministry.	Several institutions are simultaneously responsible for different areas of SME policy elaboration. No mechanisms are in place to identify overlapping and inconsistencies.	Several institutions are responsible for different areas of SME policy. Identification of overlapping policies and active measures to limit overlapping and to avoid major policy inconsistencies.	Several institutions are responsible for different areas of SME policy. Government has created a clear map identifying responsibilities in SME policy for each institution.	Several institutions are responsible for different areas of SME policy. Government action is consistently conducted according to the agreed structure. There is a sound system of information exchange on SME policy among the institutions. Widespread consultation with stakeholders.	2
3.1.2	**Coordination with other ministries, stakeholders and civil society** *(former 1.1.2)*	There is no inter-ministerial coordination and exchange of information on SME policy.	SME policy coordination meetings and information exchanges occurs on an *ad hoc* basis only on specific issues. There are plans to introduce coordination mechanisms.	Inter-ministerial coordination mechanisms have been agreed upon and formalised but are not yet fully operational and are not administered by a co-ordinating body.	A coordination body is in place (e.g. steering committee, inter-ministerial committee) and is chaired by a high political authority and supported by a well-structured secretariat, which ensures that policy exchange, coordination and consultation with stakeholders and civil society is carried out through previously agreed upon mechanisms.	4 + Existence of a long track record of policy coordination, consultation and exchange. There is also regular assessment of the coordination, consultation and exchange mechanisms.	3

Table A.3. **Institutional and regulatory framework for SME policy making** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
3.1.3	**SME development strategies** *(former 1.1.3)*	No formalised SME development strategies, including sector strategies, exist.	SME development strategies, including sector strategies, are under elaboration. Review of expired SME strategies under way.	Multi-year SME development strategies, including sector strategies for current period, are approved by the government after a wide consultation process involving in particular the private sector, civil society and the social partners. The strategies have been openly announced. They are at an initial stage of implementation. Annual budget established but entirety of funds for the whole year are not always available.	Solid evidence of implementation of the SME development strategies with indication of key targets achieved and assignments completed. Entirety of funds received and in process of being disbursed.	A pro-active, global and coherent SME development strategy is put in place after a wide consultation process. The global strategy incorporates key sector strategies. There is significant evidence that all components of the global strategy have been implemented, as demonstrated by time-bound targets achieved and number of assignments completed. SME strategy has a demonstrated impact and has strengthened the enterprise sector.	3
3.1.4	**Clear task assignment to legislation drafting *and* implementation** *(former 1.1.4)*	No clear structure is in place for SME policy implementation. Legislation is passed without clear indication of when and how it will be implemented.	Government is in the process of establishing institutions specifically responsible for SME policy implementation.	Key institutions in charge of SME policy implementation are in place (such as a business promotion agency) but are not yet fully operational.	The institutions are fully operational and have been assigned staff and budget in line with their mandate.	The institutions are fully operational, are well-staffed, and work with a budget sufficient to fulfil their mandate. They have a track record of efficient implementation of enterprise policies.	2
	3.2 Better legislation and administrative simplification						
3.2.1	**Delegation of responsibility for regulatory reform and administrative simplification** *(former 1.2.1)*	No institutions are responsible for administrative simplification. Policy measures are taken *ad hoc*.	Several institutions are simultaneously responsible for administrative simplification.	Several institutions are responsible for administrative simplification. Identification of overlapping policies and active measures to limit overlapping and avoid major policy inconsistencies.	A policy coordination mechanism is in place and is fully operational. A system of consultation with stakeholders and in particular with the private sector and civil society, and involving the implementing agency(ies) is in place.	Level 4 + Effective mechanism of policy coordination involving key ministries, agencies and local administrations when relevant.	3

Table A.3. **Institutional and regulatory framework for SME policy making** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
3.2.2	**Strategy for the simplification of legislation and administrative procedures** *(former 1.2.2)*	No formalised strategy for the simplification of legislation and administrative procedures, including sector strategies, exists.	Strategy for the simplification of legislation and administrative procedures is under elaboration.	Multi-year strategy for the simplification of legislation and administrative procedures for current period is approved by the government, following a process of consultation with stakeholders, and in particular with the private sector and civil society. The strategy is at an initial stage of implementation.	Solid evidence of implementation of the strategy for the simplification of legislation and administrative procedures with indication of key targets achieved and assignments completed.	A proactive, comprehensive strategy for the simplification of legislation and administrative procedures is put in place after a wide consultation process. The strategy incorporates action plans covering key areas of the regulatory reform agenda. There is significant evidence that all components of the strategy have been implemented, as demonstrated by time-bound targets achieved and number of assignments completed.	3
3.2.3	**Review and simplification of current legislation and regulations** *(former 1.2.3)*	There are no plans to review and simplify current primary or secondary legislation related to enterprise policy.	There has been *ad hoc* activity to simplify current enterprise legislation and the government has plans for a systematic review of current legislation related to enterprise policy.	A concrete plan to review and simplify legislation related to enterprise policy has been approved and institutions in charge have been identified.	Implementation of the plan to review and simplify legislation related to enterprise policy, beginning of review of key, mainly primary, legislation related to enterprise policy.	Legislative review well advanced and extended to secondary legislation.	2
3.2.4	**Elimination of redundant legislation and regulations** *(former 1.2.4)*	There are no plans to carry out systematic elimination of redundant legislation and regulations.	There has been *ad hoc* activity to carry out elimination of redundant legislation and regulations. The government is planning to carry out this exercise.	A concrete plan to carry out systematic elimination of redundant legislation and regulations has been approved and institutions in charge have been identified.	Implementation of the plan under way, covering key areas of mainly primary legislation related to enterprise policy.	Elimination of redundant legislation and regulations process well advanced and extended to secondary legislation.	2
3.2.5	**Cost-benefit analysis of new enterprise legislation and regulation** *(former 1.2.5)*	No systematic cost-benefit analysis targeted at draft enterprise legislation and regulation exists.	Cost-benefit analysis of new enterprise legislation and regulation is being put into place. Proposal for a law on cost-benefit analysis of draft enterprise legislation and regulation. A simplified, pilot cost-benefit analysis programme is being used in certain areas of regulation.	Approval of law on cost-benefit analysis of new legislation and regulation.	Implementation of cost-benefit analysis on draft enterprise legislation and regulation in some policy areas.	Cost-benefit analysis on draft enterprise legislation and regulation is systematically implemented.	1

Table A.3. **Institutional and regulatory framework for SME policy making** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	3.3 Public Private Consultations (PPCs)						
3.3.1	**Framework of the consultations** *(former 7.1.1)*	There is no structured (institutional, consultative) framework for conducting consultation on enterprise policy issues between the public and private spheres. There is limited dialogue and it is conducted on an *ad hoc* basis.	Government is consulting to establish a regular framework for public-private consultation, including private sector representatives, civil society and social partners.	A framework for public-private consultations has been established but the range of issues discussed is limited. Limited participation of senior policy makers. Meetings have a predominantly informational purpose and are held at a late stage of the policy drafting process.	Effective consultations involving key actors, including private sector representatives, civil society and social partners, take place at the early policy planning stage and cover all key issues. Presence of legal framework and measures to encourage the establishment of private sector representative and professional associations.	Level 4+Effective consultations occur on a broad range of issues and are organised in joint expert working groups. Impact assessment of national economic policy is applied as part of the consultation process and the private sector is involved in monitoring and assessing the impact of enterprise support measures.	2
3.3.2	**Frequency** *(former 7.1.2)*	No consultations take place.	Consultations occur on a very sporadic basis.	Consultations take place only on the occasion of the passing of major reform/ legislation.	Consultations occur on a regular basis but with lengthy intervals (two meetings per year or less).	Consultations are conducted regularly, systematically and frequently. They are institutionalised and structured at various levels, including high-level consultations, as well as at expert level.	2
3.3.3	**Openness and transparency of the consultation process** *(former 7.1.3)*	The public sector selects the participants of the consultative meetings regardless of their representation and unilaterally defines the agenda.	The public sector has preferential dialogue with few private sector counterparts (e.g. only largest companies). There are no formal transparency requirements.	The agenda is circulated well in advance. The organisations with the largest representation are all invited.	3 + private sector is given the opportunity to provide inputs on the agenda and call for a meeting.	4 + minutes of the meetings are published and the government has to formally state why it has/has not taken into consideration the recommendations emerging from the meetings.	3

Table A.3. **Institutional and regulatory framework for SME policy making** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	3.4 Enterprise Networks and Business Associations						
3.4.1	**Advocacy function and governance rules of private sector representative organisations and professional associations.** *(former 7.2.1)*	Informal grouping of enterprises at local/ sector level, with limited membership base.	Industry/sector groups of enterprises representing business, with a limited membership base. No national network, limited capacity of representation.	Structured local and nationwide interest representation. Presence of active NGOs, crafts associations, professional chambers. Basic internal governance rules are applied.	Organised enterprise associations, NGOs, crafts associations, operating at national level (directly or through a network system), growing capacity to engage government in policy dialogue on key issues. A majority of representative organisations and professional associations follow good internal governance practices.	Strong, independent, nationally and locally rooted network of enterprises, representing enterprises' interest at local and national level. Capacity to conduct constructive and regular policy consultations on a wide range of issues. Representative organisations and professional associations operate in an open and transparent way.	2
3.4.2	**Provision of services by private sector associations and professional organisations** *(former 7.2.2)*	Private sector associations and professional organisations do not provide services.	Private sector associations and professional organisations provide limited range of basic information services only upon request to their members.	Private sector associations and professional organisations provide a wide range of basic services to their members and publish regular bulletins on their activities and updates on legislation and government initiatives relevant to their members.	Private sector associations and professional organisations provide extensive and good quality services to their members, including individually tailored services. Services subject to fees.	Level 4 + presence of an extensive network throughout the country and income from services and membership fees allow for auto-finance of the organisation.	1

Table A.4. **Operational environment for business creation**

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	4.1 Company registration						
4.1.1	**Number of days to obtain a company registration certificate** *(former 1.3.1)*	Registration in more than 30 days.	Registration takes more than 15 days, but less than 30 days.	Registration takes more than 5 days, less than 15 days.	Registration takes less than 5 days, but more than 1 day	Registration in 1 day.	1
4.1.2	**Number of administrative steps to obtain a company registration certificate** *(former 1.3.2)*	Registration requires more than 10 administrative steps.	Registration requires 8-9 administrative steps.	Registration requires 5-7 administrative steps.	Registration requires 2-4 administrative steps.	Registration requires only 1 step.	1
4.1.3	**Official costs to obtain the company registration certificate** *(former 1.3.3)*	More than Euro 250	Less than Euro 250, more than Euro 150	Less than Euro 150, more than Euro 50	Less than Euro 50, more than Euro 10	Less than Euro 10	2
4.1.4	**Administrative identification numbers in dealing with the public administration** *(former 1.3.4)*	5 registrations and identification numbers in dealing with different administrative authorities (statistical office, customs, labour office, tax office etc.).	4 identification numbers in dealing with different administrative authorities. Some registrations merged	3 identification numbers in dealing with different administrative authorities. Half of registrations merged.	2 identification numbers in dealing with different administrative authorities. Most of registrations merged.	Single identification number in dealing with all standard functions of public administration – single registration process.	1
4.1.5	**Number of days for compulsory company identification number(s)** *(former 1.3.5)*	All numbers in more than 30 days.	All numbers in more than 15 days, but less than 30 days.	All numbers in more than 5 days, less than 15 days.	All numbers in less than 5 days, but more than 1 day.	All numbers in the same day.	1
4.1.6	**Number of days to complete the overall registration process, including compulsory licences for standard business activities (Doing Business indicator)** *(former 1.3.6)*	Registration takes more than 30 days.	Registration takes more than 15 days, but less than 30 days.	Registration takes more than 5 days, less than 15 days.	Registration takes less than 5 days, but more than 1 day	Registration takes 1 day.	1
4.1.7	**Number of steps to complete the overall registration process, including compulsory licences for standard business activities (Doing Business indicator)** *(former 1.3.7)*	Registration requires more than 10 administrative steps.	Registration requires 8-9 administrative steps.	Registration requires 5-7 administrative steps.	Registration requires 2-4 administrative steps.	One-stop-shop.	1

Table A.4. **Operational environment for business creation** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	4.2 Other indicators on registration, notification and compliance						
4.2.1	**Silence-is-consent principle applied to registration procedure** *(former 1.3.8)*	The principle is not used in standard administrative practice.	Evaluation of current procedures and detailed proposals on the introduction of the silence-is-consent principle.	Approval of law on silence-is-consent.	Solid evidence of implementation of the silence-is-consent principle in key areas/sectors of the administration.	Full implementation and widespread use of this principle in many areas/ sectors of the administration. Regular examinations (involving the business sector) to identify new areas where the principle could be adopted.	2
4.2.2	**Costs connected with registration (% of GNI per capita) – (Doing Business indicator)** *(former 1.3.9)*	Costs are more than 10% of GNI per capita.	Costs are between 5% and 10% of GNI per capita.	Costs are between 2.5% and 5% of GNI per capita.	Costs are below 2.5% of GNI per capita.	Costs are minimal (close to 0 of GNI per capita).	2
4.2.3	**Minimum capital requirements (% of GNI per capita) – (Doing Business indicator)** *(former 1.3.10)*	More than 40% of GNI per capita.	Between 20% and 40% of GNI per capita.	Between 10% and 20% of GNI per capita.	Less than 10% of GNI per capita.	No minimum capital requirements for general partnerships with personal liability.	2
4.2.4	**One-stop-shops (regional investment centres, etc.)** *(former 1.3.11)*	There are no plans to establish one-stop-shops.	Legislation is in drafting state to establish one-stop-shops and there are plans to adopt legislation.	The necessary legislation to establish one-stop-shops has been adopted.	One-stop-shops operational, but with limited geographic scope in the country.	One-stop-shops operational with proven track record and extensive geographic scope.	3
4.2.5	**Configuration of the registration/notification/ compliance process, including one-stop-shops** *(Not assessed in 2008)*	Registration has to take place in multiple locations and during multiple interactions.	Registration has to take place in two locations and during multiple or two interactions.	Registration has to take place in one location and during multiple interactions.	Registration has to take place in one location and during two interactions.	Registration has to take place in one location and during one interaction.	1
4.2.6	**Online registration** *(former 1.3.12)*	The government has not taken any steps towards the introduction of online registration.	Evaluation of existing administrative procedures and detailed proposals for the introduction of online registration. Budget provisions and pilot project.	Law on online registration, action plan and budget provisions approved. Designation of competent authority.	Level 3 + solid evidence of implementation of online registration; system available only in some regions.	Level 4 + complete implementation of online registration; system fully integrated with other services of e-government and available throughout the country. On line registration applies to all phases of the company registration process	1

Table A.5. **Support services for SMEs and public procurement**

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	5.1 Business Support Services						
5.1.1	**Range of business services** *(former 8.1.1)*	Very limited range of basic business services, available mainly through donor funded programmes.	More structured range of business service, available through a combination of public funded and private business providers.	Network of public funded business service providers. Good network of private business service providers, providing personalised services for enterprises.	Well-developed market for personalised business services, with good level of internal competition.	4 + Wide range of business services available in the country, operating in line with international best practices and high professional standards. Availability of good quality services throughout the country.	2
5.1.2	**Availability of information on business service providers** *(former 8.1.2)*	No database of business service providers available to enterprises, either by public or private sources.	Database(s) available to enterprises for limited sets of business services. Limited set of information on business providers reported.	Database(s) includes wide range of business services, with location throughout the country. Limited set of information on business providers reported.	Updated database(s) on business providers available also on line.	4+ Information available on interactive websites and regularly updated and checked by the information provider.	1
5.1.3	**Access to business services** *(former 8.1.3)*	No government- or donor-financed schemes in place to provide financial and technical support for accessing at least basic business services for targeted group of enterprises (e.g. start-ups, enterprise located in least developed zones, etc.).	Financial and technical support schemes introduced as pilot projects in place for targeted group of enterprises (e.g. start-ups, enterprise located in least developed zones, etc.).	Government-supported schemes in place to co-finance access to business services for targeted group of enterprises (e.g. start-ups, enterprise located in least developed zones, etc.). Limited resources available and restricted range of business services covered.	Well-structured and budgeted schemes available for targeted group of enterprises. Wide range of business services available across the country.	4+ Schemes easily accessible and widely used by enterprises. Impact of the scheme regularly monitored and evaluated.	2
5.1.4	**Business establishment support services** *(former 8.1.4)*	No government- or donor-financed programmes in place to support companies through the establishment phase.	Establishment support programs (such as creation of enterprise zones, industrial parks, etc.) in the pilot phase.	Establishment support programmes adopted by central government/ local authorities. Limited resources available and restricted geographical spread. Programmes focus on the provision of basic establishment services.	Well-structured and budgeted establishment support programmes available throughout the country. Services provided go beyond basic establishment needs and are directed to promote the establishment of innovative enterprises.	4+ Programmes regularly monitored and evaluated and structured on private-public partnership.	2

Table A.5. **Support services for SMEs and public procurement** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
5.1.5	**Business incubators** *(Former 6.1.4.)*	No incubators and no plans to establish them.	Strategy on incubators under discussion. Pilot incubator projects in operation, publicly funded, funded by donors and/or other organisations.	Strategy on incubators approved, following wide consultations with stakeholders. The strategy incorporates inputs and lessons learned from pilot projects and include detailed proposals and budget allocations. Focus on job creation, no exit strategies.	Level 3 + several incubators in operation, out of the experimental phase. Provision of basic services, some incubators used to foster innovation. Partial implementation of OECD guidelines on business incubators (see CNRST).	Level 4 + network of incubators throughout the country. Focus on innovation; provision of high quality services; existence of exit strategies. OECD guidelines widely implemented.	2
	5.2 Clear and targeted information for enterprises						
5.2.1	**Collection, handling, analysis and dissemination of information for enterprises through traditional channels** *(former 10.1)*	The public sector has no guidelines to collect, handle, analyse and disseminate economic, legislative and regulative information relevant to enterprises available to the private sector.	Information is not systematically collected, handled and analysed and it is sporadically disseminated, with inconsistencies between different ministries and throughout the country.	Systems to collect, handle, analyse and disseminate economic, legislative and regulative information relevant to enterprises have been established and are operational.	A structured system to collect, handle, analyse and disseminate economic, legislative and regulative information on relevant to enterprises has been established. It is operational, there is consistency among ministries and administrations and it covers the whole country.	4 + centres give information on a case-by-case, fee-driven basis.	3
5.2.2	**Online information for enterprises** *(former 10.2)*	No online information available on key areas of interest for businesses (i.e. tax, labour, standard regulations).	Some specific information for businesses can be found online, but on different portals.	Initial stage of development of business-dedicated portal; limited information available online; no possibility of interaction. Strategic market intelligence mechanisms are being elaborated progressively.	Business-dedicated portal established: a significant amount of information is available online and it is regularly updated; interaction limited to request of information. Strategic market intelligence mechanisms are operational.	Level 4 plus enterprise-specific single portal allows interaction (request of information, applications, tax returns) between enterprises and the administration. Trade, industry and investment data are accessible through the portal. Strategic market intelligence mechanisms are well co-ordinated.	2

Table A.5. **Support services for SMEs and public procurement** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	5.3 Public procurement						
5.3.1	**Cutting tenders into lots** *(Not assessed in 2008)*	Cutting tenders into lots is not done, or is done on an *ad hoc* basis.	Pilot projects on cutting tenders into lots have been developed but there is not yet a consistent policy approach.	The possibility to divide tenders into lots is enshrined in legislation, but is subject to derogations that make its implementation in practice weak.	The possibility to divide tenders into lots is enshrined in legislation and is commonly used.	The possibility to cut tenders into lots is largely used.	1
5.3.2	**Information and publication of public procurement opportunities** *(Not assessed in 2008)*	Information on public procurement opportunities is scattered among a variety of sources which makes it difficult for SMEs to find out about procurement opportunities.	Information on public procurement opportunities is centralised only at regional/ local level.	Information on public procurement opportunities is centralised at national level.	Information on public procurement opportunities is centralised at national level and is available free of charge.	Information on public procurement opportunities is centralised at national level and is free of charge. Helpdesks and training on procurement opportunities are offered to SMEs.	1
5.3.3	**Penetration of e-procurement** *(Not assessed in 2008)*	Provision of basic information on tenders in electronic format (electronic contract notices, list of contractors, information on procurement activities, rules and processes etc.).	Specific information for tender in electronic format (tender documentation in electronic format, downloadable forms and electronic tools for paper submission, but also more sophisticated searchable public tender databases, mail alerting systems, RSS feeds etc.) – external communication.	Electronic forms, more or less no paperwork in the tendering process (electronic submission, electronic Q&A, e-awarding etc.) – external communication.	Full electronic case handling without any paper-based formal procedure required (electronic communication throughout the procurement process, e-invoicing etc.) – external and internal communication; systems connected to back-office and possibly to inter-agency processes.	Proactive and automated communication, databases of reusable data (linking databases, e-attestation, full electronic contract management etc.) – external and internal communication; systems integrated with back-office processes, inter-agency co-operation networks.	1
5.3.4	**Ensuring that payments are made on time** *(Not assessed in 2008)*	Late payments are not regulated.	There are efforts to reduce late payments, but there is no consistent policy approach.	There is a law on late payments.	There is a law on late payments imposing strict deadlines for payments and penalties in case of non-compliance with these deadlines.	There is a law on late payments imposing strict deadlines for payments and penalties in case of non-compliance with these deadlines. The law is rigorously enforced.	1

Table A.5. **Support services for SMEs and public procurement** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
5.3.5	**Openness to foreign enterprises, including SMEs and large companies** *(Not assessed in 2008)*	The public procurement market is not open to foreign enterprises on the basis of open competition.	The public procurement market is open to foreign enterprises on the basis of open competition. The terms are fixed on a case by case basis.	The public procurement market is open to foreign enterprises on the basis of open competition. The terms are fixed in a limited number of bilateral agreements.	The economy has opened small parts of its public markets, for instance on the basis of multilateral or a multitude of bilateral agreements.	The economy is operating a transparent and competitive system and has opened significant parts of its public markets, for instance on the basis of multilateral or a multitude of bilateral agreements.	1
5.3.6	**Setting proportionate qualification levels and financial requirements** *(Not assessed in 2008)*	There are no provisions to ensure the proportionate qualification levels and financial requirements.	Provisions to ensure the proportionate qualification levels and financial requirements are set only in guidance materials.	There are general provisions requiring the buyers to set proportionate qualification level and financial requirements.	There are specific provisions ensuring that SMEs are not suffering from excessive requirements for qualification levels and financial requirements (such as turnover requirements, level of guarantee and deposits, qualification of staff, allowing grouping of economic operators, etc.)	There are specific provisions ensuring that SMEs are not suffering from excessive requirements for qualification levels and financial requirements (such as turnover requirements, level of guarantee and deposits, qualification of staff, allowing grouping of economic operators, etc.) and there is evidence of implementation.	1

Table A.6. **Access to finance for SMEs**

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	6.1 Sources of external finance for SMEs						
6.1.1	**Credit guarantee schemes/facilities** *(former 4.1.6)*	No credit guarantee schemes/facilities in place.	Credit guarantee schemes/ facilities under consideration.	Credit guarantee schemes/ facilities in place. Solely government funded and managed by the public sector. Co-operation with the banking sector in the initial stage.	Credit guarantee schemes/ facilities operating under independent management (independent of the funding sources). Banking sector committed to accept guarantees from the schemes/facilities.	Credit guarantee schemes/ facilities operating under independent management with clear governance rules. Close co-operation with the banking sector. Wide range of guarantees available.	2
6.1.2	**Business angel networks (BAN)** *(Not assessed in 2008)*	No business angel associations (seed capital funds) in the economy; little or no informal business angel activity.	Policy awareness; plans to encourage and foster business angel networks in drafting stage.	Pilot schemes to encourage and foster business angel networks implemented, Ministry of Economy/Finance has taken steps to promote or collaborate with business angel networks.	Level 3 plus policy instruments piloted, including tax incentives for individuals engaged in seed-funding, OPEX subsidies, and promotion (e.g. business plan competition including prize money).	Level 4 plus advanced support for BANs, including use of tax incentives for capital gains to identify high-net worth individuals; high-level promotion. Programmes are in place to enhance co-operation between angels and other investors. Potential use of public funds to enlarge BANs' seed capital pool.	1
6.1.3	**Microfinance facilities** *(former 4.1.9)*	No microcredit facilities (neither small credit lines nor micro-finance sector) in the country.	Microcredit facilities (either small credit lines or micro-finance) exist at the level of pilot projects with limited impact.	Micro-finance sector present and operating throughout the country. Facilities mainly state or donor funded. Limited range of micro-finance products.	Micro-finance facilities self-sustainable. Special facilities for targeted groups such as youth and women entrepreneurs. Legal and regulatory framework for micro-finance industry under preparation.	Level 4 + Wide range of micro-finance products. Appropriate legal and regulatory framework in place for micro-finance institutions.	2
6.1.4	**Leasing** *(former 4.1.10)*	No leasing activity, no plans for leasing law.	Leasing law under preparation.	Leasing law approved and institutional responsibilities clearly assigned.	Implementation of leasing law. Regulator active in monitoring market.	Leasing law fully implemented. Regulation and supervision of the leasing sector is enacted.	2
6.1.5	**Availability of risk capital** (e.g. **venture capital, private equity funds)** *(former 4.1.7)*	No venture capital/ private equity/investment funds legislation under consideration.	Venture capital/private equity/ investment funds legislation under consideration.	Venture capital/private equity/investment funds legislation in place.	Level 3 + Several venture capital/private equity funds investing, including funds specialised on SMEs, but the only exit possibility is direct sales.	Level 4 + Range of exit options, including a functioning stock exchange. Legislation in line with best practices.	2

Table A.6. **Access to finance for SMEs** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
6.1.6	**Access to capital markets** *(former 4.1.8)*	Neither legal nor institutional framework in place for capital markets.	Stock exchange in place with low capitalisation. Legal framework not in line with international standards.	Stock exchange and legislation (in line with international standards) in place, but access limited to highly capitalised companies.	3 + Evidence of the enforcement of the legislation by securities exchange commission/ relevant authority. Possibility for listing either in the main market or in a market reserved for companies with lower capitalisation.	4 + Fully enforced securities legislation, including the information disclosure requirements. Active and well-functioning capital market for companies with lower capitalisation.	2
	6.2 Legal and regulatory framework for external financing						
6.2.1	**Cadastre** *(former 4.1.9)*	No functioning cadastre system in place.	Legislation to establish a functioning cadastre system at the drafting stage.	Registration system for real estate in place, but not yet fully operational. Information not easily accessible or fully reliable.	Property titles on the real estate assets have been fully documented. Easy, low-cost access to registration and information.	4 + Fully functioning system for registration of real estate assets, allowing firms to use immovable assets as collateral in their efforts to access bank finance. Information available online.	2
6.2.2	**Credit Information Services** *(former 4.1.5)*	No credit information services available in the country.	Credit information services in place, but access limited to financial institutions.	Credit information services available to financial institutions and to the public. Both positive and negative credit information is available.	3 + Data on loans of more than EUR 20 000 to legal and physical persons are collected and made available to financial institutions and the public upon request. Information is updated regularly and comprehensive.	4 + More than two years of historical data are distributed. By law, borrowers have the right to access their data.	2
6.2.3	**Registration systems for movable assets** *(former 4.1.4)*	No functioning registration systems for movable assets.	Legislation to establish a functioning registration system at the drafting stage.	Registration system of movable assets in place, but not yet fully operational. Information not easily accessible or fully reliable.	The ownership of pledges on the registered assets has been fully documented. Easy, low-cost access to registration and information. Registration system in line with international standards.	4 + Fully functioning system for registration of movable assets, allowing firms to use movable assets as collateral in their efforts to access bank finance. Information available online.	2
6.2.4	**Collateral and Provisioning Requirements** *(former 4.1.1)*	Very high collateral requirements (more than 200%). Restrictive collateral definition and/or rigid provisioning requirements for uncollateralised loans.	Collateral requirement ranging 150-200% of loan amount. Restrictive collateral definition and/or rigid provisioning requirements for uncollateralised loans.	Flexible collateral definition and/or flexible provisioning requirements for loans under EUR 20 000.	Flexible collateral definition and/or flexible provisioning requirements for loans under EUR 20 000 and central collateral registry in place.	Flexible collateral definition and/or flexible provisioning requirements for loans under EUR 20 000 and central collateral registry covering most bank loans.	3

Table A.6. **Access to finance for SMEs** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
6.2.5	**Creditor rights** *(Not assessed in 2008)*	There is no law on secured transactions.	Legal framework on secured transaction ensures two out of the four rights listed below. *1)* Secured creditors are able to seize their collateral after reorganisation i.e. there is no "automatic stay", *2)* legislation provides restrictions such as creditor consent must be observed when a borrower files for reorganisation, *3)* secured creditors are paid first out of proceeds of liquidation of a bankrupt firm and *4)* management does not retain administration of property pending the resolution of reorganisation.	Legal framework on secured transaction ensures three out of the four rights listed below. *1)* Secured creditors are able to seize their collateral after reorganisation i.e. there is no "automatic stay, *2)* legislation provides restrictions such as creditor consent must be observed when a borrower files for reorganisation, *3)* secured creditors are paid first out of proceeds of liquidation of a bankrupt firm and *4)* management does not retain administration of property pending the resolution of reorganisation.	Legal framework on secured transaction ensures all four of the rights listed below. *1)* Secured creditors are able to seize their collateral after reorganisation i.e. there is no "automatic stay, *2)* legislation provides restrictions such as creditor consent must be observed when a borrower files for reorganisation, *3)* secured creditors are paid first out of proceeds of liquidation of a bankrupt firm and *4)* management does not retain administration of property pending the resolution of reorganisation	Level 4 plus Collateral enforcement is efficient.	3
	6.3 Financial literacy						
6.3.1	**Financial literacy*** *(Not assessed in 2008)*	Financial literacy levels are extremely low in general. There is no national strategy encompassing a methodology to assess existing financial literacy levels and promote financial education programmes.	Financial literacy levels are extremely low among certain segments of the population. A national strategy encompassing a methodology to assess existing financial literacy levels and promote financial education programmes is considered.	Financial literacy levels are low and the lack of understanding of investment and savings products results in their underutilisation. A national strategy encompassing a methodology to assess existing financial literacy levels and promote financial education programmes exist.	Financial literacy levels are low only with respect to certain complex products. Government schemes to rectify this gap exist. Consumers have access to a variety of credit and savings instruments provided by a range of entities, from online banks and brokerage firms to community-based groups. Both information and training to consumers on the operation of markets and on the roles of market participants are available.	Consumers are educated on a wide range of financial products (investment, savings, etc.). Government support this effort by encouraging national campaigns to raise awareness of the population about the need to improve their understanding of financial risks and ways to protect against financial risks. Specific websites providing relevant, user-friendly financial information to the public exist. The media are widely used to achieve a wider coverage and exposure of relevant information and for the dissemination of education messages.	1

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

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
7.1.1	**Euro-Med inter-firm clusters and partnerships** *(former 9.1)*	Government has no strategy to promote Euro-Med initiatives on inter-firm clusters.	Proposals to develop Euro-Med inter-firm clusters and networks. Consultations with business sector. Pilot project in one key sector.	Elaboration and approval of Euro-Med action plan and designation of competent authority.	Euro-Med inter-firm clusters and networks concentrated in traditional export sector.	Wide range of Euro-Med inter-firm clusters and networks covering a wide range of sectors, including internal market, and making full use of virtual networking.	2
7.1.2	**Euro-Med networks of business support services** *(former 9.2)*	Euro-Med networks of providers of business support services established at country regional or local level with no Euromed connection.	Euro-Med networks of providers of business support services formally exist. The few that are operational operate on an *ad hoc* basis, in a small number of sectors, and cover a small range of services.	Euro-Med networks of providers of business support services operate with donor or government support, for a limited period of time, in a small number of sectors, and cover a small range of services	Euro-Med networks of providers of business support services operate with donor or government support, for a limited period of time, in all key sectors, and cover a wide range of services.	Euro-Med networks of providers of business support services operate in a sustainable way, on a self-financing basis.	2
7.1.3	**Linkage programmes between Euro-Med enterprises** *(former 9.3)*	No government- or donor-financed schemes in place to promote linkages between Euro-Med enterprises.	Euro-Med linkage promotion programmes introduced as pilot projects for a limited number of enterprises.	Formalised Euro-Med linkage promotion programmes in place. Limited resources available and restricted range of sectors covered.	Well-structured and budgeted Euro-Med linkages programmes) available for a wide range of sectors, including Euro-Mediterranean business-to-business dialogues and linkages with foreign-based companies. Innovative tools such as factoring and reverse factoring applied.	4+ Euro-Med schemes easily accessible. Impact of the programmes regularly monitored and evaluated.	2

Table A.8. **Enterprise skills and innovation**

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	8.1 Enterprise Skills						
8.1.1	**Training needs analysis (TNA)** *(Not assessed in 2008)*	Small business training needs analysis does not exist or is based on "ad hoc" surveys only. There is no regular and systematic collection of data on the training needs or training consumption in the small business community.	Government, social partners and business community are in dialogue with view to establishing a systematic training needs analysis framework for the small business community.	A national training needs analysis framework has been agreed between government, social partners, and business community with particular reference to economic growth sectors. The training needs analysis framework identifies *a)* skill weaknesses in the workforce, *b)* skill gaps and *c)* future skill requirements. Standard data collection instruments and a data management system are in place as part of a wider national economic development plan.	Training needs analysis as defined by a national small business strategy has been undertaken in at least 20% of small businesses in growth sectors and reported publicly on a recognised website for access by enterprises, training providers and policy makers.	Annual training needs analysis is undertaken in at least 40% of small businesses in growth sectors and available publicly on a recognised website for access by enterprises, training providers and policy makers.	3
8.1.2	**Availability of training** *(former 3.1)*	No structured business training provision available but confined to *ad hoc* initiatives only.	Business training provision is developed but is limited to specific towns and regions.	Funds are available to support training providers to develop enterprise training, including online training services. Database of training providers and training programmes available on a recognised website.	Good training provider network developed across the country actively communicating information through the website's online database. Evidence of online training services being acquired by enterprises.	Quality-assured training provider network developed across the country. Data on online training acquired by enterprises is regularly updated and evaluated as part of national enterprise development policy.	2
8.1.3	**Start-up training**[a] *(former 3.2)*	No training available for start-ups.	Start-up training and coaching services available on management, basic finance and basic marketing supported by public and private funds. 20% of newly registered start-ups (with at least 5% addressing women's start-ups) have benefited from training and/or coaching in the reporting period.	40% of newly registered start-ups (with at least 10% addressing women's enterprises) have benefited from training and/or coaching in the reporting period. Business advisory services available for post-start-ups up to 6 months after their activities begin.	60% of newly registered start-ups (with at least 15% addressing women's enterprises) have benefited from training and/or coaching in the reporting period. Business advisory services available for start-ups up to 12 months after start-up.	80% of newly registered start-ups (with at least 20% addressing women's enterprises) have benefited from training and/or coaching services in the reporting period. Business advisory services available for start-ups up to 24 months after activities begin.	2

Table A.8. **Enterprise skills and innovation** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
8.1.4	**Enterprise training**[b] *(former 3.3)*	Less than 5% of businesses have undertaken training in the given period.	Between 5-10% of businesses have undertaken training in the given period.	11%-30% of businesses have undertaken training in the given period.	31%-50% of businesses have undertaken training in the given period.	More than 50% of businesses have undertaken training in the given period.	2
8.1.5	**Enterprise growth** *(former 3.4)*	No systematic approach to develop enterprise human resources (knowledge and skills) for growing businesses.	HRD for enterprise growth has been agreed as a priority between business community and government and registered in national or sectorial development plans.	Funds[c] are available to support access to information, consultancy and/or HRD measures. The funding arrangements have clear criteria to allow enterprises to apply for subsidies or other support mechanisms to support training linked to enterprise growth.	20% of growing businesses benefited from information, consultancy and/or HRD measures supported by the funds available (1).	More than 50% of growing businesses benefited from information, consultancy and/or HRD measures supported by the funds available (1).	2
8.1.6	**Access to International Markets** *(former 3.5)*	Ad hoc training related to some aspects of international standards and marketing available for limited sectors and regions	More developed training offer available on international standards and marketing for a limited number of key economic sectors*	Training on international standards and markets provided by public and private service providers for key economic sectors.*	Training on international standards and markets for all key economic sectors* available on line. This includes training for e-business.	Intelligence on international standards and markets for key economic sectors* regularly available for use by training providers to improve training offer.	3
8.1.7	**Quality Assurance** *(Not assessed in 2008)*	There is no national framework for quality assurance of training delivered to the small business community. Some cases of accreditation of training programmes and training providers are realised by international bodies.	A range of ad hoc structures and tools* are being used to determine quality of training for the small enterprise community.	Dialogue ongoing between training providers, employers and Government regarding quality, standards and accreditation of training provision for enterprises.	A national quality assurance system for enterprise training is agreed. Accredited training providers and programmes are posted on websites and information boards of small enterprise support agencies, public and private employment agencies and training centres.	The national quality assurance system for enterprise training is operational. A monitoring and evaluation system is put in place and feeds back the national quality assurance system	2

Table A.8. **Enterprise skills and innovation** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
8.1.8	**Skills for sustainable enterprise development (SSED)** *(Not assessed in 2008)*	Evidence of SSED but confined to ad-hoc initiatives and projects without a system-based framework.	Examples of exchange of good practices between training providers offering SSED Policy dialogue involving government, business world and civic interest groups on issues and options for system-based developments in SSED	A national policy framework for SSED has been agreed. Policy framework is accompanied by a time-bound action plan which *a)* defines measures to be implemented, *b)* finance commitments and *c)* monitoring and evaluation arrangements. A recognised national network of SSED training providers advises government on SSED developments.	An SSED action plan is in the process of being implemented. At least 50% of the measures within the action lines are already financed and under implementation. A website is available with a dedicated good practice area which includes good SSED practice posted in the 12 months prior to the SBA assessment.	Each measure within the SSED action plan is financed and under implementation (or has been completed). An interim or final evaluation report on the action plan's activities is available on a government website. A follow-up action plan (either draft or approved) builds on experience from the previous action plan. Evidence that SSED training providers are exchanging good practices with SSED training providers from other countries in at least two core sectors defined in national economic development plan.	3
	8.2 Policy framework for SME innovation						
8.2.1	**Delegation of competencies and tasks** *(Not assessed in 2008)*	Measures concerning innovation policy are taken on an *ad hoc* basis by the line ministries concerned.	Government has completed a review and made plans for delegation of competencies and tasks concerning innovation policy. The plan has identified potential overlapping of tasks and inconsistencies in policy as well as possible synergies among programmes and institutions.	The organisational structure has been agreed and approved by the government. A clear map identifying responsibilities in innovation policy for each institution is established. Active measures to limit overlapping and to avoid major policy inconsistencies are in place (new programmes and schemes have to be reviewed by all concerned institutions and ministries).	A coordination body is in place (e.g. steering committee or inter-ministerial committee) and is chaired by a high political authority and supported by a well-structured secretariat which ensures that policy exchange, coordination and consultation with stakeholders and civil society is carried out through previously agreed mechanisms	There is a sound system of programme co-operation on innovation policy among the institutions, aiming at integrating technological and non technological activities, covering the full spectrum of innovation policy issues (including, development, application, absorption and diffusion). Wide-spread consultation with stakeholders.	2

Table A.8. **Enterprise skills and innovation** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
8.2.2	**Strategic approach to innovation policy for SMEs** *(similar to former 6.1.1)*	Innovation policy is not covered in any of the strategic documents covering enterprise policy, industrial policy, human capital development policies, or education and research policies.	Innovation strategy elements are included in some of the previous mentioned documents, but there is no consistent approach and no indication of implementation actions.	Innovation policy has been developed and integrated into a number of strategic documents. Information on implementation plans, budget and timelines included in each of the documents. Strategic approaches are not co-ordinated.	Level 3 plus strategic approaches are co-ordinated. Innovation programme/ strategy is under implementation and adequately funded. Major components of the plan are active. Public-private partnership (PPP) projects are being developed involving also universities and research centres.	Strategic approach to innovation is extensively implemented, including programmes covering the broad spectrum of technological and non-technological activities. Mechanisms in place to monitor the impact of the programme on company growth and direct/indirect spillovers. Programme mostly based on PPPs projects, involving also universities and research centres.	3
8.2.3	**Budget provision for SME innovation** *(Not assessed in 2008)*	There is no specific allocation of funding for the promotion of enterprise innovation. No targets have been set.	There is no specific allocation of funding to promote enterprise innovation, but there are funds with an indirect impact on innovation which have been identified within existing budgets. These funds are embedded in other policy measures. There is groundwork to define targets.	There are specific actions to target spending on innovation in budget structure. Funds have been earmarked for innovation (public sector). Some innovation funding comes from the private sector. Targets are defined and specified in policy documents. Division between public and private sector contribution to innovation funding are defined.	Level 3 plus targets have been designed to meet specific objectives. All objectives are designed according to SMART principles (specific, measurable, achievable, realistic, time bound). Increased share of R&D provided by private sector.	SMART objectives fully implemented, monitored and evaluated to measure impact. Private sector represents a significant share of total spending on innovation.	2
8.2.4	**Establishment of innovation and technology centres** *(former 6.1.2)*	No networks, centres, or schemes to promote co-operation on innovation in place. Single, ad hoc initiatives in place	Pilot projects to establish innovation networks, centres or schemes to promote co-operation on innovation have been launched.	Action taken, specifically to promote co-operation on innovation among enterprises, universities, and funded research centres. This promotion is publicly funded. Regulatory framework for PPP projects is in place.	Implementation of innovation promotion schemes. Innovation and technology centres in operation. PPP on national, regional, and local level in R&D, innovation and development.	Network of high level Innovation and technology centres present in the economy. Strong relationship with research institutions and private sector at domestic and international level.	1

Table A.8. **Enterprise skills and innovation** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
8.2.5	**Information on innovation support services** *(Not assessed in 2008)*	No database of innovation service providers available to enterprises, either by public or private sources.	Database(s) available to enterprises for limited sets of services. Limited set of information on innovation support service providers reported. There is little to no information on the selection criteria for firms to participate in non-technological innovation support programmes.	Database(s) includes wide range of services available throughout the economy. Limited set of information on innovation support service providers reported. There is some information on the selection criteria for firms to participate in innovation support programmes.	Updated database(s) on innovation support service providers available also on line. There information on the selection criteria for firms to participate in all types of innovation support programmes.	Level 4 plus information available on interactive websites and regularly updated and checked by the information provider. There is information on the selection criteria for firms to participate in all types of innovation support programmes.	2
8.2.6	**Financial support services** *(former 6.1.3)*	No support scheme for innovative enterprises to determine financing options available for innovative projects.	Financial support service scheme under consideration and pilot project being launched, funded by government, donors and/or other organisations.	Financial support schemes are funded by government, donors and/or other organisations. Tailored services are provided to link innovative companies to sources of financing.	Financial support schemes are under implementation and adequately funded. Independent project evaluation system has been established. Co-operation with various financial institutions has been established to link innovative companies to sources of financing.	A complete chain of funding schemes is available for innovative projects, from grants, subsidies and seed funding to big venture capital funds and loans. Project holders are well informed and aware of the availability of the funds through financial support schemes. There is evidence that a significant number of projects are funded every year.	1
8.2.7	**Tools used to support co-operation between SMEs research institutes/universities** *(Not assessed in 2008)*	No tools (voucher schemes, joint research programmes, personnel transfer schemes, access by private companies to research laboratories, company spin offs, incentive schemes for universities and research centres and individual researchers to co-operate with the private sector) to link universities, laboratories and other research centres with innovative companies.	Pilot projects to establish tools (voucher schemes, joint research programmes, personnel transfer schemes, access by private companies to research laboratories, company spin offs, incentive schemes for universities and research centres and individual researchers to cooperate with the private sector) to link universities, laboratories and other research centres with innovative companies.	Evidence that some of the previously mentioned tools are used to link universities, laboratories and other research centres with innovative companies. Universities operate under sufficient autonomy to enter into agreement with other organisations (either public or private) in developing research projects with potential commercial application.	Level 3 plus a range of different tools in place. Evidence of close co-operation between universities and private sector.	Level 4 plus strong relationships with research institutions and private sector at domestic and international level. Monitoring and evaluation tools in place.	1

Table A.8. **Enterprise skills and innovation** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
8.2.8	**Public R&D grants** *(Not assessed in 2008)*	There are no public funds supporting R&D activities with a commercial orientation.	There are pilot public funds supporting R&D activities with a commercial orientation with limited allocation.	Fully operating public funds supporting R&D activities with a commercial orientation. There is proper appraisal system of eligible projects. Funds are managed by professional team.	Level 3 plus there is a track record of effective allocation of funding.	Level 4 plus funds are monitored and evaluated independently. Lessons learned are taken into consideration.	1
8.2.9	**Incubators (serving innovative start-ups which are linked to technology content)** *(Not assessed in 2008)*	There are incubators but with no technological orientation.	Pilot technological incubators in operation, publicly funded, funded by donors and/or other organisations.	There are incentives and support schemes to establish incubators associated with universities and/or research centres.	Level 3 plus several incubators in operation, out of the experimental phase. Provision of basic services. Partial implementation of OECD guidelines on business incubators (see CNRST).	Level 4 plus network of incubators throughout the economy. Provision of high quality services and existence of exit strategies. OECD guidelines widely implemented.	1
8.2.10	**Sciences Parks/ competitive clusters and facilities to promote networking among companies** *(Not assessed in 2008)*	No facilities (i.e. sciences parks/competitive clusters) to promote networking among innovative companies in place.	Pilot facilities (i.e. sciences parks/competitive clusters) to promote networking among innovative companies in place.	Facilities (i.e. sciences parks/ competitive clusters) to promote networking among innovative companies are in place with linkages with universities and funded research centres. Regulatory framework for PPP projects is in place.	Level 3 plus public-private projects under development	Level 4 plus a network of innovation and technology centres present in the economy, and internationally through transnational cluster co-operation. Strong relationship with research institutions and private sector at domestic and international level.	1

Notes: a. Start-up training comprises management, basic finance and basic marketing skills supported by public and private funds

b. Evidence for this indicator will be taken from enterprise survey-based data and reflects participation of enterprise staff in skills/knowledge upgrading in the 12 months prior to the self-assessment.

c. Public and/or private funds.

Table A.9. **SMEs in a green economy**

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
9.1	**The greening of current strategies in the field of SMEs, industry and innovation** *(Not assessed in 2008)*	No reference is made in the policy framework to eco-efficient business and products or eco-innovation	There are plans to include these elements in the new policy documents to be developed.	Eco-efficient business and eco-innovation are mentioned in the strategies in the field of SMEs, industry and innovation.	These elements are associated with concrete targets in Action Plans.	The strategy for SMEs promotes eco-efficient business and products, while the innovation strategy directs measures towards eco-innovation.	1
9.2	**Improving availability of expertise to SMEs on environmental issues** *(Not assessed in 2008)*	There is no information regarding this element and only commercial expertise is available	The package on information regarding environmental issues and tools is under preparation.	Information regarding environmental issues and tools is available.	SME support organisations (chambers of commerce, local governments, NGOs, etc) provide environmental support. This is not coordinated at national level and no specific funding is available.	There are specific programmes/funding to provide expertise through SME support organisations with nationwide coordinated approach, contact points and information.	1
9.3	**Promoting the use of environmental management systems and standards** *(Not assessed in 2008)*	The use of environmental management systems (EMS, ISO 14001, local systems) and standards is not promoted, and little known by business and the public.	Businesses know about the existence of EMS but the government is not actively engaged in their promotion.	The government provides information on the EMSs available to SMEs in the country, but no support measures are in place for SMES to apply for certification.	There is specific funding and other incentives available for the implementation of EMSs and standards, information is widely available.	Level 4 + EMS are required by procurement rules and by the market. Specific systems available for SMEs (e.g. EMAS Easy) [a]	1

Notes: a. http://ec.europa.eu/environment/emas/tools/emaseasy_en.htm.

Table A.10. **Internationalisation of SMEs**

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	10.1 Implementing a pro-active trade policy						
10.1.1	**Export promotion strategy** *(former 5.1.1)*	No formalised export promotion strategy exists. Only *ad hoc* initiatives (trade missions, trade fairs, etc.)	Export promotion strategy, including sector action plans, at a drafting stage. Identification of market and sector priorities underway. Budget established but entirety of funds not yet received.	Export promotion strategy approved, after a wide consultation process with key stakeholders. Implementation agency(ies) identified. Budget established and entirely allocated.	Export promotion strategy is adequately funded and under implementation. Most of the following components are active: trade policy information and commercial intelligence, export promotion and marketing, product development, financial services, training, SME-specific programmes. Good institutional coordination and secured active participation of exporters.	Export promotion strategy fully integrated into a wider, comprehensive enterprise strategy. The sector/market programmes covered by the strategy are well structured and conducted in close co-operation with exporters. The countries have developed a network of commercial trade offices in all the key export markets. The export promotion programmes are regularly monitored and evaluated.	3
10.1.2	**Intra-MED trade agreements** (includes Turkey as a MED economy) *(former 5.1.2)*	No free trade agreements with other Med countries.	Free trade agreements with 1-3 other MED countries.	Free trade agreements with 4-6 other Med countries.	Free trade agreements with 6-8 other Med countries, including a minimum of two regional trade agreements (such as GAFTA and the Agadir Agreement).	Trade agreements with 9 other Med countries.	2
10.1.3	**Providing advice and high value information on the international market** *(Not assessed in 2008)*	No business information on specific markets.	Providing information and consulting services to help SMEs undertake a self-assessment for international market expansion.	Market specific information (product features, prices, buyers, distributors, relevant standards and specifications, international best practices, and related legal requirements and procedures).	Comprehensive information and one-stop shop with limited advisory services.	The one-stop shop is available to help SMEs identify and form partnerships/alliance, and determine market entry strategies.	2
10.1.4	**Export capacity-building programmes** *(Not assessed in 2008)*	No export capacity building programmes.	Uncoordinated export capacity building programmes funded mainly by donor countries.	Coordinated export capacity building programmes (grant or subsidies for training courses, export coaching, workshop, and trade fairs) for SMEs' export strategy planning.	The programmes are operated with limited geographical coverage and a limited number of SMEs.	The programmes are fully functional nationwide. Significant number participating SMEs start exporting.	2

Table A.10. **Internationalisation of SMEs** *(continued)*

		Level 1	Level 2	Level 3	Level 4	Level 5	Weights
	10.1 Simplification of procedures for international trade						
10.2.1	**Level of computerisation of procedures for foreign trade** *(former 5.2.1)*	No strategy exists aiming at computerisation of procedures for foreign trade.	A plan for the computerisation of procedures for foreign trade has been approved and the institutions concerned have been designated.	A concrete plan for the computerisation of procedures for foreign trade has been put into place. Action plans with precise objectives and a timetable have been drawn up for all concerned documents.	The computerisation of procedures for foreign trade is well underway. Several administrators and private operators exchange documents concerning foreign trade via electronic channels.	Several documents concerning foreign trade have been computerised. Movement towards elimination of the use of paper medium in the procedures of foreign trade.	1
10.2.2	**Quality of access to regulatory and procedural information relating to foreign trade** *(former 5.2.2)*	No measures have been taken to facilitate access to information on procedures for and regulations on foreign trade.	Measures have been adopted to facilitate access to information on procedures for and regulations on foreign trade. Actions remain disparate.	Concrete measures have been made to make available information related to foreign trade for all relevant actors. The responsible institutions have been designated.	3 + A high-level steering committee has been established to strengthen measures aiming to facilitate access to regulatory and procedural information. The steering committee is composed of the institutional sources from which this information can be accessed.	4+ A national institution is in charge of the diffusion of regulatory and procedural information to all operators.	1
10.2.3	**Virtual one-stop shop to deal with the formalities of foreign trade** *(former 5.2.3)*	There is no plan to set up a virtual one-stop-shop to deal with the formalities of foreign trade.	A procedure is underway to set up a one-stop-shop to deal with the formalities of foreign trade. There is a plan which remains to be approved.	A plan to set up a one-stop-shop to deal with the formalities of foreign trade has been adopted.	The plan to set up a one-stop-shop to deal with the formalities of foreign trade is now operational. It has limited geographic scope throughout the country.	A one-stop-shop to deal with the formalities of foreign trade is operational with a proven track record and a wide geographical scope.	1

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OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX 16
(03 2014 10 1 P) ISBN 978-92-64-21840-6 – 2014

SME Policy Index

The Mediterranean Middle East and North Africa 2014

IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE

Contents

Consult this publication on line at ***http://dx.doi.org/10.1787/9789264218413-en.***

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With the financial assistance of the European Union

ISBN 978-92-64-21840-6
03 2014 10 1 P

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