

**UNITED NATIONS**

**Economic and Social Commission for Western Asia**



## ***Economic Growth and Unemployment in SMEs: The Need for New Policy Framework***

**Tarik H. Alami**  
Director, a.i.

**Economic Development and Globalization Division  
United Nations Economic and Social Commission for Western Asia  
(UN-ESCWA)**

**EGM ON ADDRESSING UNEMPLOYMENT IN IDB MEMBER  
COUNTRIES IN THE POST-CRISIS WORLD  
IDB Jeddah, Kingdom of Saudi Arabia  
(9-10 May 2011)**





# OUTLINE

- **Economic Situation and Prospects and challenges in the Arab Region** *الحالة والتوقعات الاقتصادية*
- **Investment and Business Environment in the Arab Region** *البيئة الإستثمارية*
- **Time as a tax and trade barrier** *تأثير عامل الوقت على التجارة وهو بمثابة ضرائب*
- **The Importance of Trade and Transport Facilitation for Doing Business** *أهمية تسهيل التجارة والنقل*
- **Some Doing Business Indicators** *بعض المؤشرات المهمة لممارسة أنشطة الأعمال*



## Economic Situation and Prospects in the Arab Region

REAL GDP GROWTH RATE AND CONSUMER INFLATION RATE, 2007-2011 (Annual % change)

Country/Area	Real GDP Growth rate					Consumer inflation rate				
	2007	2008	2009 <sup>a/</sup>	2010 <sup>b/</sup>	2011 <sup>c/</sup>	2007	2008	2009	2010 <sup>b/</sup>	2011 <sup>c/</sup>
Bahrain	8.4	6.3	3.1	4.0	2.5	3.3	3.5	2.8	2.0	205
Kuwait	4.5	5.5	-4.6	4.4	3.6	5.5	10.6	4.0	4.0	5.5
Oman	6.8	12.8	3.6	4.3	3.5	5.9	12.6	3.5	3.4	4.2
Qatar	26.8	25.4	8.6	13.4	16.0	13.8	15.2	-4.7	-2.4	2.0
Saudi Arabia	2.0	4.2	0.6	3.4	4.5	4.1	9.9	5.1	5.3	5.5
United Arab Emirates	6.2	7.4	-1.9	2.7	3.2	11.1	12.3	1.6	0.9	2.0
GCC countries <sup>d/</sup>	4.9	6.6	0.4	4.0	5.2	6.3	10.8	2.9	3.1	4.2
Egypt <sup>e/</sup>	7.2	4.7	5.1	3.0	5.0	9.5	17.1	11.8	11.3	11.5
Iraq	1.5	9.5	4.2	4.0	5.5	30.8	2.7	-2.8	2.4	4.0
Jordan	8.5	7.6	2.3	3.1	3.5	4.7	13.9	-0.7	5.0	5.4
Lebanon	7.5	9.3	8.5	7.0	5.6	6.7	10.0	1.2	4.0	4.5
OPT	5.4	5.9	6.8	4.2	4.5	1.9	9.9	2.8	2.8	3.5
The Sudan	10.2	6.0	4.5	5.5	5.0	8.1	14.9	11.2	13.2	115
The Syrian Arab Republic	5.7	4.3	5.9	5.5	4.5	4.5	15.2	2.8	4.4	4.7
Yemen	4.7	4.5	4.7	3.5	2.5	7.9	19.0	5.4	8.4	11.0
More Diversified Economies <sup>d/</sup>	6.3	6.0	5.1	4.1	4.8	11.5	13.8	6.2	8.1	8.4
Total ESCWA region	5.4	6.4	2.0	4.5	5.1	8.2	11.9	3.9	4.5	5.4



## ***Economic Situation and Prospects in the Arab Region***

### **WORLD UNEMPLOYMENT RATES 2005-2009(Per cent)**

	2005	2006	2007	2008	2009a/
<b>World</b>	<b>6.3</b>	<b>6.0</b>	<b>5.6</b>	<b>5.7</b>	<b>6.3</b>
<b>Developed economies and European Union</b>	<b>6.9</b>	<b>6.3</b>	<b>5.8</b>	<b>6.1</b>	<b>8.4</b>
<b>Central and Eastern Europe (non-EU) and Commonwealth of Independent States</b>	<b>9.4</b>	<b>9.0</b>	<b>8.6</b>	<b>8.6</b>	<b>10.4</b>
<b>East Asia</b>	<b>4.2</b>	<b>4.0</b>	<b>3.8</b>	<b>4.3</b>	<b>4.4</b>
<b>South-East Asia and the Pacific</b>	<b>6.5</b>	<b>6.1</b>	<b>5.4</b>	<b>5.3</b>	<b>5.2</b>
<b>South Asia</b>	<b>5.3</b>	<b>5.1</b>	<b>5.0</b>	<b>4.3</b>	<b>4.4</b>
<b>Latin America and the Caribbean</b>	<b>8.0</b>	<b>7.4</b>	<b>7.0</b>	<b>6.6</b>	<b>7.7</b>
<b>Middle East</b>	<b>11.2</b>	<b>10.7</b>	<b>10.5</b>	<b>10.2</b>	<b>10.3</b>
<b>North Africa</b>	<b>11.6</b>	<b>10.5</b>	<b>10.2</b>	<b>9.6</b>	<b>9.9</b>
<b>Sub-Saharan Africa</b>	<b>8.6</b>	<b>8.0</b>	<b>7.9</b>	<b>7.9</b>	<b>7.9</b>

**Sources:** International Labour Office, *Global Employment Trends January 2011*, Table A2 Unemployment rate, world and regions. a/ Preliminary estimate by ILO



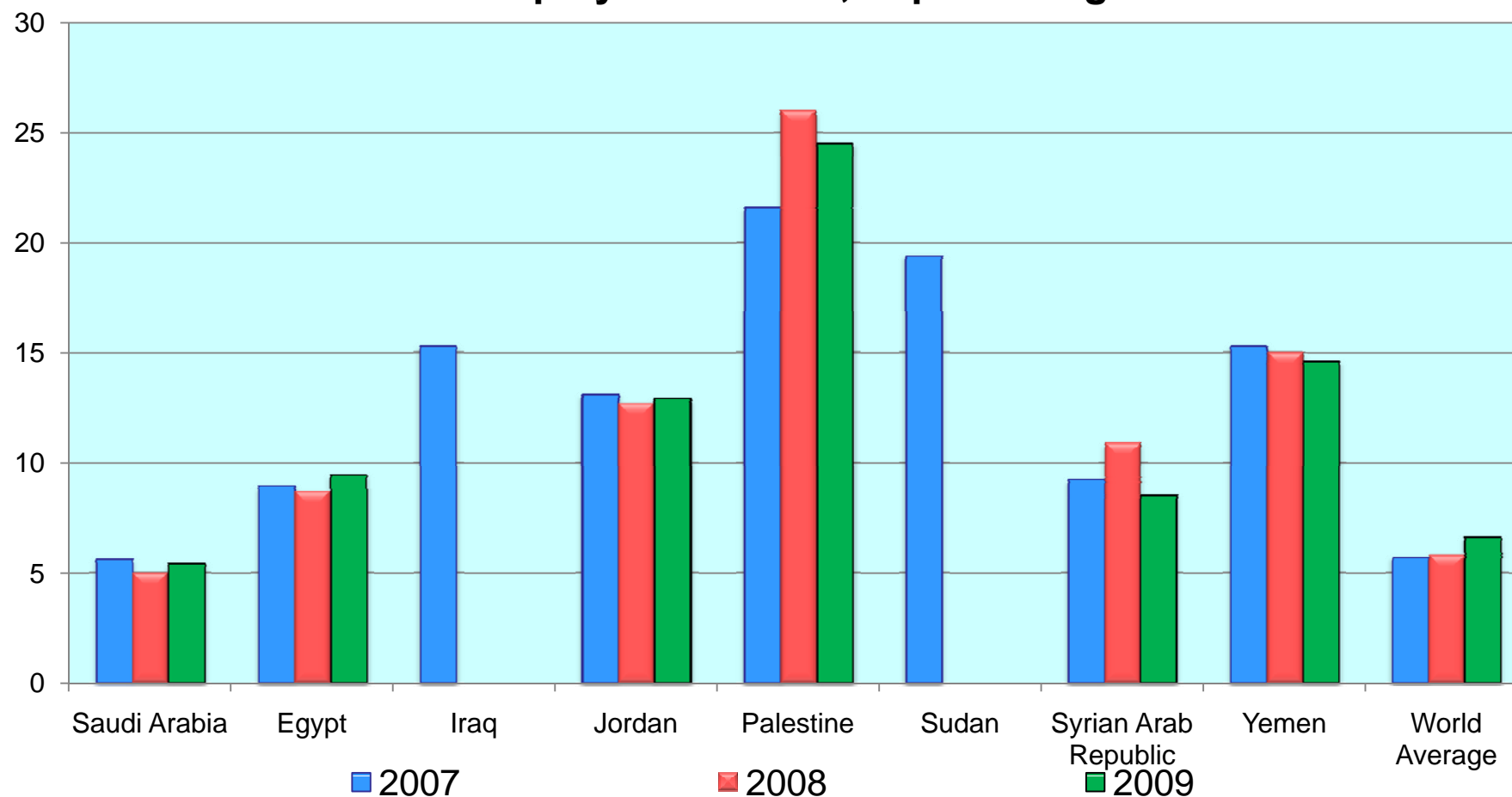
## *Acknowledged challenges* التحديات

1. **Volatile Growth rates** معدلات نمو متقلبة
2. **Unemployment, poverty and increasing disparities**  
بطالة، فقر وتزايد في معدلات اللامساواة بالتفاوت الكبير في المدخول
3. **Little economic diversification and weak industrial base** الإفتقار إلى التنويع الاقتصادي وضعف القاعدة الصناعية
4. **Limited regional integration**  
ضعف ومحدودية التكامل الإقتصادي والتجارة البينية
5. **Weak Environment for attracting and doing business** ضعف البيئة الإقتصادية الجاذبة للإستثمار
6. **External imbalances except for oil exporting countries**
7. **Limited Fiscal space**
8. **Slow human development improvement**



# 1. Weak link between growth and unemployment

Unemployment Rates, in percentage



Source: national sources.





## Unemployment patterns in the Arab region

- Low participation rate
- High demographic growth rate
- Highest unemployment rate in the world
- Unemployment particularly high among highly educated and youth
- Large informal sector
- Migration
- Low job quality
- No social coverage



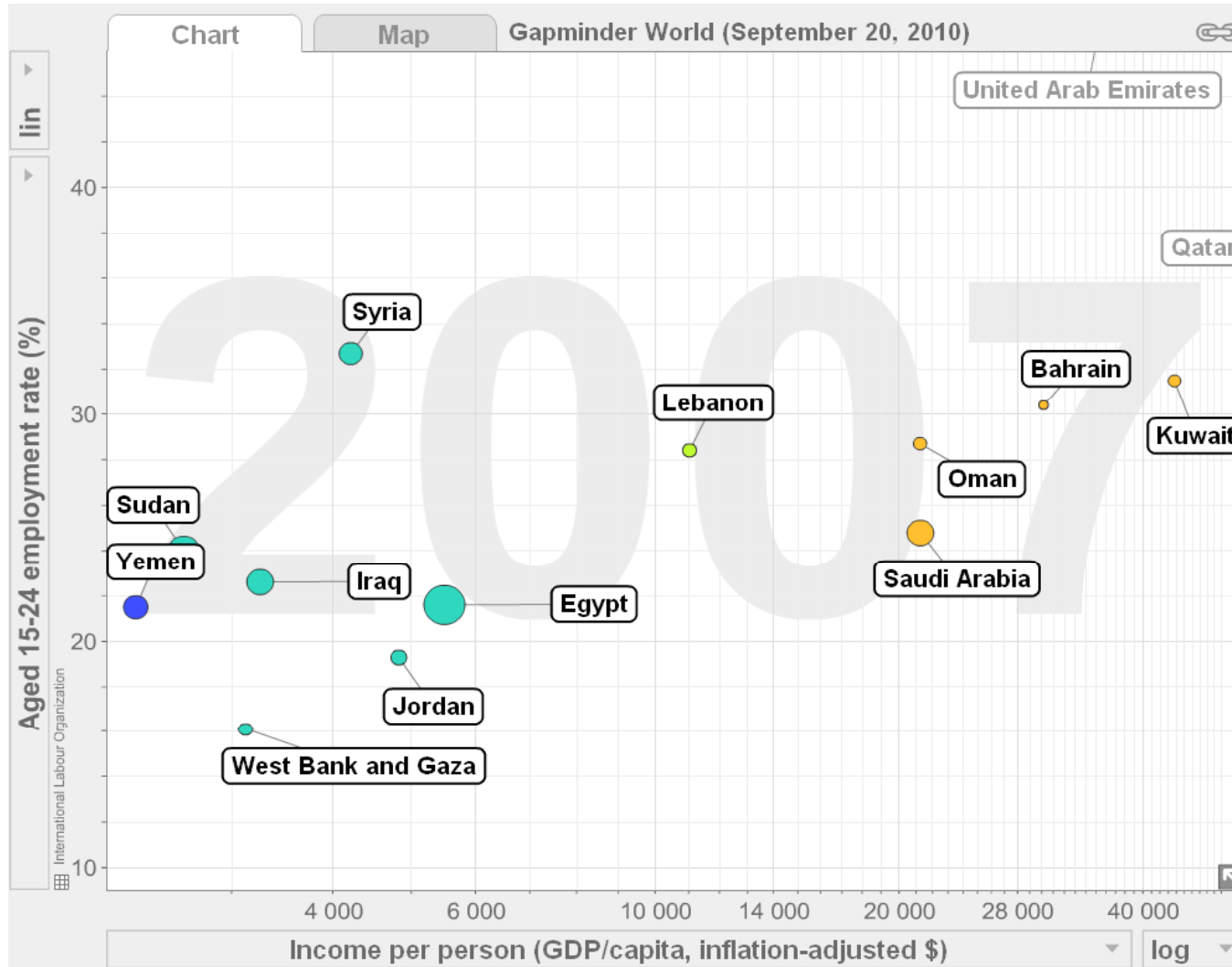
# Unemployment in the Arab region

Country/Area	Average Real GDP Growth 2005-2009 %	Average Unemployment 2005-2009 %	Change in unemployment between 2004- 2006 and 2007- 2009 Percentage point
Qatar			
Saudi Arabia	3.1	5.7	-0.7
Egypt	6.2	9.8	-1.7
Iraq	6.0	16.9	-5.5
Jordan	6.9	13.5	-1.6
The Occupied Palestinian Territory	4.3	23.8	-0.6
The Sudan	7.8	17.9	2.5
The Syrian Arab Republic	5.4	9.0	0.0
Yemen	4.7	15.3	-1.0





## Low rate of youth employment a crucial issue for a “young” region

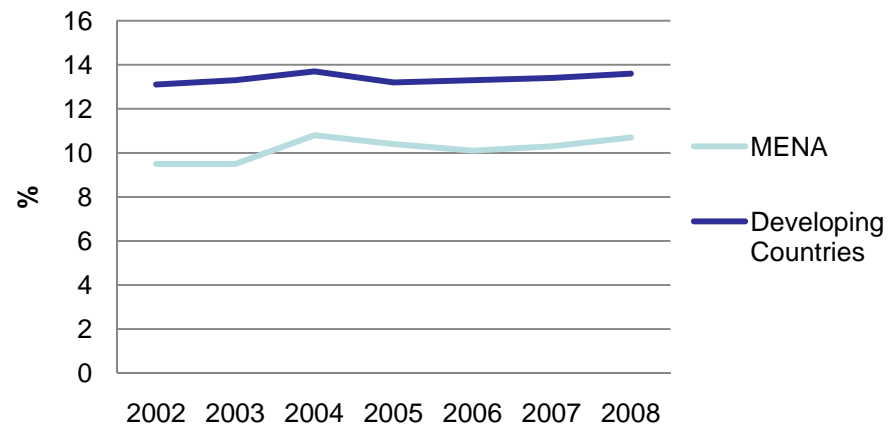


The color of the bubbles reflects the country income groups: high (orange), middle (green) and low (blue).  
The size of the bubbles reflects the overall size of the population. Source: Own graph based on Gapminder (2010)

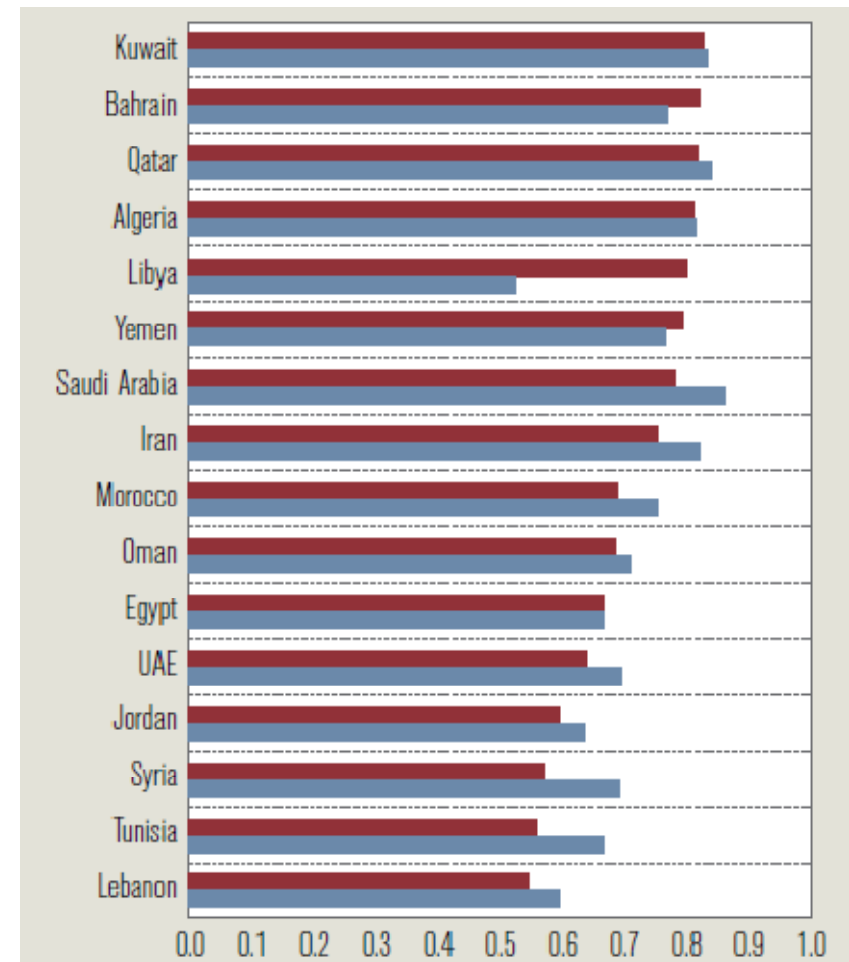


## 2. Little Diversification

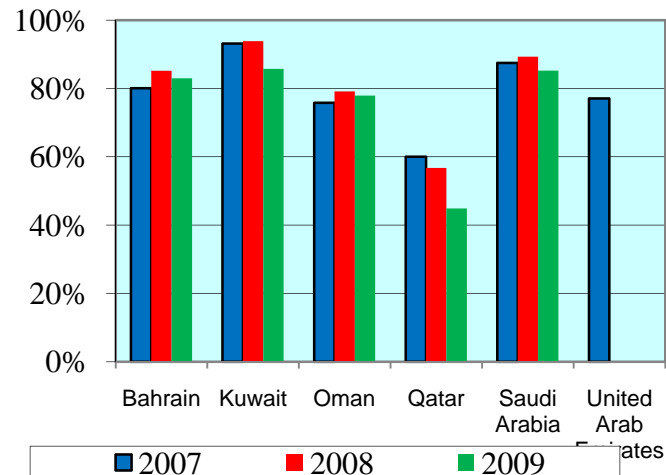
**Manufacturing Value Added as % of GDP**



**Export Concentration (Herfindahl-Hirschmann) Index (1995 (blue) and 2007 (red))\***



**GCC Oil and Gas Revenues as % of Total Revenues**



Source: Compiled by ESCWA from different sources

\* Scale 0-1 with 1 representing total concentration. By comparison East Asia has been around 0.10-0.15 in both 1995 and 2007



### **3. Poverty large and heavily concentrated in rural areas.**

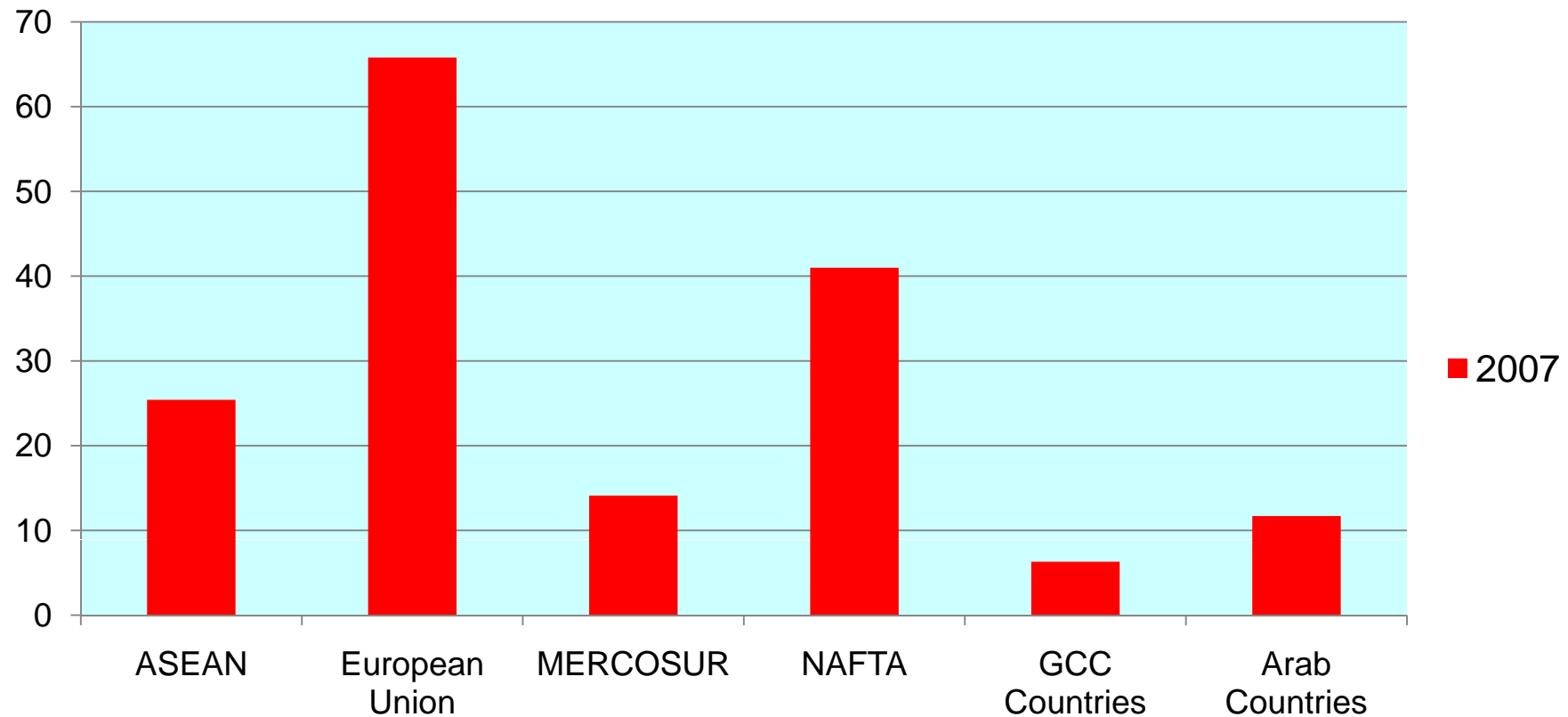
1. Poverty is still large and heavily concentrated in rural areas.
2. Poverty rates in LDC are still double the average for the region
3. Insufficient progress to meet the hunger target,



## 4. Limited regional integration

Intra-regional Trade of Selected Trade Integrated Regions, In percentage

2007



*Source: ESCWA Annual Review of Developments in Globalization and Regional Integration in the Arab Countries, 2008 and 2009*



## SMEs and Economic Development

Unique sustainable possibility over the long term to release the pressure on the labour market:

**Job creation led by the private sector**

SMEs development crucial to job creation



# SMEs and Economic Development

## **SMEs play major role in economic development**

Emerging markets: close to 365-445 million micro, small and medium enterprises of which

- 25-30 million are formal SMEs
- 55-70 million are formal micro enterprises
- 285-345 million are **informal** enterprises





# SMEs and Economic Development

## **SMEs crucial role in industrial development of emerging/developing countries**

- Main employer in some countries
- Often large contributor to output/value added
- Provide inter-firm linkages required to support large enterprises to ensure that they remain competitive in global markets
- Can contribute to exports



# SMEs and Economic Development

## ASEAN, SMEs' contribution to industrial development

Country/Area	Percentage of GDP/ Value Added (VA)/output	SMEs as a percentage of	
		All firms	Workforce
Indonesia	..	98	94
Malaysia	15 (total output)	84	32.5 (manuf)
Singapore	41 (manuf output)	97	58
Thailand	47 (VA)	96	76 (manuf)
Philippines	28 (VA)	99	99
China	60 (industrial output)	99	75
Taiwan Province of China	..	98.1	78.1
Japan	52 (manuf output)	99.7	72
Korea	47.5 (gross output)	99.7	75.3
India	40 (industrial output)	95	80
<b>Developing Asia</b>	<b>40-70 (VA)</b>	<b>80</b>	<b>80</b>

Trade and Investment Liberalization and the Development of Small and Medium-Sized Enterprises: A Perspective from Indonesia, (2007), Asia-Pacific Trade and Investment Review, Policy Brief, vol.3, no.2  
[http://www.unescap.org/tid/publication/aptir2470\\_polbrief.pdf](http://www.unescap.org/tid/publication/aptir2470_polbrief.pdf)



# SMEs and Economic Development

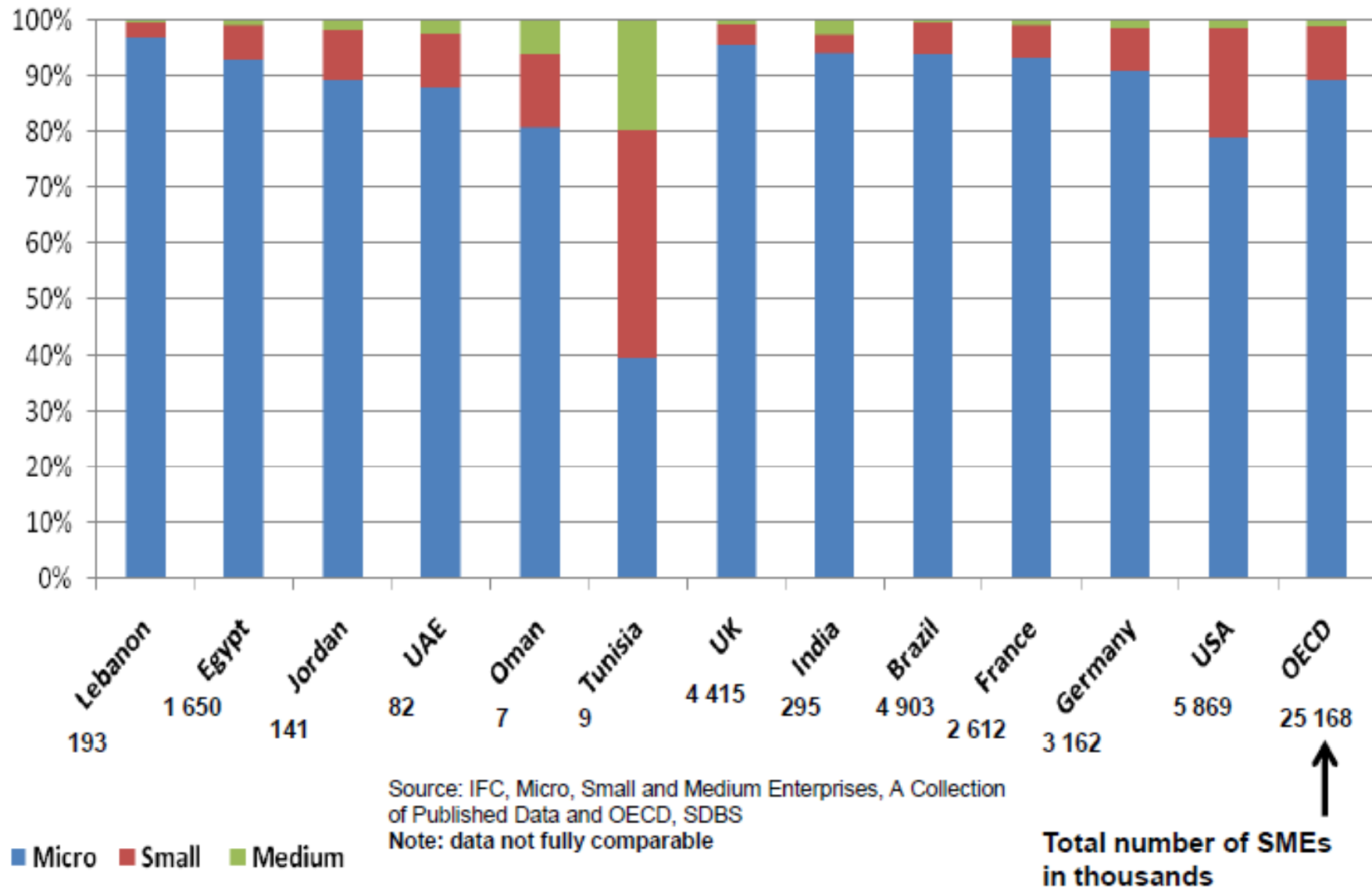
## ASEAN, SMEs contribution to exports

Country	Percentage share of SMEs to total exports
China	40-60
India	38
Indonesia	11
Malaysia	15
Republic of Korea	40
Singapore	16
Thailand	10
Viet Nam	20

Trade and Investment Liberalization and the Development of Small and Medium-Sized Enterprises: A Perspective from Indonesia,  
 (2007), Asia-Pacific Trade and Investment Review, Policy Brief, vol.3, no.2  
[http://www.unescap.org/tid/publication/aptir2470\\_polbrief.pdf](http://www.unescap.org/tid/publication/aptir2470_polbrief.pdf)



# Importance of SMEs by Size, % of Total





# Importance of SMEs, Selected Countries

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

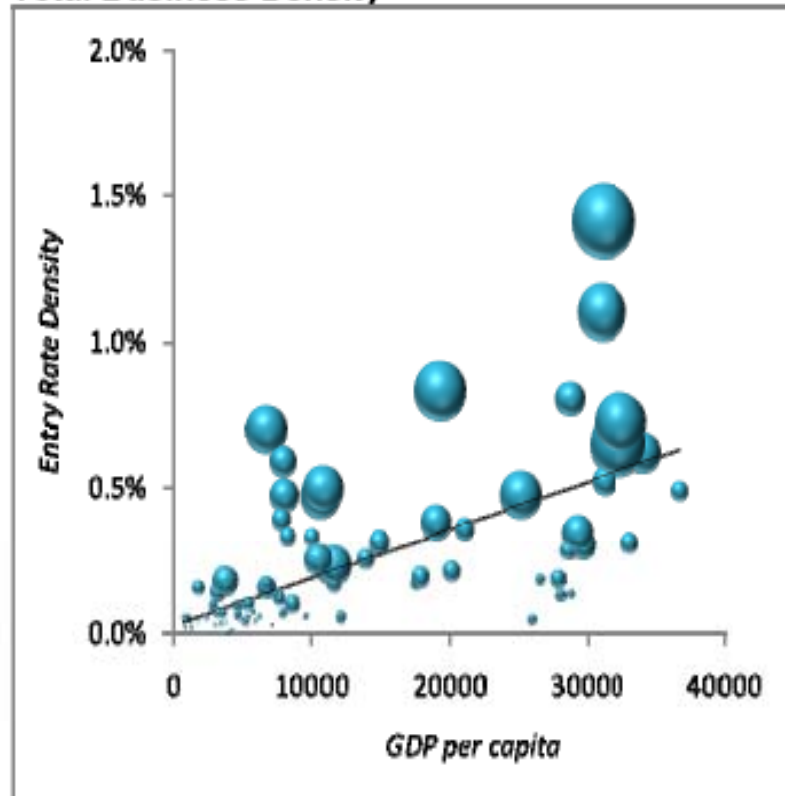
Source: IFC, Micro, Small and Medium Enterprises, A Collection of Published Data and OECD, SDBS. **Data not fully comparable**



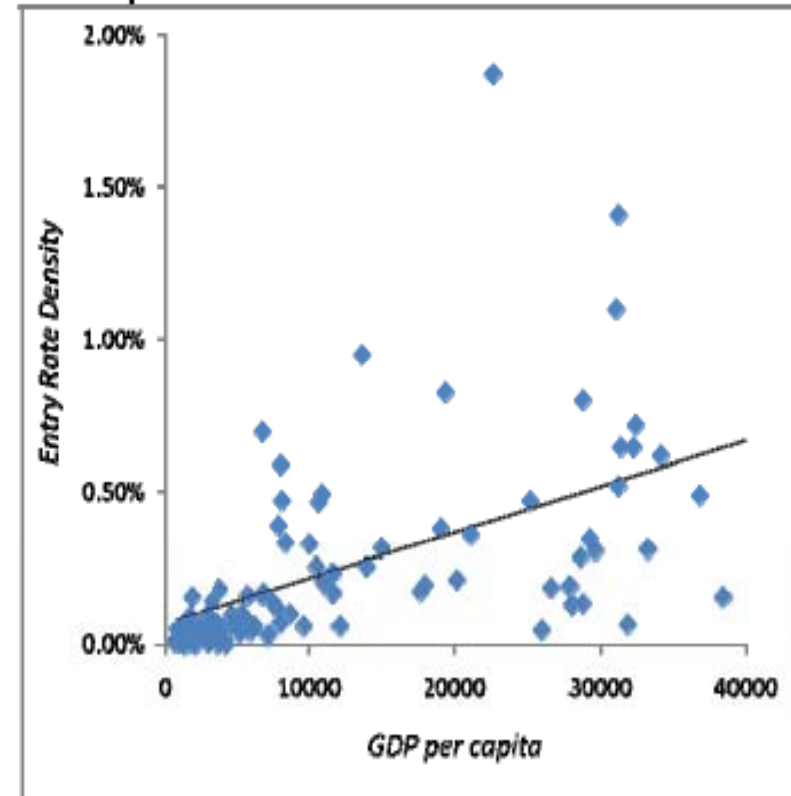
# SMEs and Standard of Living

Strong relation between firm entry density (new registered companies per 1000 population) business density and GDP per capita

**Entry Rate Density, GDP per Capita, and Total Business Density**



**Entry Rate Density and GDP Per Capita**







## Importance of SMEs in the Arab world

- **Egypt:** SMEs, 99 percent of non agricultural private enterprises,  $\frac{3}{4}$  new employment creation
- **Lebanon:** 95 percent of total enterprises, 90 percent of jobs
- **UAE:** 62 percent of the workforce, 75 percent of GDP, 94.3 percent of new projects
- **Yemen:** 96 percent of the GDP
- **Algeria:** 77 percent of GDP
- **The Occupied Palestinian Territory:** 59 percent of the GDP
- **Saudi Arabia:** 25 percent of the GDP



## The SME Sector in the Region

- Inconsistent SME definitions.
  - Different combinations of number of employees, paid-in capital, assets, and annual turnover.
- SMEs represent at least 95% of private enterprises in the region.
  - Majority have fewer than 5 employees.
  - Less than 1% of SMEs have more than 50 workers.
- Lack of timely, comprehensive and comparable data on the SME sector
  - Estimated 6.5 million SMEs in total.
  - Majority are in trade sector, followed by service sector, with few concentration in manufacturing sectors.



## The SME Sector in the Region

- High level of informality has implications on:
  - Fair competition for formal firms.
  - Access to financing for informal enterprises.
  - Job quality of informal employees with no social protection
  - Government revenues.
    - With the right policies, informal SMEs might be encouraged to move into the formal sector where their growth potential is increased.
- Low representation of women among the self-employed SMEs.



## SMEs Challenges

- Limited access to business development services, information on opportunities, technology, and markets.
- Lack of sophisticated management, production, and marketing skills.
- Lack of access to domestic and external financing
- Supply of educated and skilled workers



# Recommendations

## Access to Finance

- Establish (strengthen) credit bureaus to collect credit information.
  - Compile credit info on micro-credit borrowers from MFIs, collect payment records of mobile phone users, of car loan users, etc.
- Stimulate bank lending to SMEs.
  - Expand loan guarantee programs.
  - Require banks to allocate a certain % of their portfolio to SME loans.
  - Simplify application and approval processes.
  - Provide (gender-sensitive) training to lending officers on the financing of SMEs.



# Recommendations

## **Ensure diverse sources of financing:**

- Development of debt and equity markets
- Develop Islamic Financing options for SMEs
  - Leading role for Islamic Development Bank as a Multilateral Development Bank of the Islamic World.
  - Develop Credit Guarantee Schemes jointly with local Governments and other institutions.





# Recommendations

## Regulatory and formalization

- Remove regulatory and procedural barriers to the entry and growth of SMEs and to dissolution of an enterprise.
  - Reduce the costs of registering businesses and enforcing contracts.
  - Improve systems of registering/titling property so it can be used as collateral for SME loans, including respecting the property rights of women
- Implement strategies to encourage the formalization of enterprises
- Reform rules regarding property rights.



# Recommendations

## **Trade policy reform:**

Take into account negative potential side effects on SMEs  
(supply shortages of key raw material, etc...)

Business advice for SMEs.

- Develop market linkages especially export markets.
- Promote transfer of knowledge, skills and technology.



# Recommendations

## **Absorptive capacity**

- Investment in Research and Development
- Human capital quality, provide sustainable access to mentoring, training
- South-South cooperation
- Improving regulation in subcontracting



# Thank you