

Small Businesses – Policy Options?

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Unlocking sustainable private sector growth in the Middle East and North Africa

Report

Chapeau report synthesizing lessons from nine research papers

Joint assessment of private sector by EIB, EBRD, and the World Bank

Data

Based on data from the EBRD-EIB-World Bank Enterprise Survey

5,800 interviews in Egypt, Jordan, Lebanon, Morocco, Tunisia and the West Bank and Gaza

Relevance

Data collection took place between late 2018 and 2020, i.e. pre-pandemic

Survey has structural focus, and initial conditions matter for performance during pandemic

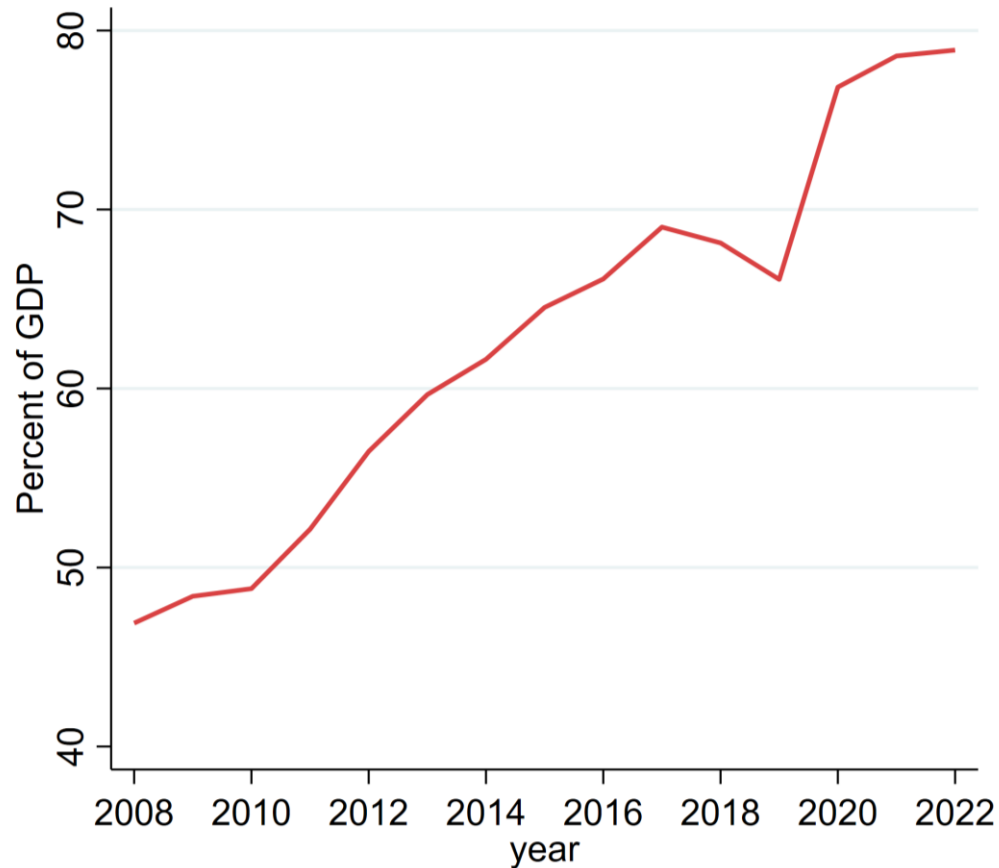
Therefore, results still relevant today

Key messages

- In the MENA region, macroeconomic vulnerabilities, at times of repeated shocks add to structural impediments
 - Firms in the region are less capable to reap the benefits from trade participation and innovation
 - Relatively weaker managerial capabilities and low focus on training
 - Competition from informality matters and SMEs generally have less opportunities
 - Low investment propensity has multiple causes – but indeed possible crowding out from macroeconomic vulnerabilities and weak business environment
- Room to do better – and indeed some countries do!

Macroeconomic vulnerabilities, at times of repeated shocks

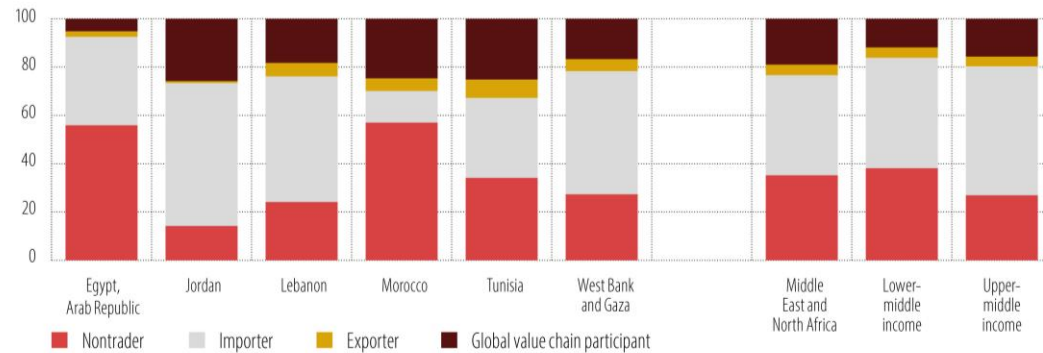
Public debt



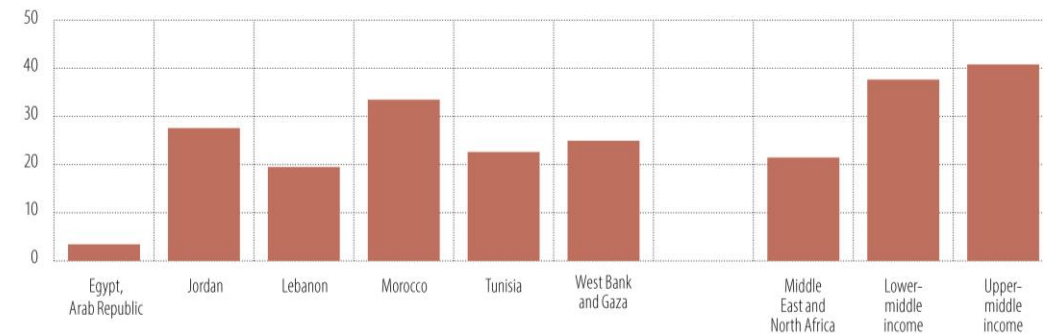
- The new global shock materializes as post-pandemic recovery expected to take hold
- Food and energy prices major transmission channel
 - Highest impact on poorer segments of society, with greater risk of social unrest
- Higher current account deficits in energy importing countries
- Rising debt already matching to reduced incentives for investment
- Limited policy space, due to high public debt and increasing risks with global tightening

Trade as a driver for innovation, but firms in the region are less capable to reap the benefit

Trading profiles in 2019 (% of firms)



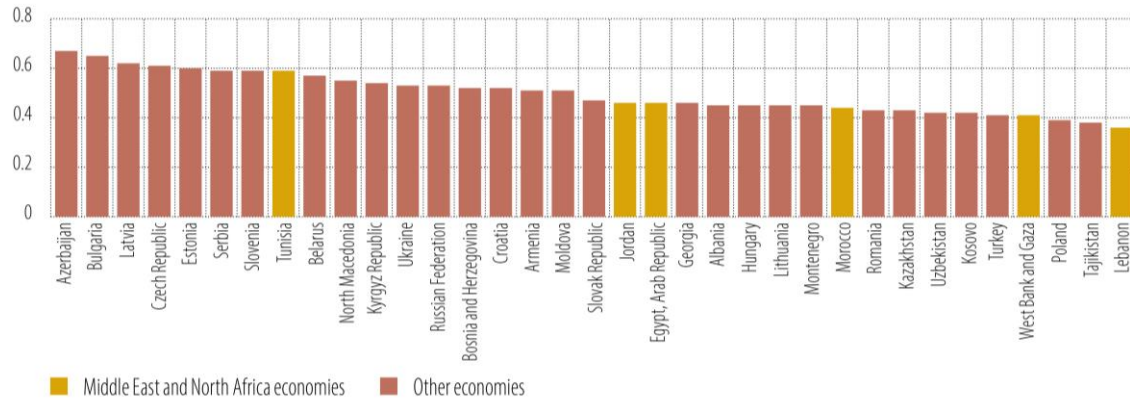
Innovation rates (% of firms)



- International trade determinant of competitiveness and capacity for innovation
 - Access to export market shapes incentives to innovate
 - Relocation of production drives technology diffusion
- Innovation rates are particularly low in the region, even though trade participation similar to benchmark economies
 - This limits economic growth through technology adoption
- Weak business environment limits firms' ability to reap scale and efficiency benefits from trade and innovation

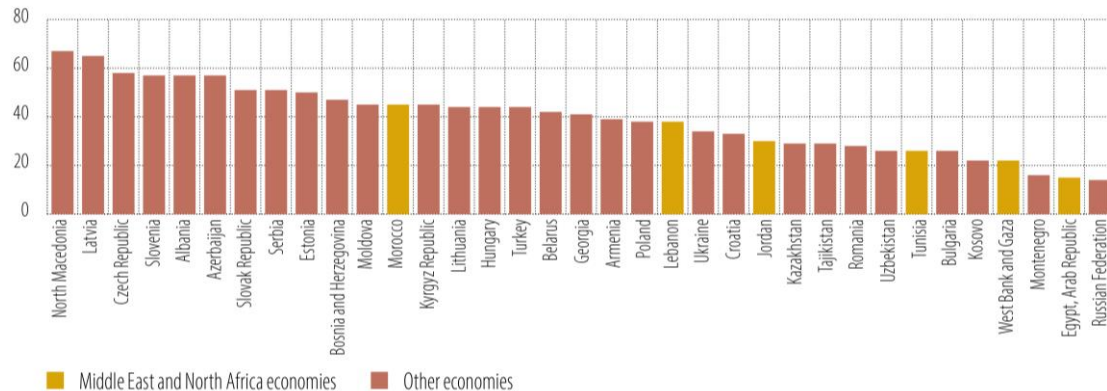
Lower focus on management practices and skills matters

Overall management scores for MENA economies 2018-20



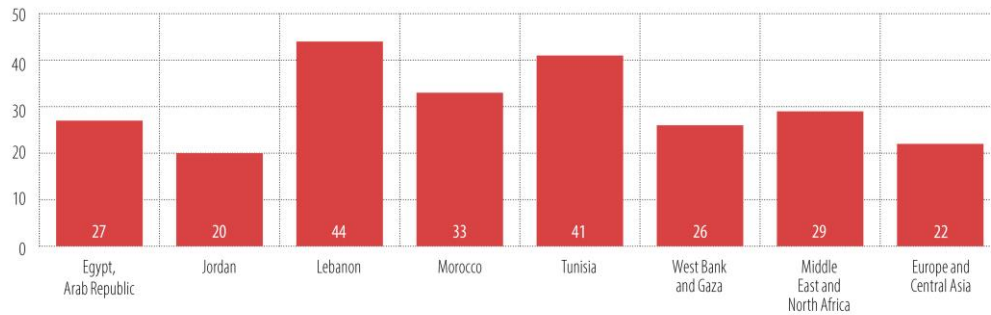
- Management practices and formal training are complements and support firms productivity and transformation
- On average, businesses in the region have poor management practices, declining overtime
 - at least partly due to government ownership
- Small share of MENA firms provide formal training
 - Returns to training higher for better educated workers and the region could leverage on its high share of university graduates

Companies offering formal training (in %)



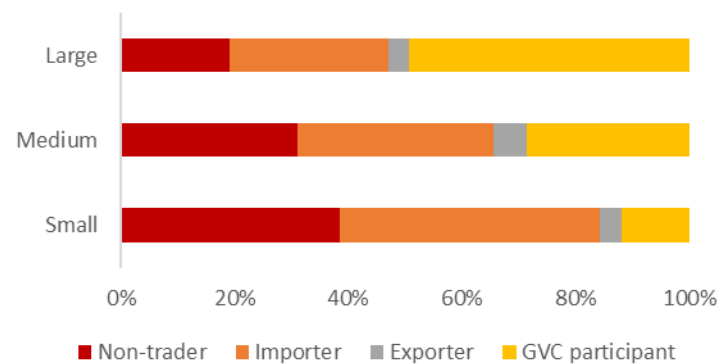
Informality as a constraint for firms growth, while SMEs indeed have generally lower opportunities

Share of firms constrained by competition from informal firms: MENA countries 2013-19 (in %)

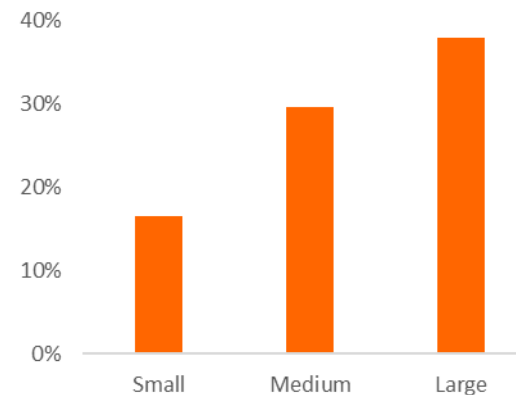


- A comparatively high share of firms consider competition from informal firms a major or very severe obstacle
- Competition from informal firms associated with slower employment growth of formal companies and lower access to credit

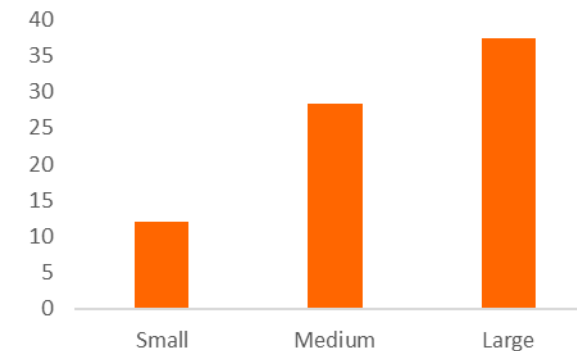
Trade participation



Innovation rates in MENA

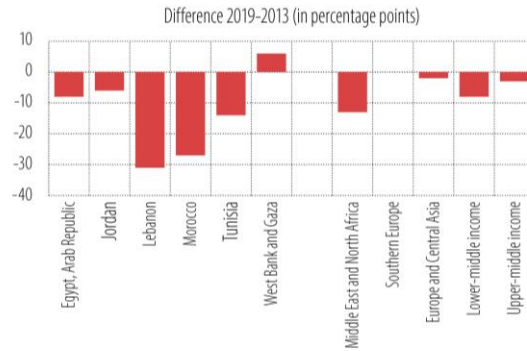
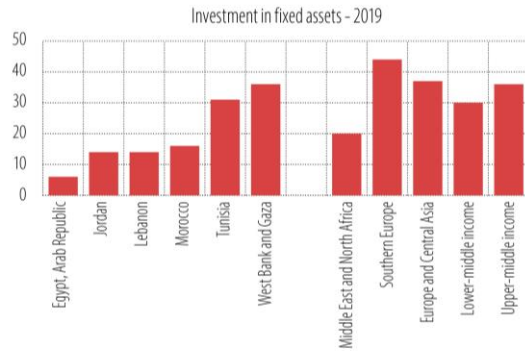


Percent of firms offering training in MENA

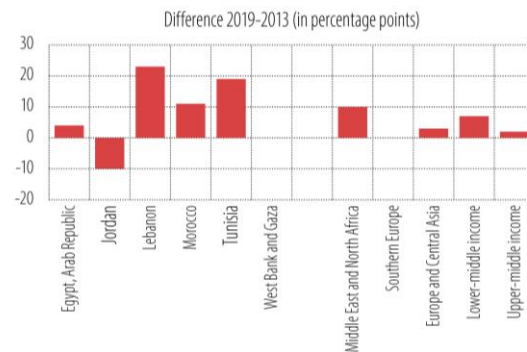
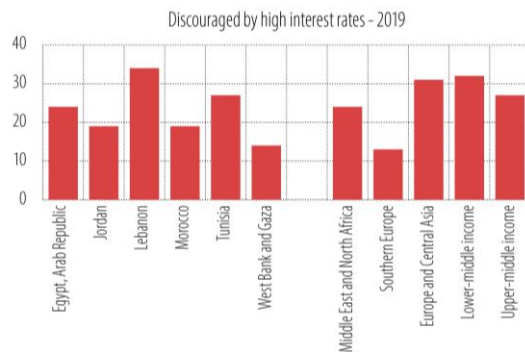


Low investment and access to finance

Investment in fixed assets (% of firms)



Firms discouraged by high interest rates (in % of firms needing a loan)



- Investment rates in the region low in comparison to last survey round and benchmark economies
 - Limited growth via capital accumulation
- High interest rates discourage greater share of firms from applying for a loan
- In addition, many firms fully self-finance, i.e. are financially autarkic
 - Voluntarily autarkic firms do not grow slower than non-autarkic firms
- High interest rates resulting from the build-up in public debt likely crowd out private investment
- Unfavorable business environment can explain high interest rates, low investment, and financial autarky

Cause for concern but also opportunities

In sum

MENA private sector performing worse than benchmark countries in Europe and Central Asia

Flipside: A lot of room to do better; indeed some countries do better than others

MENA economies should leverage on the private sector to grow out of their currently high debt levels

Policy implications

Maintain macroeconomic stability against a background of spillovers from the war in Ukraine and rising interest rates

Facilitate technology diffusion via international trade

Policy implications

Improve human capital, recognize the importance of human capital acquisition at work, improve management practices

Even greater risk of crowding out going forward, credible fiscal policy important, structural reforms may raise the opportunity cost of financial autarky