

A New Framework for Euro-Med Cooperation on Micro, Small and Medium-Sized Enterprise Support

The Role of the Union for the Mediterranean

Rym Ayadi and Antonio Fanelli

No. 239, 10 May 2011

Introduction

Micro, small and medium-sized enterprises (MSMEs) are the driving force behind economic development in the Mediterranean. They perform an essential role as providers of employment and innovation opportunities and act as key players for regional and local development and social cohesion.

In light of their importance, several Euro-Mediterranean initiatives have been taken to provide a framework for their development. For example, adopted at the Caserta Ministerial Conference¹ in 2004, the Euro-Mediterranean Charter for Enterprise aimed to operationalize key principles and policies for creating an adequate business environment conducive to investment and private sector development in the region. Four years later, the Union for the Mediterranean (UfM),² a French-led initiative for co-development, was launched aimed at developing the MSME sector.

After reviewing the essential role of MSMEs in the Mediterranean and the key elements of the Euro-Mediterranean regional cooperation, this paper proposes a blueprint for a new framework for MSME development in the context of the ongoing Euro-Mediterranean cooperation, with a clear focus on the role of the UfM to reinforce this regional cooperation.

¹ http://ec.europa.eu/enterprise/policies/international/files/f1960quar_en.pdf

² http://ec.europa.eu/enterprise/policies/international/files/barcprocesscom08_319_en.pdf

Rym Ayadi is a Senior Research Fellow at CEPS and Coordinator of Mediterranean Prospects – MEDPRO, www.medpro-foresight.eu. Antonio Fanelli is Deputy Head, Private Sector Development Division, Directorate for Enterprise and Financial Affairs, Organisation for Economic Cooperation and Development (OECD). Mr Fanelli co-authored this article in a personal capacity and thus, the article does not necessarily represents the views of the OECD.

CEPS Policy Briefs present concise, policy-oriented analyses of topical issues in European affairs, with the aim of interjecting the views of CEPS researchers and associates into the policy-making process in a timely fashion. Unless otherwise indicated, the views expressed are attributable only to the authors in a personal capacity and not to any institution with which they are associated.

The role of MSMEs in the emerging economies

Small enterprises play a central role in the Mediterranean economies. They account for the vast majority of active companies and a very significant part of value added creation. Importantly, the prime contribution of SMEs to economic and social development in emerging economies is through employment generation. As small enterprises are largely concentrated in the service sector, tourism, in labour-intensive operations, and, in general, in activities where the scope for productivity gains and economies of scale are limited, their expansion has a direct positive impact on employment levels.

Therefore, a growth model that is broadly based and includes as a key component the expansion of micro, small and medium-sized enterprises, tends to generate more jobs for a given amount of value added than a growth model that relies on the expansion of large enterprises in priority sectors with high capital intensity. SME growth is also associated with the expansion of a productive and entrepreneurial middle-class, a factor that contributes to economic and political stability. Given that employment generation and stability are both very relevant for the Euro-Med countries particularly in the aftermath of the recent events in the region, a policy that actively promotes MSMEs and targeted initiatives such as the one under the UfM make perfect sense in the Euro-Med context.

However, an economy based predominately on small enterprises may suffer from a series of limitations that hamper long-term growth, particularly in terms of generating enough foreign currency through exports to pay for essential imports and in terms of sustaining R&D activities. The developed countries' experience shows that a well-balanced combination of large, small and medium-sized enterprises tends to produce the best performance in terms of sustained economic growth, employment generation and productivity gains. What really matters is the strength and the intensity of forward and backward linkages between different types of businesses.

Until the 1990s, most of the emerging economies in the Mediterranean region undertook policies supporting rapid industrialization, channelling resources into large enterprises, often state-owned or state-supported, relegating small enterprises to a marginal role. Later the emphasis shifted to attracting large-scale foreign direct investment (FDI) and only in recent years have SME and entrepreneurship policies started to emerge. An indication of the ancillary role of SME policy in the region is that while all Mediterranean economies have functioning investment promotion agencies, only a few countries (e.g. Syria and Morocco) have SME-targeted development agencies that provide SME development services (e.g. for creation, expansion and innovation), capacity building (e.g. training, mentoring and monitoring) and assistance to access to finance and to markets (see Table 1).

Table 1. Selected SME development agencies

Agency name	Creation	Activities
Syrian European Business Development Centre (SEBC)	1996	SME development services Capacity-building Guidance on access to finance
Industrial Modernization Centre (IMC) Egypt	2001	SME development services Capacity-building Guidance on access to finance
Euro-Lebanese Centre for Industrial Modernization (ELCIM)	2001	SME development services Capacity-building
Agence Nationale pour la Promotion de la PME (ANPME) Morocco	2002	SME development services

Sources: Own compilation from SME agencies' websites.

Most Mediterranean economies feature a limited number of large enterprises, which often benefit from dominant market positions and close relations with the political power. These enterprises comprise a number of outward-oriented companies, sometimes with foreign capital participation, operating often in isolation from the rest of the economy (either in duty-free zones, special economic zones or off-shore regimes) The majority of enterprises, however, consist of small and micro enterprises, operating in opaque regulatory environment, often informally, with very restricted access to the banking and financial sector and with limited and often difficult relations with public institutions.

Key elements of Euro-Mediterranean regional cooperation

One of the key initiatives of the Union for the Mediterranean (UfM), launched in July 2008 under the French Presidency,³ concerns enterprise development and in particular "the support of MSMEs active in the region, starting with an evaluation of their needs and then offering technical assistance and access to financing". It is indeed the first time that MSME support is explicitly mentioned as a key area of Euro-Med cooperation at the regional level.

Such initiative came about to reinforce the Barcelona Process which aimed at fostering economic integration between the two sides of the Mediterranean through trade and industrial cooperation. In particular, SME policy fell under the wider framework of industrial cooperation, which gives the European Commission a key coordinating role in the process. More precisely for the Mediterranean neighbourhood, the Euro-Mediterranean Ministers of Industry endorsed in 2004 in Caserta the Euro-Mediterranean Charter for Enterprise,⁴ but differently from the EU Charter for Small Enterprise from which it was inspired, its scope was not exclusively on SME policy, but more broadly on enterprise policy, without a specific scale connotation. More than six years of Euro-Med industrial cooperation on key policy dimensions essential for enterprise development in the region

³ http://ec.europa.eu/enterprise/policies/international/files/barcprocesscom08_319_en.pdf

⁴ http://ec.europa.eu/enterprise/policies/international/files/f1960quar_en.pdf

do not seem to bring much when looking at speed of reforms in the region. So far, entrepreneurship promotion and small enterprise support in the Euro-Med region have been the objective of country programmes, conducted either under the European Neighbourhood Policy (ENP) or under bilateral assistance and regional programmes. Such support fell largely below aspirations, as reflected in the pertinent numbers. Over more than a decade, SME support from the EU only accounted for 11% of total commitments to the region (see Table 2).

Table 2. EU institutions' commitments per country benefitting SMEs, 1995-2009

Country	Commitments (€ million)
Algeria	157.97
Egypt	495.05
Jordan	139.41
Lebanon	91.59
Morocco	250.76
Palestinian Adm. Areas	157.77
Syria	72.83
Tunisia	135.69
TOTAL	1,501.07
As a share of total commitments	11.13%

Source: Own estimation from OECD CRS database.

Regional cooperation on MSME support can contribute to raising awareness of the fundamental role played by small enterprises in supporting economic development, in promoting a policy shift at the national level away from the support of dominant large enterprises, in fostering the exchange of experiences, in adopting good practices and in promoting the establishment of intra-regional and Euro-Med networks – a critical element, as it has been shown that dynamic enterprises grow through network participation.

SME policy consists of a combination of horizontal legal, regulatory and tax measures that aim to enable and improve the operational environment for all classes of enterprises, and targeted measures that address specific market and coordination failures (typical examples are in the area of access to finance, provision of training and support services, innovation/technology absorption, etc.). However, SME policy is difficult to define and even more difficult to structure, as policy intervention

ranges across a number of dimensions, as the balance between horizontal and targeted measures depends on country-specific conditions, and as the impact of targeted measures is difficult to evaluate.

Given these characteristics, an effective process of regional policy cooperation in the area of SME and entrepreneurship policy area needs to be built on:

- A clearly stated, conceptually solid and consensus-based framework that defines the scope of cooperation, in terms of policy dimensions, objectives, means, actors and identifies the beneficiaries of the cooperation process;
- A committed group of stakeholders that can contribute to regional dialogue and can gather consensus and support at the country-level around initiatives and projects developed under the regional cooperation programme;
- A work programme to set medium-term objectives, to translate those objectives into realistic targets at the regional and country level, based on empirical evidence and a shared set of priorities, to be treated as milestones in the regional cooperation process;
- A monitoring mechanism that evaluates progress towards meeting the targets, sets the basis for further comparative analysis of improvements in the policy environment, leads to the identification of critical issues and promotes a dynamic of peer pressure and peer cooperation.

The Euro-Med Enterprise Industrial Cooperation process, covering only nine Mediterranean economies,⁵ retains most of the elements mentioned above. The cooperation built around the Euro-Med Charter for Enterprise defines the scope of regional cooperation, identifies ten specific policy dimensions,⁶ sets a conceptual framework based on the EU experience and covers both horizontal and

⁵ Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Authority, Syria and Tunisia.

⁶ Simple procedure for enterprises, education and training for entrepreneurship, improved skills, easier access to finance and investment friendly taxation, better market access, innovative firms, strong business association, quality business support schemes and services, strengthening euro-med networks and partnerships, clear and targeted information for enterprises.

targeted policy interventions. The country Charter Coordinators are the main actors of this example of regional cooperation. The Coordinators have representative powers, are formally appointed by their respective governments which entitles them to take decisions at regional meetings. At the same time Coordinators are able, in most cases, to mobilize resources and gather support at country-level.

An evaluation tool, jointly elaborated by the OECD, the European Commission, the European Training Foundation and the European Investment Bank and based on a methodology initially developed and tested by the OECD, provided a mechanism to evaluate progress at both the country and regional levels through a set of qualitative and quantitative indicators. The participative character of the evaluation process, involving the active participation of the Charter Coordinators, private sector associations and other members of the Euro-Med SME policy community, assured that the results of the evaluation process were broadly supported by the participants and were considered highly relevant for policy development. The presence of all these elements contributed to the success of the first monitoring of progress in the implementation of the Euro-Med Charter for Enterprise and resulted in the publication of the *Report on the Implementation of the Euro-Med Charter for Enterprise: 2008 Enterprise Policy Assessment*, presented at the Seventh Euro-Med Ministerial Conference on Industry hosted in Nice in November 2008.

However the monitoring of progress on the implementation of the Euro-Med Charter for Enterprise also has substantial limitations and constraints.

First a number of policy dimensions critical for small enterprise development in the Euro-Med region, such as employment and labour market policies, control of corruption, informality, external funding targeting SMEs, start-up support and women's entrepreneurship, are not covered by the Euro-Mediterranean Charter for Enterprise, and were thus excluded from the evaluation process.

Second, due to the lack of financial resources, the monitoring process placed emphasis on evaluation, whereas not enough attention was paid to analyzing critical issues such as developing and

exchanging good practices between EU and Euro-Med partners and among Euro-Med partners.

Third, no provisions have been made to increase capacities in policy elaboration and delivery, nor monitoring results at the sub-national level. While the monitoring led to the identification of critical issues, no support was provided to address those issues. This was partly due to the lack of resources and partly to the difficulties of coordinating the regional process with the country programmes designed under the European Neighbourhood and Partnership Instrument (ENPI).

A strengthened regional cooperation process in the area of MSME has to start from the evaluation of the lessons learnt from the monitoring of progress in the implementation of the Euro-Med Charter for Enterprise and from an understanding of its limitations, in terms of policy framework and availability of resources.

The first step towards strengthening the regional cooperation framework is to define a common policy document that sets the scope, objectives and means of the renewed cooperation process. This could be achieved either by amending and extending the 2004 Euro-Med Charter for Enterprise, integrating for instance elements of the EU Small Business Act, or by elaborating a new document that reflects regional priorities such as employment creation. In either case, this policy document must be prepared while taking into account the developments of the UfM initiative on SME development, which should play an essential role by continuously reinforcing the renewed Euro-Med regional cooperation by precisely testing the Euro-Mediterranean policies on the ground when dealing with specific MSME projects in the region.

More broadly, the recent proposal for 'A Partnership for Democracy and Shared Prosperity' released on 8 March 2011, and emanating as the EU response to the historical events in the south Mediterranean can be the right policy framework to integrate all Euro-Mediterranean initiatives (regional and bilateral). These would encompass not only those related to SME development, but also all the other equally important projects on democratic transformation and institution-building and the support of civil society and youth.

The second step is to reinforce the current work on trade and harmonization of technical standards

conducted by the Euro-Med Working Party on Industrial Cooperation, which is coordinated by the Directorate General for Enterprise and Industry of the European Commission. Specific working regional groups are organized around priority policy dimensions while building on existing expertise. For instance, there could be projects on the general economic framework, control of corruption, informality, coordination on definition issues of MSME⁷ and the collection of statistics and relevant indicators. In support of horizontal policy; projects could promote start-ups, innovation, employment, women's and youth entrepreneurship and the socio-economic dimensions of SME policy. These 'work streams' should be developed in close coordination with the UfM Secretariat.

The third step is to re-invigorate a cohesive group of country delegates (currently the Euro-Med Charter Coordinators) who will lead the regional cooperation process and ensure coordination between regional and country initiatives. It is important that this group is not limited to a select number of government representatives, but also includes members from the private sector and the financial sector (as access to finance has been identified as a prime area of regional cooperation). The group should also include representatives from civil society, i.e. professional associations and NGOs involved in supporting entrepreneurship, providing micro-finance, training and advisory services to micro-enterprises. All those members would be appointed by their respective constituencies (either government organizations or private sectors).

The final step is the elaboration of a targeted work programme, built around a selected number of themes and work streams, e.g. access to finance and capacity-building conditions that combine policy development, evaluation and identification of good practices.

The work programme will have to be formally approved in the relevant Ministerial meeting.

It is important that the entire process leads to the elaboration and endorsement of the work programme, is inclusive, participatory and

transparent. All the Euro-Med countries, independently of their level of development and the structure of their economy, should be able to benefit from participating in this process.

Blueprint for the UfM MSME support initiative

Enabling the environment of MSMEs is a precondition to develop the sector in the Mediterranean. This can be achieved through setting up the right policies and measures aimed at improving the business environment and operational conditions for enterprises by the governments and in close consultation with the private sector and civil society. Such policies range from administrative simplification and control of corruption to tax and regulatory regimes to support MSMEs and measures to promote human development.

The Euro-Med regional cooperation strives towards these objectives in the medium to the long run.

In practice, assuming that the overall environment is being progressively enabled in a coordinated fashion and in the context where private-public partnerships are encouraged, two pillars are essential to develop MSMEs in the Mediterranean, namely:

1. access to finance and
2. building capacity.

Access to finance is imperative for enterprise development during its business cycle (start up-expansion, maturity and survival). Today, it is widely recognized that MSMEs face significant obstacles to access loan and equity financing in the region. These obstacles range from the persistent information asymmetries to a lack of collateral and equity. Promoting access to finance is a long-term endeavour where different actors –international donors, banks (domestic, foreign), loan guarantee schemes, private equity and others – are involved.

Work on access to finance, a central theme of the small and medium-sized enterprise initiative under the UfM, should be carefully structured in close coordination with the work streams under the Euro-Med regional cooperation framework.

⁷ There is no uniform definition of an MSME that can be applied to the South Mediterranean countries, which poses technical challenges for some of the EU-based initiatives.

There could be a continuous technical stream of work run by the UfM secretariat focusing on specific financial instruments and products that could be provided to the MSME sector by financial intermediaries (e.g. commercial banks, micro-finance institutions, equity funds, guarantee institutions) in cooperation with international and bilateral financial institutions (e.g. EIB, World Bank, financial institutions from EU member states supporting SME development in the region). Other equally important initiatives to enhance the capacity to access to finance to MSME could be explored such as the development of a functioning network of loan guarantee systems in the region, where best practices can be shared and new innovative instruments can emerge; and a Mediterranean micro-finance system that aims at ensuring the sustainability of micro-finance organizations active in the region.

An evaluation system, such as the OECD Score Board on access to finance, could be developed at a later stage in order to monitor progress in this area and identify critical issues that must be further improved. All and all, access to finance should be integrated into the wider framework of SME policy development and should not be treated as a separate area under the exclusive competence of financial institutions. The risk is that the debate will focus mainly on the supply side, particularly on resources, financial products and the selection of financial intermediaries, whereas empirical analysis has shown that there are issues on both the demand and supply sides.

Building capacity is a cross-cutting process of creating, maintaining, strengthening and adapting capacity over time. Supporting capacity-building addresses the human, organizational and the institutional issues that relate to MSMEs. There are already a number of domestic SME support organizations in the Mediterranean countries that provide services to enterprises ranging from the support to enterprise creation, training, advice to accessing to commercial networks and financial institutions. A number of these organizations are co-funded by the EU under the bilateral programmes with these countries (see Table 3).

Table 3. SME agencies' funding and performance

Agency	Public contributions for agency creation	Number of SMEs assisted since agency's creation
Syrian European Business Development Centre (SEBC)	€0.72 million by Syrian government €15 million EU contribution	1,783
Industrial Modernization Centre (IMC Egypt)	€103 million by Egyptian government €250 million EU contribution	14,936
Agence Nationale pour la Promotion de la PME (ANPME Morocco)	<i>Confidential</i>	1,969

Sources: Own compilation based on agencies' websites and contacts with agencies' officials.

A first step is to assess the effectiveness of these organizations in terms of their role in promoting the entrepreneurial culture and enterprise development. A second step it to promote the sharing of best practices between the Mediterranean countries. And the third step is to implement targeted actions. This work can also be organized in a work stream, which main purpose is to coordinate and strengthen the MSME development good practices in the region.

The UfM Secretariat has a central role to play in preparing the technical ground to the MSME support and also in reinforcing the Euro-Med Regional Cooperation process in order to develop the MSME sector in the region.

Such a role must be backed by sufficient financial resources and a team of people with adequate skills. Resources can be provided under the regional programme of the ENPI. Close coordination is needed with the ENPI commitments allocated per country to reinforce MSME development in the region (see Table 4).

Table 4. ENPI commitments for Southern neighbourhood under bilateral and regional cooperation (€ million)

	2007-2010	2011-2013
Algeria	220	172
Egypt	558	449
Israel	8	6
Jordan	265	223
Lebanon	187	150
Libya	0	60
Morocco	606	580.95
Palestine	0	0
Syria	135	129
Tunisia	300	240.50
Regional programme		
South Med	343.3	288
Total	2,622.43	2,298.45

Sources: National and regional indicative programmes.

In particular the UfM Secretariat should:

- Elaborate a mid-term vision of the scope and objectives of the Mediterranean Small Business Development Initiative (MDBI), based on the indications received from the member countries and organizations and within the Euro-Med regional cooperation framework;
- Translate this medium-term vision, once endorsed by the UfM members, into a project proposal;
- Define the specific projects to prepare the ground for MSME development, define the role of the partner organizations and determine the structure of the working groups;
- Assure coordination among the various components of the Initiative and its key partners;
- Elaborate a synthesis of the inputs received from the working groups and structure it into a common technical document;
- Coordinate the elaboration of the work programme in close cooperation with the services of the European Commission, and

ensure that the necessary resources are made available and

- Monitor progress on the different streams of work to ensure that synergies are developed across the various projects carried out under the umbrella of the MDBI and report back to the UfM member countries on progress achieved.

To perform these tasks, the UfM Secretariat should be able to count on the support of a number of key partners. A first nucleus could be formed by the four organizations that have led the monitoring process of the Euro-Med Charter for Enterprise (EC-DG Enterprise and Industry, OECD, ETF and EIB). The four organizations have strong experience in all the key areas covered by the Initiative, from entrepreneurship, to enterprise support, trade, innovation and access to finance. They have developed a method of working together, and have developed extensive networks in all the Euro-Med countries; furthermore they share a common view on the key Euro-Med SME policy priorities. They are, therefore, able to provide technical support and specialized expertise to the Secretariat.

The Secretariat and the key partner organizations will interact closely with the Charter Coordinators.

In addition, there should be a second set of key partners, mainly the institutions and research centres that will coordinate the working groups during the initial phase and will take over part of the project implementation during the subsequent phases of the Initiative.

At a third level there will be the stakeholders to the Initiative, involved in the workings groups and in the implementation projects. As the nature of the Initiative is inclusive and participatory and the regional scope is particularly wide, the number of stakeholders will be significant. Specific communication instruments, platforms and events will have to be developed by the Secretariat and partner organizations in order to maintain regular links with stakeholders and ensure their engagement in the initiative.



ABOUT CEPS

Founded in Brussels in 1983, the Centre for European Policy Studies (CEPS) is widely recognised as the most experienced and authoritative think tank operating in the European Union today. CEPS acts as a leading forum for debate on EU affairs, distinguished by its strong in-house research capacity, complemented by an extensive network of partner institutes throughout the world.

Goals

- Carry out state-of-the-art policy research leading to innovative solutions to the challenges facing Europe today,
- Maintain the highest standards of academic excellence and unqualified independence
- Act as a forum for discussion among all stakeholders in the European policy process, and
- Provide a regular flow of authoritative publications offering policy analysis and recommendations,

Assets

- Multidisciplinary, multinational & multicultural research team of knowledgeable analysts,
- Participation in several research networks, comprising other highly reputable research institutes from throughout Europe, to complement and consolidate CEPS' research expertise and to extend its outreach,
- An extensive membership base of some 132 Corporate Members and 118 Institutional Members, which provide expertise and practical experience and act as a sounding board for the feasibility of CEPS policy proposals.

Programme Structure

In-house Research Programmes

Economic and Social Welfare Policies
Financial Institutions and Markets
Energy and Climate Change
EU Foreign, Security and Neighbourhood Policy
Justice and Home Affairs
Politics and Institutions
Regulatory Affairs
Agricultural and Rural Policy

Independent Research Institutes managed by CEPS

European Capital Markets Institute (ECMI)
European Credit Research Institute (ECRI)

Research Networks organised by CEPS

European Climate Platform (ECP)
European Network for Better Regulation (ENBR)
European Network of Economic Policy
Research Institutes (ENEPRI)
European Policy Institutes Network (EPIN)

