



**Support Services and the Competitiveness of
SMEs in the MENA Region**

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Abstract

Despite the growing attention given to the development of small and medium enterprises (SMEs) in MENA countries, their competitiveness is still limited. This paper discusses the relative importance of SMEs in five MENA countries; namely, Bahrain, Egypt, Jordan, Lebanon and the Syrian Arab Republic, and tries to identify the main problems that hinder their growth and efficiency. It also assesses the support services provided by SMEs' support institutions. The paper relies partly on the results of structured interviews carried out on a sample of manufacturing firms in these countries. The analysis shows that SMEs are suffering from very limited business development services (BDS), especially in the area of training, business information and marketing services. The assessment of BDS in the selected countries showed that training programs are not effectively reaching the small entrepreneurs and are often prepared without serious identification of problems faced by entrepreneurs. SMEs are also either lacking advisory and counseling services, or they are unaware of the existence of support institutions and of their services. Information services provided in the region are scattered, incomplete and difficult to access. Marketing services are also scarce and benefits large firms more. The paper concludes that the business development services organizations need to introduce major changes in their management, structure and approach of work, in order to meet effectively the real needs of SMEs.

ملخص

على الرغم من الأهتمام المتزايد الذي تحظى به المشروعات الصغيرة والمتوسطة في بلدان الشرق الأوسط وشمال إفريقيا، إلا أن هذه المشروعات مازالت تعاني من ضعف قدرتها التنافسية. تبدأ هذه الورقة بتحليل الأهمية النسبية للمشروعات الصغيرة والمتوسطة في خمسة بلدان عربية تشمل: البحرين، مصر، الأردن، لبنان وسوريا. ثم تنتقل إلى تحديد ومناقشة المشاكل الرئيسية التي تعوق نمو وكفاءة تلك المشروعات. وأخيراً، تقوم الورقة بتقييم الخدمات التي تقدمها المؤسسات المتخصصة في دعم المشروعات الصغيرة والمتوسطة في تلك البلدان. ويستند التحليل جزئياً إلى نتائج بعض الدراسات الميدانية التي أجريت على عينة من الشركات الصناعية في البلدان المذكورة. وقد انتهت الدراسة إلى أن معظم هذه المشروعات تعاني من مستوى متدن من الخدمات اللازمة لدعم ومساندة نشاطها، خاصة في مجالات التدريب والمعلومات وأخيراً التسويق. فقد تبين أن تصميم برامج التدريب يتم في منأى عن الواقع العملي، إذ لا تأخذ تلك البرامج في الاعتبار اختلاف طبيعة المشروعات وكذلك اختلاف احتياجاتها. وفيما يتعلق بالمعلومات الضرورية لهذه المشروعات، أوضحت الدراسة أنه لا توجد قاعدة متكاملة للمعلومات، فضلاً عن ارتفاع تكلفتها وصعوبة الحصول عليها. كما أوضحت الدراسة أن المشروعات الصغيرة والمتوسطة تعاني بشدة من قصور وعدم كفاءة الخدمات التسويقية مقارنة بالشركات الكبرى مما يؤثر على قدرتها التنافسية. وفي النهاية، تؤكد الورقة على ضرورة قيام المؤسسات التي تقدم الخدمات اللازمة لدعم ومساندة المشروعات الصغيرة والمتوسطة بإدخال تعديلات جوهرية على أسلوب إدارتها وهيكلها ومنهج العمل بها في سبيل الوصول إلى تقديم خدمات أكثر كفاءة ونفعاً للمشروعات الصغيرة والمتوسطة.

I. Introduction

Governments in developed and developing countries are giving special attention to the promotion of small and medium enterprises (SMEs), as they are considered the providers of the bulk of employment, and in some cases, they are substantial contributors to exports and innovative activity. Governments are investing considerable effort and resources in supporting SME growth and upgrading. However, the competitiveness of SMEs in the MENA region is still relatively limited.

This paper assesses the competitiveness of SMEs as well as the support services provided by SME support institutions in the MENA region, with emphasis on five countries, namely: Egypt, Jordan, Lebanon, the Syrian Arab Republic, and Bahrain. The study is based on the results of the survey conducted by ESCWA in 1999 entitled “Small and Medium Enterprises: Strategies, Policies and Support Institutions.”¹ The sample was selected randomly, but due consideration was given to enterprises that operate in various branches of the manufacturing industry.

The databases of manufacturing firms provided by the chambers of Industry or the ministries of Industry in the selected countries were also used. It is worth mentioning that the paper is also based on relevant literature findings and results of field visits to agencies concerned with SME development in the above-mentioned countries.²

The paper is organized as follows: Part Two discusses the relative importance of SMEs in the national economy. Part Three analyses the entrepreneurial profiles in this sector. Part Four discusses the problems faced by SMEs as a result of macro-economic policies, market distortions and government regulations. Part Five assesses the business development services provided by SME support institutions, while Part Six discusses the competitiveness of SMEs in the context of economic globalization. Part Seven offers some recommendations, which concentrate on the discussion of the important criteria that needs to be followed by SME support institutions in order to enhance the competitiveness of SMEs and hence their role in economic growth in the MENA region.

¹ The structured interviews of the sample of manufacturing SMEs (25 to 45 enterprises) were conducted in four countries of the MENA region: Bahrain, Jordan, Lebanon, and the Syrian Arab Republic (ESCWA, 1999).

² Based on studies such as Egyptian Small and Micro Enterprise Association, *Marketing and Micro enterprise in Egypt*, Friedrich Ebert Stiftung, Cairo, September 1997.

II. Relative Importance of SMEs in the National Economy

SMEs play a major role in most of the five countries under study. However, Table 1 shows that oil-producing countries exhibit a different trend, where large industries are dominant in terms of their contribution to total employment and total manufacturing output. In fact, the State was the main economic actor, undertaking large investments in oil-related industries, while the involvement of the private sector has only recently emerged. For example, in Bahrain, like in the other GCC countries, the contribution of large firms to total manufacturing employment and output is relatively high, when compared to non-oil Arab countries.

At the national level, some differences in the relative importance and characteristics of SMEs exist. In this respect, it is worth mentioning that the data presented in Table 1 is based on national sources, and comparison between countries should be undertaken carefully, in view of the difference in the definitions used, and the fact that some countries do not include enterprises employing less than 5 employees in their statistics. In our analysis, we shall consider SME as those enterprises employing less than 50 employees.

Table 1. Distribution of Industrial Establishments by Size, and Contribution to Total Manufacturing Employment and Output (%)

Country	Size according to employment	Share of SMEs in number of establishments	Share of SMEs in employment	Share of SMEs in output
Bahrain	1-4	47.4	9.4	2.5
	5-49	48.6	21.6	12.9
	> 50	4.0	60.9	84.6
Jordan	5-49	92.5	40.8	
	> 50	7.5	59.2	
Lebanon	1-4	72.6	39.8	23.5
	5-49	26.5	38.7	43.1
	> 50	0.9	21.5	33.4
Egypt	10-49	76.0	11.0	9.0*
Syria	1-9	98.3	90.6	84.2
	> 10	1.7	9.4	15.8

Note: * In percentage of manufacturing value added.

Sources: State of Bahrain, Central Statistics Organization, Directorate of Statistics, *Industrial Survey Results 1993*; The Hashemite Kingdom of Jordan, Department of Statistics, *Employment Surveys for establishments engaging 5 persons or more, 1995*, Number 49, 1997; Lebanese Republic, Ministry of Industry and Petroleum, Directorate of Industry, *Report on Industrial Census - Final Results*, December 1995; The Syrian Arab Republic, Central Bureau of Statistics, *Results of the Industrial Survey for the Private Sector of 1993*, Damascus, February 1996.

Now that we established that SMEs play an important role in most of the Arab countries, we turn to compare their importance in the five selected MENA countries. Our comparison includes examining, mainly, the number of establishments, their contribution to employment and output. Looking at the number of establishments, we found that the 1994 Industrial Census of Lebanon

indicated that most industrial firms were of micro and small size. 73 percent of firms were micro-enterprises employing less than 4 workers, while around 27 percent were SMEs employing between 5 and 49 employees. Large firms accounted for only 1 percent of total industrial establishments. In the Syrian Arab Republic, the Industrial Census of 1993 covers only the private sector, industrial establishments employing less than 9 workers represented 98 percent of total private industrial establishments. In Jordan, 93 percent of establishments are SMEs employing between 5 and 49 workers; this high percentage stems from the fact that micro-enterprises are not taken into consideration in the national statistics.

As was previously mentioned, a total different trend is found in Bahrain. According to the Industrial Survey carried out by the Bahraini Central Statistics Organization in 1992, 47.4 percent of total manufacturing establishments employed less than 4 persons and 48.6 percent employed between 5 and 49 workers. Only 4 percent of total industrial establishments were large. The concentration of manufacturing output and employment is high in Bahrain. Three establishments have more than 1000 employees; they contribute around a fifth of total manufacturing employment and more than a third of total manufacturing output. This high concentration can be explained by the existing large petrochemical complex and aluminum industry in Bahrain.

While SMEs in terms of number of firms dominate the four non-oil MENA countries under consideration, their contribution to employment and output differs. For example, in Egypt, SMEs contribute only to 11 percent of total number of manufacturing employment, 9 percent of total manufacturing value added, and a mere 0.4 percent of total manufacturing exports.³ In Lebanon, micro and small enterprises employed around 80 percent of total work force in manufacturing industry, while contributing 66 percent of total manufacturing value added. In the Syrian Arab Republic, establishments with less than 9 workers employ 91 percent of total industrial work force, and contribute to 84 percent of total gross output in the private sector. In Jordan, where national statistics do not take into consideration micro-enterprises (employing less than 5 workers), SMEs employ 41 percent of total employment in manufacturing. Large enterprises (more than 50 workers) contribute approximately 59 percent to total manufacturing employment.

From this analysis, we conclude that the contribution of SMEs differs from country to

³ See Hosam Mansour, *Towards a Policy for Promotion of Small Industries* (in Arabic), paper presented to the First Arab Meeting on "The role of small and medium-sized industries in industrial development", organized by AIDMO and others, 15-17 February 1998.

country. They have only a minor role in Bahrain's economy, a notable position in Egypt and Jordan, and are most significant in the Syrian Arab Republic and Lebanon.

Comparing the relative importance of SMEs in MENA countries to developed and developing countries (Table 2) reveals that their contribution in developed and East Asian countries is higher than in Arab countries. For example, the share of SMEs in total manufacturing employment reaches 74 percent and 78 percent respectively in Thailand and Korea, 66 percent in Germany and 91 percent in Greece, compared to 31 percent in Bahrain and 41 percent in Jordan. Equally, the number of SMEs is greater in developed and East Asian countries compared to most of the selected Arab countries.

Table 2. Role of SMEs in Some Developed and East Asian Economies (%)

Country	Share in number of enterprises	Share in employment
Hong Kong	97	63
Korea	99	78
Taiwan	96	68
Thailand	98	74
Japan	99	79
Germany	99	66
France	99	57
Greece	99	91
USA	99	53

Source: J. Van Houtte (1997), "The Role of Small and Medium-sized Enterprises in the Economy and of their Support Systems", World Bank, Private Sector Development Department, Business Environment Unit, draft.

Another important difference between SMEs in MENA and developed countries is that in the latter, SMEs tend to be in "modern" manufacturing and services, often in the field of cutting edge technology, with strong entrepreneurial bases, vibrant export sectors and a large base of educated and technical manpower. In contrast, in developing countries, including countries of the MENA region, SMEs are concentrated in labor-intensive and traditional activities with low levels of productivity and poor quality products. There is little or no technological dynamism in this group, and few graduate into larger sizes or modern technologies. In Egypt, Lebanon, Jordan and the Syrian Arab Republic, activities of SMEs are concentrated in labour-intensive industries, particularly in food processing, textiles and wearing apparel, wood products and furniture, and non-metallic mineral products. In Bahrain, SMEs can be found in downstream aluminum products. However, very few are in industries such as machinery and transport equipment, and electronics products.

Based on the previous analysis, it seems that the role of SMEs in growth is not fully exploited since their contribution to employment and output is limited and they are mainly concentrated in

traditional activities. In the following sections, we try to analyze what is constraining the growth and dynamism of this sector.

III. Profiles of Entrepreneurs in the SME

Entrepreneurs in the selected countries share common characteristics, though some differences exist in entrepreneurial traits between countries of the region. The profiles of entrepreneurs in the SME sector are numerous, but we shall limit our assessment in this paper to the most pertinent of them.

Family Background

Most small enterprises are family businesses, and many entrepreneurs come from a traditional business family background. Business family relations are important for new start-up businesses, particularly in countries characterized by a relative absence of institutional support for entrepreneurs. The family has a dominant role in business continuity and survival, providing the financing (instead of banks), the moral support, and the networks within the country and with the outside world.

In the selected countries, many entrepreneurs inherit their businesses from their father and grandfather, or from close relatives. This group of owners/managers has a strong entrepreneurial background, and the business has become a family tradition. In the newly established enterprises, the majority of entrepreneurs declared that one or more of the family members had a private business. In this connection, it is worth mentioning that entrepreneurs, who had inherited their business from their parents or were from families that owned a business, were generally encouraged to work in the same business or start a new one.

Those who were discouraged to start a new business come, in most cases, from families who did not have any business experience. People of such background still prefer their children to have a secure job and steady income (as a government employee, for example).

Reliance on Personal Savings

The formal banking system does not play any significant role in the provision of financial support to start-ups or to existing enterprises. Entrepreneurs have to search for informal sources of finance. The capital needed to establish the business in the selected countries is usually raised through personal savings accumulated in previous jobs, and/or by borrowing money from family and relatives.

Lack of Innovation

SME entrepreneurs in the five selected countries have shown little innovation. The newly established businesses are mostly a repetition of existing enterprises, with little or no innovation in business ideas, production processes, or targeted markets. The same applies to established businesses. The marketing constraints, which are considered as the major problem by most of the entrepreneurs, are, in fact, related to the product itself, which does not satisfy customer needs, in terms of quality, taste, design and price.

Owner-managers

Most of enterprises are owned and managed by one person who takes charge of all management aspects of a firm: organization, marketing, production, accounts, etc. The heavy load on the owner-managers prevents them from preparing strategic plans for the company, as they are very busy with the daily routines of the work.

It was also found that most of entrepreneurs started their businesses without a business plan or feasibility study. Only in a very few cases did entrepreneurs undertake a full business study prior to the start up of their company. Existing enterprises also do not keep records, prepare financial statements, or carry out the preparation of business plans when expanding their enterprises. Business plans are, in fact, one of the major instruments that help the entrepreneurs understand market needs, and therefore generate new products, but it is mostly lacking in the countries considered.

Educational Background

The educational background of entrepreneurs is diverse. The younger the entrepreneur, the higher his or her level of education. In Lebanon and Jordan, entrepreneurs are generally well educated, with high school level or university degrees. In Bahrain, the educational background of entrepreneurs varies widely, ranging from having a university degree to being illiterate. Generally, small entrepreneurs learn the business from experience and practice

The activities undertaken by entrepreneurs are not necessarily related to their educational background. This is due to the fact that entrepreneurial people take advantage of opportunities where they exist, even if not related to their specialization. The surveys show that several entrepreneurs do not work in the field of their specialization.

Relative Absence of Trust among Entrepreneurs

The lack of cooperation and trust between entrepreneurs of different families is common to all selected countries, but it is more pronounced in Lebanon. Most entrepreneurs talked more about

dominating the competition rather than cooperating with each other. Entrepreneurs are reluctant to share information with their competitors for fear that their “secrets” will be used by others in the same business. The tough competition among small industrialists and the small size of the market in these countries have made cooperation a difficult option. Without cooperation, small entrepreneurs will have great difficulty competing with large firms, particularly under globalization of the world economy.

In view of the prevalence of distrust, entrepreneurs prefer to select their business partners from amongst family members rather than from outside the family. Business partners belonging to the same family have stronger social incentives to honor promises, follow the norms, know each others' limits, and protect each others' interests.

IV. Problems Facing SMEs

Based on the survey results, there are a number of problems that place SMEs at a disadvantage compared to large firms: biased economic policies in favor of large enterprises, market distortions and access to inputs, isolation and size of the firm, and the administrative procedures, to name a few examples. SMEs in the MENA region find the regulatory and institutional framework lacking transparency, inconsistent and inefficient, thus inhibiting further development, rather than acting as a mechanism for sustained growth. Low education and low literacy rates among SME managers make these problems especially difficult to overcome. While large corporations can alleviate some of these obstacles by producing needed services internally, SMEs do not have the organizational capacity or the resources to cope with such problems. In what follows, we discuss the details of these problems.

The Biased Macro-economic Policies

Despite widespread privatization efforts and increased attention to the promotion of the private sector and particularly to the SME sector, macro-economic policies are still biased in favor of large enterprises. Monetary, financial, trade and fiscal policies discriminate against new and existing small firms through the imposition of considerable entry barriers.

In most Arab countries, the policy incentive systems have been devised to encourage large rather than small enterprises through providing them with various privileges and advantages. Investment laws provide various incentives and exemptions from income tax and customs duties, but only to projects with a high level of capital investment. For example, in the Syrian Arab Republic, the Encouragement of Investment Law (Law 10/1991) provides various benefits to Syrian, Arab and foreign investment in approved economic and social development projects

in agriculture, industry, transport and other approved areas, provided the fixed assets of the project exceed SP 10 million (equivalent to US\$ 200,000). Small and medium projects do not therefore enjoy the privileges of the law. In Jordan, the Investment Promotion Law of 1995 provides various incentives to projects in agriculture, industry, transport and services. A project is considered as industry, however, when it has a registered capital exceeding JD 30,000 (equivalent to US\$ 44,000). Any project with less than JD 30,000 is considered handicraft, and therefore, does not enjoy the various exemptions and incentives. In Egypt, profits of an industrial company employing 50 or more persons and established after the enactment of the Income Tax Law, are exempt from income tax for a period of 5 years from the date of commencement of business. In order to lessen such imbalances, the government of Egypt issued a new Investment Law (Law 8/1997) in 1997, giving the projects financed by the Social Fund for Development the same incentives granted to large enterprises.

The other main problem inhibiting SMEs is the tax system. Small entrepreneurs generally do not keep accounting records, so government authorities impose taxes arbitrarily and often unfairly. SMEs tend to feel that the taxes are not proportioned to their profit, and that tax administration officials apply inconsistent criteria. Such pressure on small firms has had the double effect of discouraging people from starting businesses, and encouraging existing formal activities to practice informal operations or underground activities in order to evade the increased tax pressure. By not keeping accounting records, entrepreneurs also lose the ability to accurately estimate their costs and profits. Necessary details such as depreciation of machinery or other indirect costs may be excluded from margin calculations. This may ultimately affect their profits and impede further growth.

Due to difficulties in accessing resources and in taking advantages of the incentive system available to large enterprises, many small businesses operate in the informal sector and practice informal operations in order to compete in the market. Profit margins are such that avoiding the payment of taxes and social charges can make the difference between success and failure. While gaining several advantages by operating informally, SMEs lose many of the benefits of being formal, such as access to credit, government services and other facilities.

Market Distortions

In contrast with large firms, SMEs face problems with accessing inputs, credit, information and technology markets. Providers of services, in fact, find it easier and cheaper to deal with a few large customers than with a large number of dispersed small enterprises. With SMEs, the cost of

enforcing contracts, for example, would be disproportionately large in relation to the size of the transaction.⁴

SMEs traditionally encounter problems when trying to access credit. Access to banking and credit facilities is often limited by unreasonably high collateral requirements. Banks generally concentrate on financing large corporations and State owned enterprises. No specialized SME counters are available at bank outlets. Administrative fees are sometimes excessive.⁵ Loan conditions are unaffordable to most SMEs, particularly in the Syrian Arab Republic where the banking system is not yet prepared to finance small businesses, and in Lebanon where interest rates are very high, and collateral requirements excessive. In Egypt and Jordan, there are credit guarantee companies that provide up to 50 percent of collateral to a bank loan. In Lebanon, the government is planning a credit guarantee scheme for SME's. Several credit schemes have been put in place in the countries of the region, but most of them are serving micro-enterprises. Recently, several schemes of micro-finance have been established in a number of Arab countries, particularly in Egypt, Jordan and Lebanon. However, the ceiling of loans is limited, generally not exceeding US\$ 15,000. Only few small-scale enterprises can benefit from such a financial scheme.

In addition, SMEs are in isolation with respect to information about competitors, suppliers, new technology and export markets. They also lack the resources to access new technologies and skills, and are not aware of the existence of such technologies. The isolation from information is a more significant problem than the size of individual SMEs.

Complexity of Administrative Procedures

Entrepreneurs complain about the bureaucracy of the State machinery. The registration and/or licensing of businesses is another constraint for SMEs. In fact, entrepreneurs find that registration is a lengthy procedure which involves too many different administrations and which is often costly. To avoid the complexity of administrative procedures and the registration fees, which are considered excessive by the entrepreneurs, many businesses operate informally. However, in doing so, as already mentioned, SMEs lose potential benefits of registration, such as better access to credit or government support services.

Entrepreneurs also complain of long custom delays, inconsistent tariffs and lengthy procedures. Moreover, some entrepreneurs find that the same rules do not apply for everyone, as

⁴ See, Sanjaya Lall, 1999.

⁵ One bank in Lebanon started charging 200 US\$ yearly administrative fees in 1999 without prior notice to its SME customers.

licenses with import permissions are illegally traded and personal connections can affect the application of relevant laws. Small and medium sized entrepreneurs usually rely on experienced importers because of complicated administrative requirements.

V. Assessment of Business Development Services

The Business Development Services (BDS) provided by support institutions to SMEs will be assessed in the following areas: training services, advisory and counseling services, information services and marketing services.

Training Services

Training for start-ups and existing businesses is being delivered by various agencies in the region: government agencies, chambers of commerce and industry, business associations, training institutions, NGOs, credit agencies and private sector organizations. Training for SMEs is quasi-inexistent in the Syrian Arab Republic and to an even lesser extent in Lebanon. The few existing institutions that offer relevant training courses are mainly private consultancy firms that prefer to address the needs of larger firms. However, in Jordan and Egypt, there are several institutions which deliver business training to start-ups as well as to existing small enterprises, but most of them address micro enterprises or large firms.

The survey showed that most agencies providing training programs are not effectively reaching the small entrepreneur. Training programs are often prepared without serious identification of problems faced by entrepreneurs, though there is increasing awareness of the importance of needs assessment as a prerequisite to the delivery of courses. Entrepreneurs interviewed in the four selected countries have displayed common views regarding the training offered by development agencies. Few have participated in any training courses, and even fewer have taken management courses. Entrepreneurs are interested more in technical training related to production. They are not aware of the importance of management in the success of an entrepreneurial venture. A survey carried out in 1996 on 56 small-scale industrial firms in the 10th of Ramadan City, in Egypt, revealed that most of the entrepreneurs indicated that they did not benefit from the training that was offered by government institutions or other non-governmental or private sector institutions.⁶ Even though most of the

⁶ Alia El Mahdi and Hala El Said, *Small Industries Complex in the 10th of Ramadan City: Needs and Potentials - A Target Group Analysis*, study conducted under the auspices of the Federation of Egyptian Industries and the Chamber of Engineering Industries in cooperation with the Friedrich Ebert Stiftung and the Association of Promoting Small and Medium-Sized Industries in the New Cities, 1996.

training courses are provided free of charge or at nominal fees, they have not attracted participants.

Training is often delivered at times convenient to the organizers of the course rather than to the entrepreneurs who need more flexibility. However, a more innovative approach has been introduced by the ILO/UNDP project at the Vocational Training Corporation in Jordan, carrying out the courses at enterprises' locations, and at times convenient to the business owners.

Even though they promote these programmes as being addressed to small and medium-sized enterprises, most suppliers of training courses have difficulty reaching the small entrepreneurs. Their programmes are more oriented to medium and large firms. This is the case of the European Business Centres in Egypt, Jordan and the Syrian Arab Republic, which are attracting firms with more than 50 employees. The beneficiaries of the Vocational Training Corporation in Jordan are also enterprises with more than 20 employees. Entrepreneurs of small companies, in most cases, are not aware of the existence of training courses and programmes, or of the institutions providing the support services.

Entrepreneurs consider learning by doing as the most important training, and more useful than formal education and learning in classrooms. To them, importance of training is linked to how training responds to their real needs. They regard their own personal work experience in previous jobs and in their current occupation as the prime source of their skills.

Learning and knowledge acquired from the environment have been more effective than formal education and training. In fact, the learning process of an entrepreneur is based on daily work and experience, the reality and the environment, lessons from success and failure, contacts with relatives, friends and peers, the market and feedback from customers, relations with competitors and suppliers, lessons from problems solving, and difficulties faced, particularly during times of stress.

Advisory and Counseling Services

Advisory services, known also as extension or counseling services, comprise technical assistance and management advisory services. In most countries of the region, with the exception of private consultancy offices, there are very few specialized agencies devoted to the provision of advisory services.

With the support of the International Labor Organization (ILO), the Vocational Training Corporation (VTC) in Jordan provided, extension services during the period 1992-1997 to small and medium-sized industries employing between 5 and 100 employees. Most problems

solved by VTC experts were in the management of production. After the completion of the ILO assistance, VTC was not able to continue its assistance, despite the establishment of a specialized Institute for Small and Medium-Scale Industries; entrepreneurs were reluctant to pay nominal fees (5 Jordanian dinars for one hour of advice or technical assistance). The failure of VTC to attract clients after the completion of the project can also be attributed to the very bureaucratic nature of VTC.

The Outreach Consultation Project (OCP) at the University of Jordan has been quite successful in linking the Industrial Engineering Faculty with SMEs through seminars, as well as through consultation services. However, the approach used by faculty members with business owners is more of a teacher to student relation, rather than an effort to build the capacity of the enterprise.

In Bahrain, Lebanon and the Syrian Arab Republic, the Ministries of Industry do not have specific units to provide systematic business advice to those wishing to start or expand businesses. The business support services provided by the European Community to SMEs in Egypt, Jordan and the Syrian Arab Republic are provided upon request, but these services benefit the large enterprises more than the SMEs.

Entrepreneurs interviewed in the four countries consider the advisory services as quasi-inexistent, as they rarely find agencies providing them with support. As an example, the entrepreneurs in the 10th of Ramadan City in Egypt indicated that, although they are members of business associations, they never receive assistance or support from these associations.⁷ In countries where business advisory services are available, entrepreneurs are not aware of their existence, because support institutions do not sufficiently advertise their services and the services offered tend to address the needs of large enterprises. Entrepreneurs rely more on advice from their suppliers, and from other providers of services in the private sector.

Business Information Services

Various sources of business information are available at the country level in the region⁸, however, they are scattered, incomplete, at times inconsistent and difficult to access. They do not provide all the relevant information in one integrated package. The public sector is the main provider of business information, while the private sector has not yet developed databases on

⁷ Survey in the 10th of Ramadan City, op.cit.

⁸ See ESCWA, *Review and Assessment of Sources of Information in the Industrial Sector in the ESCWA Region* (in Arabic), E/ESCWA/ID/1997/8, 1997; and ESCWA, *Trade Efficiency in ESCWA Member Countries: A Comprehensive Study - "Business information"*, in Seminar on Trade efficiency in the ESCWA member States, 30 November - 2 December 1998, Beirut, (E/ESCWA/ED/1998/WG.1/8), 1998.

business information. This is due to the fact that businesses, particularly small and medium enterprises, are not yet ready to pay appropriate fees for information.

Market related information is also not easily available. The survey showed that SME managers experience many difficulties related to the absence of business information. Most of them are not aware of the availability of needed information, or how to access it. Also, existing information providers do not advertise their services effectively. Entrepreneurs need information about their competitors' products and prices, domestic and foreign suppliers, etc. This survey showed that brochures and catalogues produced by foreign suppliers seem to be an important source for local entrepreneurs to keep updated of new trends and technologies.

Small entrepreneurs usually rely on friends and relatives, as well as on suppliers and business journals, magazines and catalogues to obtain the needed information, or through visiting exhibitions and fairs. Networks including relatives outside the country enable many entrepreneurs to obtain some of the latest information regarding new technologies, new products and new market trends. In contrast to small entrepreneurs in most countries of the region, Lebanese entrepreneurs indicated that they are not facing serious problems in obtaining needed information to start or run a business. Most of the surveyed entrepreneurs in other countries expressed the need to obtain accurate and clear business information.

Efforts have been made by support institutions in the region to provide business information. The business support services of the European Union in Egypt, Jordan and the Syrian Arab Republic include information and data on companies and market potentials in Europe. Information services, however, are more available to large firms than the SMEs. The Trade Information Centre in Lebanon and Trade Points in Egypt have useful databases that can be used by entrepreneurs, and access is possible through the internet, or directly by phone, fax or visits. However, very few enterprises are aware of the existence and benefits of these sources.

The Chamber of Industry in Jordan has already created a database on registered companies, others such as the Association of Lebanese Industrialists and the Damascus Chamber of Industry are making serious efforts to do the same thing. The most developed databases on industrial firms can be found in Egypt at the Credit Guarantee Corporation for Small Scale Enterprises and at the General Organization for Industrialization (GOFI). Databases on exporters are available at the Jordan Export Development and Commercial Centres Corporation as well as at the Egyptian Export Development Centres; however, small industries do not benefit from such services, as most of them are not exporters. Most

exporters consist of enterprises that employ more than 40-50 employees.

One main opportunity to improve communication and information flows is the use of the internet. The internet offers the opportunity to make information relevant to SMEs easily accessible. It also offers new marketing and networking opportunities for SMEs. Many SME managers expressed their desire to know more about the relevance of internet applications in business.

Marketing Assistance

In general, SMEs are most concerned with effective marketing, a problem outweighing even financing. Entrepreneurs, particularly in Jordan, Lebanon and Bahrain, consider the limited size of the local market, the competition from local and imported products, and government policy with regard to protection of local industries as the most important marketing constraints. The real problems, however, can be attributed to the inability of enterprises to expand the market base beyond the local community and close neighborhood, as well as to the product itself, which does not meet standards and quality, or satisfy the tastes and needs of customers.

On the other hand, entrepreneurs find difficulties in formulating an adequate marketing strategy. They have insufficient experience. For most of them, trade fairs are an important forum for exchange of information and marketing of products, but setting up a stand is often too expensive.

Marketing assistance to small firms is relatively scarce in the selected countries, as existing marketing services are available more for large firms. Support programmes for SMEs are limited to assisting them in displaying their products in fairs and exhibitions, and in offering entrepreneurs training courses within the framework of management courses, dealing with such marketing issues as methods of costing and pricing, and techniques of promotion and sales.

Market assistance includes support of entrepreneurs in the local market and the export market. The support for export is being organized by specialized government agencies, such as the Egyptian Export Promotion Centre (EEPC), and the Jordan Export Development and Commercial Centres Corporation (JEDCO). These agencies provide support to exporters in the fields of market information and research, trade statistics, product promotion, product design and development, information on procedures and regulations for export in foreign countries, and information on international exhibitions and fairs, etc. Although these agencies state that they are giving particular attention to SMEs, the main beneficiaries are, as indicated above, mostly the large firms, and to some extent the medium ones. This may be explained by

the fact that most small firms have no exportable products, and no serious efforts are being made to assist small producers, with growth and export potentials, in adapting their production to customer needs.

The support provided by chambers of commerce and industry is confined to informing members on fairs that are organized in the country or outside, and to organizing awareness seminars on marketing and international regulations and procedures with regard to export in the European and North America markets, as well as with respect the impact of WTO agreements and international standards (ISO 9000).

Among the countries considered in the study, Egypt has the most developed marketing support infrastructure to small entrepreneurs. The Small and Micro Enterprise Project of the Alexandria Business Association organizes exhibitions on a regular basis for products of borrowing firms; these firms can also display their products in the showroom established on the premises of ABA. The Social Fund for Development and the Industrial Bank also provide market support to their clients through the organization of fairs and exhibitions, and participation in the Cairo International Fair.

A survey carried out in 1996 in Egypt on 34 NGOs, private and government agencies supporting micro and small enterprises, indicated that only 13 percent of assistance programs are specialized in marketing support and product development, and that only 22 percent of these programmes are specific to a branch or a sub-sector. Thirty-three percent of the programmes charge subsidized fees, and only one organization covers its costs completely.⁹

International experience in developed and developing countries confirms the importance of sectoral manufacturers associations specialized in export promotion. Chile's small woodworking industry sector, which was serving only the domestic market, was able to enter the export markets, thanks to the support provided by the association of SMEs and the export manufacturers association. The association of SMEs assisted the wood products sector in attending international fairs, and in establishing links with local and international technical institutes. The growth of the size of the export market for a specific product encourages small firms to cooperate together to meet the needs of the market, and also promotes specialization.

⁹ Egyptian Small and Micro Enterprise Association, *Marketing and Micro Enterprise in Egypt*, Friedrich Ebert Stiftung, Cairo, September 1997.

VI. The Competitiveness of SMEs in the Context of Globalization

Globalization: A Threat or a Business Opportunity?

The development of SMEs will be seriously affected by the globalization of economic activities. For some SMEs, globalization will open new opportunities for growth and expansion in the international market. However, for most small firms, the entry of imported competitive products in the local market will constitute major threats, unless SMEs introduce major changes in their management practices and in the quality of their products. Protecting SMEs from foreign competition through trade barriers was an easy task; enhancing their competitiveness in the world market is a more difficult one.¹⁰

Trade liberalization under the WTO agreement will provide opportunities for small firms to enter new export markets and to improve their access to production technologies and to other input materials. In fact, information technology and communications will allow SMEs to operate at the global level. Trade liberalization will also constitute real threats for enterprises which are not able to compete against imports, particularly those with lower prices. As SMEs are an important source of employment generation, the national economy would be severely affected if steps are not taken to assist SMEs to enhance their competitiveness.

The Benefits of Clustering and Other Pre-globalization Tactics

International experience in both developed and developing countries has proved that the geographic or sectoral clustering of firms contributes to enhancing their competitiveness, and provides the appropriate vehicle for intervention of the support institutions. Benefits of such concentration for individual firms can be derived from external economies. Concentration of firms on a sectoral basis, in fact, will encourage suppliers, marketing agents and other providers of services to establish themselves in the cluster; it will enhance interaction between small firms, and lead to a certain division of labour, thus increasing specialization and innovations. The existence of clusters will provide increased opportunities for SMEs to work together and cooperate in various areas.

In Brazil, the existence the Sinos Valley footwear cluster has been beneficial for the local producers of footwear, because of the intervention of two actors: (1) the Brazilian Service for Small Enterprises (SEBRAE) which bears half of the exhibition cost for small firms wishing

¹⁰ Organization for Economic Cooperation and Development (OECD), *Globalization and Small and Medium Enterprises (SMEs)*, Vol.1, Synthesis Report, OECD, Paris, 1997.

to participate in trade fairs organized by the public sector, and (2) the export agents of the private sector who facilitate the connection between the cluster and the export markets.

It is important to note that the emergence of clusters and industrial districts in Europe and even in the developing countries was spontaneous, and not the result of a planned action by government agencies or private sector institutions. There was no overreaching industrial strategy, even though the public and private sector played a role in their growth.¹¹ In the Italian industrial districts, real services have been provided to small firms by local development agencies, on a sectoral basis (knitwear, clothing, shoes, etc..) and in a specific specialized areas (export promotion, quality upgrading, information on international market trends and technological developments, subcontracting opportunities, technical and managerial training, etc.).

Networks between small firms would also provide mutual benefits through active cooperation and joint action. They are a cost-effective solution to the absence of geographic and sectoral clusters. Networking would contribute to improving the competitiveness of SMEs, and prepare them to deal with globalization, through the development and marketing of new products, and cooperation in the establishment of agents and distributors in new markets.

An interesting example is the government subsidized Danish Networking Program. The program consists of requesting enterprises to form networks and cooperate in a number of areas. Networking was promoted with the aim of improving competitiveness of SMEs, and to prepare them to deal with globalization, through the development and marketing of new products, and cooperation in the establishment of agents and distributors in new markets. It is interesting to note that the program succeeded in inducing SMEs to cooperate, though inter-firm cooperation was not part of their industrial culture.

In Chili, the government agency for SME promotion (SERCOTEC) assisted SMEs in a specific locality to establish networks of small groups, usually between 10 and 30 firms per group. The establishment of such a network faced difficulties, in view of the fact that entrepreneurs in Chili are usually individualistic and resist government intervention. The aim of the network is to facilitate the delivery of support services by various support institutions which prefer to deal with groups rather than with small individual firms. The network also tries to promote inter-firm cooperation, through the development of better relations between

¹¹ Hubert Schmitz, "Collective efficiency: growth path small-scale industry", *The Journal of Development Studies*, Vol. 31, No. 4, April 1995, pp. 529-566.

the participating firms in the network. Such cooperation enables SMEs to raise their competitiveness, and focus on the areas of product design and standardization, process innovation and human resource management.

Constraints for Inter-firm Collaboration in the Selected Countries

However, there are several factors that impede the creation of networks and cooperation between firms in the selected countries. With few exceptions, industries are scattered geographically and sectorally, as it is rare to find a concentration of small firms in one location, and/or on a sectoral basis. Very little inter-firm cooperation exists, as competition is dominant between firms, and trust between entrepreneurs relatively absent. Moreover, industries are generally isolated: their market is limited to the area in which they are located. Two significant reasons for the relative absence of networks of entrepreneurs are the distrust that exists between owner-managers, and the absence of programmes promoting inter-firm collaboration.

Most of the support institutions and agencies dealing with SMEs in the region are devising special programmes to support SMEs, concentrating their activities on improving the performance of individual firms through advisory services, provision of credit, and training for upgrading technical and managerial skills. They also focus on recommending policies that are likely to improve the macroeconomic environment for SMEs, through liberalization measures and facilitation of bureaucratic and administrative procedures. However, very few programmes emphasized inter-firm cooperation and interaction, or self-help groups, as a means to improve competitiveness of small firms and assist them in facing the challenges of globalization.

Competitiveness of small firms can also be achieved through the promotion of subcontracting arrangements with large firms or among each other. However, in several countries, the markets lack linkages between small businesses and large corporations. In modern market economies, large corporations play a pivotal role as SMEs cluster around these companies to act as subcontractors. SMEs offer specialized inputs since they enjoy greater flexibility and cost-efficiency. Incentives could be offered to large enterprises to subcontract some of their activities to SMEs.

VII. Conclusions and Recommendations

SME support institutions, also called Business Development Services (BDS) organizations, need to introduce major changes in their management, structure, approach of work, level of

expertise, etc., in order to effectively meet the real needs of small entrepreneurs. The experience of support institutions in the region is relatively new, starting mostly in the early 1990s. It is therefore important to benefit from international experiences in SME support. This can provide BDS organizations with effective systems, mechanisms, values and approaches to assist them in the delivery of services to SMEs, in the hope that SMEs can increase their competitiveness and face the challenges of globalization.

Regional and international experiences¹² on support to SMEs suggest the following criteria for successful programmes:

Specialization

Activities of BDS organizations generally lack focus; they are scattered and non-integrated in a comprehensive framework or programme, and with little follow-up mechanism and activities.

Programs that provide non-financial support exclusively have proved to be more cost-effective. When programmes combine credit with non-financial support instruments, clients are more interested in the financial services than the non-financial component of the programme. Specialization can be in one of the following areas: technical training, managerial training, counseling, marketing assistance, information.

BDS organizations should not over diversify their activities, but should focus on what they can do most effectively. Specialization will raise the technical capability and capacity of the organization; it will also lead to increased capacity of the organization in innovation and design of new services, within the scope of the specific services provided.

Sector-Specific Approach

Services provided to clients in one specific sector are of a higher technical value. Most of the BDS organizations including the service delivery organizations and business associations provide services to several sectors at the same time: trade, industry, agriculture, etc. Many of the business associations, particularly those in the industrial zones or cities, do not represent a specific sub-sector, but several industrial branches. However, the existing business associations or syndicates representing a sub-sector in the region are particularly active in the areas of food industries, textiles, leather and garments. But these Associations/Syndicates rarely devise programs of assistance to help members improve efficiency and competitiveness.

¹² See: Committee of Donor Agencies for Small Enterprise Development, *Business Development Services for SMEs: Preliminary Guidelines for Donor-Funded Interventions*, Summary of the Report to the Donor Committee for Small Enterprise Development, Washington, January 1998.

Scale

Programs should reach significant numbers of clients in order to be effective. The scale of operation of most BDS organizations is very limited, reaching at most a few hundred of beneficiaries, while thousands of entrepreneurs within the same area start or run their businesses with no support at all. Information technology now provides good opportunities for BDS organizations to operate at a large scale through various possibilities such as the conversion of training materials into CD multimedia and the use of the internet.

Sustainability

Fees should be charged for services rendered to clients. This makes the services more valuable in the eyes of clients and enables the organization to sustain its activities. The attainment of social objectives together with a business-oriented approach would require some support from governments and donors. The problem of sustainability is also caused by the low salary of staff in these institutions, when compared to the private sector. Low salaries encourage the staff to look for other jobs, thus reducing the ability of these organizations to continue and sustain its activities in an effective manner.

Demand Assessment

There is a need to identify the real demand of the target group through needs assessment surveys or other mechanisms before providing the services to entrepreneurs. Training courses and advisory services should be tailored to the specific conditions and needs of the entrepreneurs. BDS organizations should be in continuous close communication with their clients in order to better understand their needs, and in order to conceive and implement programmes that respond better to real needs.

A Business-like Approach

The best BDS organizations to support SMEs are those operating like SMEs on a commercial basis. They are similar to SMEs in terms of their personnel, systems and values.¹³ The "social" approach is still dominant in the region in the provision of services. The government organizations and the non-profit organizations in the region have proved to be more charity-oriented than business-like. Their bureaucratic nature is another constraint keeping these organizations from being cost-effective.

¹³ Committee of Donor Agencies for Small Enterprise Development, *Business Development Services for SMEs: Preliminary Guidelines for Donor-Funded Interventions*, Summary of the Report to the Donor Committee for Small Enterprise Development, Washington, January 1998.

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