

# Helping Egyptian SMEs Excel

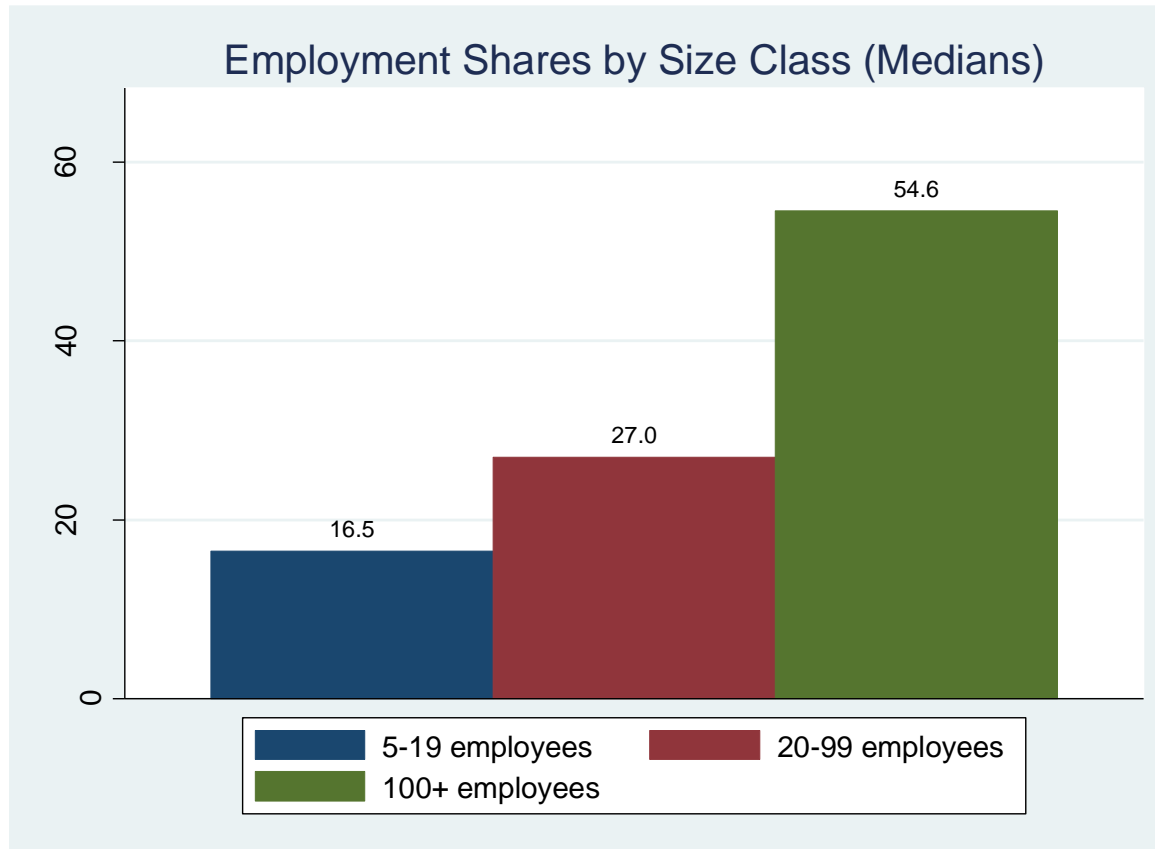


Shanta Devarajan

World Bank

[www.worldbank.org/futuredevelopment](http://www.worldbank.org/futuredevelopment)

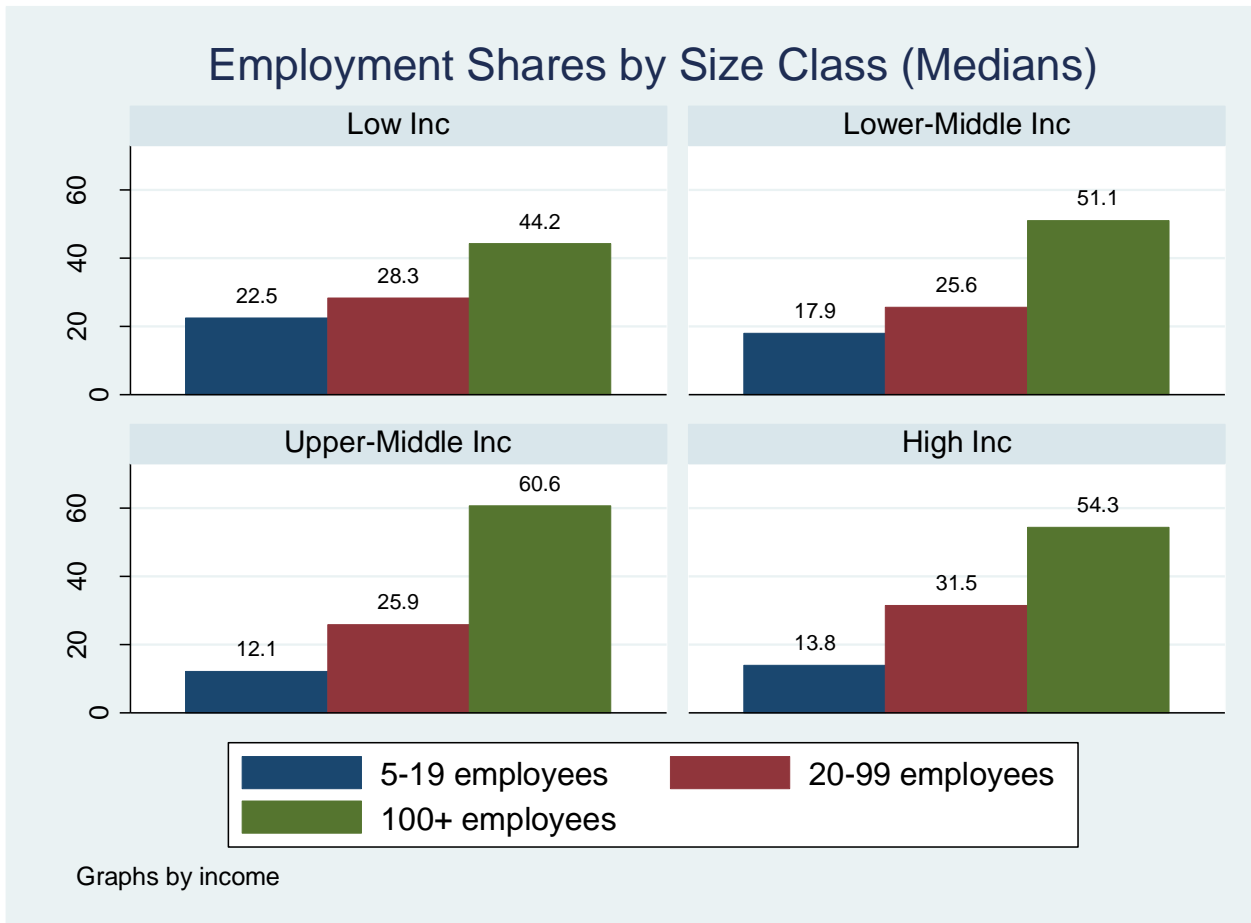
# Global\*: Employment shares



- Large firms (100+) are largest contributors to employment (54.6%)
- But SME share comparable to that of large firms (43.4%)

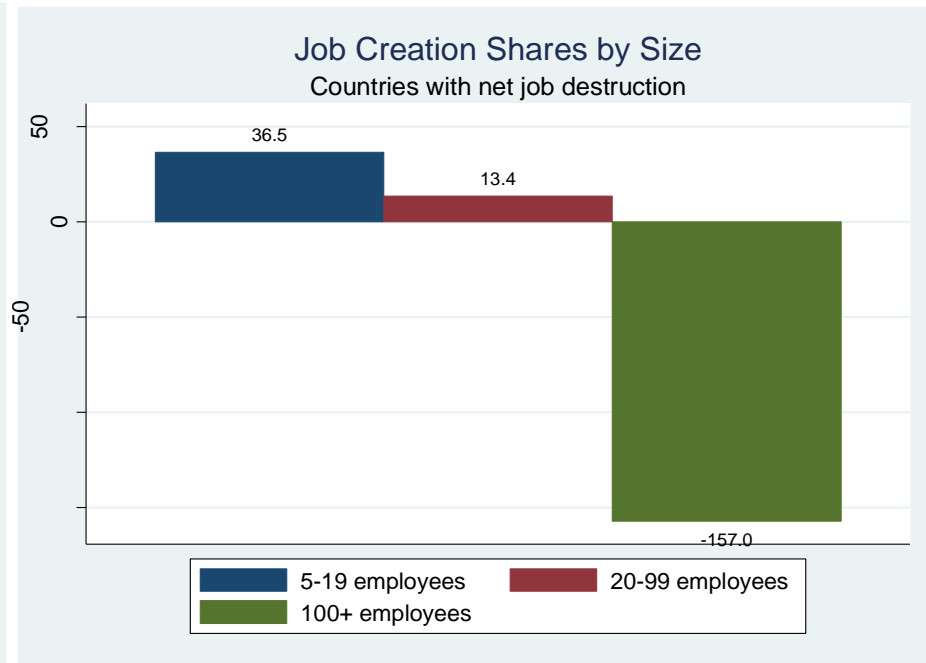
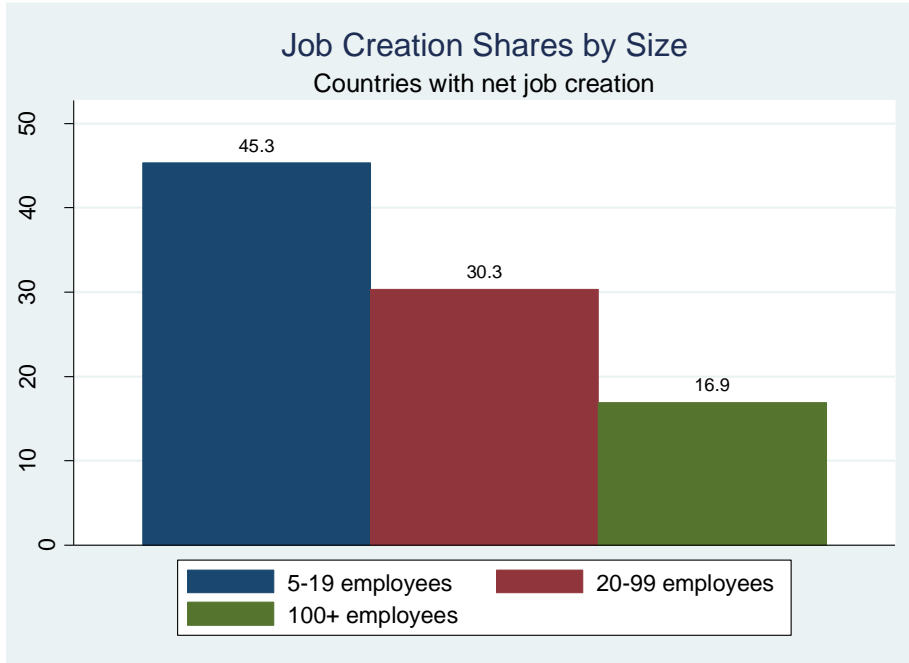
\*Sample of 104 developing countries, 2006-10

# Global: Employment shares



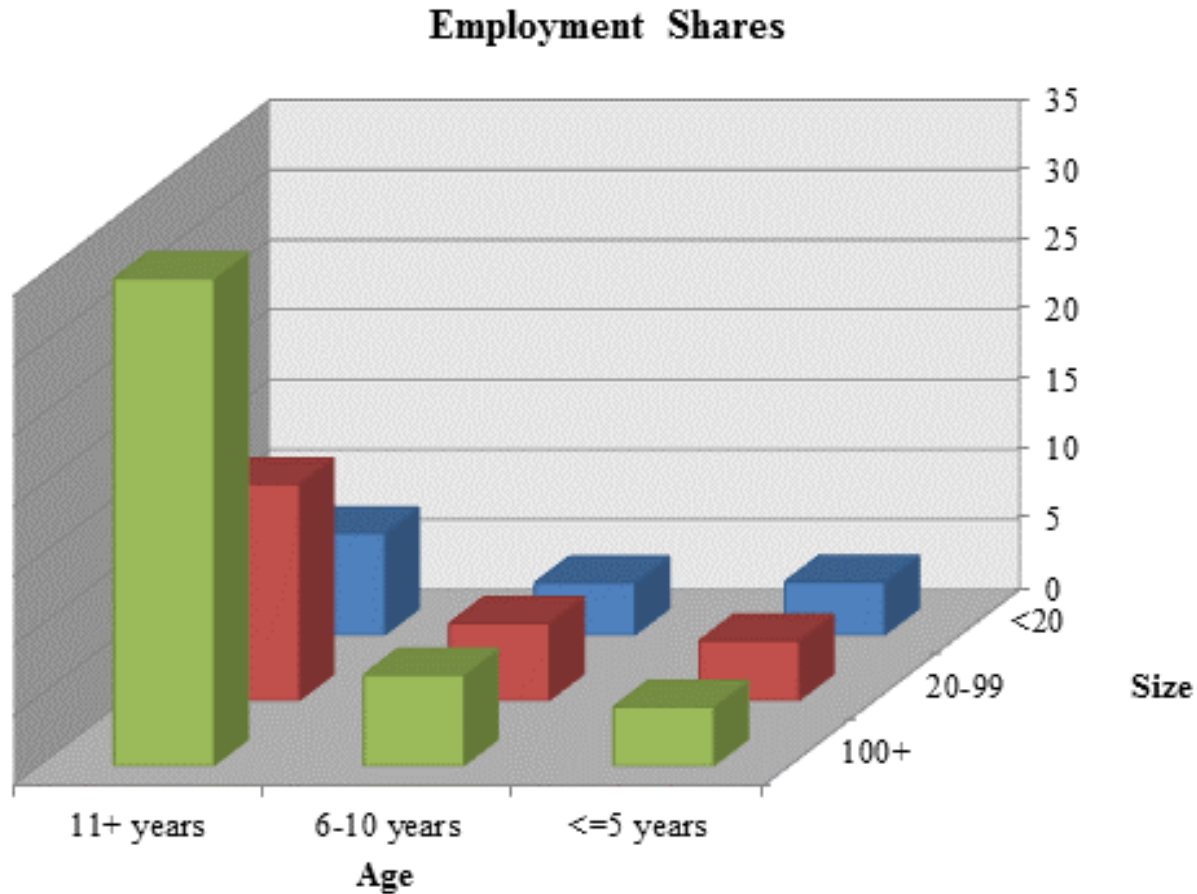
*Negative association between GDP/capita and small firm contribution to employment*

# Global: Job creation



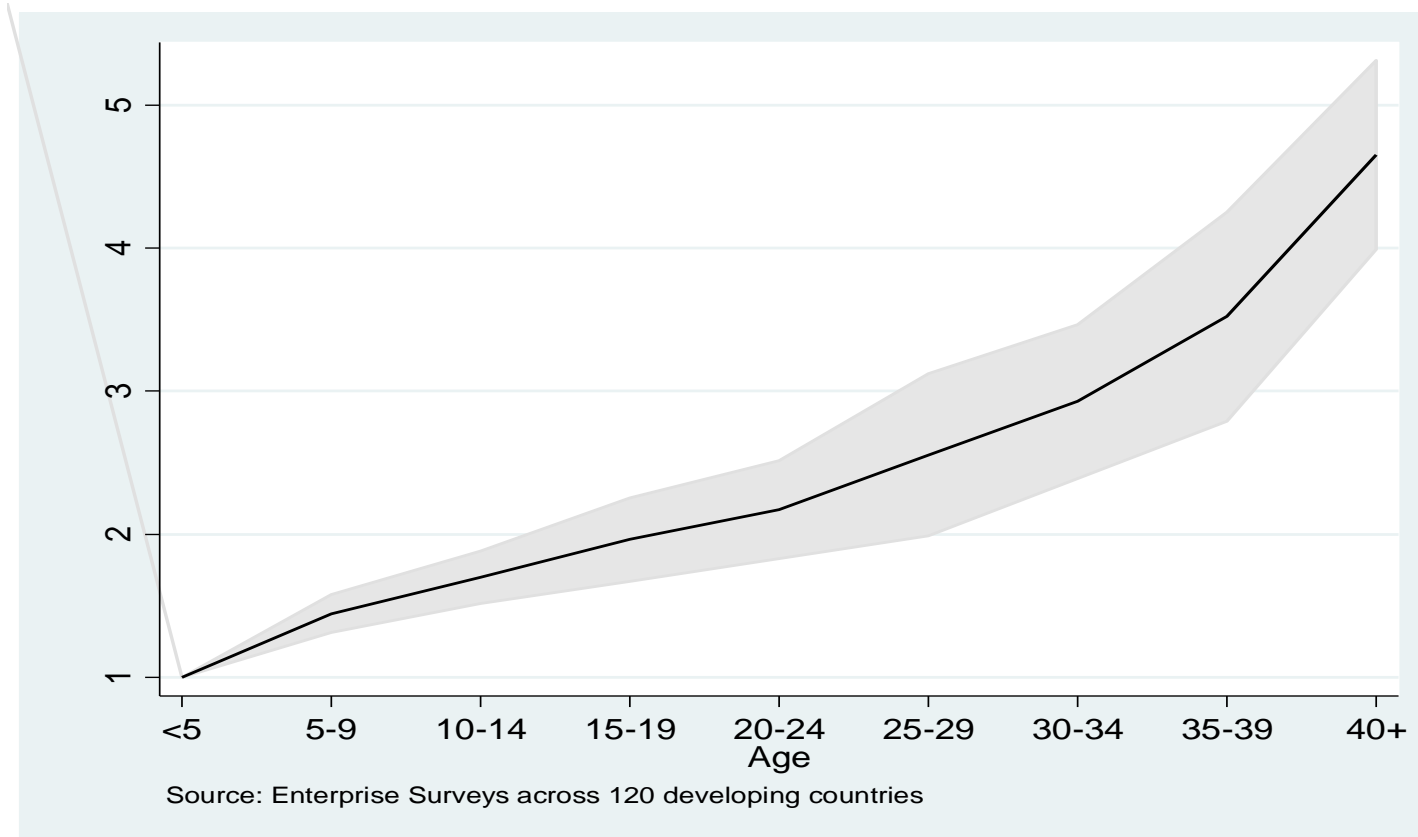
*Small firms have the largest shares of job creation but large firms have the largest share of job losses. Even in countries that had a net job loss, small firms create jobs.*

# Global: Role of Firm Age



*Large mature firms (100+ employees and 11+ years) are the largest contributors to total employment (34.84%).*

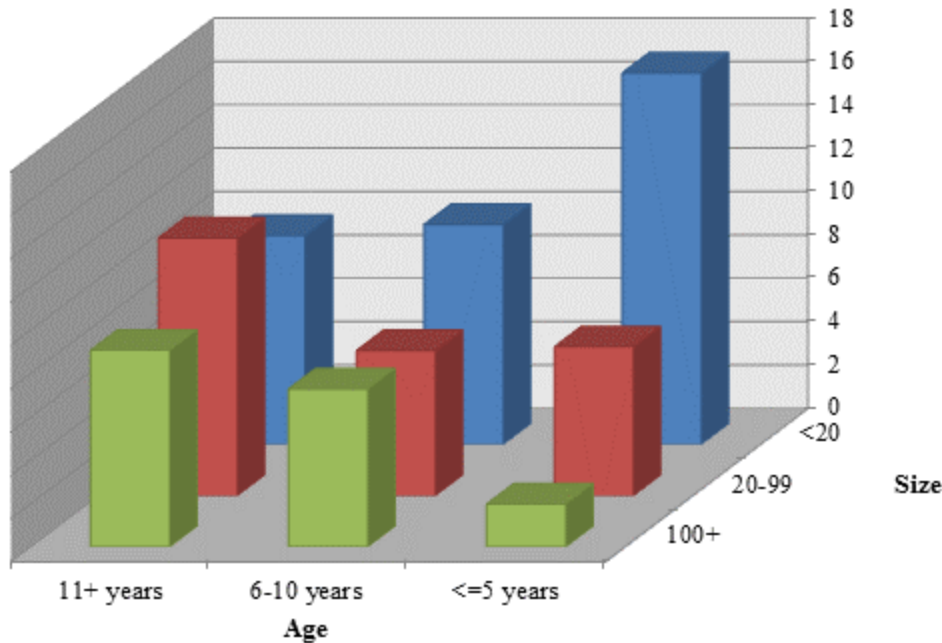
# Age-Employment Profile as Firms Age



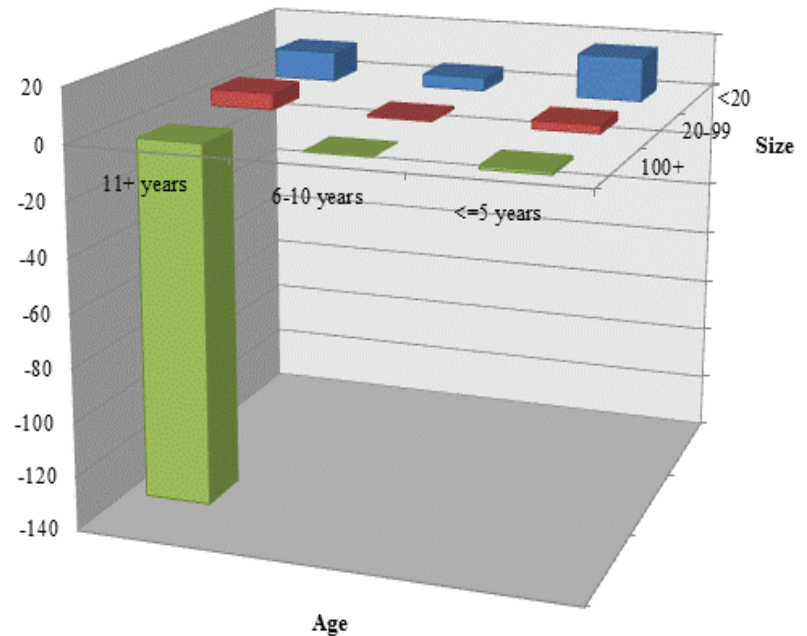
*In the sample of 120 developing countries, the average 40-year old plant employs nearly 5 times as many people as the average plant that is less than five years old. The 95% confidence intervals show that this number could vary between 4 and 5.3.*

# Global: Role of Firm Age

Job Creation Shares



Job Destruction Shares



*Looking at 85 countries with net job creation and 18 countries with net job losses separately, net job creation is largest in the small young firms (<20 employees and  $\leq 5$  years) in both cases.*

# Global: Establishment Size and Growth

	1	2	3	4	5	6	7	8	9
	Employment Growth			Sales Growth			Productivity Growth		
	Full	Manufacturing	Non-Manufacturing	Full	Manufacturing	Non-Manufacturing	Full	Manufacturing	Non-Manufacturing
Medium Firm Dummy (20-99 employees)	-0.081*** (0.005)	-0.087*** (0.006)	-0.072*** (0.006)	-0.027*** (0.008)	-0.032*** (0.010)	-0.018 (0.012)	0.054*** (0.007)	0.053*** (0.009)	0.058*** (0.012)
Large Firm Dummy (100+ employees)	-0.110*** (0.007)	-0.121*** (0.008)	-0.093*** (0.009)	-0.038*** (0.010)	-0.050*** (0.011)	-0.017 (0.018)	0.072*** (0.011)	0.069*** (0.011)	0.081*** (0.019)
Age	-0.001*** (0.000)	-0.001*** (0.000)	-0.002*** (0.000)	-0.001*** (0.000)	-0.001*** (0.000)	-0.002*** (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Constant	0.148*** (0.008)	0.157*** (0.008)	0.168*** (0.008)	0.171*** (0.017)	0.157*** (0.016)	0.264*** (0.017)	0.025 (0.015)	0.006 (0.015)	0.110*** (0.014)
# of Firms	42024	24378	17646	34533	20141	14392	34517	20138	14379
Adjusted R-Sq	0.09	0.097	0.084	0.065	0.069	0.059	0.054	0.056	0.051
# of Countries	103	103	100	103	103	100	103	103	100

*In developing economies small firms have higher employment growth and sales growth, even after controlling for age*



# Global: Establishment Size and Growth

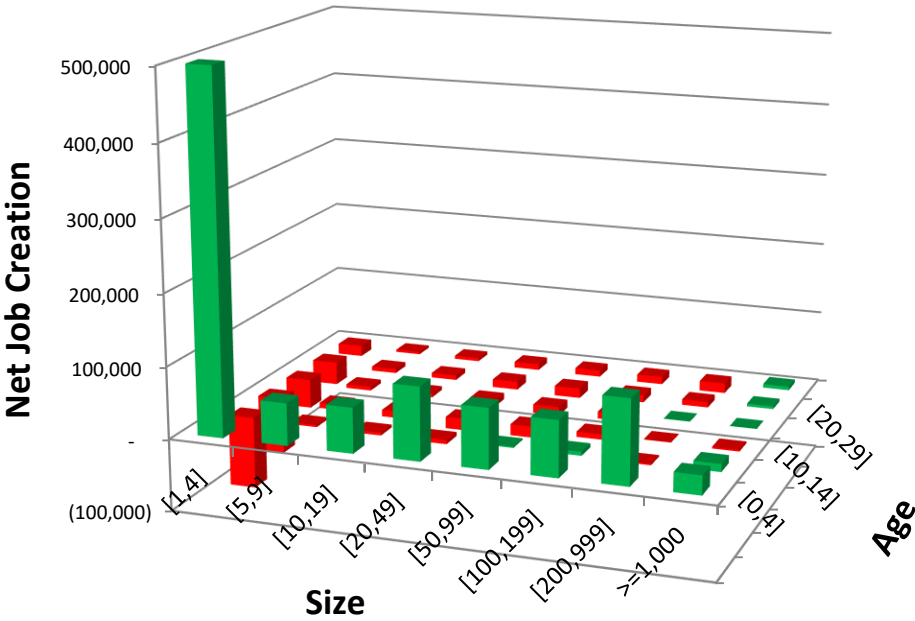
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*Large firms have higher productivity growth.*

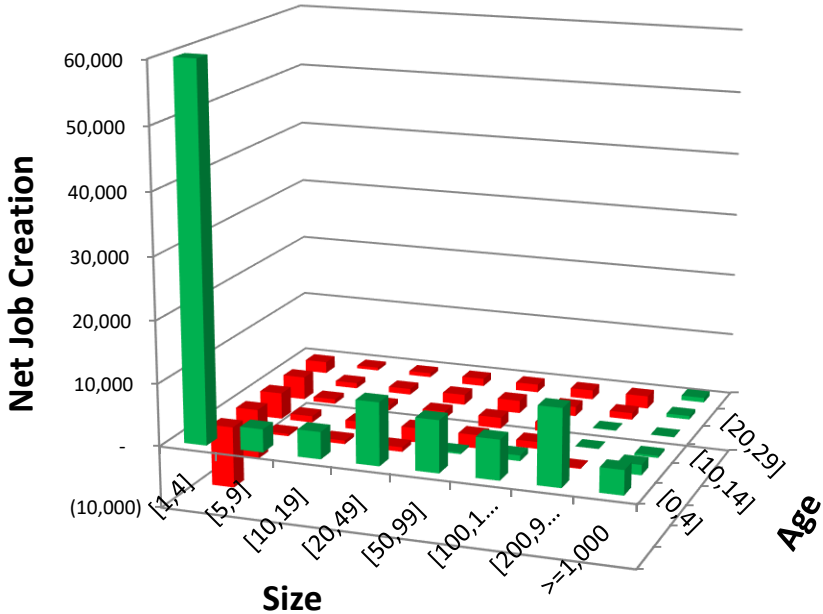
# MENA: Startups create most jobs

Net job creation by firm size and age

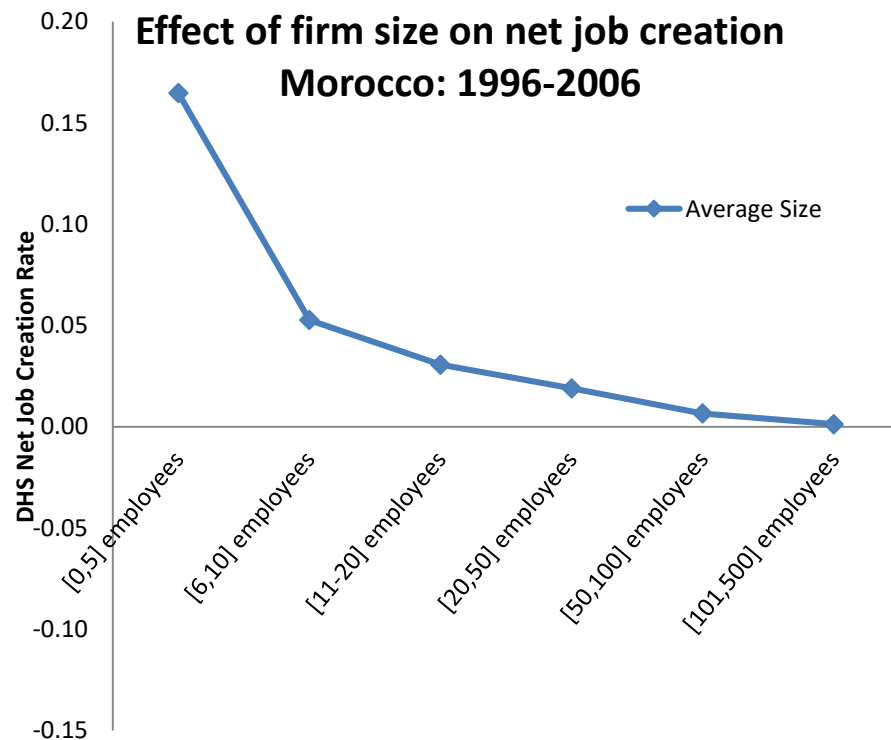
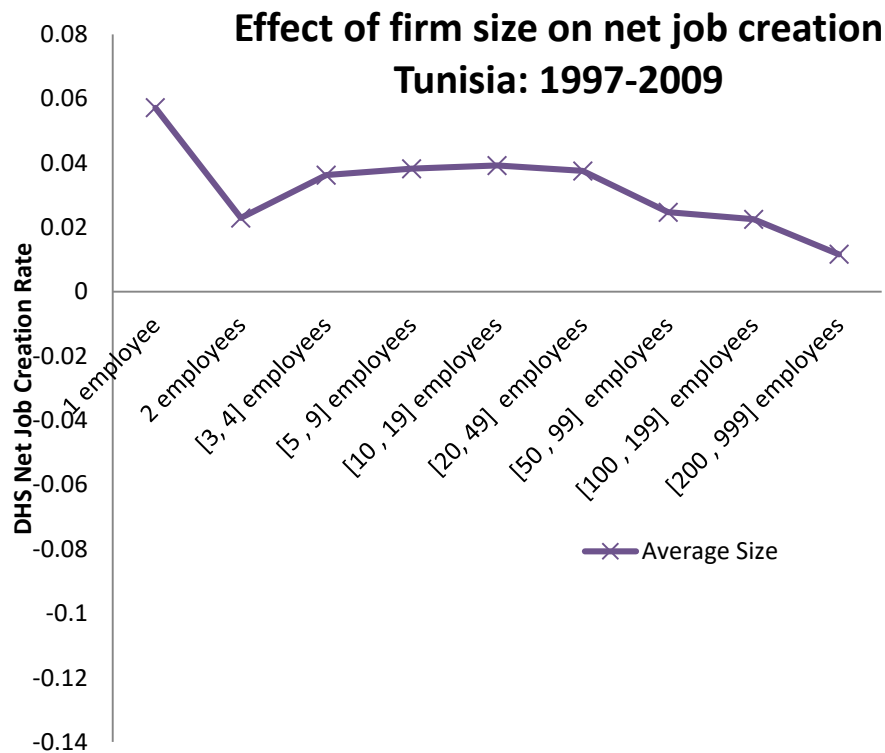
## Tunisia



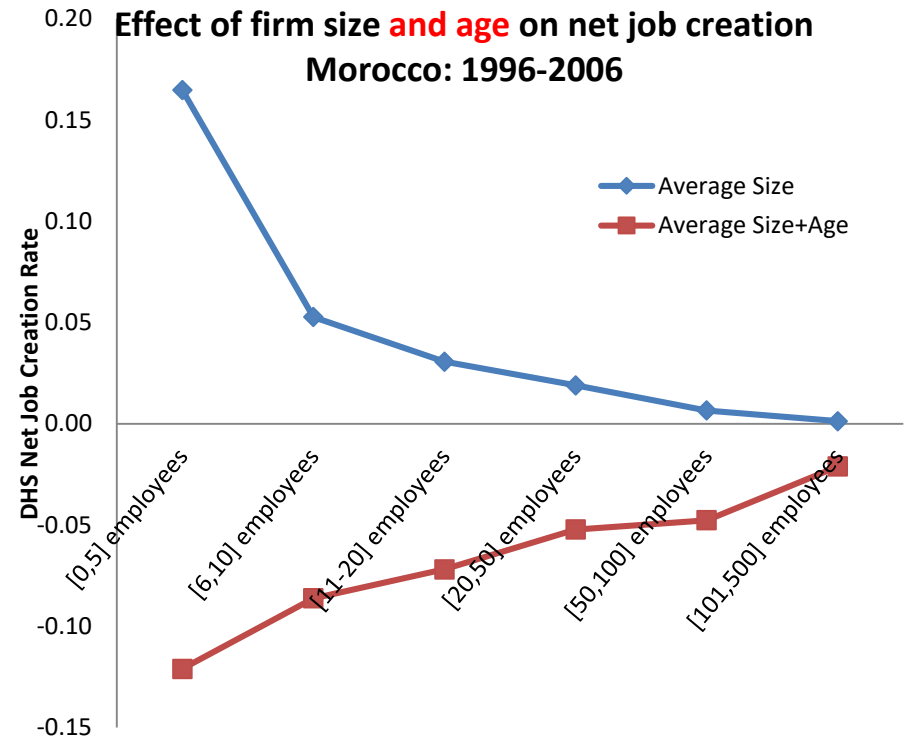
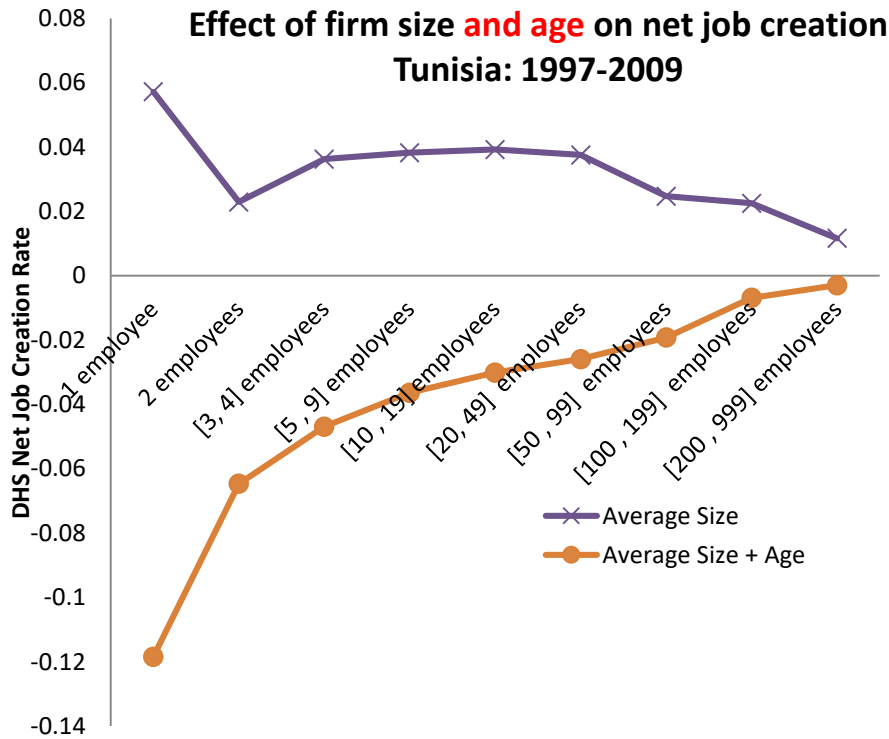
## Lebanon



# Small firms grow faster...



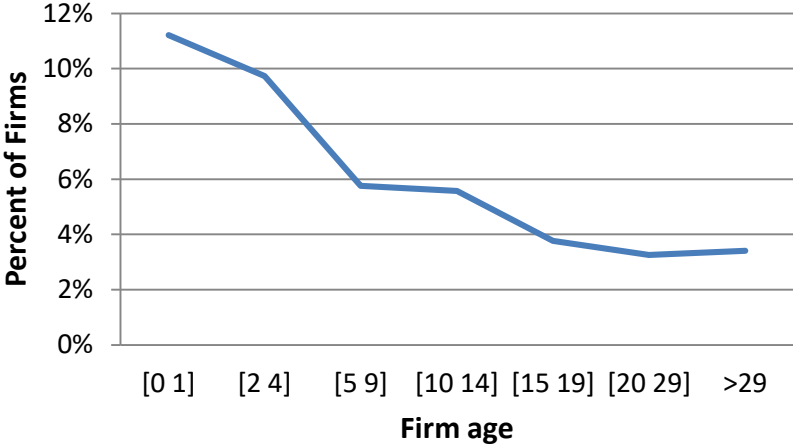
# Small firms grow faster.....because they are **young**



***It's Age, not Size, that Matters!***

# Gazelles\* are younger and more productive than non-gazelles

Percentage of Firms that are Gazelles by Age in Morocco

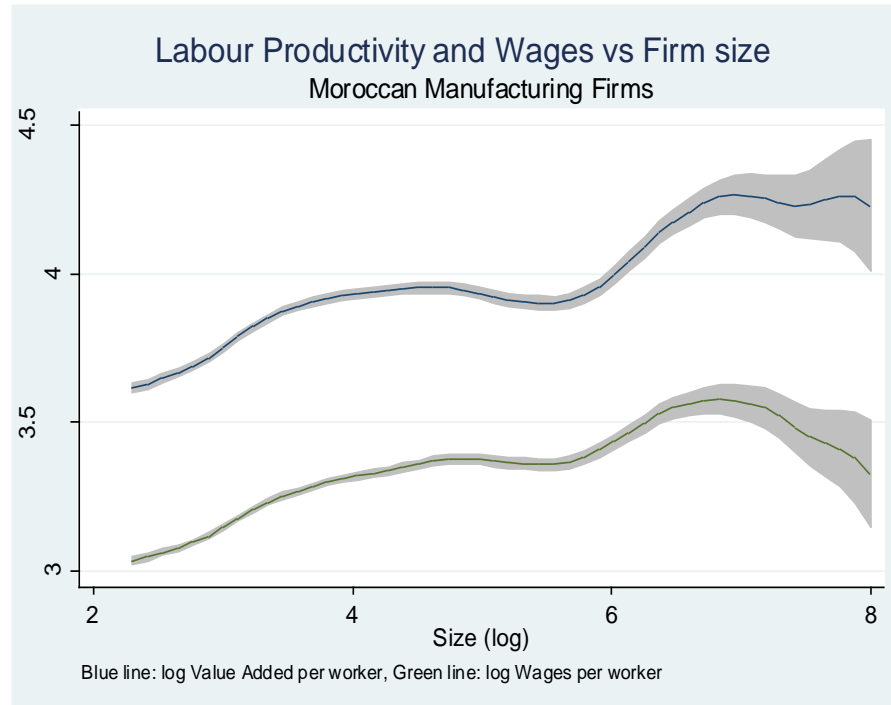


Characteristics of Gazelles in Lebanon and Egypt

	(log) Labor Productivity	Age
Gazelles in Lebanon	0.261***	-4.723***
Gazelles in Egypt	0.880***	-5.619**
** p<0.05 *** p<0.01		

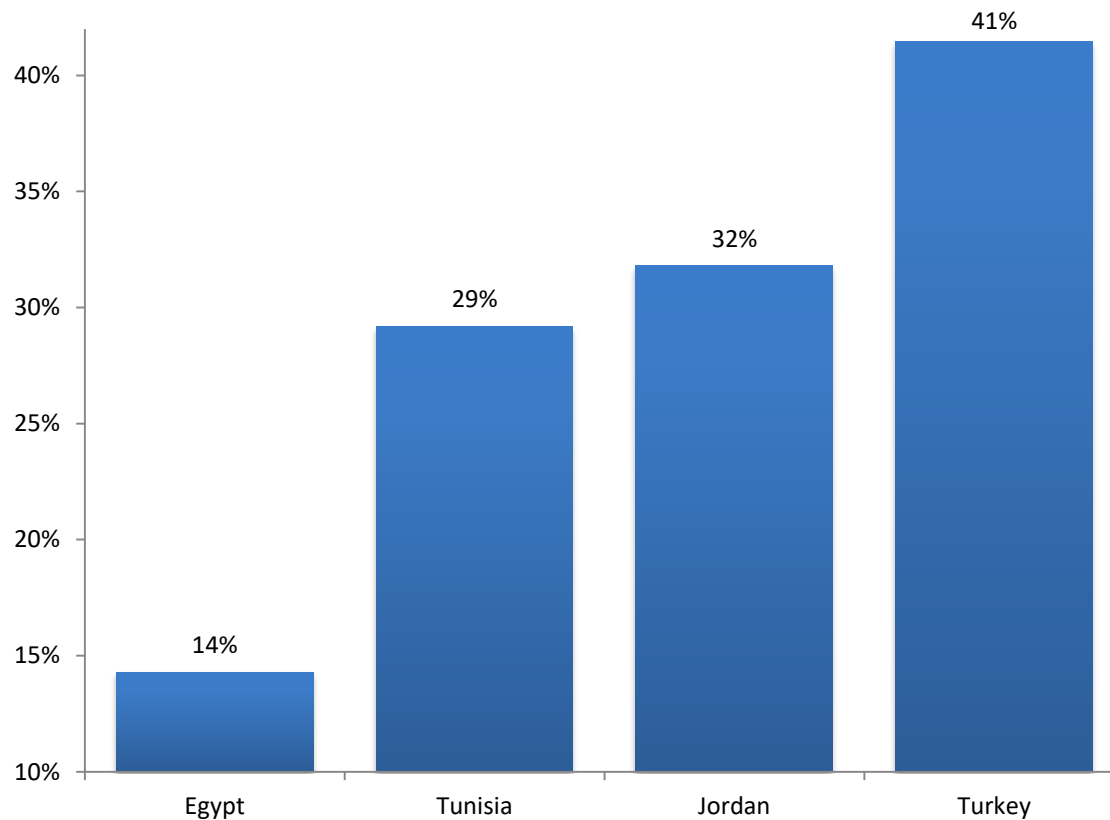
\*Firms that double employment over four-year period

# Large firms create better jobs



# Low share of jobs in younger medium or large establishments in MENA

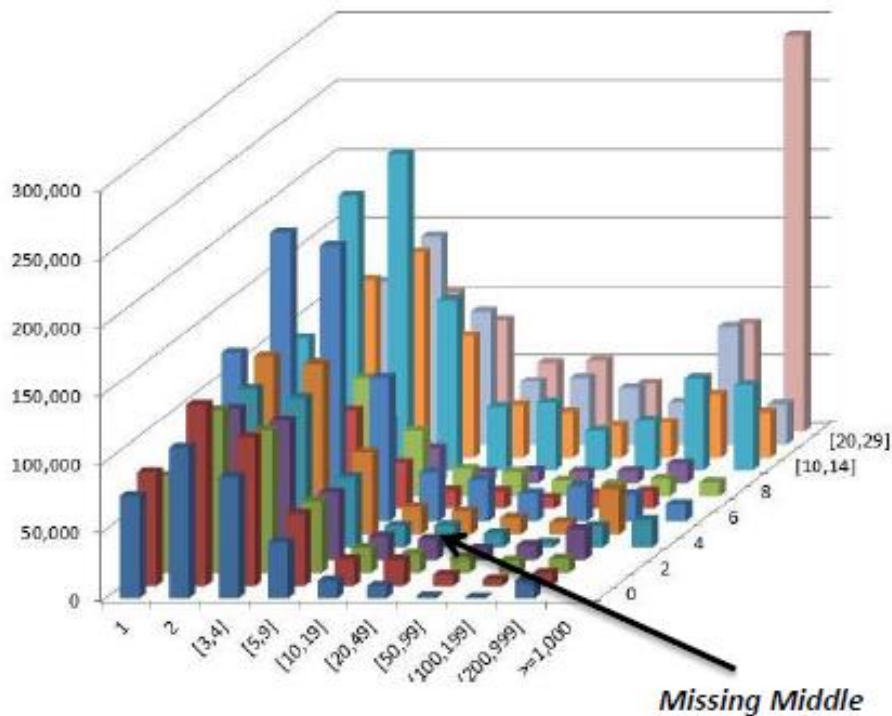
Employment share of young medium or large establishments



# Firms do not grow as they get older

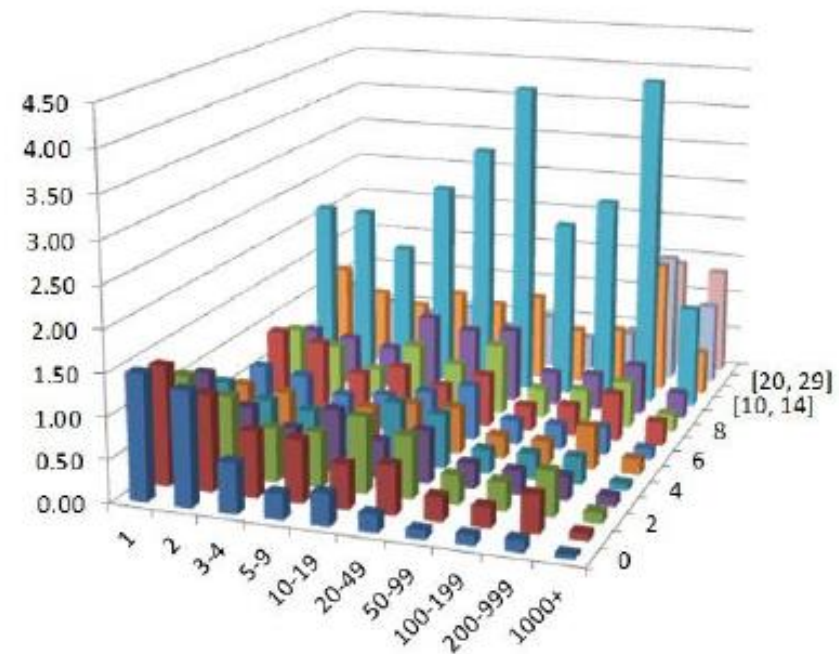
## Distribution of employment by firm size and age

Egypt



Missing Middle

Turkey





# Stunted Growth

## Short-term transaction matrix

### Annual Transitions

<i>Tunisia – All Firms</i> Status in year $t+1$						<i>Morocco – Manufacturing only</i> Status in year $t+1$				
Status in year $t$	Exited	1-person	Micro	Small	Large	Status in year $t$	Exited	Micro	Small	Large
<b>1-person</b>	5,3%	90,6%	3,8%	0,2%	0,0%					
<b>Micro</b>	3,3%	10,6%	83,9%	2,1%	0,0%	<b>Micro</b>	11,1%	81,0%	7,9%	0,0%
<b>Small</b>	1,8%	7,1%	10,1%	78,4%	2,6%	<b>Small</b>	6,9%	6,8%	83,6%	2,7%
<b>Large</b>	1,1%	3,1%	1,5%	10,3%	84,0%	<b>Large</b>	5,1%	0,1%	7,6%	87,1%

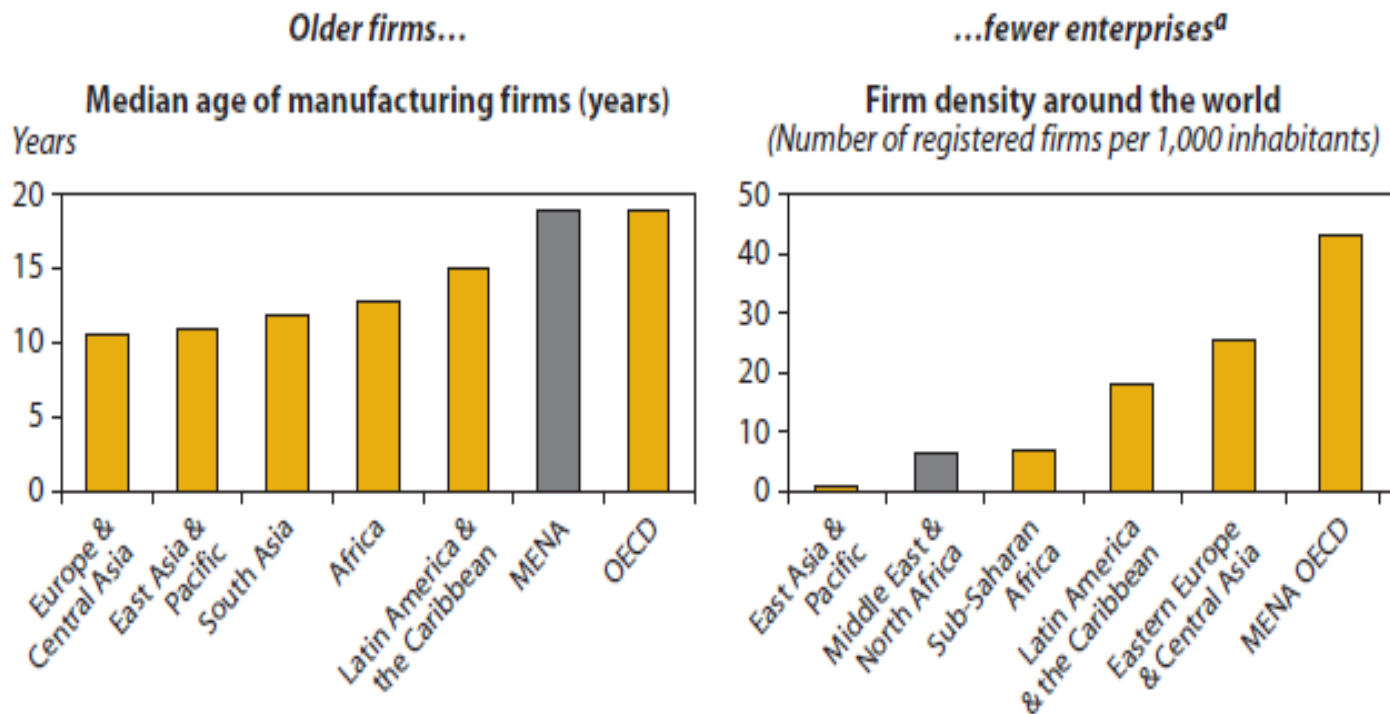
## Long-term transaction matrix

### Decadal Transitions

<i>Tunisia – All Firms</i> Status in year $t+10$						<i>Morocco – Manufacturing only</i> Status in year $t+10$				
Status in year $t$	Exited	1-person	Micro	Small	Large	Status in year $t$	Exited	Micro	Small	Large
<b>1-person</b>	30,8%	65,5%	3,4%	0,3%	0,0%					
<b>Micro</b>	19,0%	41,2%	37,0%	2,8%	0,1%	<b>Micro</b>	52,1%	36,5%	11,3%	0,1%
<b>Small</b>	14,8%	28,4%	14,0%	39,5%	3,3%	<b>Small</b>	44,6%	9,5%	41,2%	4,8%
<b>Large</b>	15,8%	23,3%	2,9%	15,2%	42,7%	<b>Large</b>	40,7%	0,6%	12,9%	45,9%

**Most small firms remain small ----- even in the long run**

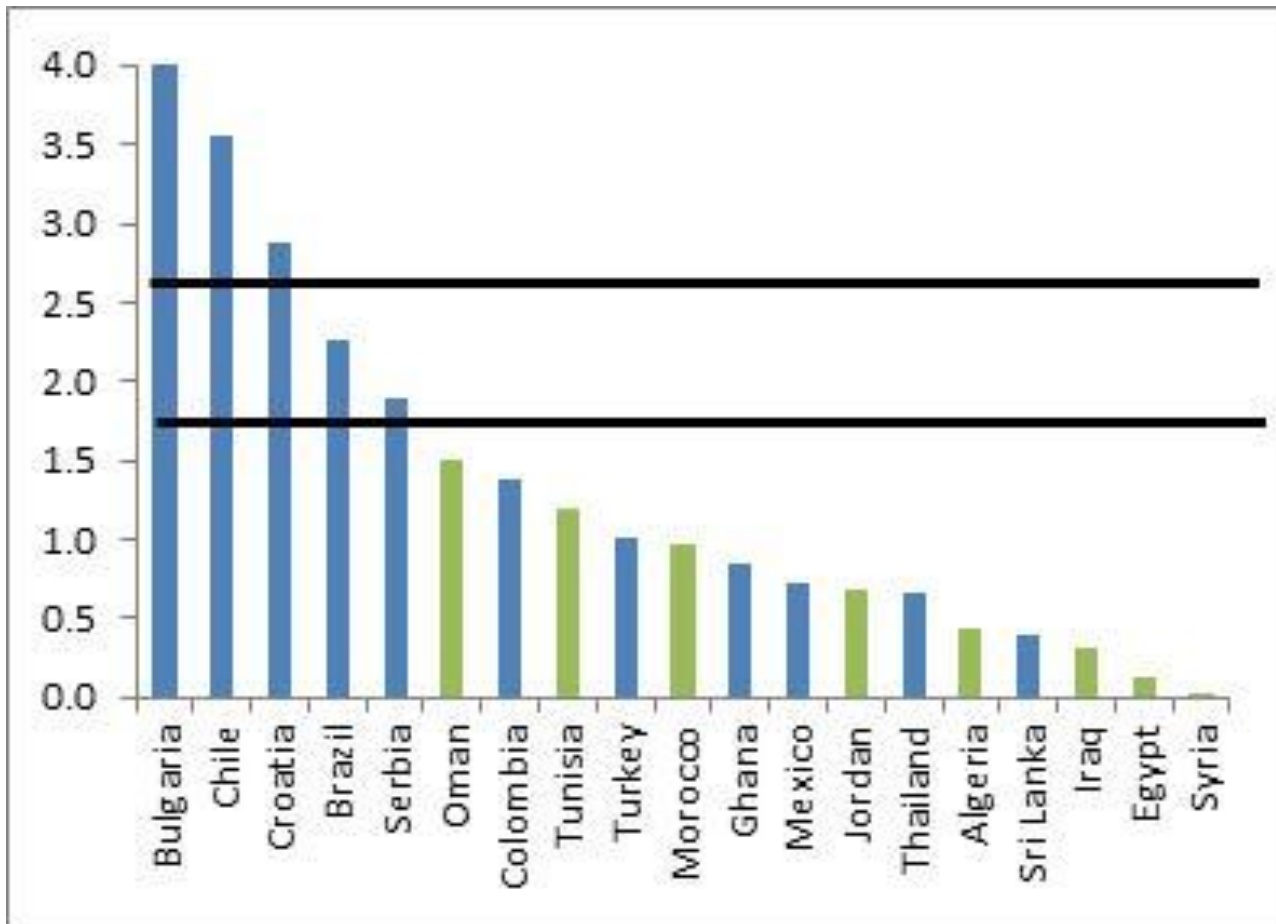
# Private Sector Paralysis in MENA



- **Relatively few firms per capita**
- **Many old firms:** competition does not weed out the weak

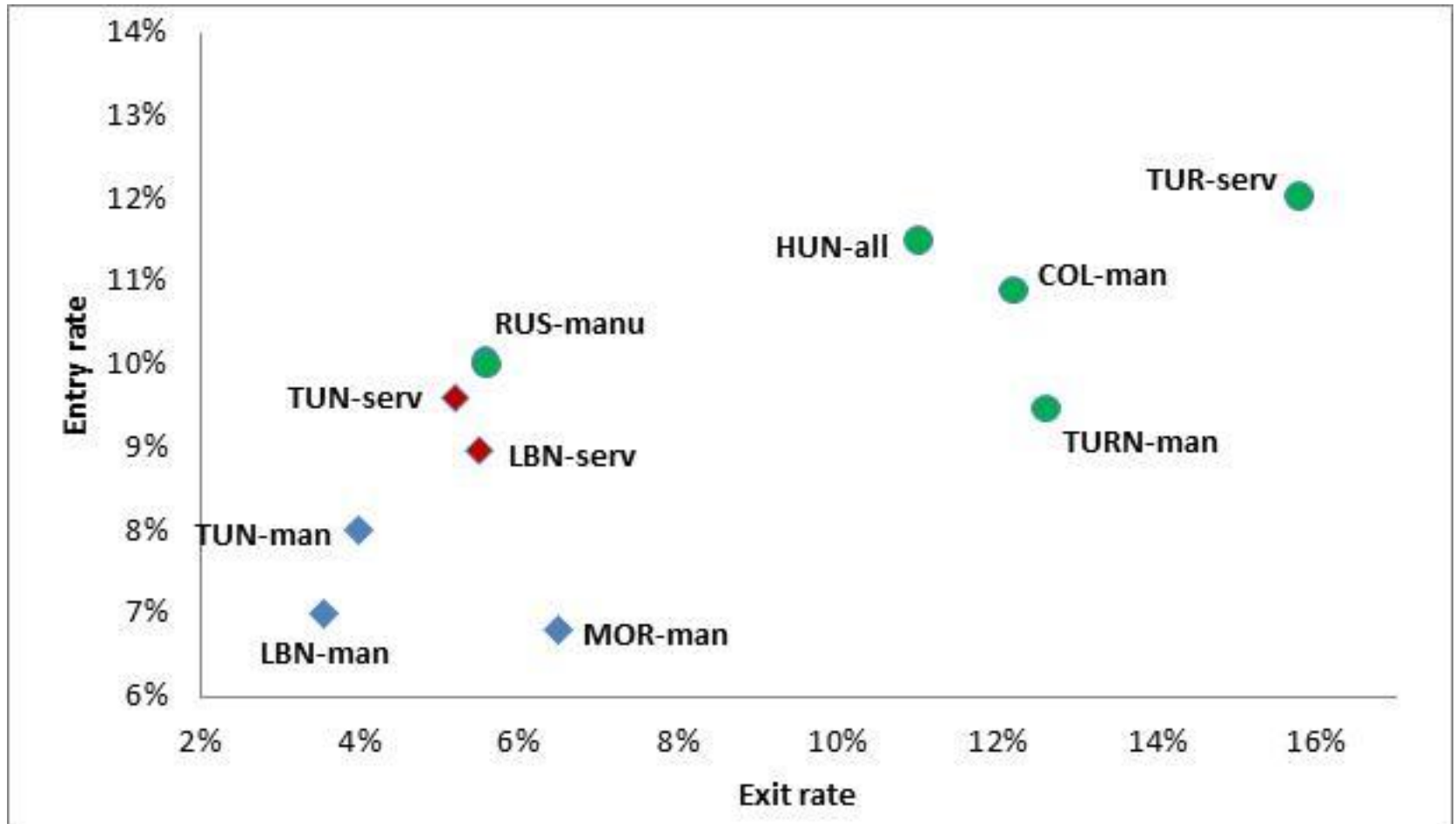
# MENA has the lowest formal sector entry rates in the world

Number of new limited liability firms per working-age population by region

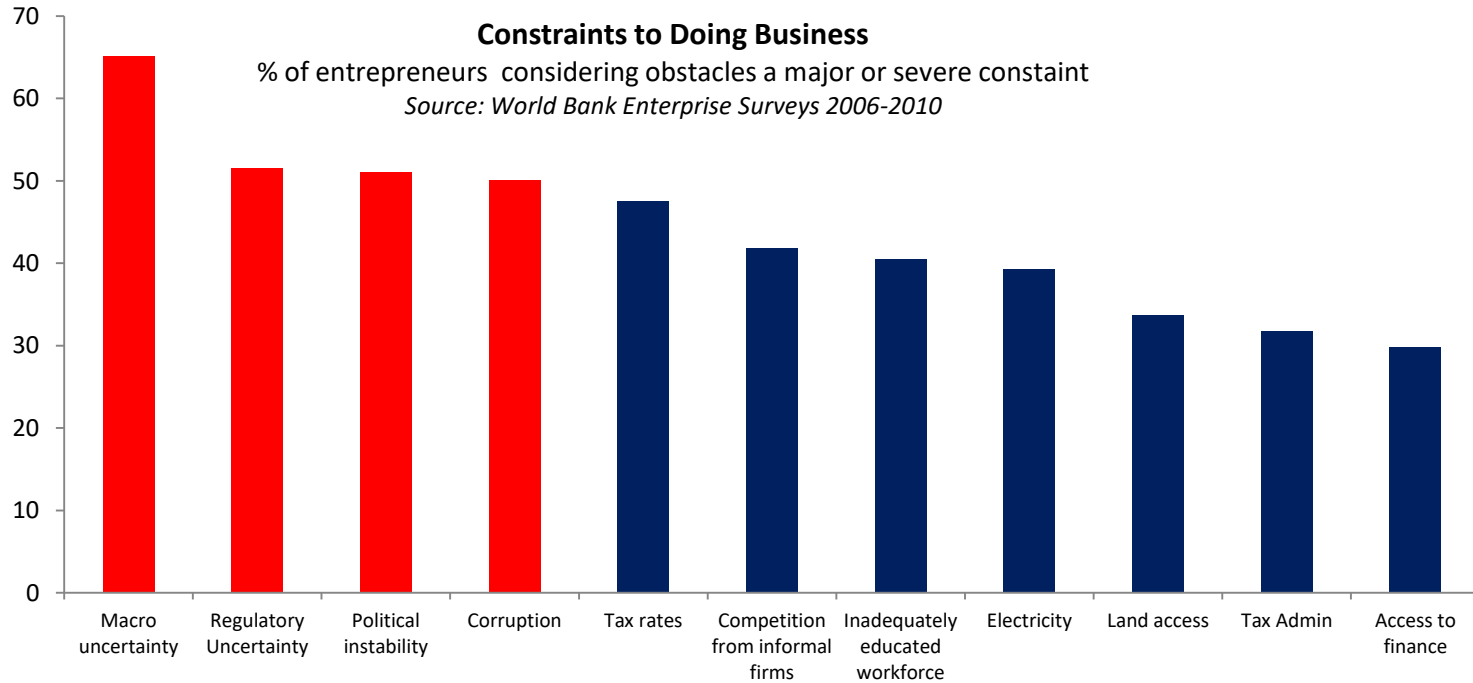


# Not enough startups, not enough exits

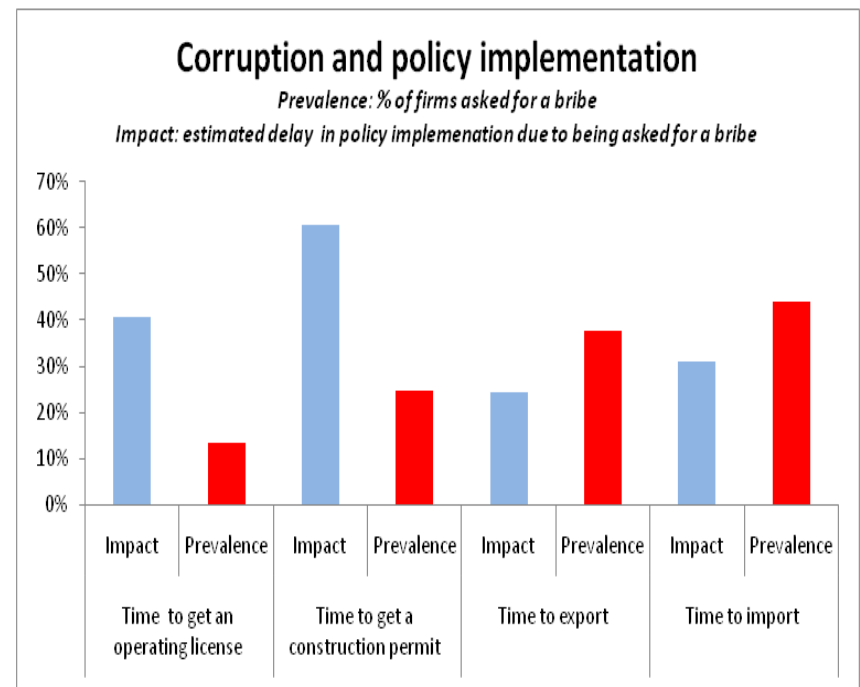
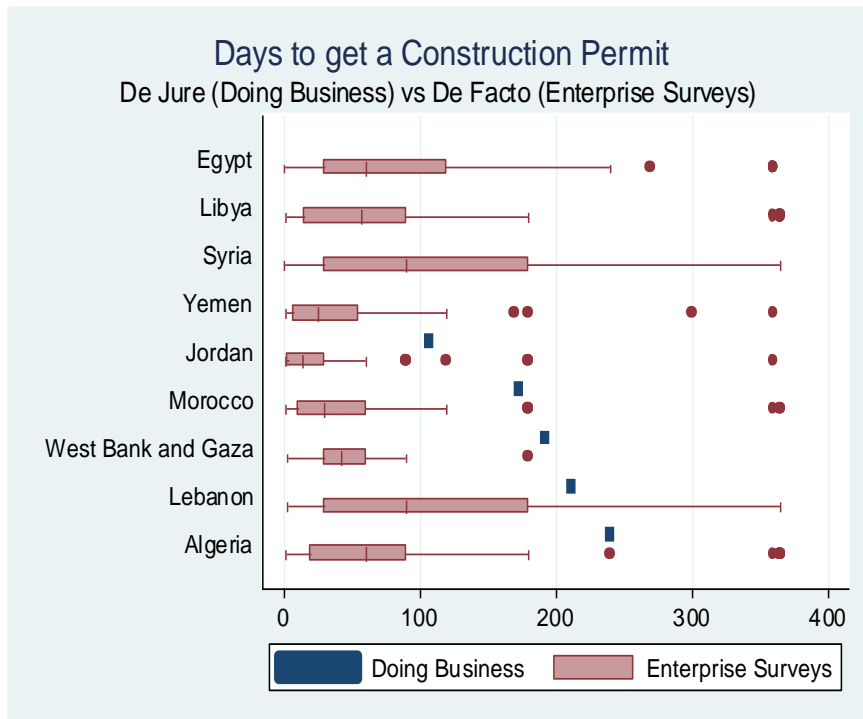
Firm turnover across countries (entry of new and exit of old firms as a share of all firms)



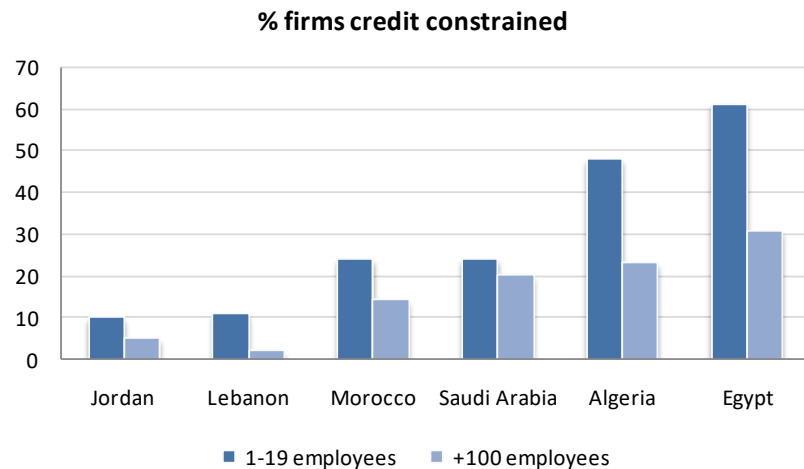
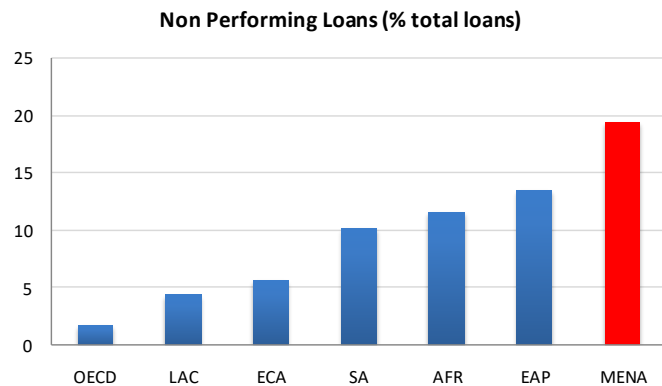
# Why are firms not growing?



# Regulatory uncertainty due to widespread corruption

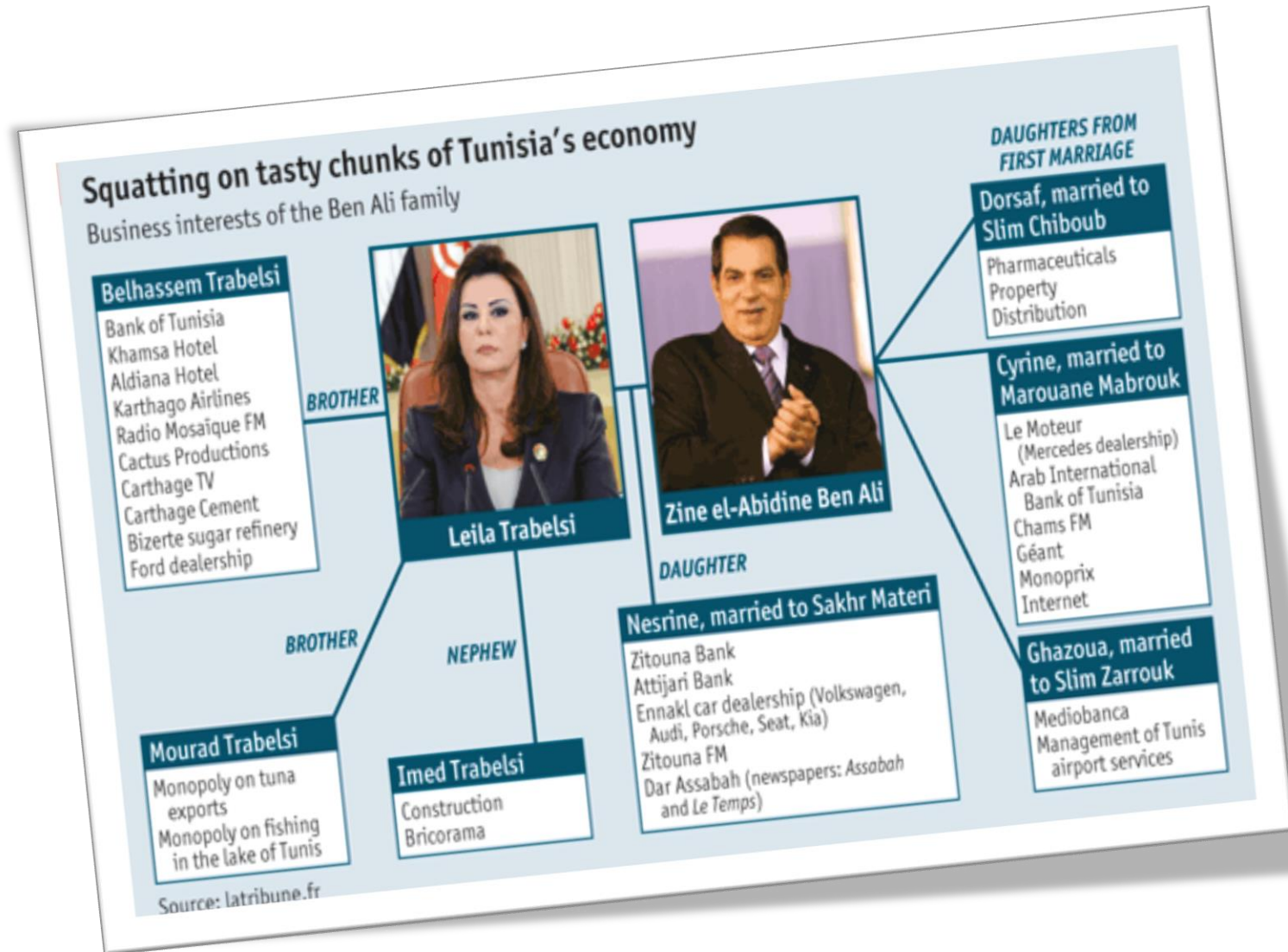


# Limited access to finance



- Together with firms in SSA, firms in MENA have the least access to credit in the world
- Moreover, credit is often misallocated.
- Credit constraints disproportionately affects small firms

# Political connections





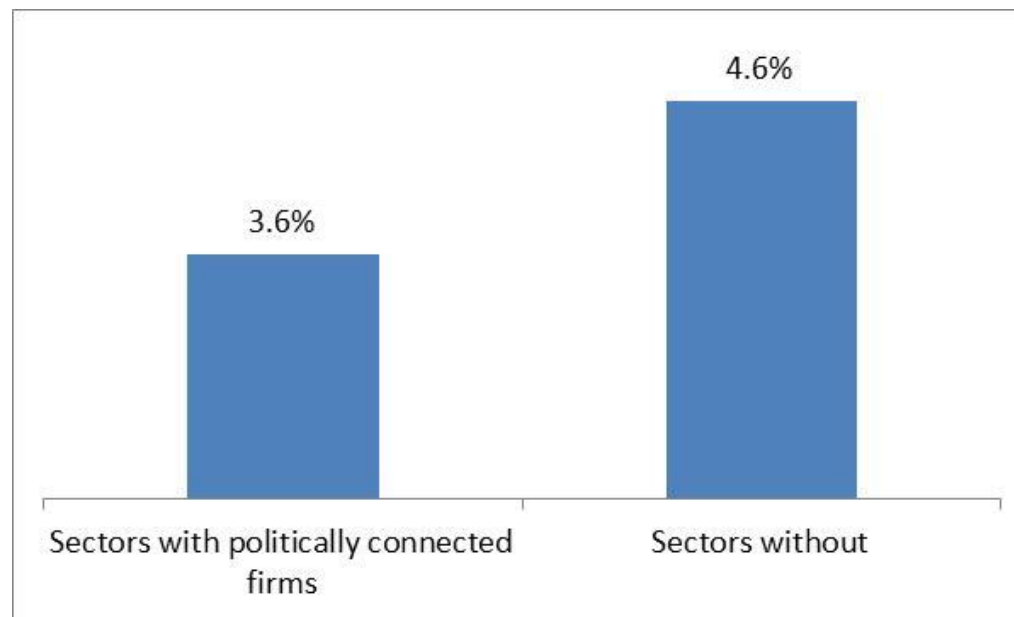
# Political connections: Economic effects

	Ben Ali Firms			Other firms			
	N	Mean	Sum (USD)	N	Mean	Sum (USD)	Ben Ali Share of Total
L	127	66	8,392	112309	9	1,036,610	0.80%
Y	122	16,980,822	2,071,660,240	307430	225,300	62,512,270,119	3.20%
Net Profits	122	1,908,925	232,888,796	96859	11,090	1,074,153,638	21.30%
Gross Profits	122	2,811,035	342,946,258	96859	54,320	5,261,372,574	6.80%
Gross Losses	122	-902,110	-110,057,441	96859	-43,230	-4,187,219,068	2.70%

Note: USD:TND exchange rate 1:1.5146, data for 2010, L=wage workers, Y=output, Net profits=pre-tax profits declared to the tax authorities (all firms), gross profits=pre-tax profits declared to the tax authorities only for firms for whom this is positive. Gross losses=tax profits declared to the tax authorities only for firms for whom this is negative.

# Privileges suppress the firm dynamics associated with job creation

Firm startup is lower in sectors dominated by politically connected firms



- In Egypt, [job growth](#) declines by about 1.4%-points annually when connected firms enter new, previously unconnected sectors.