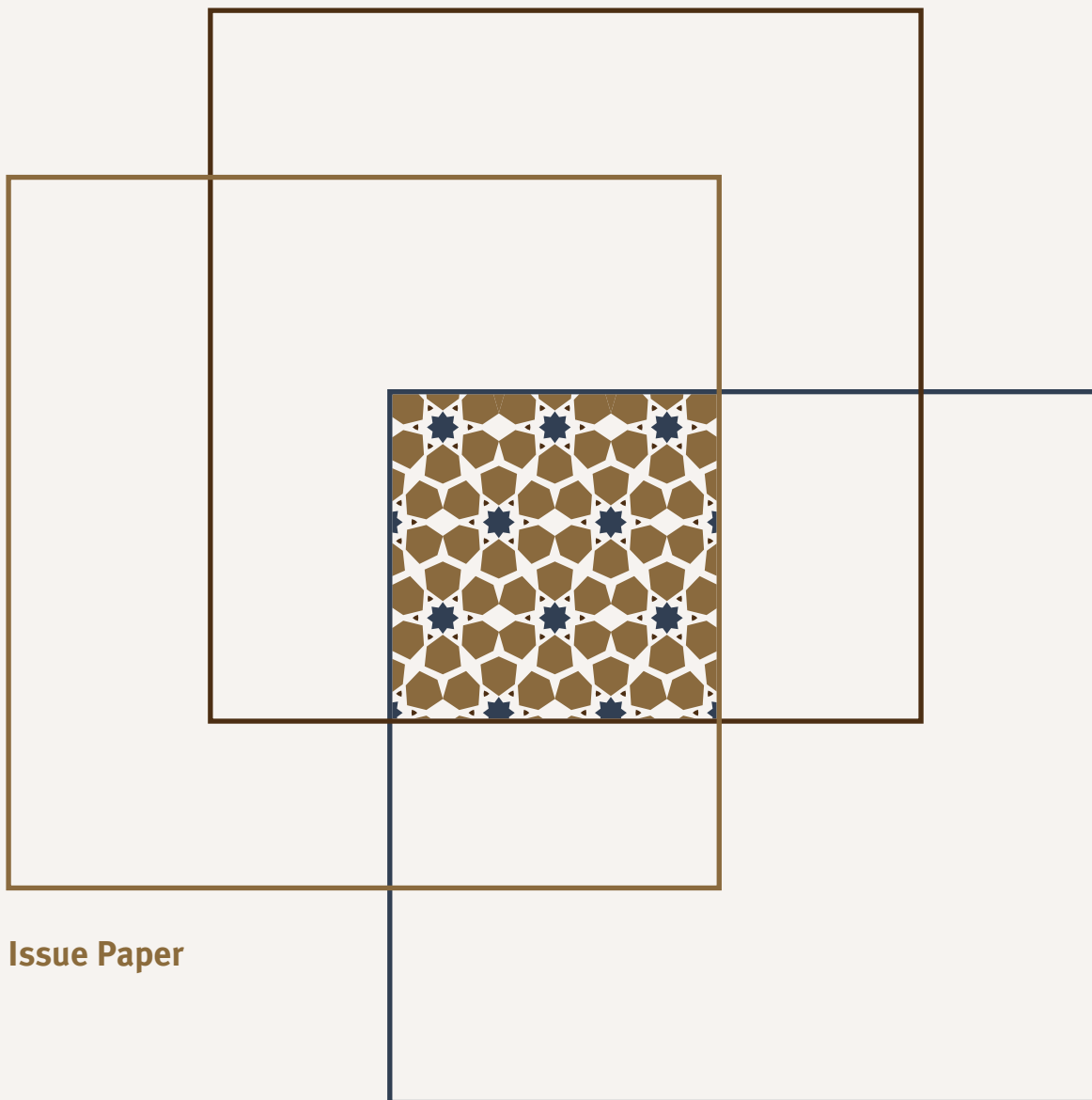




International
Labour
Office

Sustainable Enterprise Development and Employment Creation



Issue Paper

**Arab Forum on Development and Employment
Doha, Qatar 15 - 16 November 2008**

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International Labour Office

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ILO Contribution to the Arab Forum on Development and Employment

Issue Papers¹

This paper is one of five issue papers that were prepared by the ILO as a contribution towards the Arab Forum on Development and Employment. The subjects of these issue papers are:

- Growth, employment and decent work in the Arab region: an overview
- Promoting employment opportunities for young men and women in the Arab region
- Skills for employability of workers and productivity of enterprises in Arab states
- Sustainable enterprise development and employment creation
- Institutions and policies for equitable and efficient labour market governance in the Arab region

These issue papers were prepared by the ILO team composed of:

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The choice of the themes reflects the priority areas and employment challenges facing the Arab region. These papers provide the background material for the realization of commitments made at the global and regional levels on decent work. Moreover, these issue papers are complimentary to ILO approaches and they build on an on-going process to support the realization of decent work at the global level.

At the Fourteenth Asian Regional Meeting held in Busan, Korea, in August/September 2006 the tripartite delegates launched an Asian Decent Work Decade and committed to the achievement of specific decent work outcomes. The Meeting recommended cooperation on specific initiatives at the regional level, where joint action and sharing of knowledge and expertise will contribute to the realization of decent work. Recommendations also included strengthening employment services, developing reliable regional statistics to complement decision-making, providing support services for small enterprises, establishing benchmarks and good practices on the extension of social protection and strengthening labour inspection, dispute prevention and settlement.²

At the 11th African Regional Meeting, which took place in Addis Ababa in April 2007, tripartite delegations from Arab countries in Africa committed themselves to a series of targets for the development of integrated Decent Work Country Programmes to accelerate progress towards the achievement of agreed international development goals including the Millennium Development Goals. The conclusions of the Meeting emphasized specific goals, including closure of the skills gap, social inclusion through job creation, tripartism as a key governance mechanism for inclusive poverty-reducing growth, a fair regional policy on migrant workers, freedom of association, the elimination of child labour, slavery and discrimination, the extension of a basic social protection package for poverty reduction, and escape from the informal economy trap. The constituents also committed themselves to the African Decent Work Decade for the period 2007-2015, following up on the

¹ The objectives of these papers are to stimulate the debate and the content should not be quoted without ILO authorization.

² For further information, visit <http://www.ilo.org/public/english/region/asro/bangkok/>

conclusions of the Ouagadougou Summit of 2004 and its Declaration, Plan of Action and Follow-up Mechanism on Employment and Poverty Alleviation in Africa.³ The conclusions of the 35th Arab Labour Organization Conference (February 2008) call for greater regional cooperation in the areas of employment, human resources and social dialogue, with emphasis on developing regional initiatives, including a unified Arab Labour Law and creating regional mechanisms to tackle shared challenges, such as the establishment of an Arab Tripartite Forum and an Arab Labour Market Information System. The ALO has highlighted the need for greater regional cooperation and coordination with the ILO to address unemployment and existing decent work deficits.

³ For further information, visit <http://www.ilo.org/public/english/region/afpro/addisababa/index.htm>

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Executive Summary

There is an urgent challenge to develop policies and strategies to generate decent and productive jobs through the promotion of sustainable micro, small and medium sized enterprises in the Arab region.

Recognizing the role of the private sector for growth, employment creation and poverty reduction, countries in the Arab region are encouraged to engage in a process of sound economic reform particularly tackling the promotion of an enabling business environment and the adequacy of the education system with the labour market needs.

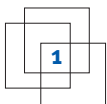
This paper outlines the fundamental importance of sustainable enterprises in achieving social development goals, economic diversification, income generation and poverty reduction in the region. It also highlights a number of challenges facing the crucial development of the private sector in the Arab countries.

A conducive business environment with an efficient legal and regulatory framework is primordial for private sector promotion and job creation. The prevalence of informal economy in the Arab region is, in large part, due to a complex and unfriendly business environment, characterized by cumbersome laws, regulations, and administrative procedures that lack transparency. There is also a need to enhance the competitiveness and productivity of enterprises in the region through custom-made policies that take into account countries' level of development, available resources and institutional capacity and that respect fundamental principles and rights at work and international labour standards. Furthermore, efforts should be exerted to strengthen cooperation and regional integration among countries especially in the trade sector, in order to foster economic diversification and broader based employment opportunities. Finally, there is an urgent need to tackle the mismatch between the market needs and the educational, vocational and technical training systems.

The paper also highlights the importance of MSME development and of fostering an entrepreneurial culture, especially among young people, including young women. Women and youth entrepreneurship can be a path out of poverty through job creation, economic growth and social cohesion. However, women and youth encounter specific constraints and barriers that hinder them from starting and managing their enterprises. Such constraints – many of which are particularly pronounced in the region - can include the lack of cultural support, poor education and training, a paucity of business support services, an absence of gender equality regulations and limited access to finance and local promotion programs.

The economic diversity of the countries in the region confirms the need to develop situational specific policy responses. However, there are common denominators the paper recommends: development of a conducive business environment, encouraging regional cooperation and integration among countries, raising productivity and competitiveness of enterprises, and investing in human resources development.

It is essential that countries in the Arab region continue and/or engage on this path to reform.



Introduction

1. Over recent years, the Arab region has experienced strong growth, led by the energy sector, and this has given rise to employment creation. However, the high growth sectors with high value added are not necessarily the ones creating the majority of new jobs and in many countries, productivity growth remains relatively low. Thus, growth has to be broadened and deepened to enhance the long term competitiveness of the region. Deeper regional integration – to lower business costs and address problems that require cooperative, cross border solutions - is key to enhanced competitiveness.
2. Furthermore, the region has the world's fastest growing labour force and as increasing numbers of young people and women enter the labour market, the job creation challenge remains enormous. The private sector plays a fundamental and ever greater role in addressing this challenge. This paper outlines how the private sector can be leveraged to address this employment challenge through a strategy of promoting sustainable enterprises.
3. Recognizing the key role of the private sector for growth, employment and poverty reduction, the 2007 International Labour Conference focused on the promotion of sustainable enterprises. In its conclusions, the Conference agreed on six enterprise level principles for responsible and sustainable enterprise level practices and 17 conditions for a conducive environment for sustainable enterprises ranging from peace and political stability through to responsible stewardship of the environment (see Annex).
4. While entrepreneurs expect an enabling environment for the creation and growth of enterprises, society expects that enterprises operate in a responsible and sustainable manner. At the enterprise-level, sustainability means operating a business so as to grow and earn profit while recognising the economic and social aspirations of people inside and outside the organization. This implies that sustainable enterprise management should be based on three pillars: economic, social and environment. In this way the enterprise has the potential to create sustainable wealth and decent work.
5. In many countries in the region, state control often stifles private sector growth and uneven playing fields typically benefit state linked firms over private enterprises.⁴ However, in general, the share of domestic and foreign private investment is on the increase in most countries and reform of the business environment is on the agenda throughout the region.
6. It is essential that countries in the Arab region continue on this path to reform, particularly in education and labour market governance: developing the human resources that businesses need, fostering entrepreneurship and facilitating growth through supportive and transparent institutions and processes.
7. Thus, there is an urgent challenge to develop strategies to generate decent and productive jobs through the promotion of sustainable enterprises. Job creation in sustainable enterprises remains fundamental to economic diversification and to raising incomes and reducing poverty in the region. This paper outlines the need to promote an environment conducive to the formation and growth of sustainable enterprises in order to help foster more productive and competitive economies. It also highlights the importance of SME development and of fostering an entrepreneurial culture, especially among young people, including young women.

⁴ It must be recognised, however that within the Arab region, the distinction between public and private spheres of economic activity may not always be clear and precise.

1. Building on Recent trends in Growth and Investment to Leverage Enterprise and Employment Growth⁵

8. The Arab region is economically very diverse ranging from among the world's richest states to among the poorest. During 2007, the Middle East and North Africa (MENA) region (using the World Bank classification) experienced average growth of 5.7 percent.
9. Although the energy sector drives growth in much of the region, this is not the only source of growth even in resource rich countries. In recent times, the contribution of investment (as distinct from domestic consumption) to growth has been rising. In addition, private investment as a share of GDP has been increasing, signalling a shift toward more private sector led growth. There is an opportunity to capitalise on this private sector growth by making it more inclusive through the promotion of sustainable enterprises.
10. Generating employment for women and youth is a major challenge. About a third of the MENA region's population is less than 15 years old (compared to about 16% for the EU). On one hand, these demographics could represent a great competitive advantage but, on the other hand, they could also prove a huge burden and source of instability if more employment opportunities are not found.
11. An important problem in the region relates to the quality of skills existing among entrants to the labour market (including entrepreneurial skills). This is mainly due to the mismatch between the market needs and the educational system and the poor performance of the vocational and technical training systems.
12. Sustaining job growth requires structural reforms to unleash the potential for sustainable enterprise development, especially improving the investment climate/business environment, opening economies to greater trade and improving governance, defined in terms of public sector accountability, inclusiveness and efficiency (Table 1). For example, Oman has a more conducive business climate than 76 per cent of the world; in the case of trade policy Oman is only better than 44 per cent of the world, i.e. below the world average of 50. Qatar has made reforms in the public sector accountability between 2000 and 2007 placing them as better reformers than 88 per cent of the world. It is important to recognise these structural reforms as an integrated package underpinning the policy environment for the promotion of sustainable enterprises.

⁵ For further information, see *Economic Developments and Prospects – Middle East and North Africa Region*, 2008 (World Bank, 2007) and *Unlocking the Employment Potential in the Middle East and North Africa – Towards a New Social Contract* (World Bank, 2004).

Table 1: Progress with Structural Reforms
Source: Economic Developments and Prospects - Middle East and North Africa Region, 2008, the World Bank, Page xxiv.

Country/Region	Trade Policy		Business Climate (c)		Governance: Quality of Administration		Governance: Public Sector Accountability	
	Current status (a)	Reform progress(b)	Current status(a)	Reform progress(b)	Reform Status(a)	Reform progress(b)	Current status(a)	Reform progress(b)
Algeria	58	69	30	51	32	11	27	56
Bahrain	—	71	—	—	75	62	25	94
Djibouti	52	47	11	—	—	—	—	—
Egypt, Arab Republic of	72	96	20	61	42	94	23	75
Iran, Islamic Republic of	1	73	21	1	30	38	22	8
Iraq	—	—	37	—	—	—	—	—
Jordan	50	91	49	37	54	22	34	62
Kuwait	58	7	77	12	55	29	32	77
Lebanon	13	91	42	3	—	—	—	—
Libya	—	—	—	—	4	15	0	45
Morocco	64	55	31	17 ^c	75	90	32	77
Oman	44	70	76	69	56	28	17	88
Qatar	—	8	—	—	61	82	14	65
Saudi Arabia	61	87	87	55	71	92	5	68
Syrian Arab Republic	32	38	23	8 ^c	13	48	8	67
Tunisia	56	57	49	52	73	75	20	30
United Arab Emirates	77	—	54	6	44	2	20	84
West Bank and Gaza	—	—	33	—	—	—	—	—
Yemen, Republic of	20	87	63	10	23	18	19	57
Regional averages (unweighted)								
MENA	47	63	44	29	47	47	20	64
Resource-poor	51	73	32	42	61	70	27	61
Resource-rich, labor-abundant	28	67	35	17	24	29	19	47
Resource rich, labor-importing	60	49	73	35	53	44	16	74
East Asia and Pacific	49	43	63	45	46	50	39	41
Europe and Central Asia	50	55	56	63	54	64	53	56
Latin America and Caribbean	60	57	47	46	43	42	57	42
High-Income OECD	82	63	84	63	89	48	91	48
South Asia	23	40	46	33	34	51	37	29
Sub-Saharan Africa	29	30	26	46	31	45	36	53
World	50	50	50	50	50	50	50	50

(a) For each index, the country's current status reflects its 2007 placement in a worldwide ordering based on a variety of relevant indicators, expressed as a cumulative frequency distribution, with 100 reflecting the country with the "best" policies worldwide, and zero representing the country with the "worst" policies worldwide.

(b) Reform progress reflects the improvement in a country's rank between 2000 and 2007 (or between 2003 and 2007 in the case of business and regulatory reform) in a worldwide ordering of countries based on changes in a variety of relevant indicators, expressed as a cumulative frequency distribution, with 100 reflecting the country with the greatest improvement in rank worldwide, and zero reflecting the country with the greatest deterioration in rank worldwide.

(c) The business climate index reported in this year's MENA Economic Developments and Prospects Report has been substantially revised (reflecting both changes in the indicators used and considerable revisions to historical data) and is not comparable with the index that appeared in last year's MENA Economic Developments and Prospects Report.

--- = Data not available.

2. Strengthening Cooperation and Regional Integration for Sustainable Enterprise Development

13. Geographic proximity as well as economic and cultural similarities provide countries in the region with a favourable context for enhanced regional economic integration. However, despite the overall increasing share of intra-regional trade in total merchandise trade in the region, the extent of intra-regional trade remains lower than in all other regions of the world, except for South Asia. This can partially be attributed to the fact that it is difficult for countries with similar resource endowments, production capabilities, and export structures to find trade complementarities through which they can establish patterns of specialization and diversification. In addition to this low goods market integration, intra-regional differences in regulations, restrictions on currency convertibility, and limits on the physical movement of people also constrain regional integration.
14. However, it is increasingly recognised that the region must pursue closer cooperation in order to foster economic diversification, broader based employment opportunities and ultimately to develop global industry leaders. Greater regional integration will help export and import-oriented firms to learn how to enter and operate on foreign markets in “safer” conditions before they enter global competition; provide a training ground for policy makers and senior officials who can thus gain experience in negotiating highly technical aspects of the trade policy environment; provide an opportunity to go further with respect to the harmonization of selected rules and regulations across partner countries than what would be possible at the multilateral stage, and to benefit from the resulting economies-of-scale for intra-regional as well as extra-regional trade; and help to reinforce positive elements in domestic reform programmes by anchoring policy in regional trade agreements.
15. The policy challenges for deeper and more effective regional integration in the region are immense and multifaceted. Whether they are horizontal (through clusters and networks), or vertical (through value chains), greater linkages between countries and stronger public-private partnerships within them are vital to enhance regional competitiveness.
16. Expanding trade holds the promise of substantial dividends in job creation, because export opportunities would add millions of jobs. For example, if the region can achieve faster non oil export growth of about 15 percent a year over the next 5 years, it would probably be sufficient to generate some 4 million jobs or 4 percent of the labour force, directly and indirectly, in the export sectors alone.⁶ It is also important to recognise that just as important as the creation of new jobs is the sustainability of those jobs. In this regard, the employment effects of expanding trade are conditional on there being a more favourable business or investment climate in the region in order to generate sustainable enterprises and decent and productive jobs.

⁶ World Bank, *Breaking the Barriers to Higher Economic Growth*, 2007, p339.

3. Competitive and Productivity at the Heart of Sustainable Enterprise Development

17. Competitiveness and productivity form the foundation of growth and take on national and enterprise level dimensions. Policies to enhance productivity and competitiveness need to recognize diversity and they need to be customized in line with countries' levels of development, available resources and institutional capacity. Clearly, there is no magic formula but trends can be discerned which indicate the relative importance of different factors, according to levels of development. Greater focus within countries on emerging sectors and linking skills development to investment is critical in order to increase both the quantity and quality of employment.
18. The challenge in low-income countries (like Yemen, Mauritania or Djibouti) is often to move beyond competing on cheap labour or natural resource endowments. This is probably best achieved by focusing on a broad range of basic conditions, including basic education, employability, technical skills, health and addressing infrastructure weaknesses, rather than placing the priority on upgrading regulatory standards for businesses.
19. For middle-income countries (like Egypt, Libya and Morocco), significant competitiveness factors will most likely involve improving the marketing and management capacities of enterprises and the relevance of post-secondary education and vocational skills, expanding the export base, improving the quality of telecommunications infrastructure and expanding internet usage.
20. For high-income countries (Qatar, UAE and Bahrain), increasing innovative capacities and attracting nationals to entrepreneurship will be crucial. National competitiveness is significantly influenced by factors such as the quality of corporate governance, the extent of bureaucratic red tape, the quality and flexibility of skilled labour supported by recognition and portability of skills across occupations and industries, improved financial markets which reduce barriers to foreign investment, and the depth of cluster development.
21. Obviously, this is a stylized representation of complex and diverse processes. However, it illustrates that the level of development is likely to influence which factors represent the most significant constraints and thus the need to develop situational specific policy responses rather than relying solely on copying policies from other countries. Furthermore, it must be recognized that these categories are not mutually exclusive and that constraints will vary and often overlap between sectors and localities.⁷
22. The annual Global Competitiveness Report (GCR) of the World Economic Forum assesses a number of factors which contribute to a country's ability to grow on a sustained basis. Taking these into account, a Global Competitive Index (GCI) is used to measure three areas that are critical to the growth process: the macroeconomic environment, the quality of public institutions and the state and usage of technology. On this basis, the GCR assesses the competitive performance of 13 Arab countries: Algeria, Bahrain, Egypt, Jordan, Kuwait, Libya, Mauritania, Morocco, Oman, Qatar, Syria, Tunisia and the United Arab Emirates. It notes great diversity in the region e.g. GDP per capita of the wealthiest country is 73 times higher than that of the poorest. These differences affect many things including the availability of resources for public investment and the composition and nature of the labour force.

⁷ For example, see *Islamic Development Bank Productivity Report 2007* for detailed country level productivity assessments.

Box 1: Global Competitiveness Report
Source: Global Competitiveness Report 2007-2008

Best performers in the Arab Region

Qatar, UAE, Kuwait & Bahrain

GCR Conclusion:

These states lag behind comparator states in terms of national competitiveness. The GCR highlights weaknesses in innovation and business sophistication and calls for boosting innovation capacity through public and private investment and an overhaul of the basic innovation infrastructure, including through increased spending on research and development and further investment in high quality health services and tertiary education. Both Qatar and UAE are proactively responding to these challenges with major investment in developing world class services in areas like tourism (where the job creation potential is particularly significant), finance and tertiary education.

Efficiency driven Stage of Development Countries

Tunisia, Oman, Jordan, Libya & Algeria

GCR Conclusion:

These states need to focus on higher education and training, market efficiency and technological readiness to enable enterprises to employ more productive workers and to pay higher wages. The GCR highlights stable institutions and good educational outcomes but weak infrastructure (especially regarding air transportation and telecommunications facilities) and financial systems in Tunisia. With respect to Oman they highlight well developed institutions and efficient labour markets but needed improvements in education (especially at the tertiary level) and the need for more in terms of technological readiness, business sophistication and innovation. In Jordan, a weak macroeconomic environment is said to inhibit investment and growth and low ICT use and poor technology transfer are highlighted as inhibitors to the growth of competitive economies. In contrast, Libya and Algeria are said to have excellent macroeconomic indicators but suffer underdeveloped infrastructure, poor technological readiness and limited competition due to being relatively sheltered from international competition.

Lower Income Countries

Egypt, Morocco, Syria & Mauritania

GCR Conclusion:

In each country, weaknesses in financial and labour markets are highlighted. In Egypt, the high budget deficit is considered a major deterrent to higher investment. Morocco has embarked on an extensive programme for enhancing competitiveness by intensifying trade links and promoting sectors with high value added but such efforts are deemed to be hampered by low levels of human capital development and shallow financial sector. Syria is said to suffer from a weak macroeconomic environment and high levels of protection in goods markets. The GCR also points out that much of the potential with respect to technology to boost growth remains untapped. FDI is not seen as driving technology transfers and the capacity of enterprises to adopt technology is said to be limited.

4. A Conducive Environment for Sustainable Enterprises⁸

- 23.** A favourable business climate and efficient legal environment are necessary conditions for promoting private sector development and to create the jobs needed for the rapidly growing labour force in the Arab region. Generally, strategies for improving the business environment in the region have evolved from approaches based on industrial policies toward specific sectors and broader reforms strategies aimed at improving the institutions and procedures that cut across all areas of enterprise activity.
- 24.** Sustainable business environments are important for ensuring dynamic, sustainable and inclusive societies. An enabling environment for sustainable enterprises is likely to be characterized by appropriate regulations, minimal red tape and bureaucratic procedures, good infrastructure, the rule of law and effective safeguards of property rights, the absence of corruption and so forth. This encourages investment and promotes higher levels of growth by creating incentives for the formation and growth of enterprises of all types, both small and large enterprises and cooperatives.
- 25.** The efficient functioning of markets and enterprises is in the interest of governments, businesses, citizens and the social partners and is determined in large part by the regulatory frameworks in which they operate. However, regulatory reform is not simply deregulation nor is it only a matter of costs. Regulations and administrative procedures are needed to implement public policies and enterprises depend on adequate regulatory frameworks for ensuring fair competition (“level playing fields”), for making markets work better (such as through regulations on contract enforcement and protection of intellectual property rights) and for promoting decent and equitable workplaces.

Box 2. Aspects of the Investment Climate in Algeria, the Arab Republic of Egypt, the Republic of Yemen, and the Gulf Cooperation Council

Source: *Unlocking the Employment Potential in the Middle East and North Africa. Towards a New Social Contract*, World Bank, 2004, p179.

Despite the widely acknowledged importance of the private sector in the region, precise information about its composition, activities, and constraints is generally lacking. Firm level surveys have been carried out in some countries, including Algeria, Egypt, and the Republic of Yemen. These surveys permit closer examinations of the business and investment climate. The results point to unique aspects of the investment climate in the individual countries as well as to similarities across countries:

- Old versus new firms in Algeria. Old firms complain proportionally more than new firms about unfair competition and the informal sector. Old firms complain less, however, about corruption and access to credit.
- Small versus large firms in Egypt. Small firms complain more than large firms about the difficulties of accessing credit, exporting goods, and dealing with the tax administration. Small firms also complain more about corruption and the time needed to resolve disputes in court.

⁸ This section covers the regulatory environment for business and the broader investment or business climate. The terminology, “conducive environment for sustainable enterprises” is taken from the Conclusions of the ILC discussion (see Annex).

- Northern versus southern firms in the Republic of Yemen. Firms in the traditionally laissez-faire northern part of the country face greater impediments to doing business than firms in the formerly socialist south, particularly with regard to trade regulations, the legal system, and licensing.
- National versus foreign firms in the Gulf Cooperation Council. Foreign firms in general face higher tax rates than national firms. In some countries, foreign firms are subject to investment restrictions in certain sectors and to limits on their ownership of businesses.

26. Policy reforms in the business environment are often a prerequisite for successful interventions using other types of enterprise level support such as credit or business services. In comparison to direct enterprise level support, policy reforms can be a cost effective means to achieve significant impact by reaching large numbers of enterprises. Investment decisions – including investment within the region by resource rich countries – depend greatly on the business environment in particular countries.

27. There is no one size fits all approach to supporting an enabling environment for business. For example, the policy environment for small enterprises is a sub-set of the broader policy or enabling environment for the private sector as a whole. Generally, a good policy environment for broad based private sector development is also good for small enterprises but there are certain aspects of the business environment that are of particular relevance to small enterprises.

28. The annual Doing Business⁹ survey undertaken by the IFC/World Bank measures regulations affecting 10 stages of a business's life cycle: starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. The indicators are used to analyze economic outcomes and identify what reforms have worked, where, and why. In the 2008 report, the highest ranked country in the Arab region was Saudi Arabia at 23rd out of 178 countries; Egypt was the “best reformer” in the world (see box); but most Arab States rank at the lower end of the scale in the third and fourth quartiles.

Box 3. Reform of the Business Environment in Egypt

Source: Doing Business (www.doingbusiness.org/reformers/mena.aspx)

In the 2008 edition of the Doing Business report Egypt was the top reformer in the world, having improved in 5 of the 10 areas studied by Doing Business. Apparently, Egypt's reforms went deep. Egypt cut the minimum capital required to start a business from EGP 50,000 to EGP 1,000 (1 Egyptian Pound equals approximately 20 US cents) and halved start-up time and cost. Egypt also reduced the cost of registering property from 3% of the property value to a low fixed fee. New one-stop shops were launched for traders at the ports, cutting the time to import by 7 days and the time to export by 5. Egypt also reduced the cost of dealing with licences.

However, despite these improvements, Egypt still languished 126th out of 178 countries in the overall ranking (but moved up to 114th out of 181 countries in the latest 2009 edition of the Doing Business report).

⁹ The *Doing Business* methodology has limitations. Other areas important to business—such as a country's proximity to large markets, the quality of its infrastructure services (other than those related to trading across borders), the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions—are not studied directly by *Doing Business*. To make the data comparable across countries, the indicators refer to a specific type of business—generally a limited liability company operating in the largest business city, which is not representative of the majority of businesses in most countries, especially Low Income Countries. Most fundamentally, the “Employing Workers' Indicator” – one of the ten indicators used to calculate the overall index – is seriously flawed, can serve to reward countries for failing to strengthen or protect workers' rights and does not properly recognise the benefits of labour market regulation. For further details on the employing workers indicator see ILO Governing Body paper (November 2007 Session) on *The United Nations and reform: Developments in the multilateral system World Bank Doing Business report: The employing workers indicator* http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_085125.pdf

5. Small and Medium Enterprises (SME) Development

29. The ILO places particular importance on supporting conducive environments for small enterprises¹⁰, including by addressing the challenges of the informal economy, which, for example, constitutes roughly half of all employment in the Maghreb countries but only a small percentage of employment in the GCC countries. To this effect, the ILO has undertaken diagnostic assessments of the business environment for small enterprises in Saudi Arabia, Syria, Egypt and Lebanon and entered into related policy dialogues in each of these countries.
30. SMEs play a vital role in economic development, and are key to promoting job growth and innovation. To become such an engine of growth, local firms need to operate according to international standards and be competitive in global markets. Economies in the Arab region tend to be dominated by a small number of large companies that have relatively few links with the large number of surrounding small and informal enterprises. While the percentage of SMEs is not different from other regions, their contribution to the gross domestic product is significantly lower. Several factors hamper the performance of local firms and make it difficult for them to compete in the global economy.
31. The prevalence of small and informal enterprises is, in large part, due to a complex and unfriendly business environment, characterized by cumbersome laws, regulations, and administrative procedures that lack transparency. Investors are forced to spend substantial human and financial resources during the start-up and operation of their businesses, while settling commercial disputes is a lengthy and unpredictable process in many countries. With limited international competitiveness, these factors make investors hesitant to commit their capital or to fully formalize their enterprises, impacting both job and income opportunities through the private sector.

Box 4. SME Policies: The Case of Tunisia Source: ILO Sub Regional Office, Cairo

Period 1986 – 2006:

- Wide scope operation of enterprise restructuring and privatization with effective involvement of the private sector
- Tax reform drastically reduced the number and weight of taxes
- 1991: Competition law, Consumer Prices law, and Consumer Protection law
- Unified facilitation system for enterprise creation and development: regrouping all laws and regulations in one investment code, with specific dispositions for MSEs:

- *Grant of 70% of the cost of preliminary and feasibility studies
- *Contribution to the capital of the enterprise
- *Government takes over the employer's share in social security coverage
- *Government contributes with 30% of the cost of the land and the premises
- *On top of the above, micro enterprises get 6% of the investment cost and a loan reimbursable on 11 years without interest

¹⁰ A set of training materials, courses and assessment guides has been developed to support this work.

- Launching of the President's programme targeting the creation of 70,000 SMEs during the period 2004-2009 (1.4 enterprises every 1,000 citizens, against 0.8 during the previous period)
- Creation of the National Council for Enterprise Creation and Innovative Projects (BDS)
- Expanding the outreach of the One-stop-shops and creation of the Virtual One-stop-shop (enterprise creation through internet by linking all government websites)
- Reducing the minimum capital to less than USD 1,000
- Waving 70% of the procedures for enterprise creation (objective: 90% in 2009)
- Special attention given to the promotion of BDS institutions all over the country, in strategic economic sectors
- Creation of business centers delivering information and providing technical support to new small entrepreneurs
- Setting up of the Spin-Off system with related necessary funds
- Creation of two fully-fledged banks specialized in credit and micro credit for MSMEs
- Launching and implementation of wide scope programmes for the benefit of MSMEs in various areas such as capacity building, enterprise restructuring, product quality, vocational training, competitiveness, and economic information, all funded by the government up to 70% of the incurred costs. 2400 enterprises benefited from the pilot operation. BDS institutions, banks and other stakeholders took part to these programmes.
- Creation of a Task Force Creation, a mobile unit of experts who provide technical assistance to MSMEs in the field
- Creation of the National Investment Portal, which provides a wide scope of information to existing and potential entrepreneurs and foreign investors
- Creation of 6 techno poles with participation of universities, research centers and technical and engineering institutes, mainly in the areas of innovative energies, biotechnology, chemicals and medicines, IT, multimedia, mechanics, electronics, media, textiles and food processing

Conclusion:

As a main result of these dynamics and the effectiveness of measures taken, laws enforcement, continuous monitoring and evaluation of national programmes, wide participation of the private sector and all concerned stakeholders, indicators of the national economy are on the rise. There is an effective enabling environment for the development of a modern MSMEs sector. World Bank reports such as the yearly Doing Business, as well as the World Economic Forum's Competitiveness Report, all rank Tunisia high, in the area of economic and social development, among developing countries and mainly among African and Arab countries.

6. Entrepreneurship: Leveraging the Potential of Women and Young People

32. Entrepreneurship plays a crucial role in driving economic development and job creation. Countries in the region display different proclivities towards what can be called entrepreneurial culture. For example, in the GCC, employment in the public sector remains the main career aim for men and women in the labour market and among new graduates and it can be a challenge to foster interest in self employment and entrepreneurship. However, a number of governments have risen to the challenge of promoting entrepreneurship. Syria, Oman and Yemen have recently acknowledged the importance of promoting self-employment among youth and they have engaged in the introduction and implementation of entrepreneurship education in their vocational and technical education systems. Furthermore, Qatar, Palestine and Saudi Arabia have also recognized the importance of such a topic and have requested international assistance from the ILO on that matter.
33. Women and youth entrepreneurship can be a path out of poverty through job creation, economic growth and social cohesion. However, women and youth encounter specific constraints and barriers that hinder them from starting and managing their enterprises. Such constraints - many of which are particularly pronounced in the region - can include the lack of cultural support, poor education and training, a paucity of business support services, an absence of gender equality regulations and limited access to finance and local promotion programs.
34. Youth, especially women, in the MENA region have a huge potential role to play in economic development and job creation. Since the 1970s the participation rates in the work force of women in the age range 15-29 has increased from 23 per cent to 32 per cent. Across all ages women's participation in the labour force rose from about 22 percent in 1960 to almost 25 percent in 1980, 27 percent in the 1990s, and 32 percent in 2000. Furthermore, female participation is forecast to reach 43 percent in 2020 (UNDP, The Arab Human Development Report 2005). In many countries, female participation in higher education is high, in some countries in the region 63 percent of university students are women. However, it is clear that much of this investment in human capital is not translated into productive employment: job opportunities for women graduates are limited; the relevance for the world of work and the quality of many study programmes can be questioned; and many graduates (both male and female) may lack core skills for employability.
35. The empowerment of women through increasing their bargaining power, capacity for decision-making and their representation are all crucial parts of the broader policy environment for sustainable enterprise development. Legal empowerment of women does not only call for change in the legal framework, but also in the social structures of society.

Box 5. ILO Guides, Strategies and Tools for the Promotion of Women and Youth Entrepreneurs

The Start and Improve Your Business (SIYB) Programme

This is a management-training programme with a focus on starting and improving small businesses as a strategy for creating more and better employment (a complementary, related product, Expand Your Business, EYB, targets SMEs with growth potential). It seeks to enable local Business Development Service (BDS) organizations, and in particular women's organizations, to effectively and independently implement business start-up and improvement training, and related activities, for potential and existing entrepreneurs and to enable potential and existing small entrepreneurs, both women and men, through these BDS organizations, to start viable businesses and to increase the viability and profitability of existing enterprises, creating quality employment for others in the process. SIYB has been undertaken in Jordan, Qatar, Sudan and the Maghreb.

Know about Business (KAB)

Most people in most countries in the region possess a cultural bias in favour of public sector and corporate employment. To foster an entrepreneurial culture, the ILO promotes entrepreneurship education in vocational, secondary and higher education through the KAB tool, which addresses the challenge of youth unemployment; it promotes awareness among young people of the opportunities and challenges of entrepreneurship and self-employment. KAB is used in a number of countries in the region, including Oman, Syria, Yemen and Iraq and in the Maghreb.

Women's Entrepreneurship Development (WED) Capacity Building Guide

The guide – used in Iraq, Saudi Arabia and Palestine, among other countries - promotes full participation of women in entrepreneurship and economic development, and facilitates the creation of new and better jobs by women entrepreneurs.

Gender and Entrepreneurship Together: GET Ahead for Women in Enterprise

This package – used in Iraq, Lebanon and Palestine - provides practical information about income-generation and enterprise activities. It enables low-income women entrepreneurs to shift from marginal income generation to profitable business development by participatory and action oriented training, highlighting essential business skills from a gender perspective.

Women Entrepreneurs' Associations (WEA) Capacity Building Guide

The guide ensures that women are effectively represented in small business associations and creates awareness regarding gender inequalities faced by women entrepreneurs.

36. An entrepreneurial culture provides a solid foundation for the promotion of sustainable enterprises but it is not enough. Among the many other important factors (see annex), access to financial services is vital. A well functioning financial system provides the lubricant for a growing and dynamic private sector.
37. Throughout the region, budding entrepreneurs are often thwarted by a lack of access to appropriate financial services. This is especially acute for young people and women who are likely to be confronted by particular legal, social and cultural obstacles to getting credit. Making it easier for SMEs, including cooperatives and start-ups, to access financing - credit, leasing, venture capital funds, etc - creates appropriate conditions for a more inclusive process of enterprise development. The development of new instruments based on the principles of Islamic financing hold much promise.

Box 6. Enterprise Development in Yemen, Oman and Saudi Arabia

Source: ILO Regional Office, Beirut

Oman SANAD:¹¹

Self Employment and National Autonomous Development programme (SANAD) which aims at spreading the culture of initiative and self employment among Omani nationals through the following means: provision of loans up to RO5,000 with a total of RO2,000,000 as a revolving fund managed by the Oman Development Bank which charges 2% as administrative fees; skills training (delivered by the VTCs and/or private training centres); mentoring; consultancy services; and a recently established women incubator in the field of fashion design (13 months of training and provision of production premises. To date, 11,00 women produce and sell from 400 outlets, creating 800 jobs)

Yemen SMEPS:

The Yemen National Strategy for Small and Micro Enterprise (SME) Development was approved by the Council of Ministers on January 17, 2005. It included the establishment of a national agency to promote small and micro enterprises (The Small Micro Enterprise Promotion Service-SMEPS). The Social Fund for Development an autonomous government body established SMEPS as one of its subsidiaries in 2006. SMEPS is responsible for directing and coordinating activities to provide improved non-financial services for SMEs by planning, directing, coordinating and monitoring several programs with partner organizations. The programs will be aimed at stimulating growth and diversity within the SME sector. One of SMEPS intervention includes facilitating market linkages between educational establishments and the labour market. This includes promoting entrepreneurial education and training in Yemeni schools, colleges and universities.

Saudi Arabia: SME Centres

In 2001 the Small and Medium Enterprise Center was established under the Technical and Vocational Training Corporation (TVTC) with the following objectives: encourage the idea of self-employment among Saudi youth and provide them with the necessary technical and business skills required for the establishment of small and medium sized enterprises; provide business management training courses for existing and start-up entrepreneurs; provide follow-up and counselling services; offer a comprehensive data base on SMEs in the Kingdom; and undertake specialized research and studies on SMEs.

There are currently 15 SME Centres and the plan is to increase them to 25 in the next 5 years. The centres just started the delivery of a newly developed material entitled 'capacity building of entrepreneurs' which requires substantial enhancement and for which they are seeking ILO's technical assistance. The employment of nationals is a crucial element to tackle in Saudi Arabia as most Saudi men and women depend on the public sector to secure employment. The idea of choosing self-employment as a career option is not part of the Saudi culture. The private sector in turn provides more opportunities for the employment of foreign labour for two main reasons namely: productivity/skills and continuity/sustainability.

¹¹ Information collected in June 2007 by an ILO mission interviewing the executive Director Sheikh Samer Al Nobhani.

7. Concluding Remarks: Responses to the Issues/Challenges

38. Given the great diversity throughout the region, there are no blueprint solutions to the fundamental challenge of employment creation through sustainable enterprise development. However, there are some common trends.
39. Increasing and sustaining job growth requires structural reforms to diversify the private sector. Especially important are improvements to the investment climate/business environment, opening economies to greater trade and improving governance. Clear guidance on the **conditions for a conducive environment for sustainable enterprises** has been provided by the ILC Conclusions on the promotion of sustainable enterprises (see Annex). The ILO has proven expertise in supporting business environment reform through promotional and training packages, policy advocacy and capacity building support for constituents and policy makers.
40. Sustainable development in the region calls for **responsible enterprise level practices to raise productivity and competitiveness based on decent work**. The ILC Conclusions referred to above provide guidance on what constitutes decent work at the enterprise level and a range of tools exist to promote good policies and practices at the workplace based on full respect for fundamental principles and rights at work and international labour standards and on fostering good labour-management relations.
41. The region needs to promote more inclusive, broader and deeper growth and this requires **greater regional cooperation and integration**. The ILO constituents can play a role in fostering region wide (and sub regional) alliances, knowledge sharing, service delivery, representation and policy dialogue and advocacy platforms.
42. There is an urgent need to generate **job opportunities, especially for women and youth** who are entering the labour market at an increasing rate. Promoting entrepreneurship is key to this. In some countries, an entrepreneurial culture needs to be fostered and the ILO has tools to support this. Targeted enterprise development packages – particularly for women - can be used to support the formation and growth of small enterprises and the ILO has training packages for this.

8. Issues for Debate

1. What aspects of regional integration and cooperation can best facilitate broad based private sector growth?
2. What policies targeting human resources are most effective in enhancing productivity and competitiveness in the region?
3. What are the best strategies for promoting entrepreneurship among women and youth?
4. Which are the binding constraints in the business environment in the region, especially from the perspective of small enterprises?
5. How can the tripartite constituents better engage in policy and practice in terms of responsible enterprise level principles for sustainable enterprise development?

Annex

The conclusions at a glance Committee on Sustainable Enterprises International Labour Conference, 2007

Conditions for a conducive environment for sustainable enterprises

1. Peace and political stability
2. Good governance
3. Social dialogue
4. Respect for universal human rights
5. Entrepreneurial culture
6. Sound and stable macroeconomic policy
7. Trade and sustainable economic integration
8. Enabling legal and regulatory environment
9. Rule of law and secure property rights
10. Fair competition
11. Access to financial services
12. Physical infrastructure
13. Information and communications technology
14. Education, training and lifelong learning
15. Social justice and social inclusion
16. Adequate social protection
17. Responsible stewardship of the environment

Role of government in the promotion of sustainable enterprises

1. Facilitating and participating in social dialogue
2. Labour law enforcement through efficient labour administration, including labour inspection
3. Encouragement of voluntary concept of corporate social responsibility
4. Promotion of socially and environmentally responsible public procurement, lending and investment
5. Promoting sectors and value chains
6. Flexibility and protection to manage change
7. Targeted programmes
8. Research and innovation
9. Access to information and business and financial services
10. Policy coordination and coherence
11. International policies
12. Production and consumption patterns
13. Supporting skills development

Enterprise-level principles for sustainable enterprises

1. Social dialogue and good industrial relations
2. Human resource development
3. Conditions of work
4. Productivity, wages and shared benefits
5. Corporate social responsibility
6. Corporate governance

Role of the social partners in the promotion of sustainable enterprises

1. Advocacy
2. Representation
3. Services
4. Implementation of policies and standards

