Preface

Much has been written about the political, economic and social dimensions and challenges of the Middle East and North Africa (MENA) (see Noland and Pack 2007; World Bank 2007b; AfDB and OECD 2008; Muasher 2008; Richards and Waterbury 2008; World Bank 2008d; IMF 2009b). These works cover the situation in different combinations of countries in the region depending on how they chose to define it and their particular perspectives and geopolitical interests.

This book is concerned with the context for private sector development (PSD) including micro, small and medium enterprises (SMEs\(^1\)), the PSD challenges and the relevant policy, institutional and research capacity, responses and needs in 12 MENA countries: Algeria (AG), Egypt (EG), Iraq (IQ), Jordan (JO), Lebanon (LE), Morocco (MA), Sudan (SD), Syria (SY), Tunisia (TN), Turkey (TR), the West Bank & Gaza (WB&G) and Yemen (YE), hereafter referred to as the MENA-12. The rationale for this particular selection of MENA countries is that they all fall within the geographic domain of the Middle East/North Africa Regional Office (MERO) of Canada’s International Development Research Centre (IDRC).

The results shared in the book are based on a scoping study carried out by the IRDC from 2007 to 2009. Building on IDRC’s growing interest in the topic of PSD over the past few years and an expanding literature on PSD strategies as a vehicle for economic growth in developing countries, the book presents a diagnostic of the PSD challenges in the MENA-12 countries, offers conceptual frameworks for PSD, SME and entrepreneurship development, and shares country-level approaches to enhancing growth of the private sector.

BACKGROUND

IDRC’s focus on the broad theme of private sector development began in the fall of 2004 with the formation of a Private Sector Development Task Force (PSDTF). The purpose of the Task Force was to explore PSD as a research theme and identify possible IDRC programme niches. The PSDTF commissioned three PSD scoping studies: a scan of the PSD-related activities and research of other donors (IDRC 2004); a review
of projects in the IDRC portfolio with a PSD component (IDRC 2006); and a conceptual paper on PSD frameworks and research themes (White 2008).

A number of IDRC research projects and programmes in various regions of the world could be seen to fit within a PSD support framework. One of these initiatives was a project concerned with evidence-based policy for SME development in Egypt. The Small, Medium and Micro Enterprise Policy (SMEPol) Development Project, a partnership between the IDRC, the Canadian International Development Agency (CIDA) and the government of Egypt was ongoing from 2000 to 2008. The independent evaluations of the SMEPol Project concluded that it achieved very positive results in terms of building research and policy capacity within the government, influencing the SME policy development process and fostering stakeholder consultation and engagement (Lynch 2003; ODI 2006). In addition to policy development lessons learned during the execution of the SMEPol Project, a number of policy tools, processes and stakeholder engagement approaches were developed and refined.

To further IDRC’s aim of sharing proven approaches in the development of evidence-based policy and stakeholder consultation processes and building research and policy capacity, IDRC (MERO) decided to explore potential opportunities for a regional initiative embracing other MENA countries that could potentially benefit from the tools, approaches and lessons learned from the success of the SMEPol Project. A comprehensive scoping study, including an examination of the broader PSD issues, began in earnest in 2007.

The main objective of the scoping study was to examine the potential for value-added policy and research support to advance PSD and SME development efforts and to identify mechanisms for providing research and policy development support at the MENA regional level.

SCOPING STUDY APPROACH

The approach to the study required a situation analysis of the economic, social and policy context in each country and their private sector and SME development environments and challenges, taking into consideration government activity and other donor and related supports. In-depth country assessments involved study visits to Algeria, Egypt, Jordan, Morocco, Syria and Yemen, and detailed desktop reviews for Iraq, Lebanon, Sudan, Turkey, Tunisia and the West Bank & Gaza. The six countries selected for study visits were chosen because they represented diversity in population size, levels of economic development (low income, lower-middle income...
and upper-middle income), degrees of resource abundance and stages of
transition to a market economy. Conflict and political instability would
have made it difficult for country visits to Iraq, Lebanon, Sudan and the
West Bank & Gaza for safety and security reasons.

The country visits were carried out between April and September
2007. Interviews were conducted with 139 representatives from 94
organizations, including government ministries and agencies, research
organizations, private sector business associations, financial institutions,
non-governmental development organizations, key donor organizations
and other relevant PSD and SME stakeholder groups. Information gained
from key informants was supplemented by a review of country documents
and reports and international comparative studies and data, including
government National Development Plans, policy and strategy documents,
investment climate assessments and other analysis conducted by interna-
tional organizations and donors. Desktop reviews were supplemented by
input from officials during consultations in 2007 and 2008.

Efforts were made to examine the research capacity, the policy capacity,
the institutional capacity, the capacity of the private sector to influence
the policy development process, and the status of the governments’ PSD
policy reforms and capacities. The analysis included a mapping of current
PSD reforms and SME interventions (what was being done and who was
doing it); the major barriers to effective PSD and SME policy development
and implementation; and the PSD and SME policy and research needs,
gaps and opportunities. The situation analysis and preliminary diagnostic
framework of identified gaps and needs were presented to stakeholders
at a two-day regional workshop in November 2007 (IDRC 2008a) and
further refined. This workshop was attended by representatives from ten
of the 12 countries and interested regional donors, all of whom were given
an opportunity to comment on an early draft of the regional analysis and
to introduce additional themes. To as great an extent as possible, this book
incorporates many of the suggested themes.

The analysis in this book also draws on PSD-related situation analyses
and assessments carried out by a number of international organizations
and researchers and attempts to bring together a comprehensive picture of
the many factors affecting PSD in the MENA-12 countries and to provide
a point-in-time snapshot of the context for PSD and SME development. It
further outlines some of the major policy initiatives of the governments to
support private sector activity. The policy landscape in these countries is
constantly changing and this book does not pretend to make an exhaustive
presentation of the PSD reform and SME development efforts in each one,
but a synopsis profile of the 12 countries in Part II serves to provide a sense
of the priorities and basic directions in each country.
One of the challenges in putting together the analysis for this book has been that of accessing up-to-date and comparable statistical data on the many socio-economic and PSD indicators. As far as possible, the latest available data from credible international and country data sources have been used.

**OUTLINE OF THE BOOK**

The book is aimed primarily at the policymaking, research and donor communities and other stakeholders involved in building capacity in PSD and SME policy development who are interested in the MENA region. It is presented in two parts.

Part I has seven chapters. Chapter 1 presents an overview of the private sector development-related discourse and a conceptual framework of the policy components of private sector and enterprise development. It includes a discussion of donor PSD approaches, priorities and trends, the impact of PSD strategies and efforts on the inclusive, pro-poor growth of developing countries, and the challenges of measuring changes in the level of PSD performance. Chapter 2 provides an introduction to the context within the MENA region, including a comparative analysis of the MENA-12 economies on key demographic and structural features. Chapters 3 and 4 describe the key social and economic growth challenges facing the MENA countries, such as employment creation, informality of enterprises and workers, education and skills, science and technology (S&T) and innovation, global integration, gender equality and development of SMEs and entrepreneurship, all of which play a role in the context for PSD reform. Chapter 4 focuses exclusively on the SME and entrepreneurship challenge and elaborates more fully on the role and importance of the SME sector in PSD, and the SME policy approaches, strategies and implementation structures in the MENA-12. Chapter 5 discusses the status of the MENA-12 countries in relationship to the market economy and the PSD environment, and categorizes the countries on their relative private sector dynamism and economic outcomes. Chapter 6 presents an assessment of the PSD priorities and deficiencies and raises related policy, research and institutional capacity issues. The views expressed in the chapter are largely those of stakeholders from each of the countries gathered during country visits and regional consultation workshops. Chapter 7 emphasizes the importance of developing strategic policies to advance the level and quality of entrepreneurship in the next phase of private sector and inclusive growth, and presents a framework to guide thinking about future policy directions and initiatives.
Part II includes brief descriptive synopses of each of the MENA-12 countries. Chapter 8 profiles the context and recent policy developments and priorities of the set of countries assessed as having the most dynamic PSD outcomes, and Chapter 9 presents profiles of the set of countries with less dynamic PSD outcomes.

NOTE

1. The acronym ‘SME’ will be used in this book to refer to micro, small and medium enterprises. When the reference is specifically to micro and small enterprises, the acronym ‘MSEs’ will be used.