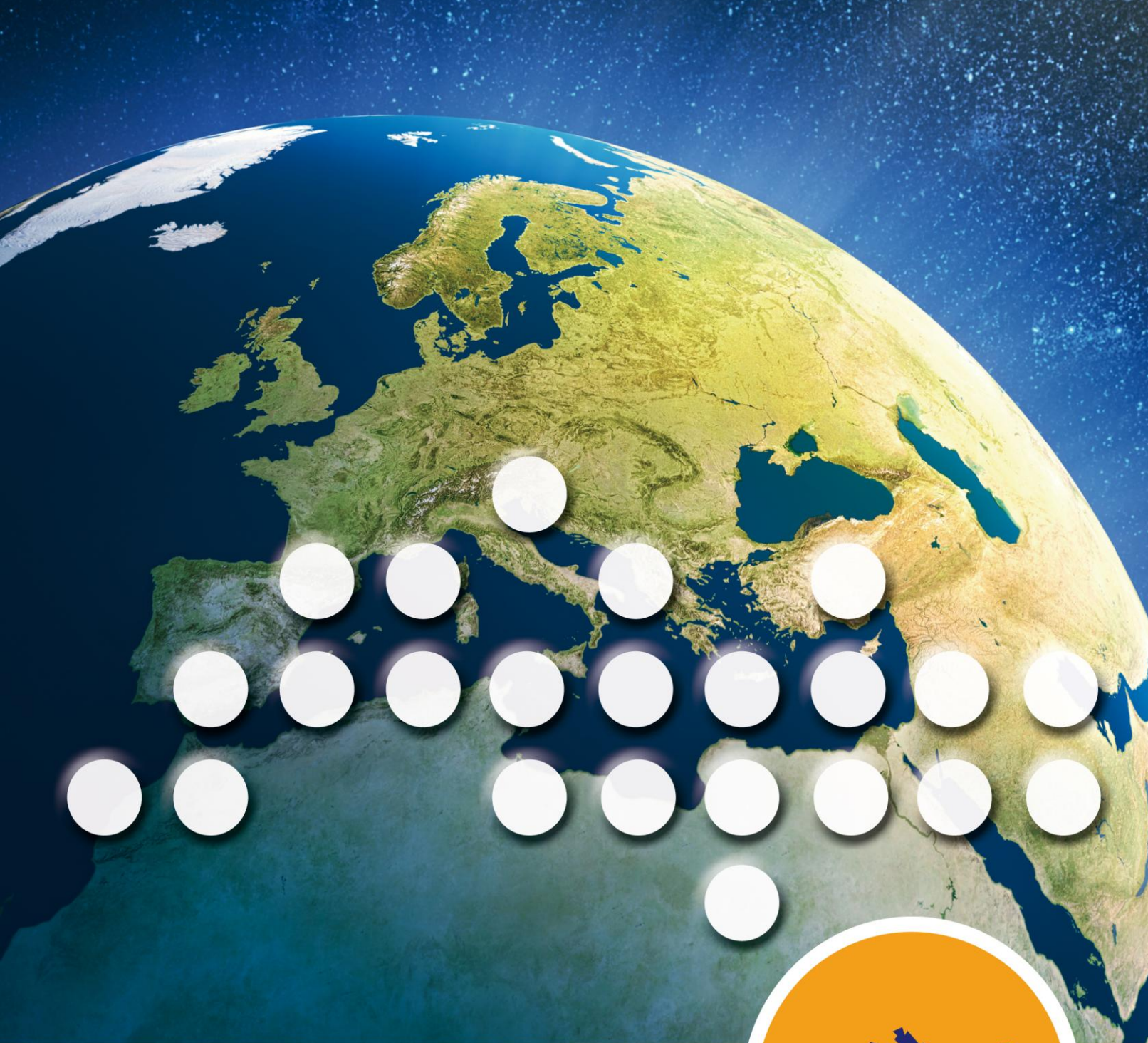




BUSINESS CLIMATE

A snapshot of private sector mood
in the Southern Mediterranean



ascame

association des chambres de commerce et d'industrie de la méditerranée
association of mediterranean chambers of commerce and industry
جمعية غرف التجارة والصناعة للبحر الأبيض المتوسط



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- Access to finance remains a key challenge across the southern Mediterranean, with over 95% of all respondents citing this as a crucial issue, and over 56% of these considering it the most important. Furthermore, a strong majority of those surveyed (64%) lack confidence in public policies enacted to facilitate access to credit.
- A bureaucratic business environment continues to inhibit economic development and limit growth. Administrative burdens were the second most pressing concern for those surveyed, with almost 82% registering this as a critical problem, and 68% of the opinion that it was hurting business development in their country.
- Businesses are still struggling to find adequate human resources, with a strong incompatibility between the labour market and the needs of businesses evidenced in this study. 82% surveyed affirmed a strong incompatibility in their country, while over 70% of respondents consider it to be one of the 4 key challenges.
- A lack of entrepreneurial spirit has been raised by respondents as a crucial theme to be addressed in future policy, with almost half of respondents concerned that the business community in their country was not producing enough entrepreneurs, despite a resounding majority believing the conditions and procedures for creating a business to be favourable.
- Excessive procedures continue to create difficulties for internationalisation, as identified by almost 65% of those surveyed. Furthermore a majority of respondents consider SMEs to be isolated when it comes to finding international partners, critical of public support in this matter.
- Private sector uncertainty endures following the political upheaval in the region, and is having a damaging effect on growth. Almost 1 in 2 survey respondents consider that political instability is damaging growth in their country, while 34% consider this among the most critical issues to be addressed.
- SMEs need more active operational support from the public sector in themes ranging from internationalisation, accessing finance, or intermediation regarding recruitment. A transversal element throughout the survey, public support on an operational level is found wanting among southern Mediterranean partner countries.



Across the southern Mediterranean region, SMEs represent an enormous potential to boost economic growth and to add jobs to a region undergoing a demographic shift, with hundreds of thousands of youths arriving at working age year on year. While significant efforts and resources have been directed towards stimulating entrepreneurship, growing SMEs and adding much needed jobs to the economy, a number of structural and operational challenges continue to inhibit or limit this development, while the political upheaval during the “Arab Spring” has brought an additional instability to the region.

A myriad of initiatives have been deployed over past decades to unlock the potential of SMEs in the region, with varying degrees of success, either through credit facilities, technology transfer, or investment promotion, among many others. However, these initiatives must be built upon and refined in order to turn micro, small and medium enterprises into the engines for economic growth that the region much needs. These actions require coherent, coordinated efforts among the different stakeholders – from the implementing governments and organisations, to the SME beneficiaries – in order to ensure the effective communication of both initiatives and results, and what is to be learned from them.

Since the creation of the Euro-Mediterranean Partnership and, subsequently, the Working Party on Euro-Mediterranean Industrial Cooperation, channels of coordination and dialogue have been opened in order to foster an area of shared prosperity, through the implementation of joint actions with the objective of becoming a creating an atmosphere conducive to a sustainable, shared economic growth in the Mediterranean sea basin.

However, the future of the Working Party on Euro-Mediterranean Industrial Cooperation was raised for discussion during the most recent meeting in Brussels, on June 25th and 26th last. The Palestinian Investment Promotion Agency raised the issue on behalf of Arab countries and underlined the importance of discussing the future of the Working Party, its mission statement and objectives.



During the discussion of this draft proposal it was suggested and agreed that ASCAME will coordinate the input of the business sector into this paper, in order to ensure a current and representative analysis of the challenges facing Mediterranean SMEs, particularly given the recent upheaval across the Mediterranean of recent years.

It is within this framework that this study has been carried out. In order to actualize and update the Working Group's strategy with regards to fostering an environment more conducive to business in the Mediterranean basin and identify priority areas requiring urgent attention from the Euro-Mediterranean Industrial Cooperation Working Group, the Mediterranean private sector must be represented in order to give an accurate analysis of the challenges facing them from economic and regulatory points of view, as well as gauge the support available to Mediterranean SMEs in terms of internationalisation and reaching new markets, finding skilled labour or guaranteeing access to reliable lines of credit.



The survey takes into account the six principle areas globally considered to impact most upon the business environment of SMEs, that is to say: Administrative Processes; Political Landscape; Access to finance; Entrepreneurship; Internationalisation, and; Employability.

It uses a simple format of 12 contrasting positive/negative statements to elicit graded opinion on the aforementioned topics ranging from strongly agree to strongly disagree. Later, respondents are required to rank the four most pressing of these themes in order to measure what are currently considered to be the most immediate threats of the current business environment. Respondents are also encouraged to elaborate on peripheral themes not directly addressed in the questionnaire.

Employing this method allows to draw quick, accurate and up-to-date conclusions of the current business climate in the Southern Mediterranean, reinforcing stated future objectives of the working group to:

- Improve business climate
- Improve human capital, entrepreneurial education, technical training systems, innovation (i.e. through support to technical and vocational education and training)
- Facilitate trade and investment
- Facilitate access to finance
- Develop public-private partnerships

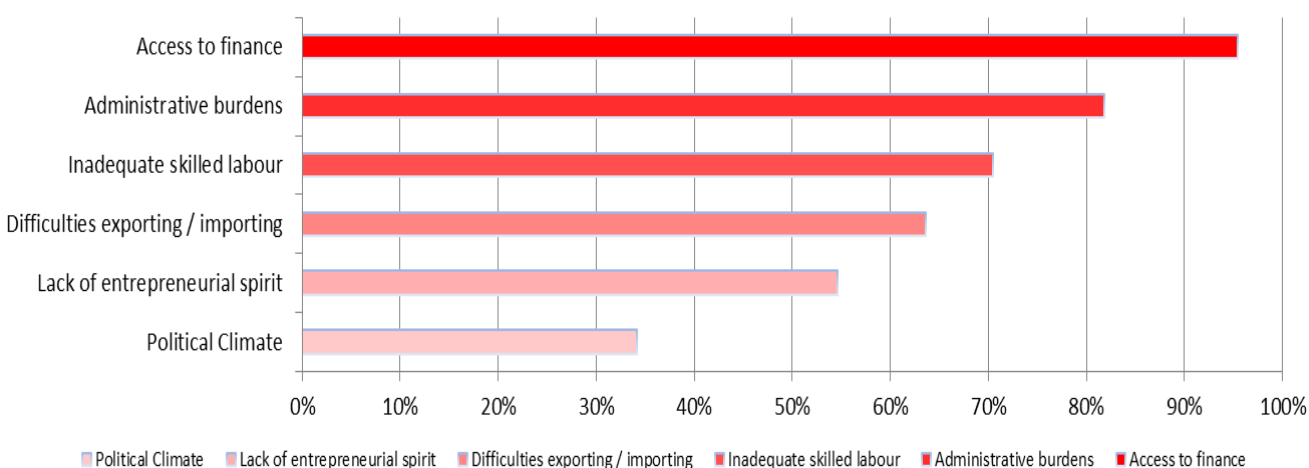
In the preparation of this paper, ASCAME has consulted with 44 experts at its member Chambers of Commerce in 9 countries (Algeria; Cyprus; Egypt; Jordan; Lebanon; Libya; Morocco; Tunisia; Turkey). Those solicited work with and provide operational support to the SMEs of their respective countries on a daily basis, and deal first-hand with the full spectrum of challenges with which Mediterranean SMEs are confronted.

In the short term, it would be an interesting moment to conduct a large scale study sample of Mediterranean SMEs, soliciting their views on the institutional and operational challenges they face, the operational support they need to confront these, and their expectations of an ever closer integration of the Mediterranean region.



In general terms, the results of the study show a Mediterranean private sector dealing with strong uncertainty and faced with difficult challenges to growth. On all surveyed themes, respondents painted a picture of some clear obstacles that need to be overcome in order to foster smart economic development and add much needed jobs to the regional economy.

Ranking of threats to Mediterranean SMEs

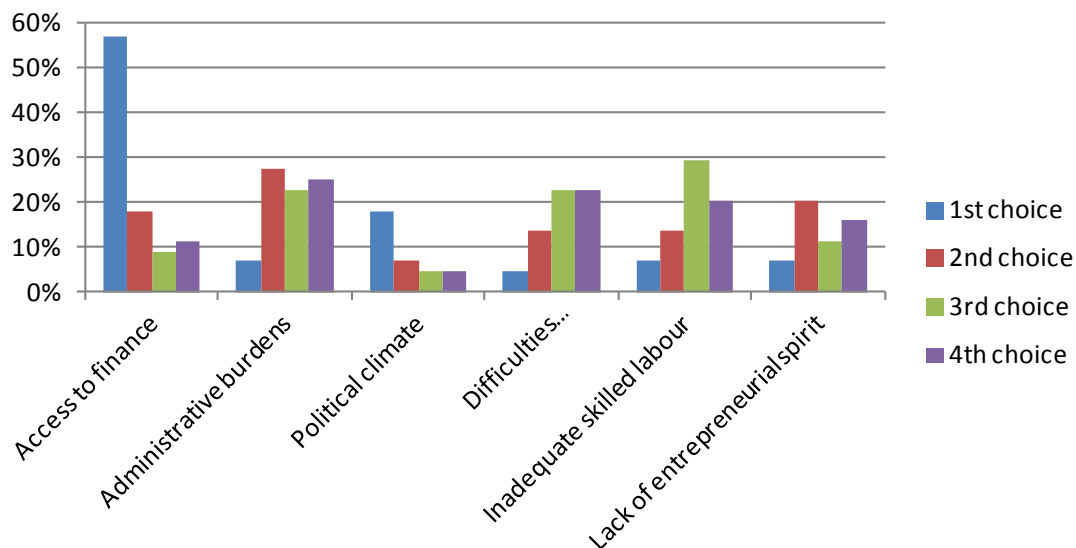


When asked to rank the most pressing challenges currently facing the private sector, unsurprisingly, access to capital was identified as a principal threat for SMEs by 95.45% of respondents. Bureaucracy and administrative procedures follows in the ranking being identified as an obstacle by an important 81.82% of those surveyed, while the incompatibility of the labour market with the needs of the business community is considered a key difficulty in over around 70% of responses.

Inadequate internationalisation potential represents a threat for SMEs for 65% of the respondents. This is followed by a lack of business creation, which is identified as a major problem for almost 55% of the respondents, while the current political scenario has been identified as a as representing a threat close to 35% of survey respondents.



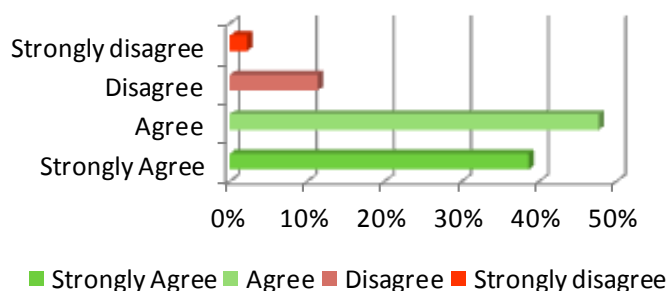
Distribution of Top 4 Obstacles



- **Difficulties Obtaining Credit**

Of the various immediate threats identified in this survey, that of access to credit reads as the most unanimous and homogenous across the southern Mediterranean. When presented with the statement *“A lack of access to finance in my country is preventing growth of small businesses”*, a firm 86% of those surveyed agreed or strongly agreed with the assertion (47.73 % & 38.64% respectively), reflecting the critical need for immediate action to address this issue.

A lack of access to finance in my country is preventing growth of small businesses



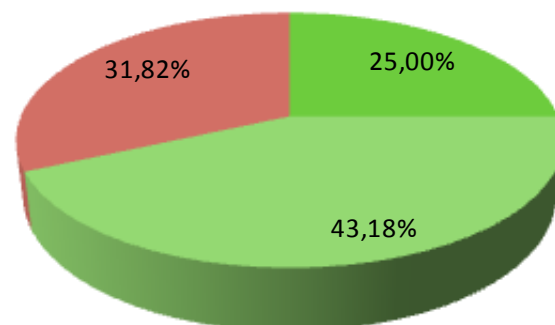
The results of the consultation suggest that – in order to address this obstacle effectively – existing policies and instruments will need to be reviewed and updated, as over 60% of those questioned considered that public policies introduced in the area of access to credit have not made it easier for SMEs to acquire the necessary capital.



- **Bureaucratic Business Environment**

Administrative procedures remain a key challenge facing Mediterranean SMEs, both from the perspective of bureaucracy and in terms of administrative support. Over 68% of those surveyed posited that a bureaucratic business environment is damaging economic development and thus limiting potential growth.

A bureaucratic business environment in my country is hurting business development



■ Strongly Agree ■ Agree ■ Disagree ■ Strongly disagree

While this in itself is generally representative of a longer term structural challenge related to oversized public sectors, it is also of note that respondents

were also critical of the lack of operational support provided by these administrations, with some 56% responding unfavourably to the remark that administrative support sufficient and was encouraging the growth of small businesses.

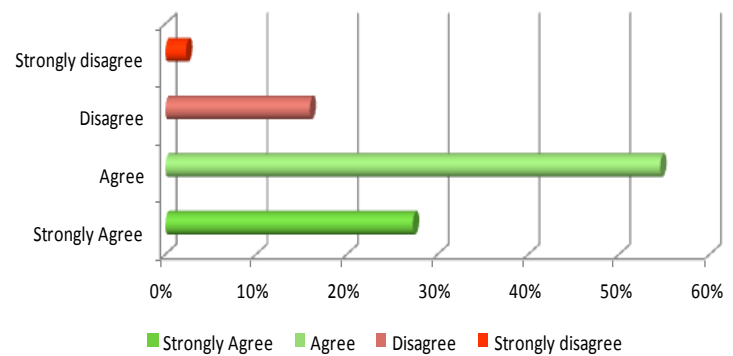
- **Education/Training Incompatible with Labour Market Needs**

With unemployment remaining critical in the region, as well as the tremendous pressure to create new jobs for the generations emerging into the work-force, the crucial challenge of employment and employability was again shown to be impacting heavily on the private sector in the region. Generally speaking, the needs of the businesses are not being met in terms of labour, with 43% stating a difficulty in recruiting adequate and skilled workers as a threat to SMEs. These figures give food for thought at a time when huge demographic shifts are occurring in the region, suggesting structural changes are necessary in order to successfully accompany business growth with a skilled workforce capable of giving a competitive advantage to the region and ensure a sustainable and intelligent economic growth.



Added to this is the widespread affirmation represented in the study of the discrepancy between the educational and training qualifications dispensed by the various centres of formation and the skills valued and needed by the current labour market. Indeed, a considerable majority opined on this incompatibility, with over 81% of respondents indicating this is an important obstacle in their country.

There is a strong discrepancy between the educational/training qualifications awarded and the needs of the labour market in my country



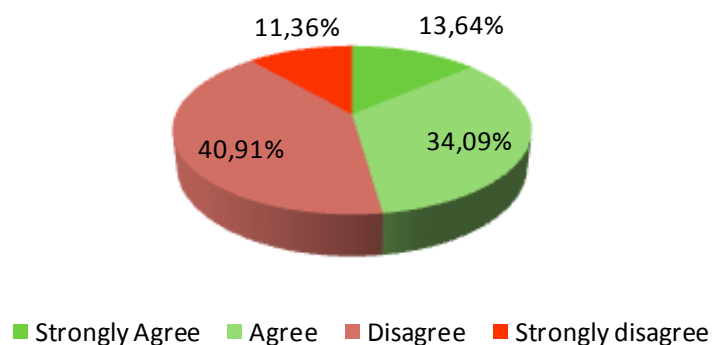
- **Difficulties internationalising**

Expert responses to the survey would suggest that the internationalisation activities of Mediterranean are hindered from a number of perspectives, specifically by inadequate public support, but also through restrictive tariffs and procedures when importing/exporting.

With regards to small businesses looking to internationalise, 52% of respondents believe that SMEs do not receive sufficient public support in reaching business partners, networks or contacts abroad, suggesting that there is a lot of work to do in this area, both on a transnational and national level.

Add to this that 40% of those surveyed feel that excessive tariffs and procedures are inhibiting importation and exportation, suggesting that a large amount of southern Mediterranean businesses are finding themselves isolated from increasingly globalised value-chains, and further damaging competitiveness.

Small businesses looking to internationalise are well supported in finding appropriate business partners, networks and contacts abroad



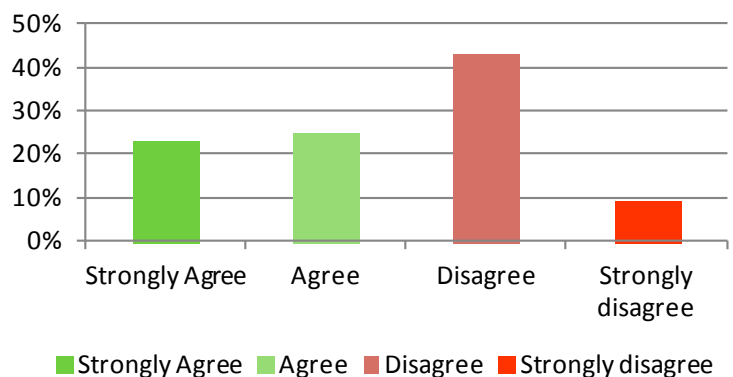


- **Lack of Entrepreneurial Spirit**

As frequently stated, stimulating entrepreneurship in the Mediterranean is of critical importance in order to foster economic growth and add much needed jobs to the region. In this regard, it seems steps are being taken in the right direction, as a majority of the experts (68.18%) consulted during this survey were of the opinion that the procedures for establishing a business in their country are transparent and easy to follow, evidently favouring the creation of new enterprises.

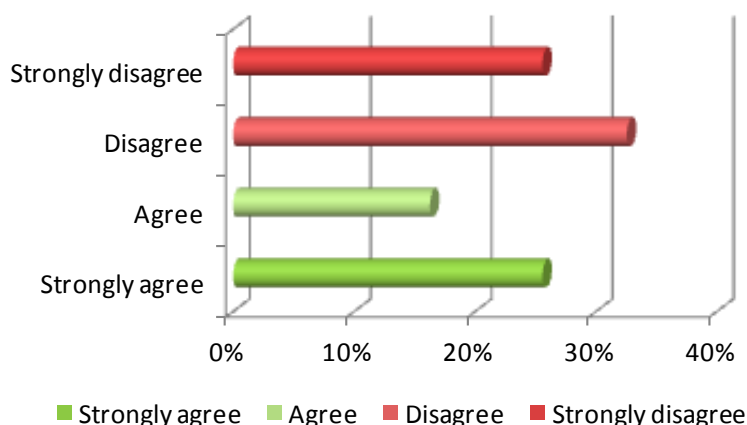
Regarding the desire to create these businesses, however, the consensus gathered is a little different, with 48% indicating a “lack of entrepreneurial spirit” in their region, against 52% who disagreed with this remark. It is of note here that 22% of respondents felt strongly about this absence of entrepreneurial spirit, and in general terms, as expected, when broken down by sub-region commentators from Maghreb were more critical, while those from the Levant were on the whole more positive.

There is a notable lack of entrepreneurial spirit in the local communities of my country



- **Political instability**

The current political climate in my country is damaging economic development



Against a backdrop of recent upheaval across the Mediterranean during the Arab Spring, the political landscape in which SMEs are currently operating has evidently grown more unstable throughout the region, creating an uncertain climate for business development.



This uncertainty is reflected in the study, where 40.91% of those consulted suggested the current political climate of their country was damaging to its economic development. *Indeed, when the question was posed from an optimistic standpoint and referring to the business community as buoyant, this number rose to over 43%.* As is to be expected, there is a marked difference in attitudes as to the economic stability in those countries which have seen revolutions (such as Egypt or Tunisia) and those which have not been prone to the recent upheaval (such as Algeria or Morocco), with the latter group generally more confident in their current political stability.

- **Insufficient Operational Support**

The transversal element of public support to SMEs on an operational level is generally found to be of a poor quality based on the findings of this report. Through its varied means of deployment to ease, prevent or combat the key themes discussed in this report, it is evident that public policies undertaken are not realising their objectives. Indeed it is largely present in the study that public policies designed to facilitate access to credit, to support internationalisation, or to provide administrative or operational support, are not having the desired and necessary effect, as attested to by respondents to



This survey has helped to prioritise the main threats facing the southern Mediterranean private sector, providing a “snapshot” of the current situation confronting the Mediterranean SMEs and the addition of much needed jobs to the different sectors.

We have seen that the following themes are considered to require urgent attention in order to encourage growth:

- Access to credit for SMEs
- Reduction of administrative burdens
- Incompatibility of skilled labour with the needs of businesses
- Fostering the entrepreneurial spirit
- Difficulties exporting and internationalising
- Political stability

It is clear that public support in addressing these issues is not having the desired effect, as confidence is lacking in public instruments to facilitate access to finance and to aid in internationalisation activities, among more general operational support structures at the disposition of SMEs.

On a whole, it is clear that private sector confidence is far from buoyant following the political transitions occurring across the region, however the business community would appear to be confronted essentially by the traditional challenges to its competitiveness. In the framework of the new strategy of the Working Party on Euro-Mediterranean Industrial Cooperation it is of the utmost importance that these threats are addressed through concrete actions on a transnational level, in order to encourage an intelligent and durable economic growth in the southern Mediterranean.



In order to help tackle the challenges underlined in this survey, ASCAME recommends and encourages the following concrete lines of action:

- The collaboration of Public and Private financial institutions on proven instruments such as credit guarantee schemes and microfinance initiatives, combined with a more effective communication of existing credit facilities in order to encourage their uptake. In this regard, best practices must also be widely disseminated in order to capitalise on successful initiatives.
- The proliferation of proven initiatives aimed at developing sustainable trade relationships, investments and enterprise partnerships between the northern, eastern and southern shores of the Mediterranean, such as the successful “Invest in Med” initiative, in which networks of support organisations (Chambers of Commerce, Business Associations, Investment Promotion Agencies etc.) from around the Mediterranean collaborated in creating international business opportunities for thousands of SMEs.
- The enlargement of ENPI CBC MED programme for the period 2014-2020, which has already shown its potential for creating operational networks of business intermediary operators on a transnational level capable of addressing concrete strategic challenges. Specifically, increasing the emphasis on Priority 1 (Promotion of socio-economic development and enhancement of territories) is essential for proposing coordinated support actions to Mediterranean SMEs.
- The participation of Southern Partner countries in the upcoming Programme for the Competitiveness of Enterprises and SMEs – COSME – for the period 2014 – 2020, both through participation in innovative international projects and the operational support afforded through the Enterprise Europe Network.
- Systematic consultation with the private sector on matters of Euro-Mediterranean policy initiatives, in order to create policy that reflects the necessities of the business community. In this regard ASCAME welcomes all efforts to align the Euro-Mediterranean Charter for Enterprise and the Small business Act, putting SMEs at the heart of all policy decisions in the region. Furthermore, ASCAME recommends that this current study represent the first phase of a wider consultation, with a large-scale sample of Mediterranean SMEs, on the institutional and operational challenges they face, the operational support they need to confront these, and their expectations of an ever closer integration of the Mediterranean Sea Basin. The results of this larger sample should then be used to activate targeted lines of action and encourage an intelligent and sustainable economic growth.



The Association of the Mediterranean Chambers of Commerce and Industry – ASCAME – was founded on 1st of October 1982, as an initiative of the Barcelona Chamber of Commerce in conjunction with its counterparts from different Mediterranean countries.

Today, 30 years since its creation, ASCAME has become a key actor in the Mediterranean area and is now one of the most representative and geographically widespread international organisations, and is the largest representative of the Mediterranean private sector through its network of Chambers of Commerce and other associated bodies, including all cities of the region, from 23 countries bordering the Mediterranean Sea.

ASCAME was created with the primary goal of furthering economic cooperation throughout the Mediterranean region, showing a strategic vision of North-South cooperation and integration. This vision was confirmed by the establishment of the Euro-Mediterranean Partnership in 1995 and is validated today by the Union for the Mediterranean.

ASCAME provides support and advice to Chamber of Commerce members, encourages contacts between them and promotes their respective initiatives, such as staff exchange programmes between Chambers of Commerce members, training programmes, forums, conventions and fairs.

The Association plays an important role in the field of international cooperation between Chambers of Commerce, a role that has been acknowledged by leading European and international institutions. It also occupies a privileged position in terms of representing the private sector in the region.

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