



ESCWA

United Nations Economic and Social Commission for Western Asia

# Financing Small and Medium Enterprises (SMEs) in the Arab region

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# Current situation in the Arab region

- Economic growth in the last two decades did not translate into the creation of decent employment

- High unemployment
- Increasing youth population entering the workforce

- Urgent need for job creation (more job and better jobs)
- Creating facilitative economic environment for creating employment



## Why is the SME sector so important in our region

➤ SMEs are the main driver of job creation, growth and economic diversification

➤ UAE: SMEs employ around 60% of the workforce and contribute around 75% to the GDP

➤ Kuwait: 90% of all employment in the private sector is within SMEs

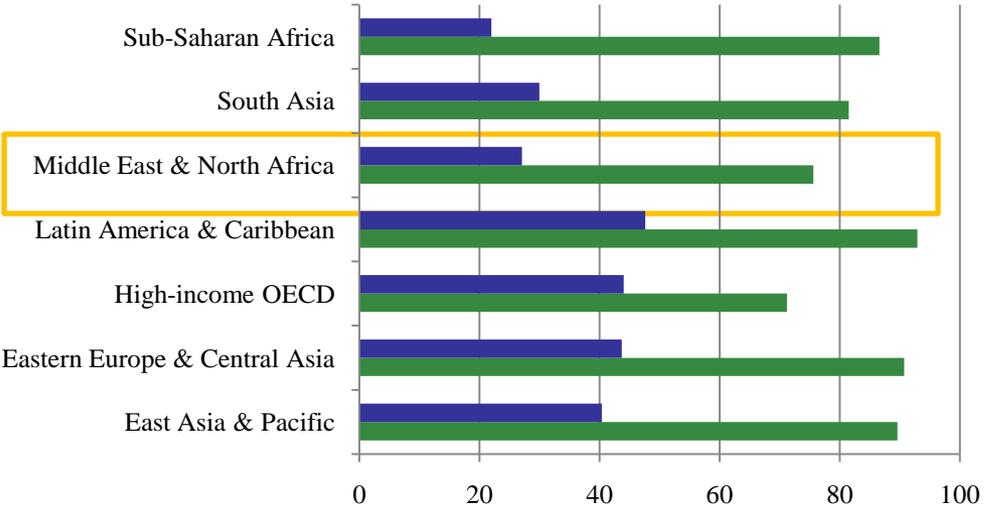
➤ Egypt: SMEs are contributing up to 40% to the GDP and account for nearly 75% of all new employment generation

➤ Lebanon: 90-95% of all enterprises are SMEs

➤ Yemen: SMEs account for 96% of GDP

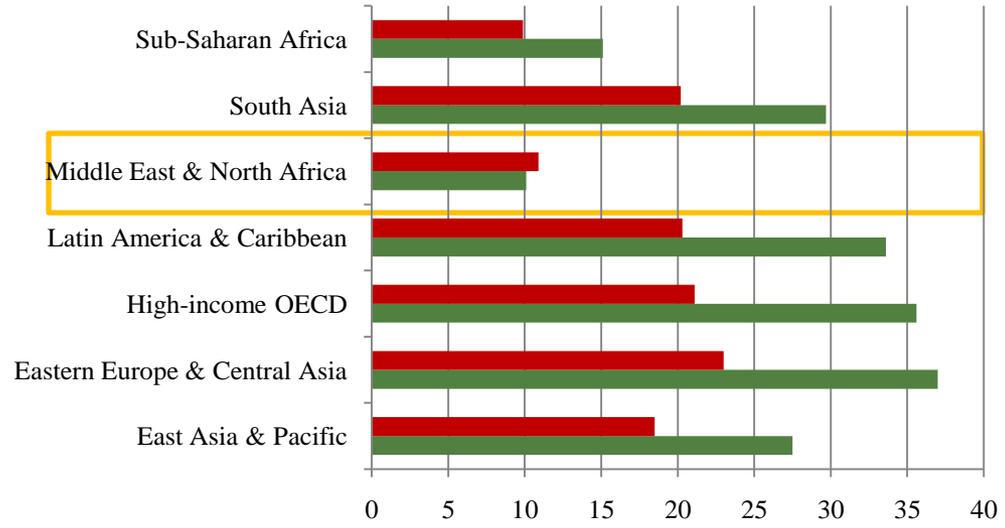


What are the bottlenecks for the development of Small and Medium Enterprises in the Arab region?



■ Percent of firms with a bank loan/line of credit  
 ■ Percent of firms with a checking or savings account

Access to finance in the region is very low compared to other developing regions



■ Proportion of investments financed by banks (%)  
 ■ Percent of firms using banks to finance investments

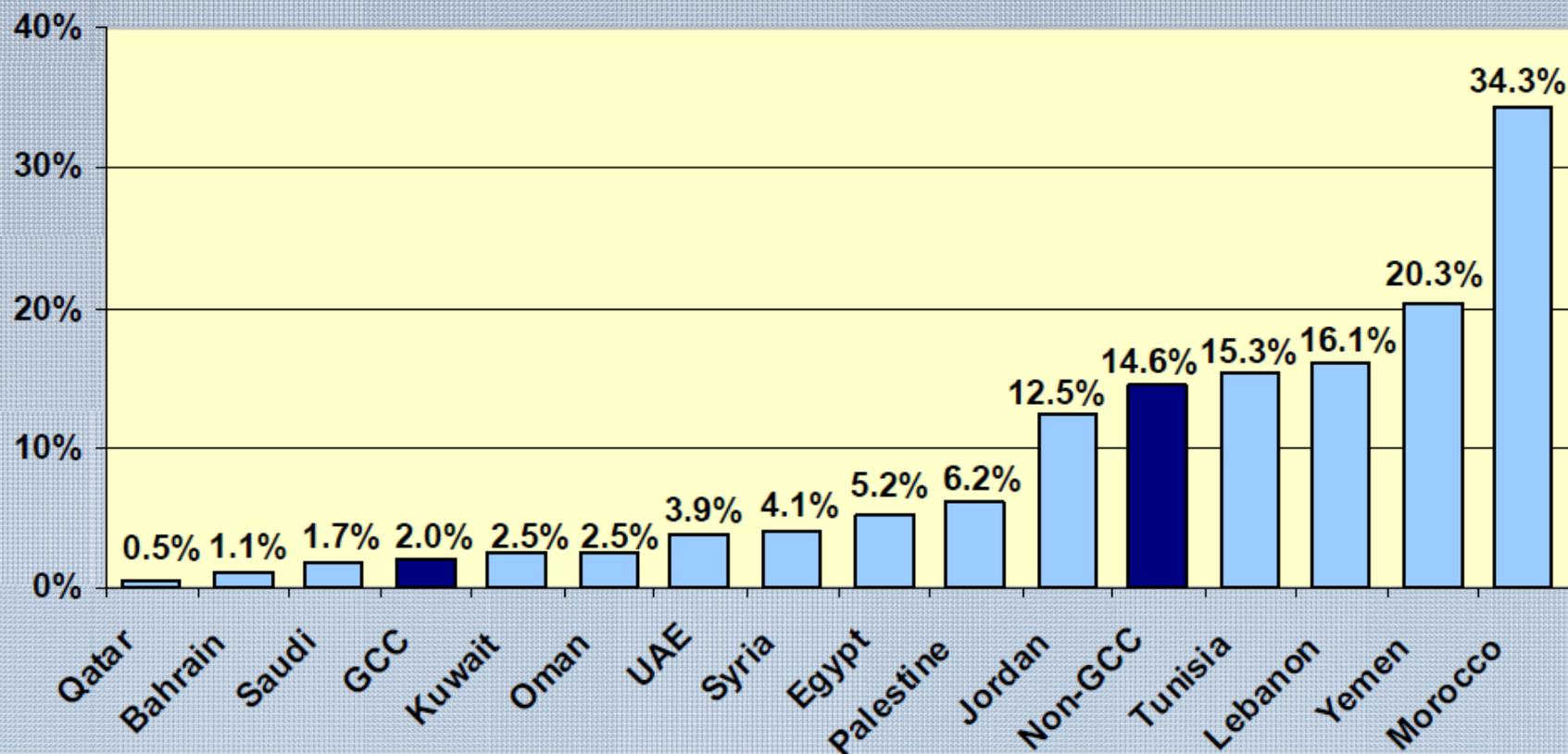


## Findings of the ESCWA study on SMEs in the MENA region:

- Capital structure of SMEs is less geared toward debt financing by close to 10% relative to large companies
- Greater use of debt to finance firm activities significantly increases firm employment with a ratio of \$4,833 for every new job
- More developed financial infrastructure fosters lending
- Larger businesses in terms of assets are able to create more jobs than smaller-sized firms
- Older businesses have greater employment generation capabilities than nascent firms.



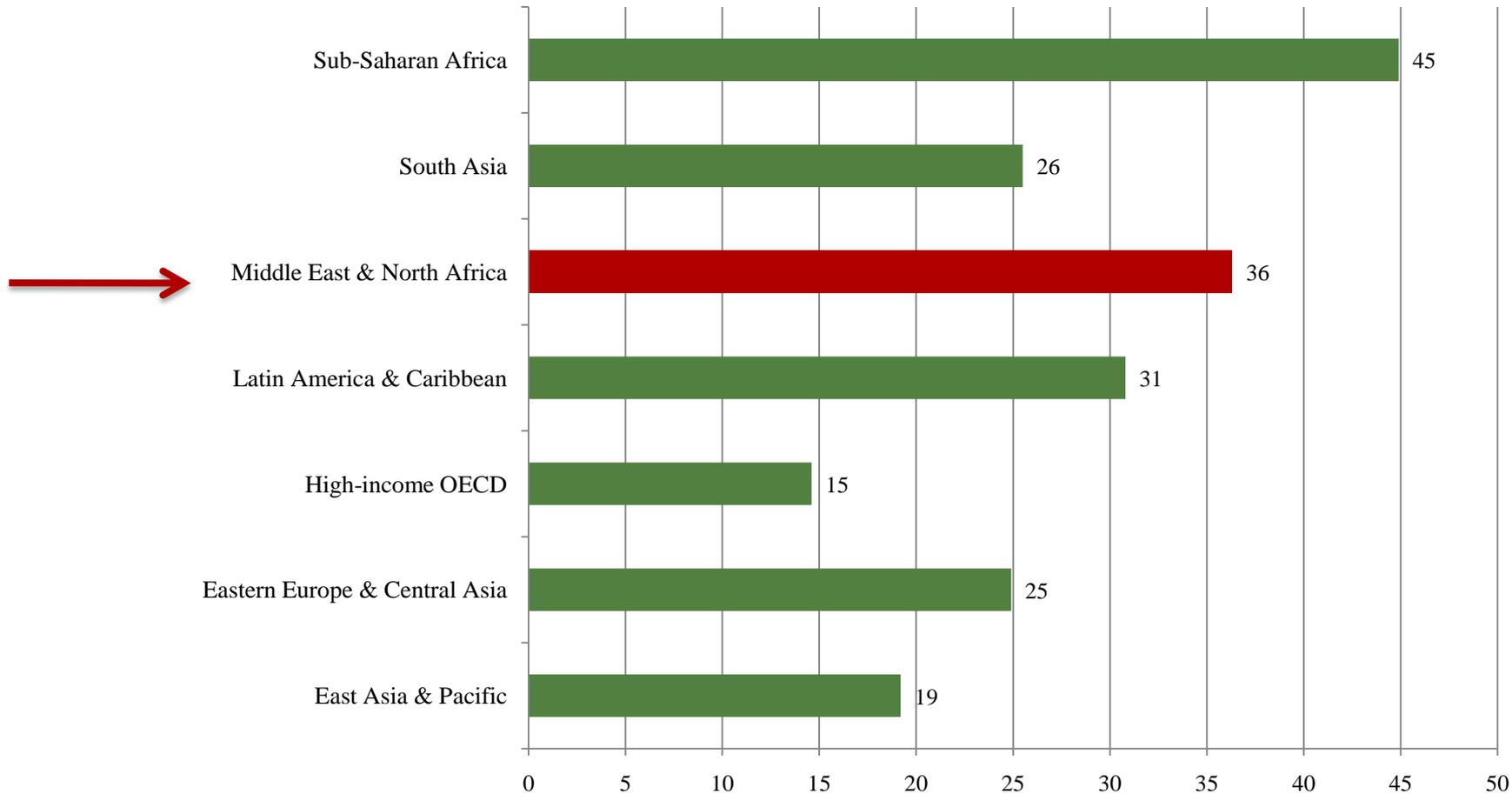
## SME Loans/Total Loans (%) in MENA Countries



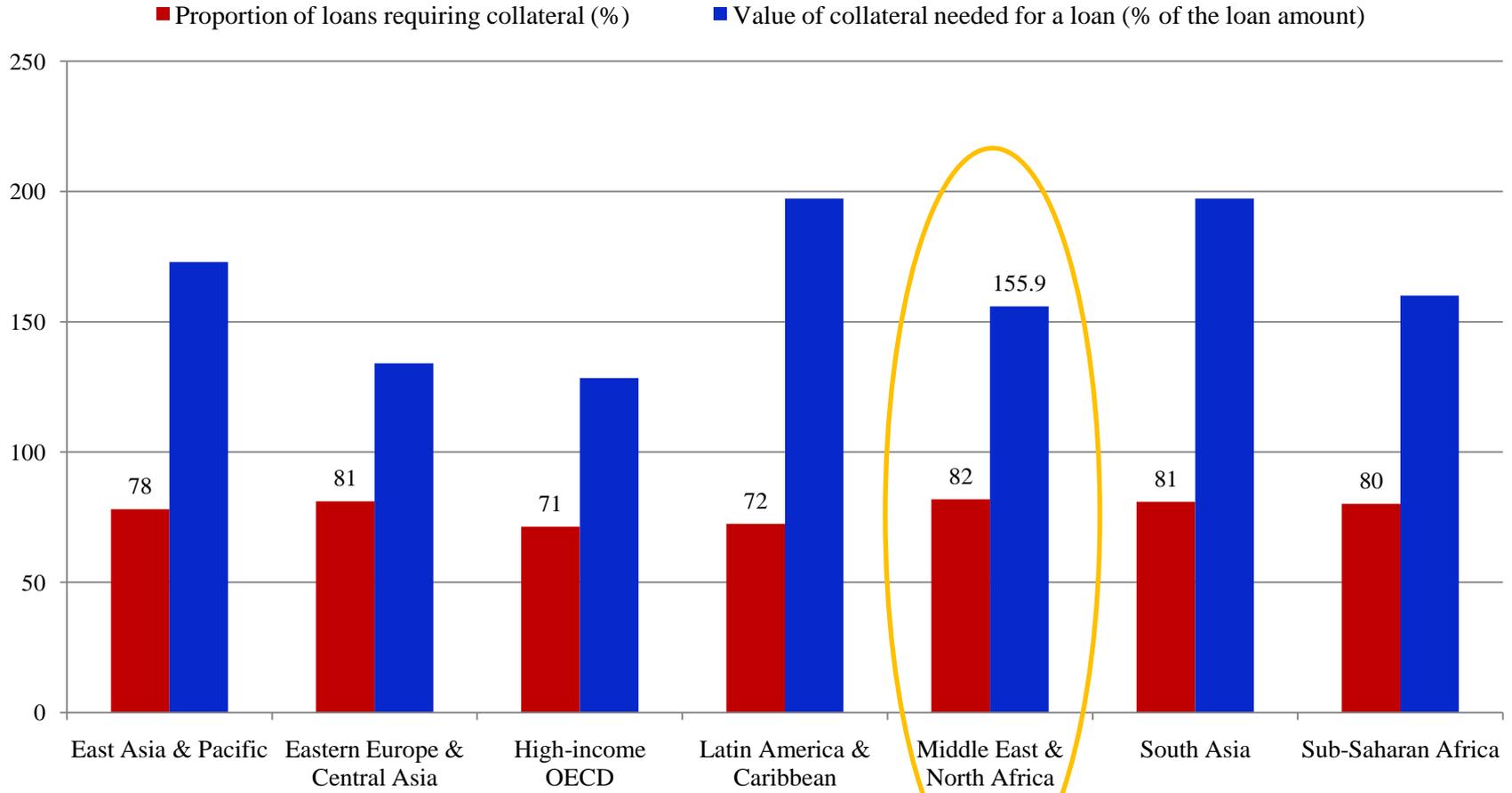
Source: Rocha, et al., 2010, *The Status of Banks Lending to SMES in The MENA Region. Joint survey of Union of Arab Banks and World Bank.*



## Percent of firms identifying access to finance as a major constraint



Source: World Bank Enterprise Surveys, 2010





## What is needed at this point..

- The region needs to create between 100 million new jobs over the next decade
- The Arab banking sector currently enjoys an excess liquidity of about \$458 billion
- The current level of SME financing is 8.9% (\$99 billion).



## Three proposed scenarios for increasing loans to SMEs from current level (9% of total loans)

	Share of Loans to SMEs from Total Loans	Increase in the Value of Loans (In Billion of \$)	New Jobs Created (In million)
Scenario 1	20 %	121	24.2
Scenario 2	30 %	231	46.2
Scenario 3	40 %	341	64.2



- How to increase financing to SMEs and support their growth?
  - Encourage the development of new financial products that are specifically tailored to meet the needs of SMEs, such as factoring of receivables and leasing. This measure needs to be accompanied by the development of collateral registries while ensuring a greater protection of creditors' rights.



- Many empirical studies show that there is clear positive correlation between banks credit facilities and the progress of SMEs in developing countries
  
- Currently, the MENA region generally lags behind in terms of financial infrastructure development
  - banks do not make use of automated credit scoring systems to assess borrowers' quality, but they rather develop relationships with their clients to be able to extend credit
  - it is common that the borrowers do not have a historical record of financial statements that banks require to assess their credit-worthiness, since the culture of financial reporting is not widespread



# Key actions to increase SME finance

- Consensus and coordinated action within the country  
(policy makers + Central bank + bankers)
- Strengthening financial infrastructure
- Improving the business environment

# Thank you



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