



# 1. INTRODUCTION

Over the last few years, the Middle East and North Africa (MENA) region has witnessed unprecedented social and economic transformation. In the Arab Uprisings, thousands of young people took to the streets to voice their frustration with the lack of economic and social opportunities. These events reflected the demand for improvements in living conditions, infrastructure, job quality, education and healthcare services, as well as better governance.

The Arab Uprisings took place against the background of a rapidly expanding workforce and rising unemployment—particularly among young people—to some of the highest levels in the world. Indeed, a World Bank study conducted in the early 2000s concluded that the region would need to create about 6 million new jobs each year to absorb new labor market entrants and bring down unemployment, especially among young people. This will

certainly require significant growth of the private sector.<sup>1</sup>

The Arab Uprisings reflected the failure of the region's economic models to satisfy people's needs and expectations. These models typically featured strong protectionism, lack of integration in international markets, misguided state intervention, and lack of support for a business environment that fosters innovation, entrepreneurship, and good management practices. In contrast, there is currently an overwhelming analytical consensus that the development of a vibrant private sector is crucial for creating more opportunities, more sustainable employment, and thus more inclusive growth in the region.<sup>2</sup>

In light of this, sound policies for private sector development need to be based on a thorough assessment of the state of the private sector in the region and the challenges it faces. As a diagnostic

tool, this report presents and discusses firm-level data collected by the MENA Enterprise Survey (ES) in eight economies—Djibouti, the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, the West Bank and Gaza, and the Republic of Yemen—which are collectively referred to in the report as the MENA ES region.

Firm-level survey data are a crucial complement to macro-economic data. They make it possible to analyze firm-level productivity and performance—as well as their variation across different types of firms—to understand what drives firm performance and the specific challenges faced by the private sector.

The collection of these data took place in 2013 and 2014, amid considerable social and economic upheaval. In particular, entrepreneurs and firms across the MENA region faced increased uncertainty with negative implications for their business and investment decisions. In addition to domestic developments, international economic conditions were also unfavorable, particularly as economic activity in Europe—one of the region's major trading partners—was weak.

This difficult environment is inevitably reflected in the snapshot that the data provide on firm performance, the business environment, and firms' expectations of the future. Nonetheless, the survey also reveals much about the objective status and performance of firms in the region, as well as the structural challenges that they face. Both factors—the short-run events and the long-standing environment in which they emerged—are important for understanding the potential foundations of prosperity in the region.

## THE MENA ENTERPRISE SURVEY

The Enterprise Survey provide a rich source of information about firms and the business environment in which they operate. Topics include firm characteristics, annual sales, costs of labor and other inputs, performance measures, access to finance, workforce composition, women's participation in the labor market, and many aspects of the business environment. Survey data are not only useful for corroborating findings based on macroeconomic data but also for exploring heterogeneity at the firm level and examining how firms experience laws and regulations.

The MENA ES provides a representative sample of the non-agricultural, formal private sector (figure 1.1). As shown in table 1.1, the survey respondents comprised 6,083 formal (registered) firms in the private sector across the eight economies. Table A1.1 in the Appendix provides a breakdown of the type of firms that were interviewed, along with the geographic regions of the surveys.

To be included in the survey, firms needed to have at least five employees and to operate in the manufacturing or services sectors. "Services" include retail, wholesale, hospitality, repairs, construction, information and communication technology (ICT) and transport. Not included in the survey are agriculture, fishing and extractive industries, as well as utilities and some services sectors, such as financial services, education and healthcare.<sup>3</sup> Also not included are firms with 100 percent state ownership.

**TABLE 1.1: MENA Enterprise Survey characteristics**

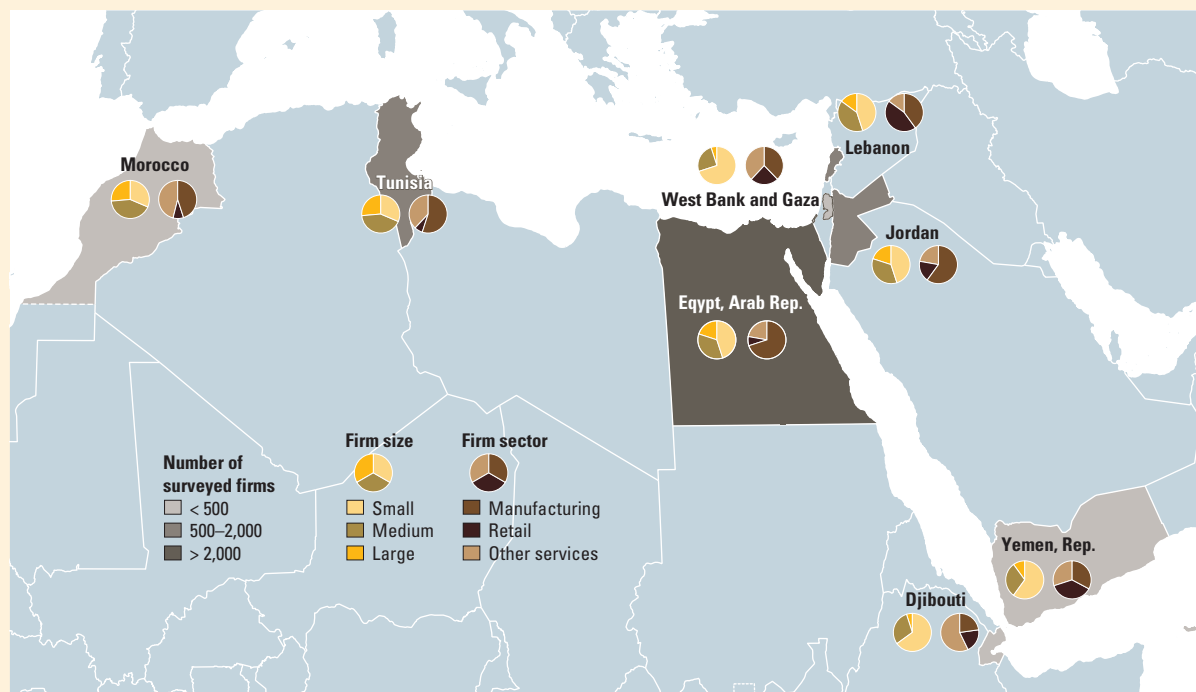
<b>Economies covered*</b>	Djibouti; Egypt, Arab Rep.; Jordan; Lebanon; Morocco; Tunisia; West Bank and Gaza; and Yemen, Rep.
<b>Sample</b>	6,083 private firms, which are: <ul style="list-style-type: none"> <li>• registered,</li> <li>• with five or more employees, and</li> <li>• in the manufacturing or services sectors.</li> </ul>
<b>Sampling</b>	Random, stratified by: <ul style="list-style-type: none"> <li>• regional location within each economy,</li> <li>• firm size, and</li> <li>• sector of activity.</li> </ul>
<b>Reference period</b>	Fiscal year 2012

\* The MENA ES rollout included the economies of Djibouti, the Arab Republic of Egypt, Jordan, Lebanon, Morocco, Tunisia, the West Bank and Gaza, and the Republic of Yemen. Initial plans to include Algeria, Libya, and the Syrian Arab Republic were suspended due to the security situation and additional budget constraints.

The survey used random sampling, stratified by firm size, sector of activity, and regional location within each economy. Stratification ensures that there are enough observations for robust analysis within each stratum. The survey design, comprehensive sample frames, and sampling weights used in the MENA ES together ensure that the surveys are statistically representative of the private sector in each economy.

## THE MENA ES REGION

Given the differences among MENA ES economies, it is useful to benchmark results against other regions covered by the surveys, as well as distinguishing

**FIGURE 1.1: Number, size and sector of firms surveyed**

Source: Enterprise Surveys.

between lower-middle-income and upper-middle-income economies.<sup>4</sup> Using the World Bank Group classifications, Jordan, Lebanon, and Tunisia are upper-middle-income economies, while Djibouti, Egypt, Morocco, the West Bank and Gaza, and the Republic of Yemen are lower-middle-income economies.

It should be stressed that while this report makes many references to the MENA ES private sector as a whole, the region is far from homogeneous, with entrepreneurs across the region facing wide differences. As table 1.2 shows, MENA ES economies have very different population sizes, ranging from just under one million (Djibouti) to 81 million (Egypt). The MENA ES economies also have different levels of development: at the extremes, Lebanon's GDP per capita in 2012 was 10 times that of the Republic of Yemen. Using a broader measure of well-being, such as the Human Development Index (which takes account of life expectancy, levels of schooling, and income), also reveals wide disparities, with Djibouti ranked 170th out of 187 economies in 2013 and the upper-middle-income economies of Jordan, Lebanon, and Tunisia nearer the middle of the rankings.

**TABLE 1.2: Selected indicators for the MENA ES economies**

Economy	Population 2012 (millions)	Human Development Index rank (HDI), 2013	GDP per capita, 2012 (constant USD 2005)
Djibouti	0.9	170	1,144
Egypt, Arab Rep.	81.0	110	1,560
Jordan	6.3	77	2,839
Lebanon	4.4	65	7,245
Morocco	33.0	129	2,462
Tunisia	11.0	90	3,921
West Bank and Gaza	4.0	107	1,564
Yemen, Rep.	24.0	154	729
Lower-middle-income	60.0		1,509
Upper-middle-income	55.0		5,291

Source: UN National Accounts Main Aggregated Database (2005 USD). HDI: low value indicates better performance.

As is to be expected for middle-income economies, all of the MENA ES economies have undergone considerable structural transformation,<sup>5</sup> with industry on average accounting for 30 percent of GDP and services for 61 percent (table 1.3). Agriculture plays a lesser role in terms of value-added (although providing 14 percent of GDP in Egypt and Morocco), but it remains very important in terms of employment, particularly in Egypt, Morocco, and the West Bank and Gaza (table 1.4).

The sectors analyzed in the MENA ES include the full manufacturing sector, which provides an average of

13 percent of GDP and 11 percent of employment, and most segments of the services sector, which provides 35 percent of employment on average.<sup>6</sup> The MENA ES excludes informal economic activity. The size of the informal economy in the MENA ES economies has been estimated as equivalent to 33 percent of GDP on average (for economies where estimates are available, table 1.3), but this activity is only partially included in the GDP measure. The informal sector is estimated to provide up to 67 percent of non-agricultural employment in Morocco and 49 percent overall (table 1.4).

**TABLE 1.3: GDP by sector and the informal economy in the MENA ES economies**

	GDP by sector (%)*				Informal economy (% of GDP), 2004/2005**
	Agriculture	Industry		Services	
			Of which manuf.:		
Djibouti	3.5	16.9	2.5	79.3	n.a.
Egypt, Arab Rep.	14.5	39.2	15.8	46.3	35
Jordan	3.1	30.1	18.8	66.8	20
Lebanon	6.1	20.5	8.5	73.4	37
Morocco	14.4	30.3	15.9	55.3	37
Tunisia	9.2	31.1	17.0	59.7	38
West Bank and Gaza	5.3	25.1	16.2	69.6	n.a.
Yemen, Rep.	10.1	49.2	7.8	40.6	27
MENA ES	8.3	30.3	12.8	61.4	33

Source: <sup>\*</sup> World Development Indicators. Data are for 2012, except for Djibouti (2007) and the Republic of Yemen (2006).

<sup>\*\*</sup> Schneider (2007). Informal sector activity is only partly estimated in official figures for GDP.

Note: n.a.—not available.

**TABLE 1.4: Employment by sector and the informal economy in the MENA ES economies**

	Employment by sector (formal and informal sectors, %) <sup>*</sup>					Employment in the informal economy (% non-agricultural employment), 2000-2004 <sup>**</sup>
	Agriculture	Manufacturing	Services (ISIC groups F-I)	Public administration, defense & education	Other sectors	
Djibouti	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Egypt, Arab Rep.	27	11	32	18	12	46
Jordan	2	10	33	36	18	n.a.
Lebanon	n.a.	n.a.	n.a.	n.a.	n.a.	52
Morocco	38	11	32	8	11	67
Tunisia	16	19	35	19	11	35
West Bank and Gaza	38	12	40	25	13	43
Yemen, Rep.	16	7	39	22	8	51
<b>MENA ES</b>	<b>20</b>	<b>11</b>	<b>35</b>	<b>21</b>	<b>12</b>	<b>49</b>

Source: <sup>\*</sup> ILO, KILM. <sup>\*\*</sup> Charmes (2012).

Note: n.a.—not available. Agriculture refers to ISIC Rev. 3.1 group A; manufacturing to Group D; services includes groups F-I (construction; wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods; hotels and restaurants; transport, storage and communications); public administration, defense and education refers to groups L and M; other sectors refers to groups B, C, E, J, K, N-X (including mining, utilities, finance, real estate and health). Data are for 2012, except the Republic of Yemen (2010).



The MENA ES does not cover publicly provided services and purely state-owned firms, which are important providers of employment in the region. Jobs in public administration, defense and education comprise 21 percent of employment on average, but this may underestimate the total number of employees in the public sector, as it excludes for example, state-owned enterprises.

The universe of sectors included in the surveys comprises a relatively restricted segment of the MENA ES economies. But the segment it covers is important for development: it is the growth of both employment and value-added in the formal private sector that provides the best opportunities for improving the long-term prospects and prosperity for the growing workforces of the economies in the region.

## THE FOCUS OF THIS REPORT

The following four chapters focus on key issues for understanding the growing role played by the formal private sector in the MENA ES region, the constraints faced by these firms, and the opportunities for promoting faster private sector growth and job creation.

Chapter 2 examines firm productivity and its relationship to the general business environment. Political instability is a particularly acute concern for firms in the economies most directly affected by the Arab Uprisings, and this seems to have affected their economic performance. The chapter also discusses corruption and unreliable electricity supply, which are two further core concerns of firms across the region.

Chapter 3 explores a critical issue in the business environment: the extent to which firms experience difficulties in getting access to finance, and whether some may even choose to opt out of the formal financial system. The chapter argues that by disconnecting from financial services, firms forgo growth opportunities. More financial sector flexibility and competition would help firms to re-engage. The chapter highlights the specific issues of collateral requirements, branch density, and lack of banking sector

competition, all of which make finance more difficult to access for many firms in the region.

Chapter 4 examines the contribution of different segments of the private sector to employment, with a particular focus on youth employment, women's employment, and the role of women in management. The chapter highlights the lack of dynamism of medium-sized firms and explores the relationship between employment growth and factors such as access to finance and labor productivity. It also considers the extent to which firms face constraints in terms of access to adequately skilled workers and the impact of skills on productivity and wages.

Chapter 5 explores the broad issue of firm competitiveness, and specifically the effect on firm performance of participation in international trade, innovative activity, and management practices. The chapter investigates the extent to which firms in the region have been able to take advantage of opportunities for output and productivity growth through participation in trade. It investigates the state of innovation and its relationship to productivity growth. It also discusses the effect of management practices on firm productivity and the efficient use of energy resources.

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## Endnotes

- 1 World Bank (2004).
- 2 Kabbani and Kothari (2005, p.16).
- 3 More information on the ES methodology along with inclusion/exclusion criteria can be found in [www.enterprisesurveys.org/methodology](http://www.enterprisesurveys.org/methodology).
- 4 These regions are Latin America and Caribbean (LAC), Eastern Europe and Central Asia (ECA), Sub-Saharan Africa (AFR), South Asia (SAR) and East Asia and Pacific (EAP).
- 5 Atiyas and others (2015).
- 6 The MENA ES excludes certain segments of the services category, such as public administration, healthcare and education. The services covered by the ES are represented by ISIC Rev. 3.1 groups F–I (including construction, retail, vehicle repair, hotels and restaurants, transport and communications) as well as K.72 (computer and related activities).

## APPENDIX A1

**TABLE A1.1: Enterprise Survey in the MENA region: Number of firms interviewed (n=6,083) and levels of stratification by economy**

Size of the economy	Economy	Stratification level					Locations
		Firm size (no. employees)				Sector of activity	
		Small (5-19)	Medium (20-99)	Large (100+)	Total		
Large	Egypt, Arab Rep.	1,273	1,029	595	2,897	Food (257), Textiles (224), Garments (206), Leather (111), Printing & Publishing (58), Chemicals (173), Rubber & Plastic (121), Non-Metallic Mineral Products (245), Fabricated Metal Products (91), Furniture (142), Wood Products (78), Other Manufacturing (316), Construction (134), Services of Motor Vehicles (49), Wholesale (122), Retail (147), Hotels & Restaurants (163), Transport, Storage & Communications (256), IT (4)	Cairo (794), Giza (476), Upper Egypt (355), Kafr-El-Sheikh/Menoufiya/Beheira (226), Alexandria (192), Sharqia (187), Qualyubia (144), Gharbiya (132), Port Said/Suez/Ismaia (124), Damietta (117), Dakahliya (114), Red Sea/Matrouh/Wadi Al Jadid/Sinai (36)
Medium	Tunisia	199	237	156	592	Food (83), Garments (84), Other Manufacturing (163), Retail (34), Other Services (228)	South Coast/West (148), Northeast (141), Tunis (135), Sfax (126), Interior (42)
	Jordan	266	181	126	573	Food (88), Garments (66), Other Manufacturing (181), Retail (106), Other Services (132)	Amman (274), Zarqa (99), Irbid (97), Aqaba (52), Balqa (51)
	Lebanon	264	207	90	561	Food (89), Other Manufacturing (150), Retail & Wholesale (231), Other Services (91)	Mount Lebanon (139), Beirut (123), South Lebanon (98), Bekaa Valley (85), North Lebanon (77), Nabatieh (39)
	Morocco	141	153	113	407	Food (49), Garments (38), Other Manufacturing (100), Retail (36), Other Services (184)	Grand Casablanca (107), South (100), Central (80), Rabat/Sale/Zemmour/Zaen (71), North (49)
	Yemen, Rep.	211	102	40	353	Manufacturing (117), Retail (126), Other Services (110)	Rest of the country (204), Amanat Al-Asemah (149)
Small	West Bank and Gaza	292	119	23	434	Manufacturing (158), Retail (112), Other Services (164)	West Bank (295), Gaza (139)
Very Small	Djibouti	169	79	18	266	Manufacturing (62), Retail (59), Other Services (145)	Djibouti City (266)

Source: Enterprise Surveys.

Note: The Enterprise Survey sample designs are based on stratified random sampling. More information can be found in <http://www.enterprisesurveys.org/methodology>. For sector of activity and locations, the number in the parentheses indicates the number of interviewed firms in that particular strata level. For comparisons with other geographic regions, the number of firms is as follows: ECA (8,730), LAC (12,046), EAP (9,026), SAR (13,381), and AFR (16,968).

## REFERENCES

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