

YOUTH ENTREPRENEURSHIP IN MENA

Haneen Sayed
Regional Youth Co-Coordinator

Middle East and North Africa Region
World Bank

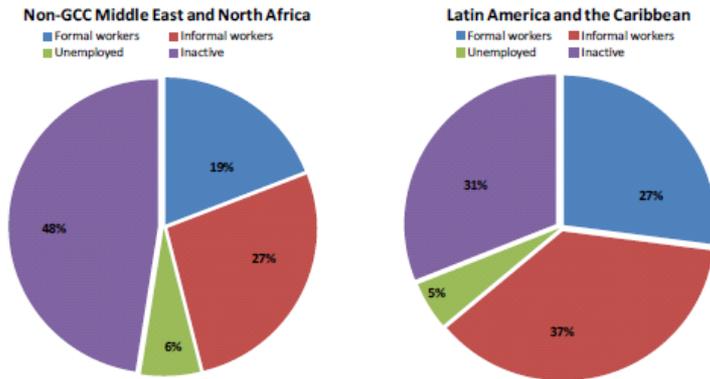
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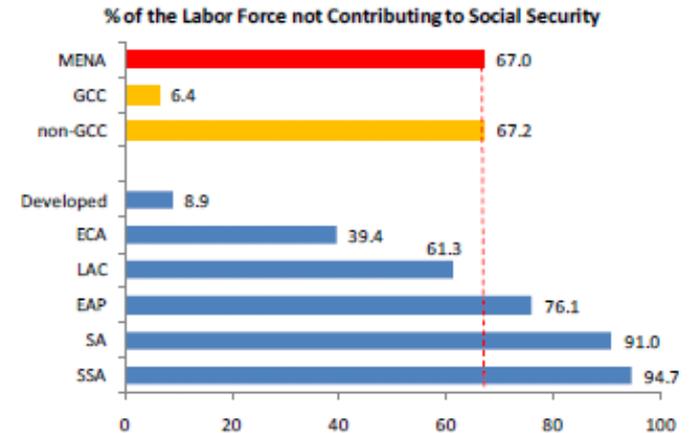
Labor markets in MENA make poor use of the available human talent and resources

High joblessness

Composition of working age population

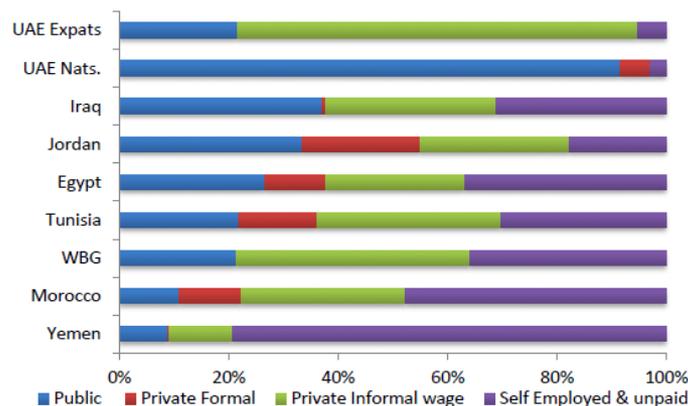


High informality



Public employment dominates the formal sector

Employment composition by sector



Youth, women, and the working poor are most affected by poor labor market outcomes

Women

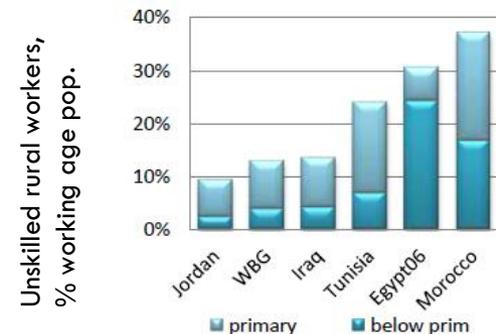
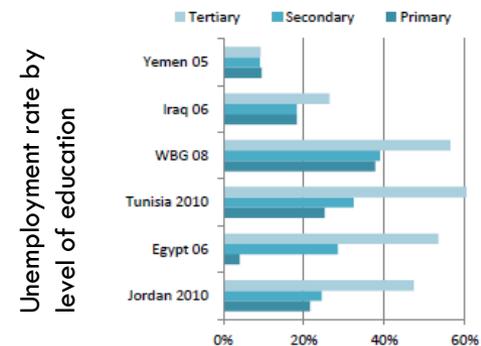
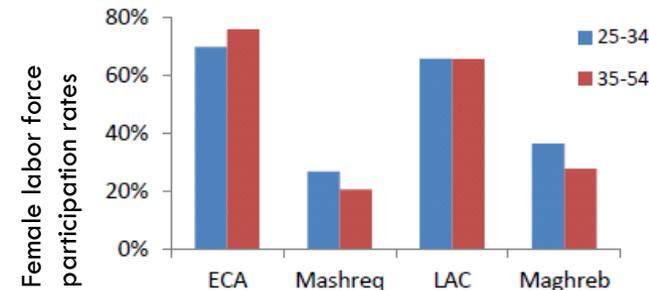
- ▣ Low labor force participation (<30%)
- ▣ Higher unemployment than men (especially among skilled women)
- ▣ Lower wages
- ▣ Less likely to be self-employed

Youth

- ▣ In addition to unemployment, high levels of discouragement (resulting in high inactivity rates)
- ▣ Slow transition into job market for first time job seekers
- ▣ Despite high unemployment among university graduates, bulk of the jobless are low-skilled youth

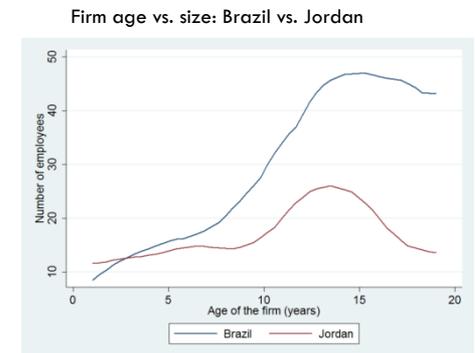
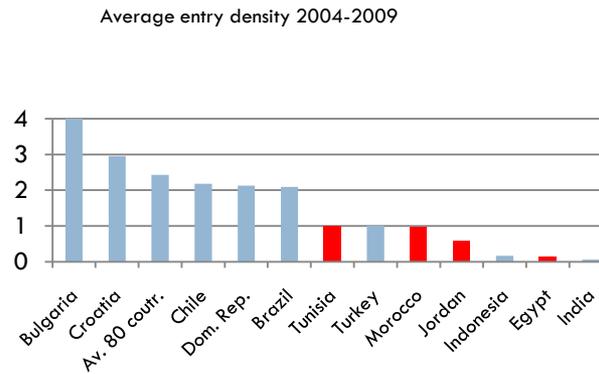
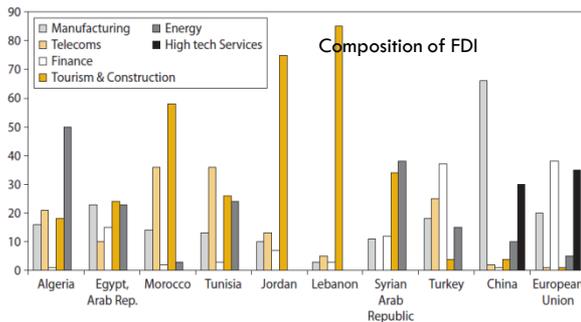
Rural and Unskilled

- ▣ Constitute large share of working population
- ▣ Are generally subsistence entrepreneurs



Private sector that lacks dynamism - main factor behind little and low quality job creation

- The process of *creative destruction*, which led to technological upgrading in East Asia or Eastern Europe, is attenuated in MENA; this is reflected at the
 - macro-level: investments/exports skewed to lower added value activities
 - micro level: low entry rates, older and fewer firms, small firms stay small, limited innovation



- Implies a significant cost in terms of employment, in particular for skilled labor as
 - young firms are the engine of job creation
 - in particular, a few fast-growing young SMEs ("*Gazelles*") typically create most new jobs; in MENA such firms are also more likely to innovate

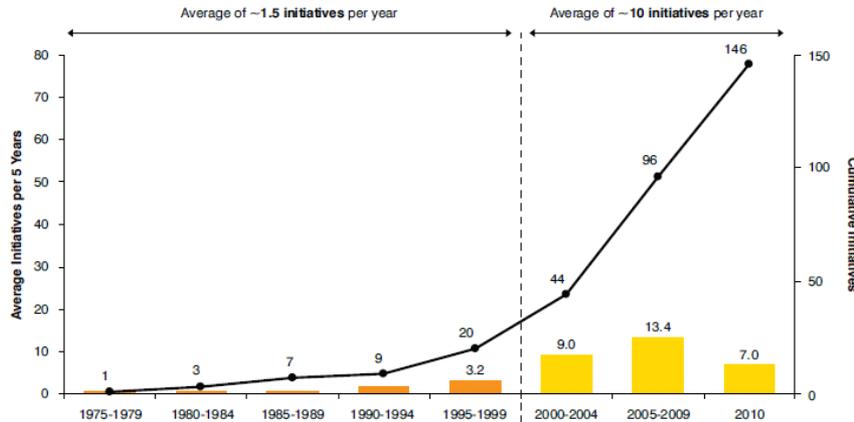
A private sector that thrives on privileges and low competition –

- MENA countries underperform systematically in these dimensions:
 - Access to credit: high collateral requirements, NPLs, and credit rationing indicate there is too much discretion and unequal enforcement of laws in financial system. Privilege of the few.
 - Enforcing contracts: weak implementation rather than legislation in judiciary
 - Discriminatory and uncertain implementation of regulations distorts competition, firm entry, innovation and ultimately job creation.
 - For instance, empirical findings for Jordan and Egypt show that firms are more likely to innovate or grow (create jobs) if policy implementation is predictable.
 - Distorted incentives: energy subsidies make labor relatively more expensive and also favor outdated technologies

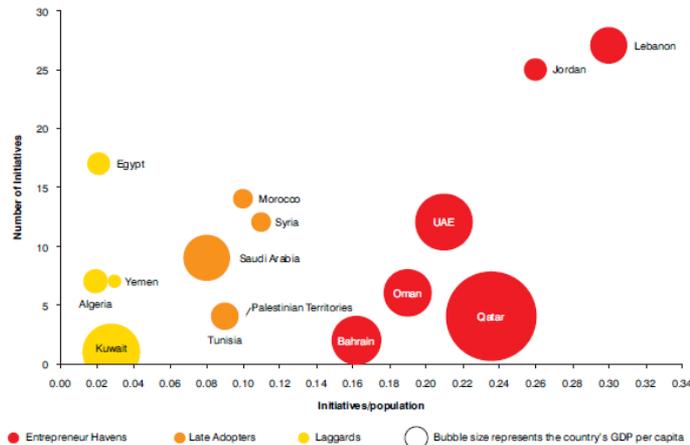
The entrepreneurial landscape is evolving fast, but many countries are still lagging behind

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Cumulative number of entrepreneurial initiatives by Governments, NGOs, and private sector



Number of entrepreneurial initiatives by country



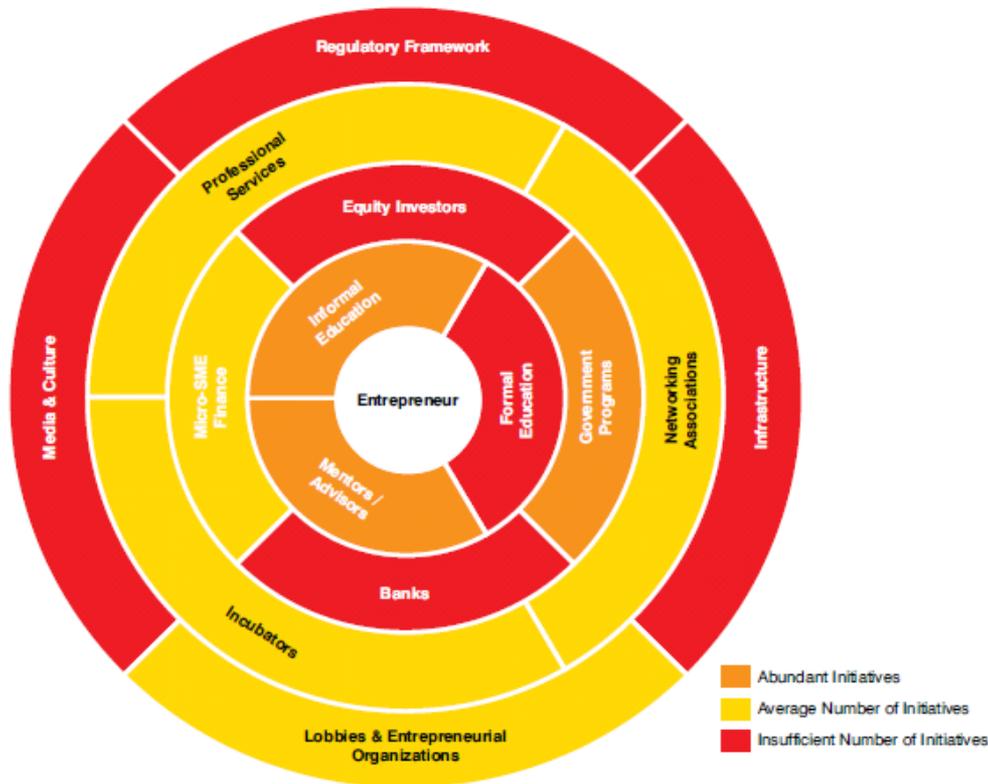
Some examples:

- **Entrepreneurship Education:** INJAZ (regional), Business Plan Competition in Universities (Tunisia)
- **Youth-Microfinance:** Al-Amal Bank (Yemen), Attawfiq Bank, La Poste (Morocco)
- **Entrepreneurship training:** Fondation Jeunes Entrepreneurs (Morocco), Nahdet El Mahrousa (Egypt), Youth Business International (Regional)



Many barriers to entrepreneurship remain

The entrepreneurship ecosystem in MENA

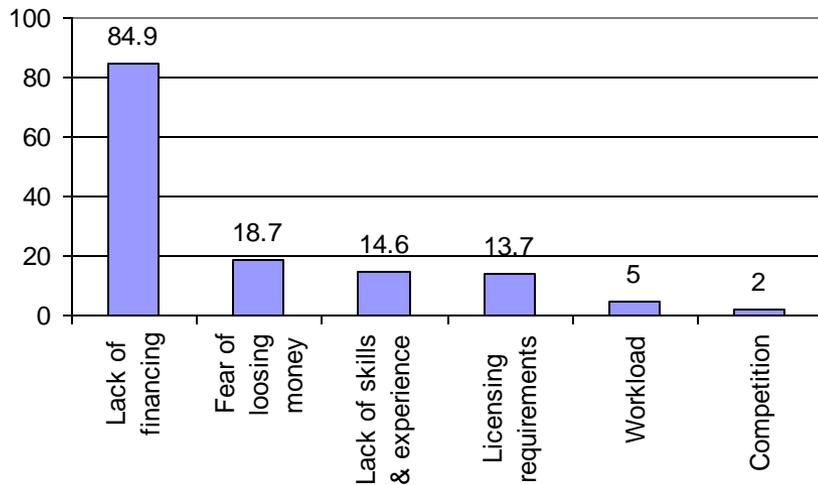


Areas of relative weakness:

- Formal education: Less than 10% of universities in MENA offer entrepreneurial courses
- Banks & Equity Investors: Finance gap between microfinance and commercial Banks (missing middle)
- Regulatory framework: Doing Business remains cumbersome in many countries
- Infrastructure: Relatively low internet use (24%), inadequate roads
- Media & Culture: Risk aversion, stigma of business failure, premium on secure government jobs, dearth of media coverage

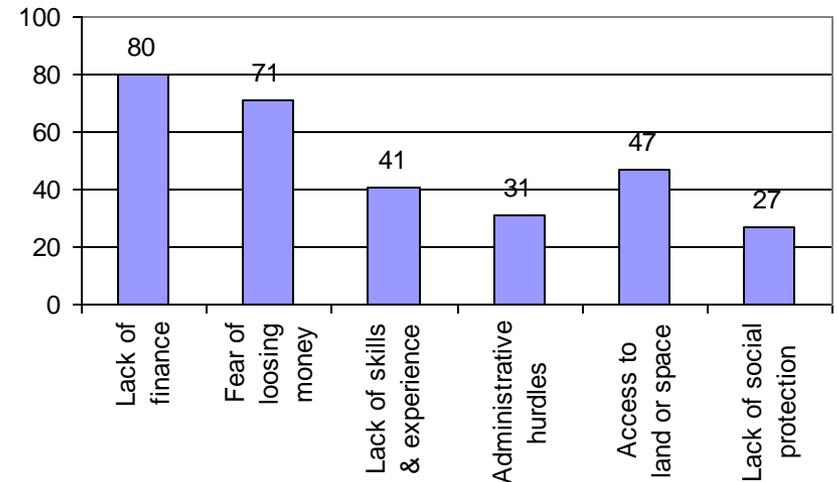
Youth are particularly constrained by access to finance, by financial risk, and lack of skills

Egypt



- Financing constraints explained by lack of understanding of micro-credit and complexity of loan process
- Female youth perceive gender-specific disadvantages in starting a business
- Additional problems for current entrepreneurs are business information (especially for women), marketing services, and need for counselling and advice

Morocco



- Lack of awareness of micro-finance programs and strong belief that not creditworthy
- Level of preparation often inadequate, as entrepreneurial interest driven by desire to escape low pay and bad working conditions rather than assessment of unmet market demand

Interventions should be tailored to low- and high-skilled entrepreneurs

Sustain subsistence entrepreneurs

- Foster skills for the existing stock of micro-enterprise owners (financial literacy, basic business skills, life skills technological upgrading)
- Expand access to credit (appears to be particularly beneficial for existing enterprises)
- Mentoring and advisory services
- Facilitate access to markets

→ main challenge in the informal sector is not entry, but viability and growth

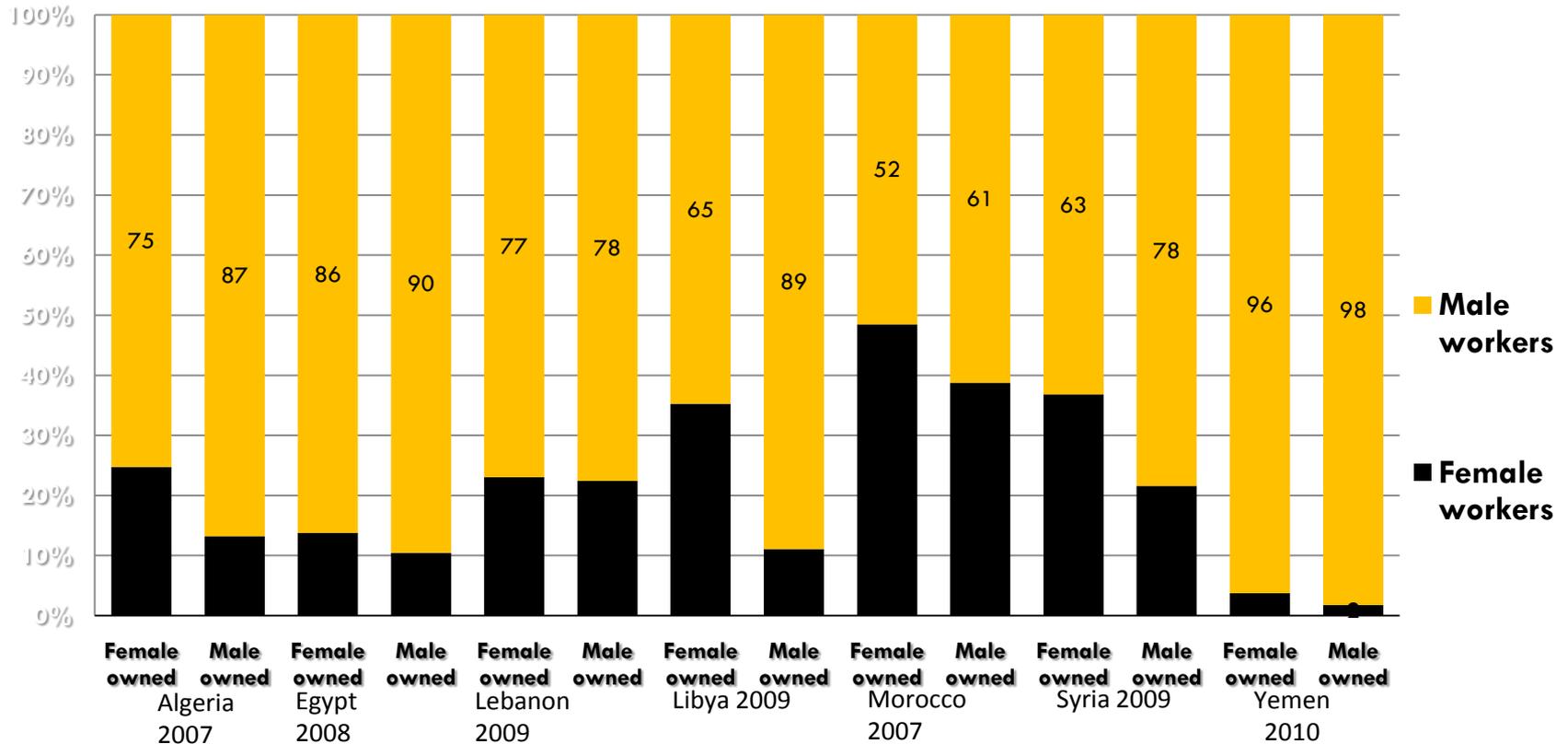
Promote the potential of high-skilled entrepreneurs

- Expand entrepreneurship in secondary-school and university curricula
- Foster work experience early on
- Facilitate access to finance beyond microfinance
- Create incubators for all sectors (not only IT)
- Stronger outreach and business involvement by VC funds

- Foster mentoring/coaching from established to aspiring entrepreneurs
- Target women entrepreneurship specifically
- Centralize, streamline, and shorten administrative steps

Women-owned SMEs are More Inclusive

Gender of Workers by Gender of Principal Owner in MENA



Increasing the number of women entrepreneurs will lead to a rise in the percentage of women in the workforce in MENA as they are more likely than male-owned enterprises to employ women

Main Messages

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- ❑ Entrepreneurship is key for job creation (through start-ups and MSME growth)
- ❑ The majority of entrepreneurs in MENA have micro-enterprises (often informal), highlighting the need to include them in targeted support efforts (not only for the modern high-growth companies)
- ❑ Despite many emerging efforts of governments and civil society, an enabling ecosystem for youth entrepreneurship is still missing (combining training, finance, BDS, mentoring, youth-friendly business regulations, etc.)
- ❑ Where political uncertainty does not allow for comprehensive institutional reforms, a second-best approach is to develop innovative, sustainable programs, demonstrate success through rigorous M&E, and bring successful programs to scale