

BRIDGING SMEs BETWEEN THE NORTH AND SOUTH MEDITERRANEAN

The Role of SMEs in the Socioeconomic Development of the Mediterranean Region

4-5 July 2018, Palau Macaya, Barcelona

Introduction

On the 4-5 of July 2018, the Med Confederation promoted the holding of the first Barcelona Euro-Med Forum, organised by “la Caixa” Foundation and the European Institute of the Mediterranean (IEMed), with the firm commitment to make it one of its core annual events. Hosted by “la Caixa” Foundation at the iconic Palau Macaya, this initiative stemmed from the will to consolidate a long-term meeting point for economic, political and social stakeholders around the Mediterranean, and bring them together with the members of the Med Confederation. By establishing a fluent yearly dialogue, the Barcelona Euro-Med Forum will strengthen the alliance forged through the Med Confederation in order to facilitate and develop cooperation and economic integration, social progress and cultural exchange between the countries surrounding the Mediterranean Sea.



Amb. Senén Florensa addressing the audience during the opening session

The 2018 Barcelona Euro-Med Forum welcomed more than thirty experts from the region to discuss the role of Small and Medium-Sized Enterprises (SMEs) in the socioeconomic development of Mediterranean countries. The experts had the chance to present the current socioeconomic challenges on both sides of the Mediterranean and relate them to SMEs. The role of public and private sectors as well as the financial institutions in the support and promotion of mechanisms to create ecosystems to favour doing business and new forms of entrepreneurship were also debated. Nevertheless, an analysis of the root causes of the lack of access to finance, a primary obstacle to the development of SMEs in the Mediterranean, was also undertaken. Finally, the role of policy-makers and other stakeholders in tackling asymmetries of information in certain southern countries was discussed.

The Importance of SMEs

SMEs have played a fundamental role both in the social and economic fields and it is usual to find studies measuring the stability and economic strength of countries based on the state of their business sector. Either due to their purpose of covering basic needs by producing goods and offering services or because of their capacity to create jobs, it is clear that SMEs are fundamental engines for socioeconomic development.

In this respect, the Barcelona Euro-Med Forum paid special attention to unemployment, as it remains one of the greatest challenges facing the region today and in the foreseeable future. Employment creation, especially for youths, is a priority both in northern and southern Mediterranean economies.

SMEs are considered a vital instrument to create employment and bring opportunities for progress to young people. Therefore, enhancing a good business climate, supporting the creation and growth of SMEs and boosting the economy top the list on any public agenda.



From left to right: Mohammed El Razzaz (UfM), Emmanuel Noutary (ANIMA) and Isabelle Bébéar (BPI)

But what are the causes preventing SMEs from flourishing? Some argued that the inherent values of SMEs (fast adaptability and flexibility, proximity both within the enterprise and with their business partners and clients) can also explain their constraints (less stability and more competitors, lack of human capital, little availability of resources and poor market knowledge...). SMEs also suffer from the incapacity to enter the global value chains (GVCs) and to exploit and benefit from a technology-driven environment (as they are less likely to conduct research and development than larger firms). Thus, a more comprehensive and cooperation-oriented strategy to support SMEs is essential.

There is a need to strengthen access to finance for SMEs through instruments put in place not only by the private sector (banking corporations) but through the public sector as well as multilateral organisations and institutions (EIB, IFC, AfDB); secondly, public and private institutions need to support the development of business-enabling infrastructures and specialised platforms (incubators, accelerators, technology centres, work centres, co-working spaces...) for SMEs and also for micro enterprises and entrepreneurship.

In order to foster the growth of the business fabric in Mediterranean countries, the value of regional cooperation was stressed. Since we live in a globalised world, regional integration cannot be based on trade alone but should also be built on industry and investment.

Finally, innovation is a key factor for economic development. The competitiveness of the Mediterranean may be achieved with innovation, considering it as an inclusive process involving Mediterranean SMEs, governments and organisations to try to find a Mediterranean model capable of growing through resources and challenges as well as a helpful ecosystem that makes innovation flourish and helps SMEs reach their full potential.

Economic Challenges of Financing SMEs in the Mediterranean

Two topics related to the development of SMEs were analysed during the conference: economic challenges of financing SMEs in the northern and southern Mediterranean as well as the role of business-enabling infrastructures as boosters of economic development on both shores of the Mediterranean.

In the Eurozone, 99.8% of all companies are SMEs; they employ 75% of the workforce and create 60% of the total value. This indicates the importance of SMEs in the socioeconomic development of any country and proves the need for all relevant actors to keep enhancing their creation and growth.



Anwar Zinaboui (ASCAME) takes questions from the audience for the speakers

Financing SMEs in the Northern Mediterranean

In terms of sources of financing in Europe, some suggested that SMEs need stable and long-term support and that comes from a banking sector that is willing to stay close to the real economy and focused on the domestic market. Banks should grow with SMEs and stay close to them even in times of economic recession. Germany did this during the 2008 crisis, endeavouring to combat the effects of the crisis by financing SMEs.

On the other hand, some European countries have a general perception of SMEs as high risk projects. Of course, risk is inherent in any business activity, but following a long-term business plan where the risks are identified, monitored and managed can lead to any SME investment risk being lowered to levels comparable to those of bigger companies. Thus, some argued that applying higher risk taxes to SME loans than those for big corporate was a mistake, as “the risk for these two types of credit is different but not necessarily higher.”

There are other alternative forms of finance, such as capital markets. A very low percentage (4%) of SME finance comes from the financial market and can only be considered a complementary source of financing for SMEs in Europe at present. Crowdfunding and peer-to-peer (P2P) lending are other alternative forms of financing, but the fragmented regulatory framework that govern these new types of financing services may not fully guarantee customer protection and data confidentiality if compared to procedures carried out by banking institutions.

At the same time, SMEs are still at disadvantage when trying to attract alternative sources of finance, which is also due to the lack of investor-ready projects and persisting regulatory impediments. In this sense, bank financing is fundamental to help existing SMEs to grow and thrive, as it is the most natural and simplest source to access finance at a low cost. Unfortunately, this also means a higher level of vulnerability to economic downturns and cyclical swings.

Lack of innovation was also discussed as a pressing issue in the relationship between banks and customers. SMEs are traditionally time-poor, as they have to balance daily administration and accounting tasks with the day-to-day running of a business, and the banking institutions should be willing to give them a more adapted and personalised service (invoice management, online lending, innovative payment solutions). The importance of personal service in banking should be highlighted in times where a personal relationship between banks and customers is lost.

Regulation is another topic of growing concern for SMEs when running their business. Some participants called upon the European Commission to redefine

the factors that determine whether an enterprise constitutes an SME in the European Union. The ceiling of both the staff headcount and turnover or balance sheet total should be increased. A broader definition is of great relevance as it affects the capacity of retail banks to offer finance to loans and other kinds of financing instruments for retail and savings in Europe.

Some recommended a new policy framework that boosts SME access to traditional bank financing and reinforces current credit guarantees by providing an environment for adequate provisioning for loans.



Rafik Selim (EBRD) chairing a session devoted to the growth of SMEs

SME Challenges in the Southern Mediterranean

SMEs account for 70% of the workforce in the Middle East and North Africa as well as 60% of their GDP. Unfortunately, the ratio of creation of new companies and the overall business environment is still a concern in the region. While SMEs constitute the main economic power for job creation, they generally encounter more challenges than facilities when doing business.

Some of the most relevant ones pointed out by the experts are access to finance, a complex juridical framework and a rigid tax system. It was argued that there is a lack of awareness from SMEs when it comes to knowing about the available financing sources, but there is also a level of underdevelopment

at the conventional banking system, as they are failing to reach the potential loan beneficiaries.

The framework for policy investment requires a more flexible and less restrictive approach. Transparency, market and competition laws, as well as intellectual property protection laws, are fundamental in any economy but they take different shapes according to the institutional context of the country. While it is true that there have been policies to support SMEs, greater progress could be achieved through a holistic institutional reform that frames the SME ecosystem and favours their development.

Finally, the market size of the southern Mediterranean countries is relatively small and could take advantage of moving towards a regional perspective. Taking the European single market model as an example, North African countries could benefit greatly from regional integration and the creation of a bigger and more even market size, where regulation could be standardised and coherent with their shared interests. A regional perspective could positively modify the investment climate in every country.

Boosting Economic Development and Bridging the Two Shores of the Mediterranean

The first stages of most start-ups are marked by a high-risk situation mainly due, to a lack of business development, funding and management capacities. At this point, the role of business-enabling infrastructures can be fundamental as accompanying start-ups during their first phases might ensure a better position to absorb the negative impacts and allow them to address the factors that threaten their development and growth.

Business accelerators, an example of enabling infrastructures, are organisations that support new entrepreneurial initiatives by involving them in short and mid-term programmes that offer mentorship, office space and other support services, as well as funding opportunities. These structures can also be very useful for third parties, as they usually become stable

platforms that allow business angels to invest in start-ups through them.

Another example are incubators, shared operation spaces where entrepreneurial initiatives find network opportunities and can enjoy shared resources. While they do not offer as many funding opportunities, they are mostly non-profit organisations that allow slow and steady growth without the same fast performance pressure that investors can put on the start-up.

These structures are progressively enhancing proper business ecosystems to be developed across North African cities such as Casablanca, Tunis or Cairo, and are attracting the establishment of global accelerators and investors from Europe, North America and Asia who are interested in supporting African start-ups and new forms of entrepreneurship.

As stated during the conference, the last few years have brought the conceptualisation of “diaspora start-ups” in the Mediterranean, understood as business initiatives created by migrants who become entrepreneurs either in their host country or their origin country and lead to the creation of a positive economic impact in both. Some argued that this phenomenon can become the right model moving forward, progressively fostering the creation of a stronger and shared industrial fabric that bridges the two shores of the Mediterranean and promotes integration in the region.

Nevertheless, there is plenty of room for cooperation between economic and institutional actors to support these initiatives, such as cross border acceleration and support programmes or the creation of international financing, including access to EU funding mechanisms for southern Mediterranean start-ups.

How Can We Create Ecosystems for New Forms of Entrepreneurship?

What are the main mechanisms for creating better ecosystems to foster entrepreneurship and business opportunities? Special emphasis was put on the impact of new industries in the future of labour and, in view of this new landscape, on how to support SMEs. How can we create initiatives that establish a favourable ecosystem for the development of SMEs in the Mediterranean region?



Rocio Flor presents the strategy of ACCIÓ to support SMEs

Major Trends Transforming the Economic and Sociocultural Landscape

The Barcelona Euro-Med Forum touched upon new trends, such as disruptive technologies, encrypted currencies and artificial intelligence, which are changing the economic and sociocultural landscape tremendously. Some participants debated the ways in which these factors will transform the future of labour. As was pointed out, by 2030 between 600 and 800 million work places will be destroyed, around 10% of new industries will emerge and more than 375 million people will have to acquire different skills to enter the labour market. Thus, education is once again at the core of the debate between public institutions and the private sector, universities and industry, start-ups and investors. There is a need to develop a more flexible and transversal education

system, one that prepares youths by giving them tools to create, assimilate new concepts and adapt in a context where technology is having a ground-breaking effect on the traditional industries. Education and training form the foundation stone to build a dynamic ecosystem that enhances the emergence of entrepreneurship.

New Projects as Creators of Ecosystems

Throughout the sessions, some participants stressed the existence of projects with the purpose of favouring ecosystems that enhance business support organisations and business networks in the southern neighbourhood. EBSOMED was presented as an example that comes within the scope of a framework of concrete initiatives supported by the development institutions in the region. It has been conceived to help boost economic growth by improving competitiveness of business support organisations of the Euro-Mediterranean region, as well as by supporting a qualitative updating.

Consequently, it contributes to the improvement of services offered to Mediterranean SMEs that are on a quest to find new financing and internationalisation. It supports different actions aimed at strengthening Euro-Mediterranean cooperation and intraregional economic partnership by setting up a dynamic affairs network and disseminating good practices and success stories. The project is based on the accompaniment of beneficiaries during the development of a regional strategy and action plans that support job creation sectors and economic growth. Activities taking place during the project include training academies, mentoring and peer learning, forums, road shows, B2B and C2C, particularly focusing on youth and women at a regional scale.

Other projects were presented as promoters of innovation ecosystems in the region. NEXT SOCIETY was mentioned as a one that brings together entrepreneurs, investors, corporations, NGOs, public and private innovation, research and economic development hubs from Euro-Mediterranean countries. It promotes and reinforces innovation and ecosystems and fosters value creation by pushing forward concrete solutions.

Finally, support initiatives like training, counselling with a specific diagnosis service, coaching, connecting start-ups with big enterprises and creating accelerators during one or two years were identified as mechanisms that can help develop entrepreneurial initiatives and SMEs at an early stage.

Recommendations for Moving Forward

Among the suggestions, the creation of a regulatory and legal framework arose as an important element. In addition, more investment and more space for business support organisations such as incubators, accelerators, living labs, innovation apps, chambers of commerce and industry was underlined. In addition, investment in Fintechs was mentioned as a way of providing new financial mechanisms and new technologies.

Designing a financial architecture was also considered necessary and great emphasis was put on supporting a culture of entrepreneurship by means of education. According to the speakers, an entrepreneurship ecosystem needs to be fostered with education from very young ages and schools and academia need to be ready to respond to the challenges by offering open courses.

In addition, resilience was suggested as a major ingredient in a culture of entrepreneurship. In this context, it should be understood as a preparation for failing, which means accepting failure as part of the cycle, knowing that it will happen. In this vein, skills such as emotional, intellectual or technical traits should be fostered in order to encourage entrepreneurship and job creation, as well as cognitive flexibility. According to the speakers, cognitive flexibility would make it easier to efficiently switch from different simultaneous tasks that require different solutions.

To conclude, some issues were identified from the perspective of investors who are interested in a project as well as requirements that should be taken into account by entrepreneurs in search of financing. In this respect, the viability, feasibility and possibilities of investing in a project should be carefully considered. Firstly, the existence of a market and specific competitive benefit

must be demonstrated. Secondly, there has to be a diverse team able to confront potential setbacks differently are needed, as is a timing and market analysis. Thirdly, the possibility of a profitable yield with a global project design that provides solution guarantees.

How Can We Support the Growth of SMEs?

As previously stated, access to finance remains limited in the Mediterranean region and it is widely considered the primary obstacle for SMEs. Nevertheless, the effort should not come only from policy-makers or SMEs, but also from third parties such as international financial institutions and financial companies that are capable of creating funds to cover certain gaps in the market or even to carry on with initiatives to provide loans at no profit to support venture capital (as has been done by the World Bank).

Another example is the SME Initiative in the European Union, a joint financial instrument created by the European Commission and the European Investment Bank Group (European Investment Fund included), which aims to stimulate SME financing by providing partial risk cover for SME loan portfolios of originating financial institutions through capital relief, loss protection and liquidity.

Some argued that it is of great importance to go beyond these financial inclusion initiatives and move towards a risk-sharing Euro-Mediterranean MSME



Mustapha Nabli (Institute for New Economic Thinking), Amine Ben Ayed (Misfat) and Yolla sarieddine (Kalafat)

initiative. From an integration approach, a Mediterranean guarantee initiative must be developed and, more specifically, cover 80% of losses for defaulted loans (with no cap at portfolio level), and address credit risk concerns and/or lack of collateral at the MSME level. Of course, thinking outside the box emerges as an essential requirement to overcome constraints. Thus, some suggested working on a long-term action plan for financial market integration and funding MSMEs in the Euro-Mediterranean.

Attention was drawn to the specific case of Lebanon and the need to diversify the export market and international market, for modernisation of companies and to go beyond the family scheme business of governance.

Finally, some of the lessons learned from the small enterprise experience could be translated into the creation of governmental initiatives to strengthen SME cooperation in the Mediterranean basin and encourage trans-Mediterranean deals.

Nevertheless, there are many other factors that hamper their development and growth. While some can be considered external problems, such as obsolete or excessively bureaucratic administrative, legal and tax regulations, informality and corruption, others can be explained as internal structural problems. Many suffer from lack of management, marketing and technological expertise or even transparency and there is still a great effort to be made to spread a culture of investing in the workforce, training personnel, investing in innovation and even partnering with other businesses by sharing value-chains in a win-win spirit.

Building Bridges Between the Two Shores of the Mediterranean: How Can Policy-Makers and other Stakeholders Support SMEs?

European SME Policy-Making Initiatives

The European Union spent €23 million on Mediterranean SMEs, which generated €3.9 million in 2015 and employed more than 90 million people. Due to the vital role of SMEs for boosting economies, policy-makers and business organisations see this as an important issue that should be taken seriously.

As stated during the session, the basis for promoting a sound policy for SMEs in the EU is the Small Business Act (SBA) that seeks to improve the approach of entrepreneurship in Europe, to reduce the regulatory burden and provide access to finance, markets and internationalisation.

Its ten key principles lead to concrete policies and are mainly focused on accessing finance, how to take advantage of the single market, how to bring about a broader market integration and smarter regulation to ease the creation and management of SMEs.

In addition, another exercise was identified as significant for policy-makers: the SME Policy Index: The Mediterranean Middle East and North Africa. This contains reliable recommendations for policy-makers in partner countries and guides activities financed by the EU in close consultation with the capitals of southern Mediterranean countries.

Business support organisations play an active role in this context, by means of working groups that promote workshops, best practices, networks, opportunities to internationalise and more, related with scale-up difficulties for start-ups and what kind of actions to take to make them endure and grow. In addition, internationalisation and governance are also relevant in policy-making. Regarding the former, the Enterprise Europe Network is one of the biggest business support networks that offers opportunities to innovate and submit new

projects, improve competitiveness, network, mentoring and expansion of businesses internationally. It also facilitates B2B between companies. With regards to the latter, SME Voice comprises representatives of the business community who know how to take into account the needs of the SME community by strengthening business organisations and lobbying governments.



Christos Kyriatzis (European Commission) debating about the role of policy makers

Financial Initiatives Carried Out in Southern Mediterranean Countries: The Case of Egypt

During the session a question was raised: is access to finance a problem or is financing the problem? Taking Egypt as an example, after reviewing different initiatives carried out by the Central Bank, the Ministry of Trade and Industry and the Ministry of Investment, and considering the fact that only 6.1% of small enterprises use bank financing tools, it was concluded that the problem is access to financing. Hence, MSMEs face several challenges that make up this reality. A large number of enterprises remain in the informal sector and lack transparency and good governance practices. In terms of financial institutions, there is no information available about financial products

and too many bank requirements from MSMEs. Finally, the regulatory framework hinders access to finance through administrative processes, licensing, and access to land...

Financial Initiatives Carried Out in Southern Mediterranean Countries: The Case of Morocco

In Morocco, several initiatives have been developed by a national entity, Maroc PME, which aims to promote, support and finance SMEs, and make them innovative and competitive. One of its several objectives is to participate by defining public policy in respect of growth and competitiveness of SMEs and entrepreneurship development.

Some participants highlighted the Industrial Acceleration Plan 2014-2020 as it introduced a new approach based on the establishment of industrial ecosystems. The project consists of the development of industrial ecosystems that have an economic model that promotes the establishment of mutually beneficial partnerships where SMEs gravitate around leading enterprises (locomotives).

In addition, the Cadre Contractuel consists, on the one hand, of a contracting framework between the state and SMEs with the aim of supporting certain objectives and, on the other, of public financing to support enterprises.

Two categories of support programmes for SMEs were emphasised: technical assistance and support for investment, the latter conditioned by the capacity of an enterprise to create employment.

As an assessment from 2014-17 in Morocco showed, 64,250 jobs have been created thanks to the entity's support for SMEs. In the framework of the programmes, 78% of companies come from industrial ecosystems. The existence of a new entrepreneurship dynamic boosted by the Auto-Entrepreneur Statute was noted, which has raised the number of entrepreneurs (74,000 in total).



Josep Ferré (IEMed), Jaloul Ayed (MedConfederation) and Jaume Lanaspá (La Caixa) during the closing session

Recommendations and Conclusions

In this regard, policies play an essential role in supporting the situation of SMEs and favouring their development. According to the speakers, three main elements should be taken into consideration. In the first place, policies that reflect the real need of the countries should be adopted; in other words, considering each country's own socioeconomic and political reality and circumstances. Next, policies should relate to economic and social development policies of the country. And finally, policies should take into account the heterogeneity of SMEs. In addition, three elements should be considered when talking about SMEs: an initial category where enterprises are seeking aid and the possibility of consolidating and expanding; a second that includes SMEs that have the opportunity to grow and innovate; and a third that concerns the size and definition of the SME.

In order to bridge the gap between the northern and southern Mediterranean in matters of SME development and growth, speakers agreed on the need to

also establish a north-south and south-south policy dialogue and peer consultation. Moreover, southern Mediterranean SMEs should form clusters to equalise the size of northern SMEs. Northern and southern SMEs should reciprocally regard themselves as part of the global value chain. In matters of migration, the participants stressed that northern Mediterranean SMEs should start migrating towards southern Mediterranean countries in order to settle their business in the region.

Some recommendations were made to solve some common problems in the region. Segmentation should be refined so the provision of services is adapted to each segment, taking into account territorial specificities and aiming at the development of local value chains. Other issues to consider include support for and synergy of actors, creation of employment, carrying out an impact evaluation in the global conception process, deployment of support programmes and, lastly, an observatory that concentrates on the evolution of the SME landscape.

Finally, a much needed issue would be to have a sectorial approach in the conception of support programmes in sectors that allow integration in global, national and regional value chains. Moreover, experiences from clusters should be duplicated in order to transfer them to other sectors; in other words, having more national clusters but interconnected to other clusters in the region. In addition, more synergies and complementarity between programmes from different countries in the region would be highly valuable, as well as transfer of technology and more BtoR (Business to Research) encounters. And, finally, specific intellectual property programme initiatives should be developed in southern Mediterranean countries in order to help enterprises invest in the country of origin.