



The Reality of SMEs in Arab Nations: Experience of Egypt, Jordan and Bahrain

Mohamed Sayed Abou Elseoud¹ Fuad M. Kreishan² Mahmood Asad Moh'd Ali³

¹ *Department of Economics and Finance, College of Business Administration,
University of Bahrain & sadat Academy*

² *Faculty Of Business Administration and Economics, Al-Hussein Bin Talal University, Jordan*

³ *Department of Management and Marketing, College of Business Administration, University of Bahrain*

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Abstract: The study aims at analyzing the current state of the SMEs sector in three Arab countries, Egypt, Jordan and Bahrain; therefore, we adopt descriptive and analytical approaches. Findings show that SMEs sector plays a vital role in the region as a major source of various economic contributions, but it faces domestic and external challenges, which could hinder its resilience and competitiveness. Most of SMEs are concentrated in the trade sector; other important sectors include small-scale workshops, hotels and restaurants as well as contracting. They are less important in industry and other capital-intensive sectors, and finally, the study recommends specific suggestions, which could enhance the contribution of SMEs sector in national income of the Arab countries.

Keywords: Entrepreneurship, SMEs, Bahrain, Egypt, Jordan.

JEL Classification: A12, A13, M21, M50, Z18

1. Introduction

Over the past decades, Small and medium-size enterprises (SMEs) sector is acknowledged globally in market economies for its unique contribution to fostering innovation, spurring economic growth and creating employment opportunities. Both developed and developing countries realize that SMEs have become one of the key instruments to use to face economic and social problems and to achieve development objectives. Therefore, unsurprisingly, political strategists have frequently viewed SMEs as the seeds of economic revival. [Bouazza, 2015].

SMEs sector in Arab Nations represents the economic growth engine and a major contributor to the GDP in terms of output and employment [Mahate, 2015:10]. There are more than 10 million firms under the category of SMEs and contributions in GDP are 35%. This indicates that the vital role of SMEs in the economic growth of Arab countries; accordingly Arab nations have recognized the importance of SMEs and have formulated policies to encourage, support, and fund them [Emine, 2012].

Despite the Arab region's strong entrepreneurial traditions and the large size of the Arab SME sectors, they have not fully lived up to their potential of sustainable diversification and job creation. Storey (1994) pointed out that there are internal or external barriers that constrain firms to grow. [Mole et al., 2009].

The current study aims at analyzing the current situation of SMEs in three Arab countries, Egypt, Jordan and Bahrain, and assessing the government adopted policies to overcome the barriers to growth and promoting SMEs.



Despite of the three Arab countries have economic and social differences but they have common characteristics in terms of SMEs, where SMEs sector constitute more than 95% of total private enterprises in these countries, the contribution to GDP is around 35%, while its share to total exports does not exceed 20%, and providing nearly 75% of total employment in the private sector.

The study adopts descriptive and analytical approaches in order to provide an overview of SMEs sector that includes its structure, the obstacles facing SMEs and finally, the policies and actors dedicated to support SMEs in the three countries, in addition to analyze the available data that issued by the official authorities. Defining SMEs is important in to prepare statistics and assess its economic role and to benchmark against other economies and among regions within as economy [Harrigan & Wang and El-Said, 2006].

Literatures show that there is neither uniform nor comprehensive definition of SMEs. The concept of SMEs differs from one country to another and from one activity to another in the same country. Moreover it depends on the development stages of the nation and its policies towards the industrial development [Mohamed , 2015]; therefore; both developed and developing countries and international organizations define SMEs differently depending on various quantitative measurable indicators such as fixed assets, number of employees, capital employed, sales turnover, asset values and profits [Gentrit & Justina, 2015: 17]. For example, the European Union (EU) adopts three quantitative criteria in order to define SMEs: employees' number and two financial measures (annual turnover and total balance sheet). While the World Bank (WB) uses the criteria of number of employees, total assets and total annual sales. An enterprise should satisfy the employees' number and at least one of the financial measures to be categorizes as micro, small or medium enterprise. The European Union (EU) defines medium-sized enterprise as one with a headcount of 250, and small firm as one with a headcount of less than 50. SMEs' annual turnover should be EUR 50 million or less and/or a balance sheet valuation not exceeding EUR27 Million [European Commission, 2005]. The World Bank standards (WB) categorize medium-sized enterprise as one that has more than 50 employees and less than or equal 300 employees, and small firm as one with less than 10 employees and less than or equal 50 employees. To qualify as a SME in the, a firm's total assets or total sales should be more than \$100,000 and less than or equal \$15 million. [Gentrit & Justina, 2015: 19].

The Arab nations adopt three criteria to classify the enterprises to micro, small, medium. These criteria are: number of employees, total annual sales and capital investment [Al-Asrag, 2012].

The rest of study organized as follows. Section two is a brief about the previous studies. Section three is an overview of SMEs sector in the three counties under study. The main constraints facing the growth of SMEs shown in section four. The adopted policies and funding institutions and its assessment in the three nations is discussed in Sections five and six. Conclusion and policy implications drawn in Section seven.

2. Previous Studies

The literature review illustrates that there are many working papers studied SMEs in different ways. Some of them focus on the nature of SMEs, characteristics, and the constraints facing SMEs and hinder its developmental role. The most of studies pointed to the lack of access to affordable long-term finance is barriers to development of SMEs [Bernie & grablwsky (1981), Al-Asrag, (2012), Stephanou & Rodriguez (2008), De la Torre et al (2010), Beck et al. (2010), Rocha et al. (2011), Muritala & Awolaja and Bako (2012), Pietro & Victor and Sofian (2012), Al-Shaikh,(2013)].

The other studies argue that SMEs face many challenges such as: limited internal resources in addition to management skills, lack of access to market information, Demand uncertainty, lack of



strategic planning and Lack of credibility and reputation [Decarlo &Lyons (1980), Radwan (2004), Zedan (2005), Alsahbani (2008), Ramadan (2010), Mohamed (2015), Ayadi & De Groen (2014)].

Other researches aim at evaluating the role of SMEs at macroeconomic level. They find that SMEs have significant contributions to the national economy growth rate, decrease the unemployment rate and accelerate exports growth [Beck et al.(2003), Zedan (2005), Thorsten & Asli and Ross (2005), El-Beltagy (2005), Saleh &Ndubisi (2006), Abdelghani (2009), Salman (2009), Shanur,et al.(2013),Muhammad(2014), Wasim&Khalique (2014), Hirnissa & urshuhaida and Fadilla (2018), Otugo et al. (2018)].

3. SMEs in Egypt, Jordan and Bahrain: an overview:

Egypt is one of the Middle East countries that characterized by high population and more diversified economy. During the last decade, Egyptian government has made strides in recognizing the importance of the SMEs sector and its significant contribution to economic growth and job creation; therefore, the policy makers adopted a policy framework to support SMEs. Under the terms of a 2004 law, the government has developed a structured policy framework to help SMEs establish and grow their businesses by providing a range of programs such as business support services, microfinance activities and a network of business incubators [CAI, 2014: 6-8].

Egyptian SMEs classification based on both number of employees, capital used and sales turnover, for example, small enterprises defined as those businesses that hire up to 49 employees for manufacturing sector, and have capital investment of up to 5 million Egyptian pounds, and an annual turnover of up to 10 million Egyptian pounds, as shown in table (1).

The available data of firm distribution by size in Egypt shows that 91% of total enterprises are micro firms, while the small and medium enterprises represent 8% of total and large firms less than 1%. [CAPMAS, 2018]

The structure of enterprises by economic activity is an important indicator of the diversification of the SME and their various contributions to the national economy. Sectorial distribution of SMEs in Egypt illustrates that they are mainly concentrate in the manufacturing and trade sectors in which operate roughly 51% and 40% of the total number of SMEs, as illustrated in figure (1) [El-Said & Ahmed, 2016].

Jordan is one of upper-middle income countries that depend almost entirely on small and medium sized enterprises to drive its economy, where SMEs account for substantial share of economic activity. Focusing on the development of SMEs, several actions promoted. Business associations established to respond to the needs of the SMEs sector, and the chamber of commerce and industry have established special units for this purpose [Frank Betz, 2016]. The ministry of Industry and Trade classifies SME's based on the number of employees and the paid capital investment, for example, the firms are considered medium when they employ more than 5 and up to 249 employees and have capital investment of up to 30,000 Jordanian Dinner.

The micro enterprises are 89% of total enterprises in Jordan, while 9% are small enterprises and the remaining 2% are medium and large establishment. The large share of SMEs is represented by commercial establishment (35%), flowed by provider of services (23%) and firms involved in industrial production (20%) [Jordan Department of Statistics, 2017].



Table 1. Definition of SMEs in Egypt Jordan and Bahrain				
		No. of employees	Annual Sales	Capital Investment
Egypt ¹	Micro	1-4	Up to 100,000 LE	Up to 25,000 LE
	Small	5-49 (5-9 in Service& Trade sectors)	Up to 10 million LE	Up to 5 million LE
	Medium	50-99 (10-19 in Service& Trade sectors)	Up to 20 million LE	Up to 10 million LE
Jordan ²	Micro	1-9	-	Less than 30,000 JD
	Small	10-49	-	30,000 JD
	Medium	50-249	-	30,000 JD
Bahrain ³	Micro	Up to 10	Up to 100,000 BD	Up to 20,000 BD
	Small	11-50 (up to 100 in construction)	Up to 1 million BD	Up to 500,000 BD
	Medium	51-250 (up to 400 in construction)	Up to 5 million BD	Up to 3 million BD

Source: ¹ CBE 2008, ² Jordanian Department of Statistics 2014 ³BCCI, 2016

Bahrain is one of the GCC Countries that depended on exporting oil as a sole income source for long time. The fluctuations in oil prices in global markets forced Bahrain government to adopt income diversification strategy seeking to generate a stable and sufficient income for new generation, in addition to create more job opportunities for Bahraini youth; therefore, SMEs could be the potential driver of non-oil growth and employment.

In 2008, Bahrain launched its Economic Vision for 2030; that includes a comprehensive economic development strategy for sustainability, competitiveness and fairness. Bahrain's policy makers invested in set of institutional frameworks that aim at supporting a robust entrepreneurship ecosystem and the growth of SMEs [Almojdoud, 2018: 1-3].

According to the Ministry of Industry, Commerce and Tourism (MOICT), firms are considered micro when they employ up to 10 employees, small and medium when they employ (11 to 50) and (51 to 250) employees respectively. The distribution of SMEs by size in Bahrain flow the distribution pattern elsewhere in the developed countries, where micro enterprises constituted 92% of all firms, small and medium are 6% and 1% respectively. SMEs focused mainly on the sectors that have high sales turnover. As seen in figure (1) trading, construction & Real estate and Restaurants & hotels represent (74%) of total SMEs in Bahrain [BCCI, 2016].

To sum up, the sectorial structure of SMEs in the three countries skewed towards simple contracting and trading operations, other sectors tend to be under-represented.

In the three countries, creation job opportunities especially for unemployed youth population progressively led by the SMEs sector that usually depends on labor than capital intensive. In Bahrain SMEs, employees represent 73% of total private sector employees that distributed as follows: micro (28%), Small (25%) and Medium (21%), while SMEs sector in both Egypt and Jordan provide 74% of total private sector employees and distributed as follows micro (36%), Small (25%) and Medium (13%).

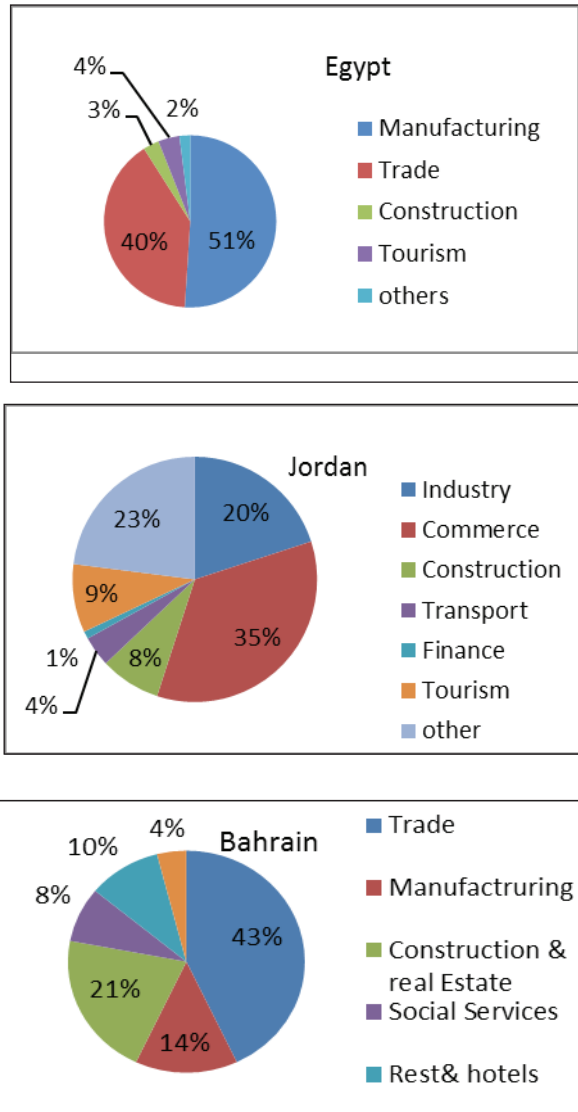


Figure 1: Sectoral distribution of SMEs in Egypt, Jordan and Bahrain

Source: ¹ El-Said & Ahmed, 2017:25& ² Jordan Department of Statistics, 2017& ³BCOCI, 2016

4. Constraints facing the development of SMEs

Storey (1994) argues that the constraints to development are “The internal or external factors or conditions that hinder potential development in firms that wish to grow. Constraints may be associated with both the startup and growth stages”. Constraints classified to management and motivation constraints, sources constraints, market opportunities, and structure constraints [Barber at al., 1989].

Different filed studies applied on the selected countries used survey data that fulfilled by SME 's managers such as: [Lahcen& Rafik,(2017), BCCI,(2016), El-Said &El-Said & Zaki,(2015), JYES (2015), Alrabeei & Kasi, (2014), Youssef (2014), Al-saddy, (2011), Hertog, (2010)]. These studies concluded that SMEs in the selected countries face the similar challenges as follow:

4.1 Financial Challenges

Lack of various forms of financial services is traditionally one of the most important constraints facing SMEs growth to set up and expands their operations, develop new products and invest in new staff or production facilities [Durmus & Ozlem and Ayfer , 2015]. In the early stages of development, most of SMEs in the three countries depend on internal sources of funding, including the owner's savings, retained earnings, or funding through the sale of assets. When firms start expanding; external sources become more important and their availability can determine the firms' growth possibilities [Lahcen & Rafik, 2017].

SMEs' financial challenges created due to SMEs do not have reliable collateral, record of accomplishment, business management and skills, and proper communication with lenders. Moreover, lenders do not have confidence in SMEs business [JYES, 2015: 14-15].

Egyptian Statistics indicate that the SMEs sector able to access to less than 10% of the available financing resources, while the recent report of central bank of Egypt reveal that only 8% of small businesses in Egypt have bank loans [CBE, 2017]. While the share of credit to SMEs in Jordan is small and shrinking too, where its share declined from 11% to only 8.5% of total available credit available to private sector in 2016[CBE, Annual Reports].

In Bahrain, there are very few financial products for the SMEs. Even though many banks provided loans at start-up stage, they do not provide the required financial support at the growth stage leading to difficulties in investing in new equipment, technology, infrastructure, extending credit facilities to customers and satisfying other business needs. Moreover, the interest rates on loans charged by banks were very high and do not correspond with the income generated by business [Alrabeei & Kasi, 2014: 52-54].

4.2 Marketing Challenges

In Egypt, SMEs face Marketing problems due to Failure and deficiency in local market canals and networks, lack of internal and external market information, insufficient resources, correlation between SME'S and large scale enterprises is weak and low investment in the field of market research and advertisements.[Essays, 2017].

In the Jordanian market, demand is growing at a rapid but unpredictable pace. Customers in these markets are wary of committing to a variable (per unit) pricing scheme because, given the unpredictability of demand, it is hard for SMEs to have the proper tool to estimate demand relatively accurately for this pricing scheme to be profitable [JYES, 2015: 16-17]

The marketing is a main challenge for businesses in Bahrain, given the size of the domestic market, the small size of the domestic market made it difficult for many businesses to grow. In addition to some SMEs don't know either how to market their products or services or how to make clear growth strategy for their business [Al-rabeei & Kasi, 2014]. Moreover, the owner-managers complained about lack of legal protection from unfair competition, particularly the informal contractors who quote low prices for customers, due to cheap and illegal labor. [Almojdoud, 2018]. Recession also is a source of declining SMEs sales revenues, and profit margins that resulted in a corresponding decrease in the enterprise workforce.



4.3 Exports challenges

SMEs are generally underperforming when it comes to exporting. The vast majority of SMEs in the three countries are not export-oriented, because they are focusing on the production of traditional, low value-added goods or services of modest quality. Moreover, there are many obstacles hindering exporting such as: (1) Inaccessibility of export channels where there is no specialized export agency that would be responsible for deciding where, how and when to market their products abroad. (2) Lack of Awareness, where the most of SMEs are not aware of the specification and/or modifications needed in the product to be marketed internationally. (3) input prices are high and SMEs in some sectors cannot export or compete internationally with their competitors in other countries, and Finally, (4) scarcity and difficulty of finance where A number of firms had opportunities to export but could not produce on a larger scale, due to lack of finance. [El-Said& Ahmed, 2017]

4.4 Fees and Procedures

SMEs suffer from inordinately high fees paid for establishment or after starting-up. In Egypt these procedures are complicated and highly costly which may result in the deviation of the project activities away from the legal and official frames- for example there is high and largely extralegal establishment costs that predominantly paid at the local level in exchange for issuing licenses. Extralegal payments ranged between 15% to almost 90% of total payments made; this lead to difficulties to obtain licenses and agreements. Moreover, Tax authority usually arbitrarily estimates taxes, regardless of whether or not they keep regular books, thus resulting in overestimated taxes. The sales or VAT tax is another major source of complaints, since it has repercussion on the pricing of their inputs, as well as their products.

The cost of doing business is high for many SMEs in Jordan. The tax system in Jordan and the newly produced law whereby companies with a capital of 20,000JD should appoint legal counsel, both led to an additional cost to appoint tax and legal expertise. In addition, SMEs with dependency on patents to gain early advantage in the markets may not be able to protect its intellectual property due to the high cost of intellectual property registration in Jordan.

In Bahrain SMEs should pay every year certain fees. Although Bahrain has no taxes on employees or business, organizations but there are fees on each foreign worker in the organization¹. Training fees were another category, which put a financial burden on medium-sized enterprises, in addition to medical fees imposed on medium enterprises for expatriates.

4.5 Decentralization

SMEs are concentrated in in capitals of the three countries, Cairo, Amman and Manama, where nearly high-income population resides and where the bulk of economic activity takes place. Meanwhile, outside the capital, many cities and governorates suffer from many forms of underdevelopment, including high unemployment and extensive pockets of poverty. SME establishment outside the capital must thus be encouraged through appropriate tax incentives, policy initiatives, and other measures.

4.6 Other Challenges

- **Lack of information:** Sometimes the Arab countries do not have a consistent and reliable source of information/market database that would help SMEs and may be hinder its development and growth.
- **Linkages:** Most of SMEs do not have linkages with larger enterprises. The idea of business development through larger firms was not feasible for all of them due to there is a conception that larger firms

¹ It includes a monthly fee of (BD 10) and a one-time fee of (BD 200) paid by owner-managers of any organization to the Labor Market Regulatory Authority (LMRA), in addition to Insurance fees on workers is to be paid every month to General Organization for Social Insurance (GOSI).

integrated vertically with no need for input from SMEs.

- **Employee retention:** growing SMEs faced the challenge of retaining qualified employees since they could not provide better compensation packages.
- **Education:** the low level of education leads to challenge in understanding market and business requirements.

To sum up, the lack of these factors, together with a weak logistics sector and limited access to markets, distribution channels and supply linkages with larger firms has created a disabling business environment for SMEs the three countries.

5. Supporting polices and funding institutions

Because SMEs are the backbone of the industrialization process of the three Arab countries and play a vital part in expanding a country's economy, there was a need to overcome the challenges faced by SMEs via an effective action mechanism. This mechanism depends on close coordination between SMEs sector and the business community on the one hand and the government on the other hand. Business support has different forms in different countries, which is either direct free financial assistance, subsidized assistance to encourage human or physical capital, export assistance, new technology assistance or advisory services to improve SMEs [Berisha & Pula, 2015]. Business support provided by the public sector or through consultants and advisors in the private sector, the latter being more expensive than the former as it depends merely on highly paid human resources obtaining their money from charges of the service provided to SMEs. In general, the mechanism or polices frameworks are different among the three countries as follows:

Since 1998, the Egyptian government has recognized the importance of having a national policy for SMEs development; therefore; the government has developed a structured policy framework to help MSEs establish and grow their businesses by providing a range of programs such as business support services, microfinance activities and a network of business incubators. Number of ministries and non-governmental institutions, donors and assistance projects, and local and international development organizations are involved to make policies that support SMEs. Ministry of Trade and Industry is supporting the competitiveness and SMEs internationalization, while ministry of Finance is promoting reforms for a favorable investment climate. Ministry of Social Solidarity is regulating civil society organizations, while Central Bank of Egypt is generating incentives for banks to give loans to SMEs and providing an initiative for any SME to get a loan with minimum interest rate and National Council for Women (NCW) is providing loans for a micro-credit scheme. Moreover, international donors offer considerable support to the SME sector through a variety of financial and non-financial services; such as the US Agency for International Development (USAID); the Japan International Cooperation Agency (JICA) and the Canadian International Agency (CIDA) [Ministry of finance, 2007].

In 2016, the Central Bank of Egypt launched an initiative to facilitate access to bank financing for SMEs, consisting in the issuing of a number of instructions to the banking sector, aimed at creating an enabling environment for SMEs. These instructions include:

- Increasing loans to SMEs to nearly 20% of the total credit provided to the private sector;
- Setting at 75% the risk weight for lending requirements to make it applicable only to micro firms;
- Allowing banks to exclude credit provided to micro firms from the required reserve ratio; Not exceeding lending rates of 5%; and,



- Establishing specialized units within each bank mandated to provide technical assistance and training opportunities to SMEs [CBE, 2017].

In 2017, the Social Fund for Development restructured and became the SMEs Development Authority, established to address the entanglements in the work of the above-mentioned government bodies, as shown in table (2). The authority should act as an umbrella organization and coordinate the different policies and tools in support of Egyptian MSMEs and will provide a range of non-financial services, while financial support remains under the responsibility of other institutions [El-Said& Ahmed, 2017].

Recently, a number of policies to support of the development of SMEs formulated under different policy frameworks, including the innovation strategy, the niche strategy and the cluster approach. The innovation strategy built on the premise that R&D is one of the most important drivers of growth in the private sector and most particularly for SMEs, considering the limited available funds for innovative of SMEs and the absence of innovative financing schemes, in the form of R&D funds. The Egypt Technology Transfer and Innovation Centre made considerable efforts to improve the technological absorption of the SMEs sector.

The niche strategy launched to respond the challenges that facing SMEs in a context of intense competition, lack of resources and limited managerial capabilities. It builds on the example of Germany, which adopted a niche strategy to enhance the global market share of its so-called Mittelstand enterprises, which now exceeds that of larger companies.

The clusters, networking and alliances adopted because SMEs usually lack the size and the knowledge to adapt rapidly changing consumer preferences, technological developments and competitive conditions in global markets. The clusters formation and strategic alliances between SMEs and their larger domestic or foreign counterparts could enable the former to access critical resources and increase their market power over competitors; incentivizing them to internationalize. SMEs can use a local partner to access crucial resources to control the risks related to their business through cooperation with other small or large enterprises, and secure future competitive advantages, and can improve its marketing capabilities, in addition to open up extra future investment projects [El-Said& Ahmed, 2017].

In Jordan, there is number of institutions with different legal statuses are involved in regulating, supervising and supporting SMEs. Table (2) provides an overview of the most important institutions providing direct support to SMEs in the form of provision of funds and facilities, mentoring and training or intermediation and facilitation services.

The policy makers and economic developers adopted two main policies framework in order to remove the resilient challenges that face SMEs, which are the State –owned enterprises privatization, and create a suitable investment climate, including the establishment of special economic zones and public-private partnership. [Alshyab, Sandri and Alsheikh, 2017: 50-51].

After 1989, the government made an agreement with IMF to apply the privatization policy, in addition comprehensive economic reform. The results of these policies had positive significant results on macroeconomic stabilization and financial and trade liberalization [Harrigan & Wang and El-Said, 2006]. The privatization of State owned enterprises under the economic reform program completed in 2007.

In Bahrain, the development strategies of SMEs sector incorporated with the Kingdom's vision 2030, which aims to raise the number and role of SMEs in national economy. Enhance the competitiveness of products of SMEs, increase the sales of products of SMEs, provide better access



to finance and credit guarantee for SMEs, and improve a business environment that is more inclined towards SMEs. The national leadership, business enterprises and the Public sector working together take the credit and the responsibility for this outcome [Almajdoub, 2018].

Bahrain established a number of governmental, semi-governmental, private, and international institutions to create an ecosystem conducive for start-ups and for the growth of SMEs, as shown in table (2). The MOICT offers a SME startup tool kit and operates the Bahrain Business Incubator Center in collaboration with UNIDO. Tamkeen provides a wide range of business support services from technical to financial services. Also UNIDO, with the Bahrain based Arab International Center for Entrepreneurship and Investment offers services to entrepreneurs to start and grow their businesses through the Entrepreneurship Development and Investment Program [BCCI, 2016]. Meanwhile, the Economic Development Board has selected tourism, manufacturing, business services and logistics as lead sectors to focus attention on and to draw in foreign investment; therefore, the government, international agencies and private sector worked together to improve access to capital for SMEs in order to foster entrepreneurship.

Table 2. Supporting and Funding organizations for SMEs in Egypt, Jordan and Bahrain

	Institution	Main functions
Egypt ¹	Social Fund for Development	Providing a safety net to protect vulnerable groups against the adverse effects of economic programs and enhancing the development of SMEs
	Central Bank of Egypt (CBE)	Generating incentives for banks to give loans to SMEs. Moreover providing an initiative for any SME to get a loan with a 5% interest rate.
	Industrial Development Authority	Assistance and guidance in relation to establishment procedures and registration plans available to investors in the industrial SME sector.
	General Authority for Investment and Free Zones	Enhancing the investment climate and facilitating the growth of MSMEs through the establishment of a one-stop shop providing a wide range of services for start-ups.
	Egyptian Banking Institute	Providing a wide range of capacity building services to SMEs and raising awareness among entrepreneurs about methods and standards to access financing.
	Egyptian Financial Supervisory Authority	SME promotion through the establishment of microfinance companies offering products and services to the sector.
Jordan ²	Business Development Center	Supporting SMEs to get access to credit, generating employment opportunities and building individuals, promoting entrepreneurship and innovation, and stimulate SMEs ability to export and compete in foreign markets.
	Central Bank of Jordan (CBJ)	Supporting private sector development by attracting and managing loans for them
	Jordan Loans Guarantee Corporation	Supporting SMEs and export credit to give creditors with loan guarantees in order to stimulate access to finance for SMEs and exporters
	Vocational Training Corporation	Providing training for workforce according to labor market requirements
	King Abdullah II Fund for Development	Encouraging the youth to innovation and entrepreneurship



	Institution	Main functions
Jordan ²	Queen Rania Center for Entrepreneurship	Providing Support for technology entrepreneurship
	Jordan Enterprise Development Corporation	Supporting the establishment and development of enterprises
	Jordan Free Zones Corporation	Attracting local and foreign investments via Providing the good environment
Bahrain ³	Labor Market Regulatory Authority	Introducing labor market reform, Regulating and controlling work permit for expatriate employees, in addition to issuing licenses for manpower and recruitment agencies
	Tamkeen	Supporting and developing the private sector and enhancing the productivity and growth of enterprises and individuals. There are two programs: enterprise support programs and individual support programs.
	Bahrain Development Bank	Promoting entrepreneurship, innovation and development of SMEs in Bahrain by offering a wide range of funding and training support to startup and growing SMEs.
	UNIDO	Promoting industrial investment opportunities and stimulating SMEs in Bahrain via EDIP program "Entrepreneurship Development and Investment Promotion".
	Bahrain Business Incubator Center	Offering many services to SMEs such as Advising, training, access to finance, business linkages, marketing support, sharing facilities, and providing physical space for each business with the center's premises.
	Ministry of Industry and Commerce	Designing programs to develop and support existing SMEs and guiding new entrepreneurs to potential industries and technical expertise.

Source: ¹ El Said and Ahmed, 2017: 32 ²Alshyab, Sandri and Al Sheikh (2017): 49-50, ³Kasi, 2016: 5-7

6. Assessment of polices and supporting institutions of SMEs

Since June 1998, The Government of Egypt sought to support SMEs sector by adopting the "National Policy for SME Development", Followed by issuing the law (141/2004) that enhanced SMEs' through financial and technical support. The last following years witnessed issuing many decisions and policy frameworks to improve the business climate for local entrepreneurs and facilitate the establishment and providing financial supports; but the policy frameworks had, shortcomings illustrated as follows:

- Despite of there is a clear direction from the government to support SMEs, but that its efforts were not accompanied with a clear plan that would ensure successful implementation. Therefore, the state is still facing structural challenges that impeded private sector activities. According to the World Bank's Doing Business Report 2018, Egypt dropped six ranks compared to 2017, and became 128 among 190 countries². One of the points of criticism was the issue of registering property in Egypt, as recently it made more difficult and more costly to verify and ratify a sales contract. [WB, 2018].
- There was an absence of a dedicated body for SMEs that would ideally include professionals who would follow up on the performance of funded projects; this body should have the necessary authority and a clear strategy in order to achieve the desired goals.

² The report compares business regulations and ease of starting a business among 190 countries According to the report, Egypt ranked 103 in starting a business, 66 in dealing with construction permits, 119 in registering property, 90 in getting credit, 81 in protecting minority investors, 167 in paying taxes, 170 in cross-border trading, 160 in enforcing contracts and 115 in resolving insolvency.[World Bank Group Flagship Report, 2018]



- Currently, there are multiple strategies for SMEs carried out by different ministries, and these needed to harmonize to avoid duplication. SMEs in Egypt have always lacked a central authority that would lead and direct initiatives and policies designed for them [Al-Hamaki, 2108].
- There are too much bureaucratic processes until getting the approvals of a SME that may create the corruption in decision-making.
- The majority of current policies don't discriminate between genders, assuming that men and women face the same issues, while in fact these policies may have a disproportionate effect on women due to the socio-economic barriers they generally face [MOF, 2007].
- The innovation strategy needs to transfer innovation researches into industrial sector. The Egypt technology transfer and innovation Center is responsible to make considerable efforts to improve the technological absorption of the SMEs sector, but it obvious that there is lack of cooperation and coordination among different institutions that deal with technological innovation, technical standard, funds and vocational training [El-Said & Ahmed, 2017: 32-33]. These affect negatively on SMEs sector and make it lagging behind when it tries to satisfy the international markets quality standards which hindering the competitiveness and hampering its development.
- The niche strategy is an attractive option for certain Egyptian sectors such as shoe, leather and the garment sectors. However, these sectors need more support because it failed to keep its share in international markets where it could not produce high quality products at a competitive price. Moreover, currently it cannot compete in the domestic market.
- This policy option is particularly attractive for the palm date sector, which is one of the country's most important agro-industrial sectors. However, most SMEs operating in this sector lack the production know-how, post-harvest technologies and R&D activities that is necessary to achieve economies of scale. [UNIDO, 2014].

In Jordan, adopting developing regulation play a key role in the design and implementation of an enabling environment for SME finance, which includes providing the legal and regulatory framework in support of SME access to finance; however, there are several shortcomings shown as follows:

- Although, the Ministry of Industry, Trade and Supply is the main body involved in supervising and regulating the SME sector, but the absence of a comprehensive national strategy for the sector undermines its potential role of overall coordinator, resulting in somewhat scattered efforts of support for SMEs. Accordingly, the responsibility of coordinating these efforts should be given to a dedicated institution, rather than a ministry with broader prerogatives.
- It is not arguable that the government of Jordan provides various support program to SMEs, however, the persisting low user-level perceptions of such support programs call for the modeling of the process of introducing specific support programs after the new products development framework. This typically requires different but iterative levels of idea generation and multi-stage screening and evaluations, and centrally involves the target user and other key stakeholders.
- The available data about SMEs and investment opportunities should be improved; therefore the governments should emphasize improving data availability and investing in regular collection and dissemination of reliable financial inclusion data;
- Although the government of Jordan reduced reserve requirements to lower interest rate for SMEs, it could be urged that the government can design more tools to make finance more affordable to SMEs;



- There is no clear regulation for Balancing between protecting lenders to ensure secured financial transactions and assessing SMEs for lenders' funding, this could be by using SMEs' present and future movable assets as collateral instead of buildings and lands.

Despite of the concrete and visible efforts made by the government of Bahrain in order to support SMEs sector and create employment opportunities for Bahraini young people; there are some shortcomings in applied policies summarized as follows:

- The current government policies focus mainly on growing the enterprises that operate in tourism, manufacturing industries, commercial and logistical services.
- Although, the government promotes and encourages Bahraini people to start up their own business, the assistance becomes less when it comes to supporting SMEs with all the problems like Visas, costs of electricity and social insurance... etc.
- Sometimes there was lack of timely notification of changes in rules and regulations. Announcing changes without prior notification represent imposing costs on SMEs that had to absorb the higher costs without much time for adjustment [BCCI, 2016: 6].
- The adopted policy framework seeks to improve business climate for local entrepreneurs and facilitate the establishment, but the bureaucratic processes-where time taken for approvals is too long, and there is lack of clarity in processes- have significant negative impact on new young investors, and could create the corruption in decision-making.
- Despite of employing E-government initiatives to improve functions and operations but this initiative has not implemented across all government entities in order to realize the full benefit. In addition to there is a duplication of effort where different government entities do not communicate effectively with each other and this stalls the progress of SMEs.
- Home based businesses, traditional handicraft artisan activity is permitted within the home are not classifying as SMEs but as a separate sector to assist families that need another source of income; therefore they don't get Commercial registrations (CR). This lead to losing both funding supports and promotion opportunities of their variety of activities, and finally,
- BCCI can play a more active and hands-on role by better understanding the different groups of SMEs and extending hands-on support and It can be the 'connecting-hub' across all the ministries.

7. Conclusion and policy implications

The current study examines and reviews the extensive literature of SMEs development, their various contributions to the national economy, challenges they are facing and the initiatives and incentives offered by the government and its agencies. An exploratory design adopted due to paucity of research literature on SMEs in Arab countries. The study used data available from various local and international sources related to small enterprises. Findings showed that a large share of SMEs is active in the trade sector; other important sectors include small-scale workshops, hotels and restaurants as well as contracting. They are less important in industry and other capital-intensive sectors. SMEs in these three countries often face difficulty in obtaining funds from financial institutions and the government. There is a substantial orientation towards the domestic market.

Having identified some of the challenges facing SMEs in the regain, the study present some strategies might be adopted by government and the agencies for SMEs development. In order to overcome the challenges faced by SMEs, a fast action mechanism needs to be implemented. This mechanism should rely on close coordination between SMEs and the business community on the one



hand, and the government on the other. The study recommends the following:

- The policy makers should develop clear objectives and approach that based on a realistic understanding of SMEs and their potential. Moreover, it should be coordination between government entities, where there is a need for a one-stop-shop government support relations to finish all approvals in one place.
- The three Arab countries should prioritize SME encouragement by allowing temporary business licenses and able to be transformed into permanent licenses by the power of law within certain period of time, and offer tax exemptions to SMEs for five years from the date of establishment;
- Enhance SME information dissemination through a nationwide awareness campaign, because it is necessary that SMEs are well aware of services, laws and programs available for their support;
- It is important that the government provide Capacity-building for SMEs to improve their skills and capability, for example enhancing their creditworthiness, credit guarantee schemes, state banks and funds, and supply chain finance linked to public procurement and payments;
- Re-assess loan procedures at credit lending institutions that take into account the needs of female entrepreneurs, where provision of loans needs to be equitable for both male and female entrepreneurs. Female entrepreneurs are generally less wealthy than their male counterparts and have a harder time accessing credit due to lack of experience and low collateral;
- Promote linkages between SMEs and industrial clusters: It is necessary to provide networking opportunities for entrepreneurs so they can benefit from experience and product linkages. The policy makers can develop a list of SMEs that would benefit from clusters, and a listing of large firms willing to work with SMEs is a first step to promote linkages between these entities;
- Perform periodic Monitoring and Evaluation of initiatives in the SME sector, where monitoring confirms that activities are going as planned, are on time and reaching their target groups, and evaluation ensures that there is feedback regarding activities, their expected and actual results, and allows if necessary, corrective measures to be taken so that goals are met more effectively.

Finally, for future research, the study suggests that future research could investigate specific barriers applicable for SMEs operating in some of the following sectors – agriculture, real estate and construction, manufacturing, personal services, transport and communication, trade. On the other hand, given the differences between micro, small and medium enterprises; unique external and internal challenges experienced by these enterprises could be explored.

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