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and Environmental Cooperation**

**Special Task Force on Small and Medium-Sized Enterprises in the
Mediterranean**

Rapporteur: Hon. Ridha Bouargoub (Tunisia)

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Introduction

The work of the Special Task Force on Small and Medium-sized Enterprises follows on from the outstanding work of the Special Task Force on Free Trade, and its Rapporteur, Hon. Milan Cvikl (Slovenia), turning its attention to a specific aspect of industrial and trade policy in the Region: Small and Medium-sized Enterprises. There are no pan-Mediterranean statistics available on SMEs, so it is useful to take those of the European Union as our benchmark. In 2002, in the EU, SMEs represented 99% of all enterprises where the average size of each firm was 4 persons, for a total approximately 80 million jobs¹, in other words two thirds of its total workforce. Since 1st January 2005, the European Union has extended the definition of SMEs to also include *micro enterprises* (less than 10 persons)².

Mr. Erkki Liikanen, former European Commissioner responsible for Enterprise, and Information Society, and current Governor of the Bank of Finland, concisely summarised the crucial role of SMEs to the development of Europe: “*Reaching the objective of becoming more competitive and dynamic in the knowledge-based economy, capable of sustainable growth, more and better jobs, and greater social cohesion will ultimately depend on how successful enterprises, and especially SMEs are.*”

Mediterranean interest in SMEs begins with the Euro-Mediterranean Partnership, now re-launched as the Union for the Mediterranean as is well-known³, which has the stated aim of achieving a Free Trade Area by 2010 in the EuroMed region⁴, and which directly concerns

¹ SMEs in focus: Main results from 2002 Observatory of European SMEs (at the time EU counted 19 Members States)

² Small enterprises (less than 50 persons) and medium-sized enterprises (a maximum of 250 persons, and turnover of €50 million or balance sheet of €43 million) respectively.

³ The Euro-Mediterranean Partnership was founded at the Barcelona Conference in 1995 (and also known as EuroMed, and the Barcelona Process), and re-launched in July 2008 at the Paris Mediterranean Summit promoted by the French President Sarkozy, as the Union for the Mediterranean.

⁴ In relation to Economic Cooperation and Free Trade, the Paris Summit Declaration on the Union for the Mediterranean reaffirmed the ambitions and *acquis* the Barcelona Process and expressly stated its commitment to achieving a Free Trade Area in the EuroMed Region by 2010, with free movement of goods,

most of PAM's Southern Mediterranean States, notably: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Authority, Syria and Tunisia. Turkey is also included in the Free Trade Area.

In recent years, SMEs have become increasingly acknowledged as a major asset to developing industrial policy and trade relations on both sides of the Mediterranean, as a "win-win" option, where the key to its success, the creation of new jobs and sustainable growth can be achieved by developing an entrepreneurial culture. Over the last three years, the MED region has experienced strong economic growth and has embarked on programmes of structural economic reform aimed at improving the business environment and facilitating enterprise development. Today, private enterprises are the main engine of growth in the MED countries, progressively replacing government-sponsored investment programmes and state-owned companies.

However, the recent global economic and financial crisis has jeopardised this emergent entrepreneurial culture, as financial criteria have been rigorously tightened and credit availability severely cut. On account of the diversity of their activities and size, SMEs are by nature difficult to assess from the prospective of risk analysis and profit yields, and therefore SMEs are experiencing major problems obtaining bank loans to finance their expansion and fulfil their potential. Fostering their development is now a major and urgent challenge on both sides of the Mediterranean.

Legal instruments relating to SMEs in the Mediterranean Region

1. The Euro-Mediterranean Charter for Enterprise

Adopted in 2004 by the EU and its nine partner States, the Euro-Mediterranean Charter for Enterprise is based on the European Union Charter for Small Enterprises, and the experience of the Mediterranean partners in relation to the exchange of good practices, benchmarking, well co-ordinated use of EU financial assistance, aimed at improving the business environment in the region and fostering foreign investment⁵.

The Charter has identified ten areas of action, where the EuroMed partners can focus their attention on good governance in support of the development of the private sector. Within its areas of action the Charter advocates:

- Simple procedures for enterprises
- Education and training for entrepreneurship
- Improved skills
- Access to finance and investment-friendly taxation
- Better market access

services and capital. The Declaration does not make any specific reference to SMEs but in its annex, reference is made to improving cooperation in areas such as business development and trade.

⁵ This is referred to as the MED BEST framework. In 2004, a MED BEST report was drawn up to highlight the measures implemented by the Mediterranean partners to stimulate entrepreneurship and competitiveness, based on the basis of the input provided by the nine Mediterranean partners in the form of national reports on their initiatives to simplify administrative procedures, facilitate the access of SMEs to finance, develop education for entrepreneurship, provide quality business support services and promote innovation.

- Innovative firms
- Strong business associations
- Quality business support schemes and services
- Strengthening Euro-Mediterranean networks and partnerships
- Clear and targeted information

By endorsing the Charter, Mediterranean partners have committed themselves to use the Charter as a tool to implement microeconomic reforms and to boost the competitiveness of their enterprises, with the aim of attracting higher levels of foreign direct investment. The ambition is to create an environment conducive to investment and private sector development as well as to define common strategies and projects, both at national and regional level. The Charter allows for the systematic exchange of experience, good practice and knowledge in the Euro-Mediterranean area. The sharing of information between partners will enhance regional co-operation activities.

The Euro-Mediterranean Charter for Enterprise is a fundamental instrument for the development of the SMEs in the region. PAM Member States who are not included in this Charter could support the 10-point action programme of the Charter, access financial instruments to promote the development of SMEs in the Mediterranean Region and pursue the work undertaken towards a free trade area as called for in PAM resolution on *A Commitment towards Free Trade in the Mediterranean* adopted by the PAM plenary in Monaco on 14 November 2008.

2. Implementing the 10 principles of the Euro-Mediterranean Charter

In 2008, the European Commission (Directorate-General for Enterprise and Industry), Organisation for Economic Cooperation and Development (Private Sector Development Division), and European Training Foundation, in consultation with the European Investment Bank drafted a comprehensive report entitled, “Report on the Implementation of the EuroMed Charter for Enterprise”, to analyse the progress made with the 10 principles adopted by the Charter.

The assessment shows that most of the MED countries have been relatively successful in developing policy tools to promote enterprise creation, but much remains to be done to effectively promote and support entrepreneurship, in particular among women and young graduates. The MED countries have also been relatively successful in improving company registration procedures, but they are only starting to tackle administrative barriers to enterprise development. Skills development is at a very early stage. Innovation policy is also only incipient in most of the countries. Even in the best performing countries in this policy area, innovation policy is just now evolving from pilot projects into structured intervention. However, nearly all the MED countries have developed industrial modernisation processes over the years that in most cases have been quite successful, providing the basis for launching more advanced policies.

Part III of the Commission report presents profiles of all the partner countries, highlighting strengths and areas for improvement in policy design and implementation. It is divided into: Country overview; Enterprise policy and public-private consultation framework; Operational environment; Services for enterprises; Human capital and, lastly, the way forward.

Financing SMEs in the Mediterranean

Several bilateral and regional cooperation instruments exist to finance SMEs in the Mediterranean area. These are available for projects notably under the MEDA programme, which is the main financial instrument of the European Community for the Euro-Mediterranean Partnership, and The Facility for Euro-Mediterranean Investment and Partnership (FEMIP), which is the European Investment Bank's financial arm for the Mediterranean region. Since 2007, The European Neighbourhood and Partnership Instrument (ENPI) has provided the framework for financial assistance in the field of enterprise policy and private sector development, both at regional and at national level.

1. MEDA Programme

The MEDA Regulation⁶ was the principal instrument of economic and financial cooperation under the Euro-Mediterranean partnership. It enabled the European Union (EU) to provide financial and technical assistance to the countries in the southern Mediterranean: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, the Palestinian Territory, Syria, Tunisia and Turkey. The MEDA programme took the place of the various bilateral financial protocols that exist with the countries in the Mediterranean basin.

The MEDA programme supported the economic transition of Mediterranean non-member countries (MNCs) and the establishment of a Euro-Mediterranean free trade area by promoting economic and social reforms for the modernisation of enterprises and the development of the private sector, paying particular attention to:

- support for small and medium-sized enterprises (SMEs) and job creation;
- the opening-up of markets;
- promotion of private investment, industrial cooperation and trade between the various partners;
- upgrading of economic infrastructure, including the financial and taxation systems;
- consolidation of the major financial balances and creation of an economic environment favourable to accelerated growth (support for structural adjustment).

In order to achieve its objective, for the period 2000-2006, a total of Euro 5,350 million was allocated to the MEDA II programme. MEDA financing took the form of European Commission grants, risk capital and interest rate subsidies for EIB loans. MEDA was replaced by the ENPI, by the regulation (EC) No 1638/2006 of the European Parliament and of the Council.

2. The European Neighbourhood and Partnership Instrument (ENPI)

ENPI is the instrument by which European Community development cooperation aid is programmed to the Southern Mediterranean, Eastern Europe, Southern Caucasus⁷. The instrument has a budget of €11.1 billion for the period 2007-2013. Within the context of

⁶ Council Regulation (EC) No 1488/96 of 23 July 1996 on financial and technical measures to accompany (MEDA) the reform of economic and social structures in the framework of the Euro-Mediterranean partnership [Official Journal L 189 of 30.07.1996].

⁷ The ENPI countries are: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, the Palestinian Authority, Russia, Syria, Tunisia, and Ukraine.

ENP, bilateral Action Plans are developed with individual partner countries in relation to six major areas: political dialogue and reform; economic and social development and reform; regulatory and trade-related issues; justice and home affairs; the key sectors of transport, energy, information society, and the environment; people-to-people contact.

Within the context of economic reform, Action Plans provide support to SMEs by encouraging investment climate, enhancing the activity of the Social Fund for Development, contributing to improved access to finance for SMEs, promoting youth and women entrepreneurship, enhancing productivity and competitiveness, including through better access to markets.

3. Facility for Euro-Mediterranean Investment and Partnership (FEMIP)

In the Mediterranean region, the European Investment Bank operates through the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). Its two main priorities are support for the private sector and the creation of an investment-friendly environment by means of efficient infrastructure and appropriate financial systems. As such, FEMIP brings together the whole range of services provided by the EIB to assist the economic development of the Mediterranean partner countries.

Operational since October 2002, FEMIP is now the key player in the economic and financial partnership between Europe and the Mediterranean, with financing operations worth almost EUR 6 billion mounted between October 2002 and December 2006. For the period 2007-13, it has a budget of more than EUR 10 billion, of which nearly EUR 7,5 billion is still available.

As part of the Barcelona Process and the European Neighbourhood Policy, FEMIP encourages the modernisation and opening-up of the economies of the Mediterranean partner countries.

The global economic crisis and financing

The 5th FEMIP Conference, held in Rabat on 6th March 2009, on the subject of "Mediterranean SMEs' needs along the business life cycle"⁸, concluded that the current banking crisis is making it even more difficult for small businesses to obtain loans and threatening entire economies. Just as in Europe the EIB has launched a massive SMEs support plan, FEMIP has kick-started the debate on appropriate solutions for the Mediterranean countries.

To counter this trend, the Conference developed four practical proposals, by advocating, namely:

- providing SMEs with better information about available bank finance;
- diversifying FEMIPs actions to help firm invest in R&D and trade internationally;

⁸ The 5th Conference brought together entrepreneurs, bankers and the representatives of national and international institutions in the presence of Morocco's Minister of Commerce, Industry and Information Technology, Ahmed Reda Chami, and EIB Vice-President, Philippe de Fontaine Vive.

- continue help channel migrant remittances through banks offering favourable rates;
- modernise banking systems through in-house training, especially to help them develop credit risk assessment tools and strengthen their SME financing capacity.

Other actors

1. The Mediterranean Exchange

Mediterranean Exchange is part of UNIDO's⁹ regional initiative to promote foreign investment and SMEs development of MENA¹⁰ Region through an Internet-based networking platform. Although it is not a financial instrument as such, it establishes amongst others, Investment and Promotion Offices (IPOs) or Agencies (IPAs) in Europe and in the MENA region to promote SMEs business development, facilitate business networking within the region and attraction of foreign investment, increase the flow of credit funds to local SMEs, improve the business and regulatory environment for SMEs. There are currently four IPOs in the Mediterranean network in Egypt, Jordan, Morocco and Tunisia.

2. The OECD Centre for Entrepreneurship

The OECD Centre for Entrepreneurship, SMEs and Local Development acts as a catalyst, increasing synergies between different areas of expertise, and raising the profile of OECD work on entrepreneurship. It is charged with disseminating best practices on the design, implementation and evaluation of initiatives to promote entrepreneurship, SME growth and local economic and employment development.

3. The European Training Foundation (ETF)

The European Training Foundation is an agency of the European Union based in Turin, Italy¹¹. It became operational in 1994 with the aim of contributing to the development of the education and training systems of the EU partner countries. As an instrument of the EU's external relations policy, its work is based on the conviction that human resources development in a lifelong learning perspective can make a fundamental contribution to increasing prosperity, creating sustainable growth and encouraging social inclusion in transition economies. Ten of the ETF partner countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, former Yugoslav Republic of Macedonia, Kosovo, Moldova, Montenegro, Romania, and Serbia) endorsed in 2003/2004 the **European Charter for Small Enterprises**, considered key to their efforts in promoting competitive economies, jobs, innovation and wealth. Since then, the ETF has been involved in assisting each country in the implementation of the Charter, namely regarding entrepreneurship learning and the two areas "Education and training for entrepreneurship" (Chapter 1 of the Charter) and "Small enterprise skills" (Chapter 4).

⁹ United Nations Industrial Development Organization.

¹⁰ Middle East and North African (MENA) Region.

¹¹ Council Regulation No. 1360 in 1990 recast No. 1339, 2008.

4. “A Small Business Act for Europe” (SBA)

The SBA initiative was presented in June 2008 for the purpose of increasing the competitiveness of European SME's. The SBA plan is part of a wider European strategy on development and employment. It is a coherent set of basic principles, legislative initiatives and policy proposals that will facilitate entrepreneurship and the establishment and the operation of enterprises. In Greece, the leadership of the Ministry of Development of Greece through its participation and contribution to the Ministerial Councils has been one of the pioneers of this initiative, while it has the political will to develop “A Small Business Act for Greece” adapted to the needs of Greek SME's.

5. More generally, mention should be made of the **SEED** Programme (Boosting Employment through Small Enterprise Development), which falls under the aegis of the International Labour Organization's Employment Sector dedicated to Job creation and enterprise development.

Mention should also be made of **BUSINESSMED**, the Union of Mediterranean Confederation of Enterprises, based in Tunisia since January 2004. It is a regional professional organisation created by the federation presidents of the twelve founder members and which aims to show the way to economic integration and social and economic development in the region.¹²

¹² **BUSINESSMED Founder members (2002):** La Confédération Générale des Entreprises Algériennes (CGEA), Cyprus Employers and Industrialists Federation (OEB), Federation of Egyptian Industries (FEI), Manufacturers' Association of Israel (MAI), Jordan Chamber of Industry (JCI), Association of Lebanese Industrialists (ALI), Malta Federation of Industry (MFOI), Confédération Générale des Employeurs du Maroc (CGEM), Palestinian Federation of Industry (PFI), Federation of Syrian Chambers of Commerce (FSCC), International Chamber of Commerce Syria (ICC), Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat (UTICA), Turkish Industrialists' and Businessmen's Association (TUSIAD), Turkish Confederation of Employers' Association (TISK). **BUSINESSMED Active Members (2008) :** 1) Confédération Générale des Entreprises Algériennes – CGEA; 2) Confédération Algérienne du Patronat – CAP; 3) Club des Entrepreneurs et Industriels de la Mitidja – CEIMI (Algérie); 4) Confédérations des Industriels et Producteurs Algériens – CIPA ; 5) Confederation of German Employers' Associations – BDA ;6) Cyprus Employers and Industrialists Federation – OEB ; 7) Federation of Egyptian Industries – FEI ; 8) Confédération Espagnole des Organisations d'Employeurs – CEOE ; 9) Mouvement des Entreprises de France – MEDEF ;10) Federation of Greek Industries – FGI- SEV ;11) Agence de Développement Euro-Méditerranéen des Pouvoirs Locaux et Régionaux – ASEM (Italie) ; 12) Confindustria- (Italie) ; 13) Jordan Chamber of Industry – JCI ; 14) Association of Lebanese Industrialists – ALI ; 15) Malta Federation of Industry - MFOI 16) Confédération Générale des Employeurs du Maroc – CGEM ; 17) Confédération Nationale du Patronat de Mauritanie – CNPM ; 18) Palestinian Federation of Industry – PFI ; 19) Association of Industry Portuguese - AIP 20) Union of Employers of Serbia – UES ; 21) Federation of Syrian Chambers of Commerce – FSCC ; 22) International Chamber of Commerce Syria – ICC ; 23) Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat – UTICA ; 24) Turkish Industrialists' and Businessmen's Association – TUSIAD ; 25) Turkish Confederation of Employers' Association – TISK

Issues that could be examined by this Special Task Force in greater depth

- Achieving peace and political stability throughout the entire Mediterranean. This is the precursor to durable prosperity in the region and a key element in attracting finance and foreign investment for SMEs to the South and East Mediterranean; Members of this STF can therefore redouble their efforts to delivering this message to their respective parliaments.
- Building a pan-Mediterranean policy for SMEs. The STF could examine the question of whether or not it would be useful for the PAM Member States that are not EuroMed partners to endorse the Euro-Mediterranean Charter for Enterprise, and adopt policies in line with the EuroMed partners to implement its 10 areas of action.
- Job creation and migratory flows. The STF could consider to what extent the creation of jobs in the South and East Mediterranean, thus contributing to redressing the socio-economic balance of the region, would ease the pressure on migration flows northwards in the short, medium and long-term.
- The role of Cooperatives alongside SMEs. The STF could consider whether and to what extent similar financing instruments to those available to SMEs should be accessible to member-owned cooperatives. Cooperatives could be seen as a tool for empowerment and development of rights-based employment for labour force in lesser developed parts of Mediterranean region.
- Entrepreneurial education. any educational policy to be based on equality, and PAM could consider the measures that need to be taken to ensure that women or migrants are given equal opportunities to improve the knowledge and/or skills.
- Access to finance and promoting programmes. such programmes need to guarantee women and young people are receiving adequate access to SME financial instruments. Again the STF could consider what measures could be adopted to ensure women and young entrepreneurs are given adequate access to SME financial instruments, or to monitor to what extent this occurs.
- Attracting foreign capital. This needs to be perceived as a means and not an end in itself, in other words, its role is to act as a catalyst, which will bring not only investment but also technology, know-how, managerial skills and market access. This exchange of technology, know-how and skills is the real capital for the future of the region, and so capital investment needs aligned with investment in education and transfer of skills locally.
- Access to financing/investment in SMEs conceived within the framework of a tri-partite dialogue between governments, SMEs themselves, and private financial institutions. The STF could consider to what extent their respective governments should intervene as a matter of public policy to ensure that private banking institutions do not shut down risk capital financing for SMEs.
- Promoting investment. What can PAM Member States do to promote investment in their countries. Set up national/regional/local investment centres. Organise seminars/ conferences/workshops inviting participation of private banking institutions/investors, per sector or per geographic region?
- Increased competitiveness. The STF could draw up a list of areas in which competitiveness could be increased in the PAM Member States, for example, in relation to technology transfer, innovation and sustainable development, energy saving/efficiency.

- Taxation. Could tax burden on young SMEs be reduced during the initial years of their existence. The STF could promote the adoption of a Mediterranean-wide policy for tax breaks to STF during a start-up period.
- Loan repayments. Would it be fair to suspend debt repayments for SME experiencing extreme hardship and the risk of closure due to economic crisis for a specific period?
- Sector-specific intervention in the light of the global economic and financial crisis. The STF could identify specific sectors that have been particularly hard hit by the current economic situation, so that SMEs can be earmarked for investment programmes to restart them, e.g. textile and leather goods.
- Visibility of PAM activities. What could PAM do to raise its visibility in this sector? In similar fashion to the EuroMed awards, PAM prizes could be given to SMEs for example for innovation, or for use of alternative energy, sustainable development. Such prizes could be jointly co-sponsored by banking institutions.
- Information sharing. What can PAM members do to improving information sharing between its member States in relations to experiences, knowledge, skills and best practices?
- Networking. PAM could consider to what extent it could serve as a networking interface in the Mediterranean region for a continuous exchange of information of SMEs actions and policies/instruments through the contributions of the various regional and international bodies interested in the region.

Amongst concrete proposals, PAM could promote the following initiatives:

- “**Mediterranean Network of Councils on Competitiveness**”. With funding through the Target 3 programmes (former Interreg), in the framework of the MED – ENPI programme on transnational cooperation in the Mediterranean Basin, aiming to enhance relations between the states along the outside borders of the EU and the neighbouring Mediterranean countries, we would be able to create a “Mediterranean Network of Councils on Competitiveness”. The goal of the network would be the mutual commitment to common goals and values, to political dialogue and to the economic integration of the area under the scope of the French initiative for the Mediterranean. In Greece the National Council on Competitiveness and Development is the highest opinion giving body of the Ministry of Development on issues pertaining to the improvement of competitiveness. It functions as the main advisor to the Government on competitiveness issues. It could become a “Transnational Focal Point”, a bridge between Councils, upgrading and enhancing its role even further. To this end the Special Secretariat on Competitiveness is collecting data from the National Competitiveness Councils of the other EU members and Mediterranean countries, in order to prepare and submit a proposal on the establishment of a network. The goal of this Transnational Programme would be to make the Mediterranean more competitive at an international level. Undoubtedly, the Mediterranean is a sea which unites and it is clear that we are interested in a strategically significant economic and political approach between the countries of the region. In addition, we support the view to push forward the Greek-French initiative to use clusters as a development tool in the region of the Mediterranean according to the European Cluster Memorandum.
- The establishment of a **single patent** giving inventors the possibility to obtain a patent, legally valid throughout the EU and the Mediterranean. A single community patent would contribute enormously to reducing the burden of a business and the cost for obtaining a

patent and therefore encourage innovation and improve competitiveness. The advantage of such a system would be: the substantial reduction of the registration cost of a patent, especially the cost associated with the translation and filing of the patent, the simplified protection of inventions throughout the community, provided there is a single procedure, and the establishment of a single and central dispute resolution system.

- The creation of **a network of national organizations for quality verification**. Greece has the know-how and the experience and the Greek Standardization Organization have signed bilateral cooperation agreements with various countries (e.g. Egypt). In the framework of the “Competitiveness and Entrepreneurship” Programme (EPIAN II) a broad spectrum of actions is being implemented to support new and existing enterprises with an emphasis on promoting actions for the competitiveness of micro, small and medium enterprises, which are the driving force for development and the backbone of the Greek production system. A group of officials from the Special Secretariat on Competitiveness could help and provide know-how to other countries for the planning of similar development programmes, such as EPIAN II, in countries of the Mediterranean.