Why MENA needs a Finance & Private Sector Marshall Plan

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Introduction: MENA is a largely Middle Income (MIC) Region however, it tends to perform more like a Low Income (LIC) Region on many critical financial and private sector economic indicators. This is an important explanatory variable as to why MENA job growth is so weak. This brief provides an overview of a series of areas where MENA lags behind other regions, particularly LIC regions such as Sub-Saharan Africa and South Asia. More than ever, World Bank support is needed to create jobs and boost shared prosperity in a promising region which significantly underperforms.

Employment:
- MENA has the lowest labor force participation rate in the world (46%) compared to South Asia (57%) and Sub-Saharan Africa (69%).
- MENA has the highest youth unemployment rates in the world, approaching 30% for the Middle East and 24% for North Africa, higher than any other region.

Finance:
- Bank account penetration in MENA is the lowest of all the regions, with only 18% of adults holding an account at a formal financial institution compared to 24% in Sub-Saharan Africa and 33% in South Asia.

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1 The author works in the Finance and Private sector Development Unit of the Middle East and North Africa Region (MNSF1) of the World Bank. This Quick Note was cleared by Simon C. Bell, Sector Manager, MNSF1.
2 World Bank, World Development Indicators, 2012.
4 Global Financial Inclusion (Global Findex) Database, 2011.
21% in Sub-Saharan Africa and 25% in South Asia.\textsuperscript{5}

- Only 23% of adults in MENA saved formally in the past year, versus 30% in South Asia and 55% in Sub-Saharan Africa.\textsuperscript{6}

\textbf{Figure 2}

\textbf{Bank Account Penetration: \% Adults with Bank Accounts}

- MENA is the worst performer on microfinance outreach, with around 2.0 to 3.0 million microfinance borrowers out of a population of 340 million. By contrast, Bangladesh, with 150 million people, has around 20 million microfinance borrowers.\textsuperscript{7}
- Less than 1% of bank credit in MENA goes to microfinance institutions, compared to nearly 5% in both South Asia and Africa.\textsuperscript{8}
- Only 20% of SMEs in MENA have a bank loan or a line of credit, a lower share than any other region including South Asia (approximately 30%) and Africa (just over 20%).\textsuperscript{9}

\textbf{Entrepreneurship:}

- MENA has one of the lowest startup rates in the world. Only 6.3 businesses are formed each year for every 100 people, about equal with Sub-Saharan Africa’s rate of 5.8 new businesses per 100 people, and lower than South Asia’s rate of 7.8. By contrast, the average startup rate for high income countries is 42 businesses per 100 people.\textsuperscript{10}
- Youth as well as adults in MENA are less involved in entrepreneurial activity than other regions of the world. Only 9% of youth and 7.1% of adults in MENA have been involved in early-stage entrepreneurial activity, compared to 29% of youth and 27.5% of adults in Sub-Saharan Africa.\textsuperscript{11}

\textbf{Trade and Investment:}

- If oil and gas exports are excluded from the MENA region, the entire region exports less than does the Netherlands, $411 billion against $556 billion. MENA has a population of 380 million and a combined GP of $2.6 trillion while the Netherlands has a population of 17 million and a GDP of $556 billion.\textsuperscript{12}

\textsuperscript{5} Ibid.
\textsuperscript{6} Ibid.
\textsuperscript{7} MIX Market, 2013.
\textsuperscript{8} CGAP and World Bank Financial Access 2010, International Financial Statistics
\textsuperscript{9} Ibid.
\textsuperscript{11} Youth Business International and GEM, Generation Entrepreneur? The Status of Global Youth Entrepreneurship, 2013
\textsuperscript{12} World Bank, World Development Indicators, 2012.
MENA’s share of intra-regional trade was 8% in 2010 compared to 12% for Sub-Saharan Africa, 13% for the South African Development Community (SADC), 16% for MERCOSUR, 25% for ASEAN, 67% for the EU, and 50% for NAFTA.\(^\text{13}\)

Private investment averages around 15% of GDP in MENA, around the same as Sub-Saharan Africa and well below more dynamic MIC regions like East Asia which averages close to 30%.\(^\text{14}\)

**Gender:**

- The average female unemployment rate in MENA is 20%, but rises to 50% for young women (15-24), by far the highest in the world.\(^\text{15}\)
- About three out of four working age women in MENA do not participate in the labor force. This is the lowest female labor force participation rate in the world (23%), compared to South Asia (31%) and Sub-Saharan Africa (62%).\(^\text{16}\)
- Only about 17% of MENA firms have female owners, lower than all other regions including Sub-Saharan Africa (33%), and equal with South Asia.\(^\text{17}\)

**Figure 4: % of Firms with Female Owners**

![Figure 4](image)

Source: World Bank Enterprise Surveys

According to the *Women, Business and the Law* 2014 report, among the 28 economies that have 10 and more restrictions against women, 25 are in in MENA and Sub-Saharan Africa. MENA countries have the highest average number of legal restrictions against women (18) versus 9.7 in South Asia and 7.2 in Sub-Saharan Africa.

**Figure 5**

![Figure 5](image)

Source: *Women, Business and the Law* 2014

In an analysis of more than 2,200 enterprises receiving SME loans from 34 IFC client financial institutions in 25 countries, women entrepreneurs in MENA had the lowest access to finance with only 5.7% of loans compared to 15.1% in Sub-Saharan Africa and 9.5% in South Asia.\(^\text{18}\)

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\(^{13}\) United Nations Development Programme and Overseas Development Institute, “Impediments to Intra-Regional Trade in Sub-Saharan Africa.” 2010


\(^{16}\) World Bank, World Development Indicators

\(^{17}\) World Bank Enterprise Survey

Enabling Environment for Doing Business:

- Access to judgments in commercial cases is more restricted in MENA than in any other region. Judgments are publicly available in only 29% of MENA countries, compared to 75% of countries in Sub-Saharan Africa and 83% in South Asia.\(^19\)
- MENA has the smallest share of countries (69%) where courts are required to publicize the start of insolvency proceedings, compared to 82% and 83% of countries in Africa and South Asia, respectively.\(^20\)
- Coverage by a public credit registry or private credit bureau is lowest globally in three regions: MENA (15%), Sub-Saharan Africa (12%) and South Asia (10%). By contrast, ECA, the next highest ranking region, covers 40% of its adult population.\(^21\)
- While getting an electricity connection costs by far the most in Sub-Saharan Africa (5,430% of income per capita), MENA and South Asia have the next highest average costs in the world at 1,775% for South Asia and 1,317% for MENA.\(^22\)
- Building documentation is the least accessible in MENA. Documentation requirements for building permits are available online or through public notices in only about 38% of MENA countries, compared to 42% of Sub-Saharan countries and 75% of South Asian countries.

- Trade documentation requirements are easily accessible in only 33% of MENA countries compared to 49% of Sub-Saharan countries and 63% of South Asian countries.\(^23\)

**Conclusion:** MENA is at a crossroads nearly three years after the Arab Spring transitions. These indicators demonstrate that this is no time to slow down support for MENA countries—indeed, support must be accelerated. A critical part of the post-2010 agenda has to be to strengthen the finance and private sectors with a focus on job creation for an increasingly well educated workforce. If expectations on the quantity and quality of jobs are to be met, the region’s performance has to improve significantly in this area. Support for a more vibrant private sector must be accompanied by credible institutional reforms that help level the playing field in the economy and put an end to markets controlled by the privileged. It is clear that the public and private sectors must work together on this agenda in order to foster a more competitive, dynamic, and productive private sector.

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\(^{20}\) Ibid.

\(^{21}\) Ibid.

\(^{22}\) Ibid.

\(^{23}\) Ibid.