MENA-OECD INVESTMENT PROGRAMME

Women's Access to Finance in the Middle East and North Africa (MENA) Region

Draft Issues Paper

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منتدى سيدات الأعمال
Women's Business Forum

This draft issues paper on "Women's Access to Finance in the Middle East and North Africa (MENA) Region" is submitted to participants of the conference on *Growing Micro and Small Enterprises: Tackling Financing Obstacles in the MENA Region* as a background document for the session entitled "Reporting Back: OECD-MENA Women's Business Forum and the MENA 100 Business Plan Competition" (meeting of the MENA-OECD Working Group on SME Policy, Entrepreneurship and Human Capital Development, 22 February 2011, Casablanca, Morocco).

Participants are invited to contribute to the issues paper by providing comments as well as examples from the MENA region of mechanisms to improve the provision of financing specifically for women entrepreneurs. The MENA-OECD Investment Programme will take account of contributions received by 31 March 2011 in a revised version of the issues paper.

Contact: Nicola.Ehlermann-Cache@oecd.org, OECD-MENA Women's Business Forum Project Manager

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TABLE OF CONTENTS

Boxes

Box 1. The OECD-MENA Women's Business Forum

The OECD-MENA Women's Business Forum (WBF) is an open and growing inter-regional network which aims to support the creation and growth of women-led businesses in the Middle East and North Africa (MENA). Through regional conferences, training workshops and policy analysis, the WBF advises governments, financial institutions, small business support agencies and other actors on how to develop and implement targeted support mechanisms for women-led businesses. The WBF is an initiative of the MENA-OECD Investment Programme which assists MENA governments in implementing business climate reform to foster investment, growth and employment in the region. The WBF's analysis and recommendations are communicated to broader MENA-OECD Investment Programme bodies, such as its Steering Group and its Working Group on SMEs, Entrepreneurship and Human Capital Development, thereby contributing to the mainstreaming of women's issues in the policy dialogue.

The WBF's three areas of focus are: (1) improving financial support for women entrepreneurs, (2) improving women's access to enterprise support, and (3) producing an inventory of policies, institutions and programmes supporting women's enterprise in the Middle East and North Africa.

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I. The issues paper: Process and acknowledgements

1. This issues paper was presented to participants of the Fall 2010 OECD-MENA Women's Business Forum Conference on "Enhancing the Business Enabling Environment for Women in Arab Countries" to trigger discussions on good practices – for governments, financial institutions and other stakeholders – to improve financial support for women entrepreneurs.[1] It was later revised to reflect their discussions and suggestions. The MENA-OECD Investment Programme intends to present the issues paper to other OECD bodies and welcomes the input of outside contributors.

2. Nicola Ehlermann-Cache from the OECD Private Sector Development Division is the principle author of this paper. Initial research was conducted by Samuel Alexander. Substantive comments and suggestions were provided by participants of the Fall 2010 Conference: Nagla Bahr from CGC Consult (Egypt), Estelle Brack from the French Banking Federation (France), Neveen El Tahri from Delta Holding for Financial Investments (Egypt) and Pik Yee Foong and Corine Sawaya from Standard Chartered Bank (Lebanon). Additional comments were received from Anthony O'Sullivan and Korin Kane from the OECD Private Sector Development Division.

II. Background and introduction

3. Women entrepreneurs are key contributors to private enterprise development, job creation and economic growth worldwide. As underlined by the World Economic Forum's *Global Gender Gap Report*, there is a strong correlation between gender equality and a country's prosperity and economic competitiveness (Haussmann 2010). It is thus important to mainstream women in broader enterprise support policies and programmes such as women's enterprise centres, coaching and mentoring programmes and financing initiatives (see the OECD "Inventory of Policies, Institutions and Programmes Supporting Women's Enterprise in the Middle East and North Africa").[2]

4. In addition to such support measures, literature demonstrates that there is a strong and positive relationship between the expansion of the financial sector, economic growth and development. In theory, the development of the financial services sector contributes to improved economic outcomes by channelling resources to appropriate projects, by stimulating saving and investment and by minimising transaction costs, among other functions. However, the presence of financial services does not imply their accessibility to the different types of users within an economy.

5. Main sources of external finance include debt financing through bank loans and bonds or equity financing where the business owner sells a fraction of the firm to the outside investor.

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[1] See Annex 3 to view an extract of the Conference's conclusions.

[2] For more information about the inventory, please visit: http://www.oecd.org/dataoecd/35/16/46579438.pdf.

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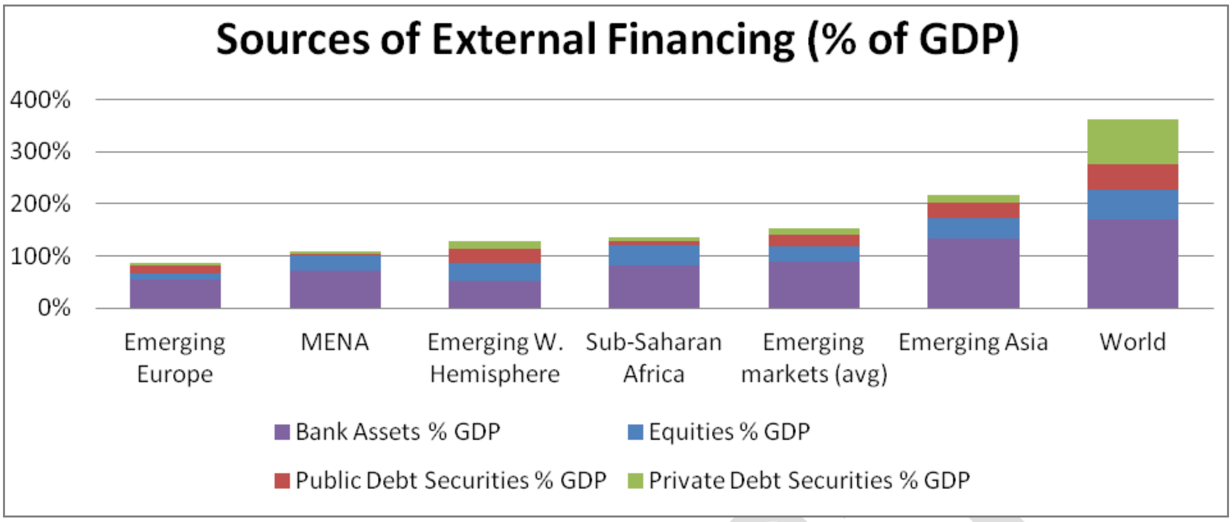
MENA countries rely predominantly on bank lending for external financing, having resisted the broad trend towards disintermediation that has underpinned OECD financial market developments since the 1980s. But formal bank loans do not cover all private sector needs in the MENA countries. As entrepreneurs face substantial difficulties obtaining the funding necessary for business creation and expansion, they frequently and to a large extent rely on informal sources of finance (e.g. family and friends).

6. To improve the availability of financing, it is imperative that regulatory frameworks are put in place to ensure strong creditor and lender protections. Credit bureaus are important for reducing information asymmetries between creditors and lenders, and allowing businesses to build credit histories and graduate to larger loans. While insufficient access to financing is an obstacle faced by both men and women in the MENA region, tailored approaches can be effective in improving the provision of financing specifically for women entrepreneurs. These can include supply-side actions such as credit guarantee schemes or funds for women business owners. It can also include demand-side actions such as training in financial management (see Conclusions of the "Conference on Enhancing the Business Enabling Environment for Women in Arab Economies", Annexe 3).

7. The paper is structured as follows. It first discusses factors impacting women's access to financing. It then outlines possible actions governments, financial institutions and other stakeholders can take to improve women's access to financing (this includes actions to improve the provision of financing in general as well as targeted actions to improve financing specifically for women entrepreneurs). For readers less familiar with the financial landscape in the MENA countries, a brief overview of external financing options in MENA economies is annexed.

III. Financing for women-owned businesses

8. The credit environment in the MENA region necessarily impacts the availability of financing for women-owned businesses. The region has the second least developed capital markets of all regional groups (see graph below) and relatively limited external financing options. There is a need to improve financing for the "missing middle"; despite high liquidity in MENA region banks, risk aversion leads the financial sector to concentrate funding in micro and large enterprises. This risk aversion has been exacerbated with the crisis and non-performing loans. Where financing is available, it is often provided very selectively, with high interest rates and/or guarantees.



Source: IMF Global Financial Stability Report, April 2010. Data from 2008.

9. The majority of external financing is provided by banks. A significant share of bank lending is used to finance public sector activity, limiting the availability of debt financing for private enterprises. Equity financing is similarly limited in the region.

10. Many firms, especially start-up firms, use personal assets and informal sources (such as family and friends) to finance business activities. This limits the amount of financing available to entrepreneurs, thereby limiting business establishment and expansion. Informal financing sources rarely enjoy the scalability of formal lending, and may also limit the possibilities for accessing formal financing at a later stage. An additional shortcoming is that informal financing may lack adequate legal provisions and protections. While informal lending could support the establishment of formal enterprises these arrangements may perpetuate informality in many ways. The magnitude of informal lending and the impact both on the development of formal and informal entrepreneurship is difficult to assess. It may be questioned whether the financial landscape furthers informal lending or whether informal funding hampers the development of the capital market in the MENA region.

11. Against this backdrop, some argue that the difficulties men and women entrepreneurs confront are similar. A 2009 World Bank report concludes “that access to finance, long touted as a gendered barrier, is not significant in any of the countries [studied] except Yemen. This finding does not mean that finance is not a considerable barrier to businesses. It just means that male- and female-owned firms face the same high barriers” (Chamlou, 2008). However, the report’s authors also stress that the study only looked at well-established firms with multi-year track records.

12. The situation may well be very different for small or start-up firms with unproven or nonexistent cash flow. In such cases, it is believed that female entrepreneurs face gender-specific difficulties accessing finance and that finance is indeed a main constraint affecting women’s ability to start and expand their business.

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13. A divide may also be noted on businesses' financial needs in general. Some studies argue that all business owners need the same amount of money to get off the ground, while others find that women call for less funding when they start a business and turn to different sources to obtain resources (OECD, 1999). Due to the lack of gender-disaggregated data on entrepreneurship and access to finance in the MENA region, the below observations are qualitative and would need to be tested and/or validated through surveys.

Factors impacting women's access to financing

14. In the MENA region, women's labour force participation rates are the lowest worldwide. In 2007, only 28% of working age women participated in the labour force, while 77% of men did (World Bank, 2007).[3] This compares to a labour force participation rate of women of 37% in South Asia and 72% in East Asia and the Pacific. In addition, female unemployment rates significantly exceed male unemployment rates in all countries for which data is available (with the exception of Morocco) (Haussmann, 2010).

15. These very facts probably affect women's needs and expectations in terms of entrepreneurship funding. Certain women will indeed engage in small income-generating activities to compensate for their exclusion from the labour market. But this may not be the sole reason. It is reported that women-owned businesses start with proportionally low levels of overall capitalisation, using personal savings and informal sources of financing such as family and friends (Arab International Women's Forum, 2006). As a result, women tend to have low debt financing ratios.

16. Determining factors may relate to the regulatory environment but also to business practices. Studies show that the MENA region's business and investment laws are gender-neutral. Earlier research commissioned by the MENA-OECD Investment Programme indicates that "women in all countries of the MENA region have the right to apply for loans and access credit, to own property, and to enter into legal contracts" (OECD, 2010a). However, it has also been noted that laws in other areas may be "gendered" (*e.g*. personal status laws and labour laws which contain gender-specific provisions) which may reinforce gender-based perceptions, thereby influencing the implementation and interpretation of business laws (Chamlou, 2008).

Supply-side factors

17. Debt financing is the principal external source of financing for entrepreneurs in the MENA region. Lack of sufficient collateral is considered a key obstacle for accessing finance.

18. Hence, when women do not turn to informal networks, they will primarily seek support through debt financing. However, their ability to obtain funding is impacted by traditional

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[3] In the MENA region, there were 98.6 million women and 99.5 million men between the ages of 15 and 64 which together accounted for 63% of the region's total population.

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property arrangements. Although women are legally allowed to own property, in practice their husbands may own house deeds. As a result, women often do not have the collateral necessary to access commercial loans[4].

19. Owing to a variety of circumstances, ranging from lower wage income for women than for men to smaller inheritances for daughters than for sons, women will, if owners, often only have small amounts of personal capital to be used for start-ups or as collateral.

20. The lack or insufficiency of 'pledgeable' personal collateral may limit women entrepreneurs' ability to access start-up loans. In some cases it can impair their small business's ability to borrow due to the fact that most "companies of the MENA region are small family enterprises," in which "the border between personal and professional credit is blurred" (EC, 2006). In addition, researchers have noted that poor individuals often lack the formal property rights required to translate their property into capital, and hence collateral (De Soto, 1997).

21. Lending practices of banks in many MENA countries may also build on non-legal 'institutional barriers'. For instance, policies require women to include their husband as a co-signer, "even if he lacks financial resources or is not involved in the woman's business," as part of a perceived effort "to ensure that the woman's activities do not interfere with the wishes of her family or her husband" (Chamlou, 2008).

22. Interest rates are very high for investment projects supported by banks; women-supported projects may face even higher interest rates. To explain women's difficulties when applying for a loan it is also argued that women may lack a track record as entrepreneurs and therefore face higher difficulties.

23. Women's projects are frequently primary beneficiaries of microfinance. While this type of support is undeniably a precious development tool, women entrepreneurs will face challenges once their company expands and its financing needs exceed micro-credit ceilings. They may then be confronted with the above hurdles which may prevent the company from expanding.

24. The limited development of alternative sources of financing in the MENA region affects women-owned businesses during both the start-up and development phase. Corporate venture capital, business angels and investment funds are still in an early stage of development in the region. Studies show that women in some OECD countries are less likely than men to seek and receive business angel financing (Harrison, 2007); it is likely that similar observations apply in the MENA countries.

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[4] See for example, International Finance Corporation, GEM Country Brief – Jordan 2007, http://www.ifc.org/ifcext/gempepmena.nsf, accessed January 2010.

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Demand-side factors

25. Women's financial needs or their approach to the financial industry may also impact the observed differences.

26. A large group of women may seek to set up a part-time or full-time business as an alternative to being unemployed and they typically want to combine running a business with running a family. It may be this group that influences the overall observation that women are poorer and more conservative with money. The double responsibility of running a business and a family might lead to a lower risk aversion among women entrepreneurs and hence they may consider smaller projects for which they have lower capital requirements.

27. However, other factors may be at play. Social values are notably reflected in upbringing and education. While women's education has made great strides in the MENA region, their entrepreneurial or management knowledge and experience might be limited because of a lack of both training and experience.

28. Some observers claim in addition that women entrepreneurs, whose marketing and financial education is weaker than that of men, face particular difficulties presenting their investment projects to bankers or investors. Independently of their knowledge base, women may lack confidence in dealing with authorities and financial institutions and therefore find it difficult to convincingly convey their business proposals. Indeed, women entrepreneurs are unlikely to obtain financing for their projects if they lack the skills to accurately assess their financing needs, develop a convincing business plan, and make a compelling pitch to potential investors or lenders.

29. But women entrepreneurs also have ways of managing and doing business that differ from men. Different McKinsey studies highlight differences in management styles between women and men and bring to light a correlation between the involvement of women in top management and corporate performance. (McKinsey & Company, 2007).

Stakeholder actions to improve women's access to financing

30. The following section outlines possible actions that governments, financial institutions, and other stakeholders can take to improve women entrepreneurs' access to finance.

Governments

31. Governments will want to establish a hospitable regulatory and macroeconomic environment to facilitate and support the development and the success of private-sector-led growth.

32. This notably means that regulations, enterprise policies and support programmes need to be in place to create an environment in which financial institutions can operate on a competitive and transparent basis and where new financial instruments – such as venture capital or private equity

DRAFT

funds – can develop. For instance the regulatory environment needs to grant creditor and lender protection and enhance transparency.

33. Countries indeed need to set up robust frameworks of collateral and bankruptcy laws. Borrowers and lenders both look to the law for protection (particularly during bankruptcy proceedings), and the quality of the protections offered to each. The consistency of enforcement of course has a profound impact on the supply of and demand for loan funding in a given country. So far, collateral and bankruptcy laws do little to facilitate lending in the region. Indeed, MENA countries score lowest of any regional group (World Bank, 2009). It would certainly be in the general interest to engage in adequate reforms to improve lending policy.

34. Credit bureaus are essential for ensuring that individuals and SMEs have access to credit. Their existence allows banks to base their lending decisions – and the risk premiums they charge – on the precise creditworthiness of the specific firm or individual applying for a loan. Accurate credit information is essential for reducing information asymmetry between creditors and lenders. By helping SMEs build credit history, it can allow them to access larger loans. It can also mitigate the risk aversion of lenders by providing an accurate picture of creditworthiness. This is especially important for women entrepreneurs, as it allows banks to assess their creditworthiness based on objective information. Many countries in the region have established some form of public or private credit reporting system over the last years (World Bank, 2009). This should help reduce information asymmetries and the current lack of economies of scale which still bias credit decisions against entrepreneurs and SMEs.

35. As part of broader policy efforts to stimulate job creation and growth, governments may set up programmes targeting enterprise development and put particular emphasis on women-owned businesses. In the framework of such programmes, governments may set up funding programmes. Various OECD countries have set up such programmes reserved for, or giving priority to, women entrepreneurs (OECD, 1999).

Box 2. The OECD and women's entrepreneurship: a focus on financing

The role of female entrepreneurs was included into the policy debate in the early nineties by the OECD Local Economic and Employment Development (LEED) Directing Committee and the OECD Working Party on SMEs and Entrepreneurship (WPSMEE). The 1999 WPSMEE project on "Financing for women-owned SMEs: trends and issues" outlined difficulties for women accessing finance despite government programmes set up in view of assisting women-owned businesses.

Access to finance continues to be one of the most significant challenges for entrepreneurs worldwide and for the creation, survival and growth of small businesses. Problems faced by women-owned SMEs in the wake of the 2008-2009 global economic and financial crisis are not well understood. The WPSMEE and LEED Directing Committee will therefore investigate in the coming years the particular barriers that persist for women and minority SME owners. The focus will be on access to credit and key determinants, including educational attainment gaps, skills training, access to markets and the "investor ready" nature of these businesses. Synergies could be sought with the OECD-MENA Women's Business Forum to include evidence from MENA countries.

DRAFT

Financial institutions

36. Against the background that women earn, inherit and administer wealth, financial institutions in OECD countries increasingly target women as a client base and as entrepreneurs of significant size and with considerable growth potential. Recognising that women's needs and the way in which they do business may differ from men, financial institutions in OECD countries increasingly seek to employ women. Female employees may be more likely to understand women's projects and evaluate innovative business ideas for which there are no benchmark values to use for credit assessment.

37. Efforts by mainstream financial institutions in the MENA region to target female clients and recruit female financial professionals are limited. Banks still perceive little incentive to create products and services tailored to women clients. However, some have made efforts to reach out to potential female clientele through networking events, business training services such as "computers and internet usage, leadership & management, in addition to franchising, and how to identify new business opportunities for women" (Global Banking Alliance for Women). Some institutions have also introduced women-only branches (Dubai Islamic Bank's Johara Banking,[5] Emirates Islamic Bank's Al Reem Ladies' Banking) staffed primarily by women and used in some cases to host networking events for female entrepreneurs. Some have also developed women-only credit cards (e.g. the ABN Amro/RBS Al Ameera credit card, First Gulf Bank's 'ladies only' Visa credit card). Standard Chartered Bank, member of the "Global Banking Alliance for Women" - a consortium of financial institutions seeking to drive women's business growth, is active in seven MENA countries and has established an online Women in Business Resource Centre. This Centre provides training modules "designed specifically for women who are starting or building their own businesses."[6] Standard Chartered Bank has also begun to create products specifically tailored to women, for example Orjon, "a Business Installment Loan in Bangladesh designed specifically for female entrepreneurs". Its experience may provide useful insights for banks in the MENA region.

Box 3. Standard Chartered Bank's practices to promote financing for women entrepreneurs

The Women in Business Resource Centre is an interactive website which provides skills training modules tailored to the needs of women entrepreneurs, on topics such as influence and negotiation. It is open to the public and can be accessed at the following link: http://www.standardchartered.com/sme-banking/resourcecentre/en/.

Business instalment loans provide non asset-backed loans to SMEs, allowing them to meet cash flow requirements without requiring collateral. SCB Malaysia partnered with the local government to launch the service, which is now being enhanced with a view to launching in the Middle East and North Africa.

All-women's branches are available in some countries, including Pakistan and Sri Lanka. This is based on the

[5] http://www.dib.ae/en/joharabanking.htm

[6] http://www.standardchartered.com/sme-banking/resourcecentre/en/

premise that women business owners may feel more at ease discussing financial and investment matters with other women. In July 2010, the top performing SCB branch in India was an all- women's branch.

Tailored personal accounts for women, such as the Diva account, cater to female clients through customised local and international debit cards, discounts at lifestyle partner outlets and transactional benefits such as preferential pricing on loans and mortgages. The membership-based Diva club is a networking forum for like-minded women from diverse backgrounds.

38. Domestic authorities and financial institutions may work together to improve women's access to financing. Public and private financial institutions can administer publically supported programmes for women entrepreneurs. They could possibly decide over a targeted amount or percentage of lending activities in a year to be disbursed to women-owned and -managed businesses.

39. Credit guarantees can significantly improve access to debt financing for SMEs, and models can be put in place which target women-owned SMEs. A credit guarantee is a commitment by the guaranteeing agency to reimburse a lender all or part of a loan in the case of default. Eligibility criteria vary depending on the objectives of the guaranteeing agency. The borrowing firm usually receives the guarantee in exchange for a fee. Credit guarantee agencies can be operated by the public or the private sector. Kafalat, the main provider of credit guarantees in Lebanon, provides a useful example. It was initially started by the government and is now privately run. (See the MENA-OECD Investment Programme Working Paper on "Credit Guarantee Schemes: A Tool to Promote SME Growth and Innovation in the MENA Region").

40. The microfinance industry may have to look at micro-finance borrowers as potential SME and corporate clients and may have to seek solutions to avoid the funding bottlenecks that SMEs typically face when 'graduating' to commercial banks. This may be particularly challenging in an environment where micro-credit serves a high proportion of women borrowers who may later confront barriers when graduating to commercial banking (as outlined in the section above).

41. Worldwide, only a small proportion of venture capital funds are invested in women-owned businesses. Some venture capital funds have begun to specifically target women as fund providers for investments in high growth women-focused businesses. FORSA, the 2007 founded and UAE-based investment company places women at the centre of its business model. Claiming an overall mandate to empower female entrepreneurs by providing them with start-up capital, the group is run by an all-female management team as part of the Dubai World conglomerate. It claims to cater exclusively to high-end female investors and supports female-led and female-oriented start-ups through its Venture Capital investments arm.[7] Trapezia, the first European Equity Fund

[7] http://www.forsa.ae/site/corporate_vision.php

DRAFT

dedicated to supporting women-focused businesses raised £4.5 million to invest in credible investment proposals of women-focused businesses.

Other stakeholders

42. Business associations, publicly or privately run business support services providers or international organisations can play complementary roles. In particular, they can provide coaching and mentoring programmes for women entrepreneurs. To do so, they may solicit the involvement of investors or entrepreneurs who have already accessed financing. They may furthermore enable women investors and entrepreneurs to network both domestically and internationally and build links in the entrepreneurial eco-system, for example through co-operation with existing business networks.

43. Research indicates that entrepreneurs with prior work experience in their new company's sector enjoy higher success rates (Melnik, 2006; Bosma, 2000). This may suggest that MENA women's historically low labour force participation rates make them less likely to engage in entrepreneurship. Recognising this, a number of initiatives are currently engaged in 'demand-side' capacity-building, ranging from local businesswomen's' associations and the initiatives by the International Finance Corporation (IFC) and CAWTAR to support them to private sector-led programs like Goldman Sachs' 10000 Women Program.

DRAFT

IV. Annex 1: External financing options in the MENA region

44. Firms in the MENA region face broad categories of external financing options similar to those found elsewhere in the world. However, having the second least developed capital markets of any regional group, the volumes and penetration of specific mechanisms vary widely both in comparison to other regions and within the region[8].

Box 4. External financing options for business owners
In **debt financing**, a creditor furnishes the borrower with capital in exchange for a binding promise to repay the loan. The creditor – whether a bank or a bondholder – is compensated for the opportunity cost of their capital, as well as the risk of default, by a regular stream of interest payments, as well as the eventual repayment of the loan's principal. The loan is generally secured by the company's assets and failure to make required interest payments can lead to the default of the company, in which case ownership is transferred to the creditors.
In **equity financing**, business owners sell a portion of their firm to one or more outside investors. In exchange for their capital, these investors receive an ownership interest in the firm that entitles them to a share of future profits (dividends), and in many cases, voting rights in important company decisions. Numerous types of equity financing are available, each associated with a different stage in the firm's lifecycle e.g. 'seed financing' from angel investors will support nascent firms; start-ups that make it past the concept stage may attract venture capital funding from institutional investors. Private equity investments will target larger firms.

Debt financing

45. The primary formal form of external financing in the MENA region is debt financing, in particular bank loans. Microfinance has gained ground over the last decade; some consider that it has replaced government programmes as a major tool for starting and consolidating income-generating activities in countries with high micro-finance support such as Egypt, Morocco and the Palestinian Authority. Corporate bonds are far less developed. The Middle East – particularly the Gulf – is home to a burgeoning Islamic finance industry with the *sukuk* (a type of Sharia-compliant security that exhibits many of the characteristics of traditional bonds[9]) growing rapidly in recent years.

Banking intermediation

46. Although MENA banks are the region's primary source of external financing, World Bank reports note that total domestic credit to the private sector is the lowest of any emerging region. This assessment is supported by firm-level data showing that MENA firms are less likely to have access to loans or lines of credit from formal financial institutions than those of any region beside Sub-Saharan Africa. The proportion of MENA firms that finance their investments through bank

[8] This paper adopts a regional perspective but it needs to be recalled that impediments to accessing finance vary with each nation's unique blend of laws and traditions.
[9] See section on Islamic Financing for more information.

DRAFT

loans trails all regions besides Sub-Saharan Africa (World Bank, 2010). The financial and economic crisis has reinforced the difficulties of supporting enterprise development through bank loans. A 2010 IMF study notes a credit deceleration in the MENA region by an "average of nearly 30 percentage points" since mid-2008 (IMF, 2010).

47. Entrepreneurs face substantial difficulties obtaining the funding they need to grow and prosper due to the banking sector's structure and practices. The banking sector is highly concentrated from both a geographic and competitive standpoint. The preference for public sector lending crowds out lending to domestic private sector clients and the lending policies and practices are conservative and undersized relative to companies' needs. Furthermore, high collateral requirements are imposed on private sector bank loans and lines of credit which in turn have a negative impact on enterprise development.

48. Some entrepreneurs reported to the MENA-OECD Investment Programme that the loan policy by MENA banks or branches of OECD established banks is based on a potentials borrower's reputation rather than on objective business criteria such as viability or profitability of an investment project.

49. Small entrepreneurs confront higher difficulties obtaining a loan than larger firms. Various surveys note a high rate of credit request refusals for small- and medium- sized companies (SMEs). Reasons for rejection seem diverse. The European Mutual Guarantee Association notably identified SMEs' difficulties engaging in convincing strategic and financial communication. For instance, SMEs' business plans may present personal preferences rather than identify the company's profitability. Their difficulties are also related to financial weaknesses such as fragile capitalisation or insufficient financial information on the company. As SME owners and entrepreneurs have few company assets to use as collateral for bank loans they often must pledge their personal assets (see also informal funding below).

MENA banking structures

50. Organised banking systems are relatively new in the MENA region. Most MENA countries established national currencies and central banks in the middle of the twentieth century. The banking structures of MENA countries are often based on a simple model on the supply side, with basic products. They share a moderate growth and relative autonomy with respect to the international money and credit markets, due mainly to the non-convertibility of domestic currencies. Main banking income is based on interest and banking commissions.

51. The banking systems in the region have experienced three eras of modernisation: (i) in the fifties with the independence and the beginning of oil and gas resources industrial exploitation, (ii) in the eighties with the structural adjustment measures and (iii) the liberalisation and integration to the global economy from the nineties. To a large extent and at different degrees, the

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legal and regulatory frameworks have been improved, public banks have been privatised and competition has been stimulated in the financial sector.

52. The banking structures of the Arab countries were built under the influence of international banking groups until the reforms of the eighties. They then took as a starting point European banking structures, for their organisation as well as for their regulatory framework. The recent developments have been largely influenced and structured by the progressive opening to the global financial area.

53. MENA financial systems remain dominated by banks and an important financial intermediation. Banking institutions hold more than half of total assets. Besides the banks, market finance is under-developed and not sophisticated, even in countries with high levels of liquidity. In the MENA region, banking credit represents more than half of total assets (57%), equity markets a third (36%) and almost no debt markets (bonds).

54. Because of a lack of effectiveness, banks do not play a sufficient role in promoting economic development in the MENA region; despite recent privatisations, state participation in banking assets leads to an often non-optimal allocation of financial resources. And even in countries where the majority of banks are private, competition remains low. Loans are often short-term, mainly related to commercial activities and most of the time granted to large businesses rather than SMEs which constitute the most significant component of MENA economies.

55. Confidence is also still too often lacking in the relations between contractors and financiers, whether it is equity or banking. The conditions of meeting of supply and demand are not met. This has a very particular impact on SMEs which encounter difficulties to get the financing by credit and whereas they do not have access to the money markets. Access to financial services remains insufficient with high transaction costs and limited to the well-off segments of the population only.

56. On some markets however, technological and innovative investments such as ATMs and point of sale networks have supported the increase in households' deposit collection. The significant rise of oil prices provided abundant liquidity to be invested in the banking sector, as well as credit growth with positive externalities on equity markets and the real economy.

Microfinance

57. Microcredit is the provision of lending to low-income clients who traditionally lack access to banking and related services. It is a lever for social inclusion: low-income persons who are normally excluded from the traditional banking sector may get access to financial resources necessary to get started and develop self-employment activities generating revenues.

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58. Microfinance is significant in the MENA region. Numerous microfinance networks are active in the MENA region, and in most countries the industry's rapid growth continued throughout the financial crisis (International Association of Microfinance Investors, 2010).

59. Microfinance spread in the region because banks outsourced this customer segment and because non-governmental organisations (NGOs) created microcredit institutions. This diffuse nature of microfinance institutions and the varied quality of their financial reporting leads to divergent views on total market size (Nelson, 2007). A joint 2009 benchmarking report by the Microfinance Information Exchange, the Consultative Group to Assist the Poor (CGAP), and Sanabel Network found that microfinance outreach in the "Arab region" grew 19% between 2006 and 2008, while gross loan portfolio value expanded by 30%, surpassing $1.02 billion in 2008 (Microfinance Information Exchange, 2009).

60. Microfinance institution's (MFI) funding patterns are heavily influenced by the legal status of the region's institutions. CGAP's *Microfinance Funder Survey 2009* reports that because "non-profits constitute 85% of MFIs in the region and thus cannot attract shareholder capital," the majority of MENA MFIs are funded by debt "(62%), followed by grants (22%), and guarantees (13%)" (Microfinance Information Exchange, 2009, page 6).

61. Decomposing this debt financing by source, the study shows that "local banks serve as the major lenders to MFIs." Approximately 79% of debt financing comes from mainstream financial institutions such as local commercial and public banks, while 15% is provided by governments and development finance institutions and 4% comes from microfinance-oriented investment funds (Microfinance Information Exchange, 2009, page 9).

62. This funding is highly concentrated, as "[t]he top five funders in MENA account for 54% of funding committed to the region," and Morocco, Egypt and the Palestinian Authority receive about 80% of all funding committed.

63. At the firm level, the median MENA MFI's disburses smaller loans than MFIs in other emerging regions (a percentage of per capita GNI). It serves a comparitively high proportion of female clients (65%).

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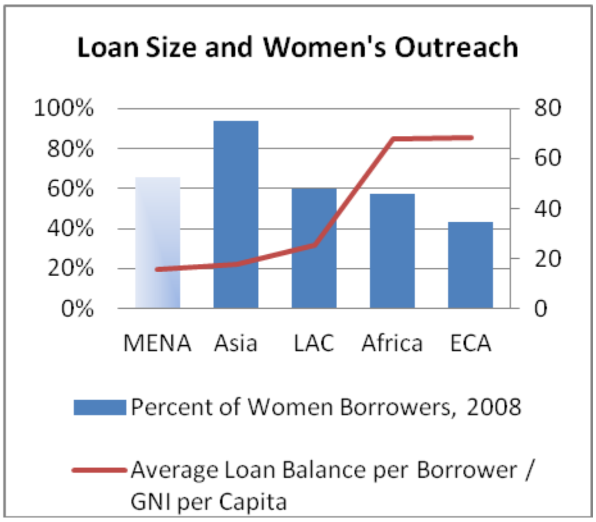

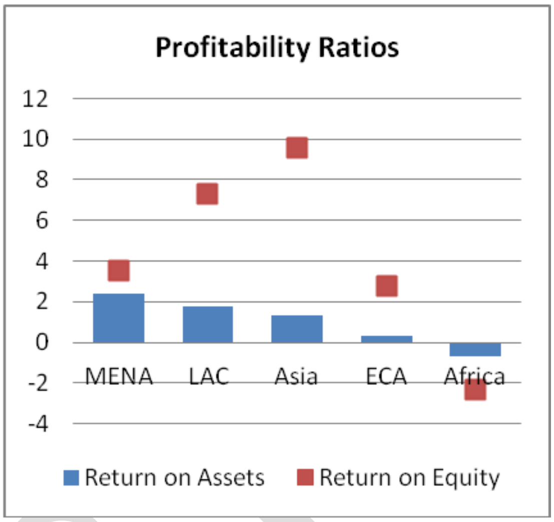

Source**:** MIX , 2009 Arab Microfinance Analysis & Benchmarking Report.

64. Analysts believe that in coming years the industry will have to address a number of challenges, including interest rate ceilings in Morocco and Egypt that have "prevented banks from downscaling," the growing need for large MFIs to "strengthen their equity base and diversify their funding sources," regulatory opposition to branchless banking, and the need for policy "frameworks to support microfinance commercialization" (Microfinance Information Exchange, 2009, page 6).

Corporate bond market

65. The MENA region has largely lagged behind the general trend towards disintermediation observed in other regions, where "financial intermediation has been shifting away from banks' on balance sheet activities to securities markets[…]since the early 1980s" (Thompson, 2001). In 2008, private debt securities represented only 4.0% of GDP, and those with public origins a further 2.9% (IMF, 2010).

A **corporate bond** is issued by a corporation to raise money in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date. Corporate bond funds are comprised of bonds issued by corporations.

66. Despite their small size, MENA bond markets are recovering well in the aftermath of the economic and financial crisis. New issues climbed from a low of $7.4 billion in 2008 to $31.4 billion in 2009, and though bond markets in the Gulf – traditionally the powerhouse of MENA issuance – "remained shut for months following Dubai World's debt standstill announcement in November" 2009, the first seven months of 2010 saw the region raise over $17 billion from international markets (Uppal, 2010).

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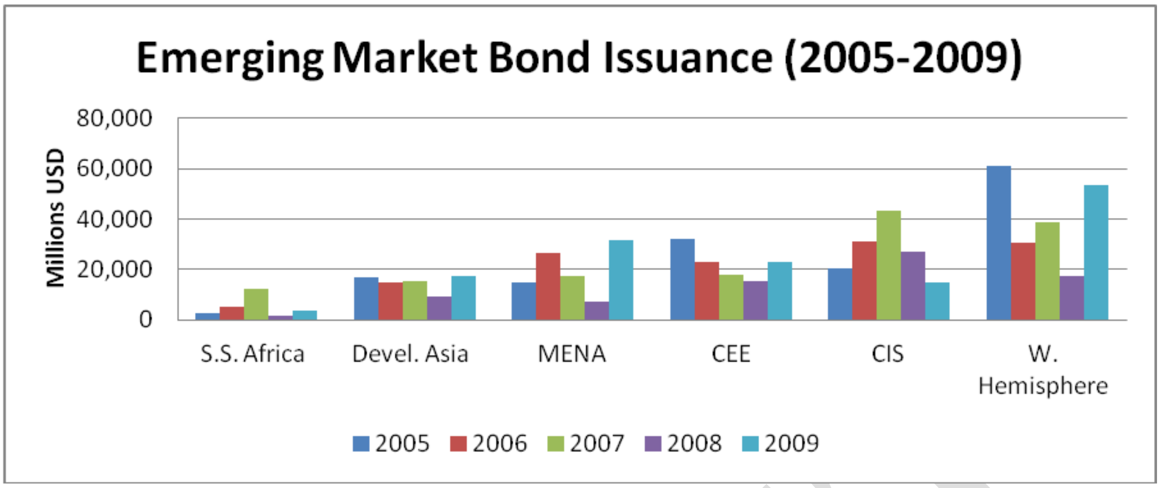
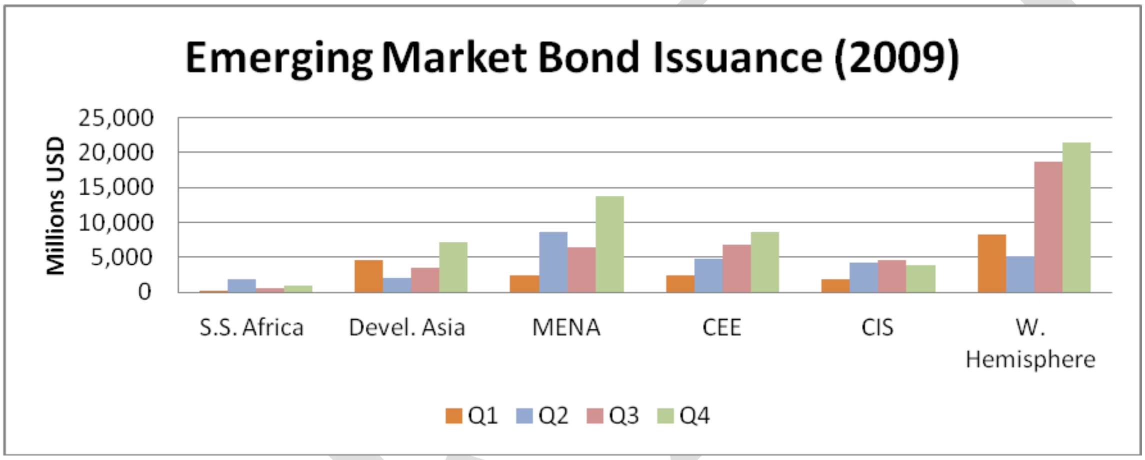


Source: IMF Global Financial Stability Report, April 2010.



Source: IMF Global Financial Stability Report, April 2010.

67. The rising popularity of Islamic finance has caused MENA region *sukuk* (Sharia-compliant debt instruments) issuance to grow in recent years.

Islamic finance

68. Islamic financing "refers to a system of finance based on" the principles of Islamic law (*Sharia)* (Karim, 2008). Known for its prohibition of *Riba*, i.e. 'returns of a "fixed and predetermined nature [that are] disconnected from the performance of the asset financed,'"[10] it builds on the premise that borrowers and lenders share both losses and profits. Hence, "providers of funds are not considered creditors (who are typically guaranteed a predetermined rate of return), but rather investors (who share the rewards as well as risks associated with their investment)" (Karim, 2008).

[10] http://www.vernimmen.com/html/glossary/definition_islamic_finance.html

Box 5. The Five Pillars of Islamic Finance (Source: Standard & Poor's *Glossary of Islamic Finance Terms,* 2008)

1. No charging or payment of interest on any financial transaction, as interest is unlawful by Sharia.

2. Uncertainty in contractual terms and conditions or speculation is forbidden. However, risk taking is allowed when all the terms and conditions are clear and known to all parties.

3. Financing of economic sectors deemed unlawful by Sharia is forbidden e.g. weapons, pork, gambling.

4. Risk and reward sharing principles apply to parties of a financial transaction.

5. Each financial transaction must refer to a tangible, identifiable underlying asset-backing principle.

69. Within this premise, Islamic financial institutions (IFIs) use innovative juridical structures to offer a set of services which seek to achieve similar aims as services provided by traditional banks. Some of the most popular Islamic financial products include:

- ***Sukuk***, "Sharia-compliant financial certificates similar to bonds";
- ***Murabaha,*** "the financing of a sale at a determined markup (cost plus profit margin)";
- ***Ijarah,*** "a leasing contract typically used for financing equipment";
- ***Musharaka*** and Mudarabal, "profit and loss sharing (PLS) schemes…in which the parties share the profits or losses according to a predetermined ratio" (Standard & Poor's, 2008).

70. Worldwide, IFIs are recovering well from the financial crisis. According to Standard & Poor's *Islamic Finance Outlook 2010*, "assets of the top 500 Islamic banks expanded 28.6% to $822 billion in 2009 and total assets of about $1 trillion worldwide." *Sukuk* issues rebounded, bringing cumulative issuance past "the symbolic mark of $100 billion at year-end 2009" (Standard & Poor's, 2010).

71. Contrary to popular beliefs, the IFI is not centred in the MENA region. In 2009, 63.9% of global *sukuk* issues occurred in Asia.[11] Asia's dominance is largely due to a strong performance in Malaysia. The limited impact in the MENA region in 2009 was amongst others due the continued weakness in the UAE, which had not recovered from the near-default of Nakheel (real estate development company) on a major *sukuk* in December 2009". Analysts believe that, should Islamic banking gain importance in the MENA region in the future, impact on companies will remain limited under current conditions.

[11] According to the report, Malaysia "serv[ed] as the host country to 54.1% of the region's issuers".

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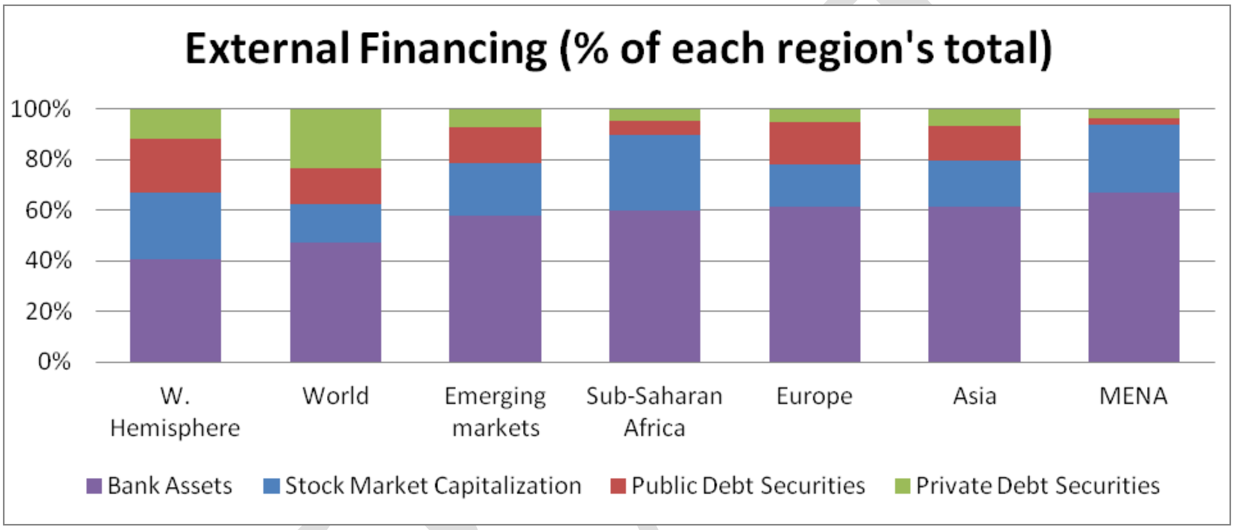
Equity financing

72. In the MENA region, equity financing is emerging. Formal angel investors and venture capital are in their very early stages. In some cases, larger firms are targeted for private equity investments. In 2009, the Emerging Markets Private Equity Association estimated private equity penetration at 0.11% in the MENA region (versus 0.30% in the United States).



Source: IMF Global Financial Stability Report, April 2010. Data from 2008.

73. The magnitude of informal lending and the impact both on the development of formal and informal entrepreneurship is difficult to assess. The question may of course also be posed to what extent informal funding inhibits the development of the capital market in the MENA region.

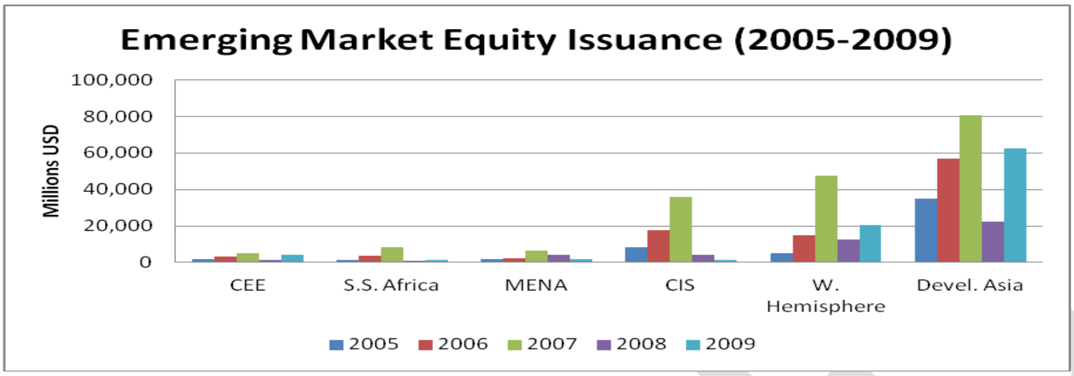
Venture capital

74. The MENA region's venture capital industry is still in its early stages, and the activity that does occur is heavily concentrated in the region's financial centres.

75. One venture capital group in the region attributes the industry's comparative underdevelopment to "the challenges inherent in venture capital investing, the scarcity of the required technical knowledge and expertise in this field, and the inability of many regional financial institutions to adjust their scope of business, strategic objectives, and human and technical resources, to embrace such non-traditional investment activities." (Venture Capital Bank, 2009).

Equity markets

76. Although most MENA countries now boast stock exchanges[12], the region's equity markets remain a secondary source of external financing, open to relatively large, well-established firms.



Source: International Monetary Fund, Global Financial Stability Report (April 2010)

77. In 2007, the number of listed companies in the MENA region was roughly a quarter of East Asia & Pacific's and a sixth of South Asia's. These gaps widened as a result of the economic crisis contraction. The MENA region's equity capital markets are not only shallower than those of developed economies; they compare unfavourably with other emerging regions on the basis of the turnover ratio (i.e. dividing "the number of securities bought and sold during a trading period...by the average of the number of securities outstanding at the beginning and the end of the trading period" (OECD, 2010b).

78. Data are not available for every country in the region but the IMF estimates that after peaking at $6.4 billion in 2007, total MENA equity issuance dropped to $4.0 billion in 2008. Strong performance by Qatar and Saudi Arabia in 2009 failed to offset continued weakness in the United Arab Emirates and Egypt, and issuance declined again to $1.9 million, despite a sharp recovery observed in emerging markets in Asia, Central and Eastern Europe, and the Western Hemisphere (see graph).

79. Within the region, the depth, liquidity, and openness of equity capital markets vary. The leading Saudi Stock Exchange (also known as Tawadul) lists 144 companies in 15 sectors and enjoys a daily trading volume of roughly $27 million (Tawadul, 2010; Gulfbase, 2010).[13] In Syria, the nascent Damascus Securities Exchange lists less than 20 securities (Damascus Securities Exchange, 2010).

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[12] See Annex 2: MENA Stock Exchanges

[13] 50 day average as of 15/9/2010.

Growth Boards

80. Stock exchanges have stringent listing and disclosure requirements (e.g. minimum market capitalisation or minimum revenue) that smaller companies – which account for the vast majority of companies in the MENA region– are unable or unwilling to satisfy (Sharif, 2010). Hence, they are barred from listing.

81. Recognising this funding gap, stock exchanges in other regions have introduced growth boards (London Stock Exchange's 'AIM,' Tokyo Stock Exchange's 'Mothers,' the Singapore Exchange's 'Catalyst') to promote smaller companies that nonetheless display significant potential. These boards have relaxed listing standards, but sometimes require continued involvement from a sponsor or underwriter that 'guides' the company.

82. It would seem that organisations in MENA countries are exploring the possibility of setting up such an exchange (Sharif, 2010). The Egyptian Stock Exchange is the first exchange in the region to host a dedicated growth board: the Nile Stock Exchange (NILEX) launched on 3 June 2010. Borrowing its structure from AIM's "nominated advisors" system, NILEX seeks to "provide medium and small fast growing businesses, including family-owned businesses, from any country and any industry sector, a clear access to capital and the benefits of being traded" (Nilex, 2010).

DRAFT

V. Annex 2: Stock Exchanges in the MENA Region

Stock Exchanges in the MENA Region

Country	Exchange	Website
Algeria	Bourse d'Alger (Algiers Stock Exchange)	www.sgbv.dz
Bahrain	Bahrain Stock Exchange (BSE)	www.bahrainstock.com
Djibouti	N/A	
Egypt	Egyptian Exchange (EGX)	www.egyptse.com
Iraq	Iraq Stock Exchange (ISX)	www.isx-iq.net
Jordan	Amman Stock Exchange (ASE)	www.ase.com.jo
Kuwait	Kuwait Stock Exchange (KSE)	www.kuwaitse.com
Lebanon	Beirut Stock Exchange (BSE)	www.bse.com.lb
Morocco	Casablanca Stock Exchange (CSE)	www.casablanca-bourse.com
Oman	Muscat Securities Market (MSM)	www.msm.gov.om
Qatar	Qatar Exchange (QE, formerly DSM)	www.dsm.com.qa
Saudi Arabia	Saudi Stock Exchange (TASI) Tadawul	www.tadawul.com.sa
Syria	Damascus Securities Exchange (DSE)	www.dse.sy
Tunisia	Bourse de Tunis (BVMT)	www.bvmt.com.tn
United Arab Emirates		
Dubai	Dubai Financial Market (DFM)	www.dfm.ae
Dubai	NASDAQ Dubai	www.nasdaqdubai.com
Abu Dhabi	Abu Dhabi Securities Exchange (ADX)	www.adx.ae
Yemen	N/A	

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VI. Annexe 3: Conclusions of the Conference on Enhancing the Business Enabling Environment for Women in Arab Economies (Beirut, Lebanon, 24 November 2010)

Co-organised by the OECD and the Union of Arab Banks, this Conference brought together high-level business and government leaders from across the MENA and OECD regions as well as representatives of key international organisations, businesswomen's associations, NGOs, and academia.

Welcoming remarks were provided by H.E. Mr. Adnan El Kassar (Lebanese Minister of State and President, General Union of Chambers of Commerce, Industry and Agriculture for Arab Countries) and H.E. Ms. Raya Haffar El-Hassan (Lebanese Minister of Finance). H.E. Mr. Nizar Baraka (Moroccan Minister in Charge of General and Economic Affairs), H.E. Mr. Ali Khashan (Minister of Justice, Palestinian Authority) and H.E. Ms. Karen Kornbluh (United States Ambassador to the OECD and Co-chair of the OECD-MENA Women's Business Forum), launched the conference.

The conference provided an opportunity to exchange information and good practices for improving the operational conditions for women's enterprise development. The three sessions focused on: (1) improving financial support for women entrepreneurs, (2) improving women's access to enterprise support, and (3) a draft inventory of policies, institutions and programmes supporting women's enterprise in the Middle East and North Africa.

During session 1 on "Improving Financial Support for Women Entrepreneurs", participants agreed on the following conclusions:[14]

"Participants:

1. Explored innovative means to secure adequate financing for the growth and development of women-led businesses, and underlined the need to engage in both supply side and demand-side actions.

2. Agreed that while insufficient access to entrepreneurial finance is an obstacle faced by both men and women in the MENA region, a targeted and tailored approach is needed to effectively improve the provision of financing for women entrepreneurs, especially for the "missing middle"; despite high liquidity in MENA region banks, risk aversion leads the financial sector to concentrate funding in micro and large enterprises.

3. Underlined the need to improve the depth and harmonisation of data on the small- and medium-sized enterprise (SME) sector and to improve credit information systems.

[14] The full conclusions can be viewed at the following link: http://www.oecd.org/dataoecd/9/21/46572689.pdf.

4. Presented a series of good practices for improving women's access to financing, which included the provision of tailored financial services and products by banks, the creation of credit guarantee schemes for target groups, programmes to improve women's financial and entrepreneurial literacy, and corporate governance actions such as the recruitment of female employees in banks. They underlined the need to co-ordinate efforts and share knowledge and best practices through networks.

5. Called for supply-side actions such as the need to re-invigorate regional business angels and business angel networks to increase the provision of entrepreneurial finance.

6. Called for demand-side actions such as greater technical assistance and training both to sensitise financial institutions and to build women entrepreneurs' capacity.

7. Suggested that the OECD Secretariat collect best practices on improving women's access to finance, which would be included in the draft issues paper on *Women's Access to Finance in the Middle East and North Africa*. This could be done through email or through the Women's Business Forum's interactive web platform (https://community.oecd.org/community/psdwbn).

8. Agreed that participants could send follow-up recommendations to the OECD, via the MENA-OECD Investment Programme Secretariat."

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