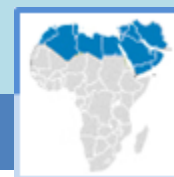




# MNA Knowledge and Learning ...Fast Brief



## iMENA: AN INNOVATION AGENDA FOR JOBS

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**Introduction:** A critical issue in the MENA region is employment, especially for youth and women. Young Arabs have some of the highest unemployment rates in the world, and women are significantly excluded from the job market. Also given high concentrations of poverty in some of our countries (Egypt, Morocco, etc.) inclusive growth focused on creating jobs and economic opportunities for the poor and dispossessed is a key part of the agenda. The recent revolutions have only further highlighted the critical importance of job creation for the region.

Yet the region – except in some industries and in some countries – is unlikely to have a comparative advantage in labor intensive manufacturing vis a vis Asia. Moving up the value chain, getting more involved in the service sector, in combination with greater innovation in private sector practices and products – will be the only way to produce the middle income level jobs that the region so desperately needs. Innovation and enhanced Competition are critical for the JOBS AGENDA in the region. This is a key pillar of the World Bank's Private Sector Strategy for the MENA Region (2011).

**Developing a Supportive Business-Eco System:** Supporting Innovation will require establishing an enabling business-Eco System – which, in turn, will require, *inter alia*:

- More open Trade and stronger Foreign Direct Investment;
- A supportive investment climate and business regulations;

- Pre-bank and other forms of bank and non-bank financing (innovation financing);
- Links with institutions of higher education, vocational Institutions;
- Mentoring and Incubation support;
- Connections with the diaspora;
- Entrepreneurship, willingness to take risk – and acceptance of failure (ability of firms to enter and exit easily);
- Significantly stronger competitive pressures within the private sector.

**The Critical Role of Innovation Financing:** MSME studies note that 85 to 90 percent of MSMEs retain the same level of employment year after year. It is the remaining 10 to 15 percent that generate 50 to 80 percent of the new jobs. These are the *Start Ups* and the *Gazelles* (see below) or young growing businesses. Unfortunately, most banks will not finance these MSMEs – as they are not disposed to financing new, un-tested startup companies, and because they have no capacity to be able to identify the Gazelles (high growth companies) that will grow from 10 employees this year to 200 employees next year. The need is for radically different forms of finance – most importantly pre-Bank financing in the form of Angel Finance, Seed Finance and Venture Capital, crowd funding and accelerators. Bands of Angels and Venture Capitalists in the region have been rare – but we are beginning to witness their emergence in recent years. We are also witnessing a booming of peer-to-peer lending and crowd funding models. As these are the types of financiers who are most likely to fund high-growth-high-employment generating firms, their further development is important. Accelerators such as Y combinator, seedcamp and techstars illustrate the importance of providing coaching, networks, and advice – along with capital. It is

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these types of financing needs and gaps that innovation projects focus on.

### **Gazelles, Start-Ups and Innovation in MENA:**

Recent work on SMEs has focused attention on the characteristics of high growth firms, which are likely to generate the majority of new jobs in diverse economies; and on innovative firms, which contribute to productivity growth. An examination of enterprise survey responses from almost 3,000 SMEs in seven MENA countries links rapid employment growth within firms to several firm characteristics: offering workers formal training; innovation (defined as introducing a new product or upgrading an existing one); having a website; and having 5% or more of workers with a university degree or higher. Also important is having international quality certification. Some of these are areas where the region lags – for example, international data suggests MENA is the second worst region in both the rate of firms offering formal training and firms obtaining an internationally-recognized quality certification. Finally, the analysis suggests the importance of an integrated competition policy. Simply stated, there is a strong imperative to encourage gazelles and start-ups to innovate, educate, train, certify, link, and compete!

### **MNSFP and the Innovation Agenda – Operations:**

*Innovation Projects in MENA – Moving Towards MENA's First Innovation Project in Lebanon:* ECA and LAC have been preparing and delivering "Innovation Projects" for many years. MENA (the "other" MIC Region in the Bank) has yet to take an Innovation Project to the Board. In 2011, the Government of Lebanon requested World Bank support for a project to support innovative activities within the private sector. The Lebanese authorities and the Bank team have proposed a pilot investment fund to provide a combination of cash and equity financing to foster innovative ideas and support start-ups at the early stage growth of firms. The project draws on the Latin American and Eastern European experiences while recognizing MENA differences. This first project is slated for FY12 – hopefully this could help a roll-out of innovation projects across the region. In mid-November, MENA received a request for support on innovation from the Government of Jordan.

*Matching Grants Schemes:* In general, these schemes provide a 50 percent subsidy to particular types of activities which support firms in adopting a new

technology, expanding their marketing strategy, diversifying their product design, attending a trade fair, etc. – that helps to bring new ideas, techniques, skills, and ways of thinking into the production process. To date, MNSFP has supported two such projects in Tunisia – the Export Development Project (I and II), which have a focus on innovation in export markets – and is currently preparing an EDP 3, with an even stronger focus on innovation.

An ex-post impact evaluation – based on a survey of 500 Tunisian firms which benefitted from the EDP projects – suggests that they had a significant impact on export growth with a 39% higher average annual growth rate for program beneficiaries relative to a control group over four years. The effect in terms of products and destinations is more subdued: about 5% higher growth for beneficiaries. There was also a significant increase in employment growth, 10% more for program beneficiaries than for control firms.

A similar operation – the Facility for New Market Development (FNMD), a joint World Bank-DfID project, supported the development and implementation of new market and product plans by local enterprises in West Bank and Gaza. The FNMD matching grant scheme benefitted 226 companies over 2008-11. Program results indicate that 58 companies entered new export markets, 134 companies entered new local markets, and 66 companies succeeded in developing new products. FNMD generated around US\$ 52 million in incremental export and local sales and 901 people were hired as a result of the businesses' expansion. The New Palestinian Market Development Project and Multi-Donor Trust Fund will promote private sector growth in WBG and continue to support the Matching Grants scheme – albeit with a modified structure.

### **Knowledge Sharing On Innovation:**

*Innovation Conference with ECA-MENA in Eastern Europe in 2012:* As a late comer to the Innovation Space – the MENA Region is seeking to leverage the longer experience gained in this field by LAC and ECA. To this end the region is using staff from these regions on cross support, as peer reviewers, and to advise on operational and analytical work. In combination with the ECA region, MENA is also jointly hosting (along with WBI) an Innovation Conference which will bring together key players from the MENA Region with critical thinkers on

Innovation from the ECA Region. Connections will be made and field visits will be undertaken with European/Czech innovators to help expose MENA to the power of innovation in the private sector.

*The Knowledge Economy Report – Knowledge, Innovation and Competition (KIC!):* In cooperation with the Marseilles Center for Mediterranean Integration (CMI) and with colleagues from other sectors in the MENA Region, work is proceeding on the first *Knowledge, Innovation and Competition Report* for MENA. A workshop on this topic was held at the CMI in mid-November and the report will be finalized by end FY12. This report will build on lessons from the “P2C - From Privilege to Competition: Fostering Innovation and competitiveness in the MENA region” learning event organized by MNSFP in Beirut in June 2011. The report analyses the relationship between job creation and a knowledge-innovation model, sheds light on skills challenges and employment opportunities in MENA, discusses institutional reforms required to promote growth, and looks at the role of regional integration to promote the emergence of innovation approaches.

*South-South Learning Experiences:* Learning from others – particularly other countries at similar levels of development, can be exceedingly powerful in spurring the innovation agenda. Recent South-South learning exchange between the Lebanese Government and the Government of Singapore on Innovation support, R&D, entrepreneurship, SMEs, venture capital, incubation, ITC, e-Government, and the business environment – proved particularly important in catalyzing interest in MENA’s first innovation project. More needs to be done – particularly with some of the more recent entrants into the OECD (such as Turkey, Korea, and Chile) in addition to the established European and North American markets. Linking with Palestinian entrepreneurs in the West Bank and further afield could also open a door to learning from the Israeli experience in innovation.

*Diaspora Links – TechWadi, Rising Tide, LEBNET, and Endeavor:* Over the past year, the region has been liaising with diaspora networks in the US and Canada and plans links with networks in France and the United Kingdom. To this end, FPD signed a Memorandum of Understanding with TechWadi/Rising Tide out of Silicon Valley to provide mentoring support to new and fast growing enterprises in MENA. Initial contacts have also been made with LebNet, the Lebanese

diaspora group in the San Francisco Bay Area. Partnerships are under discussion with Wamda and Oasis500 – two major regional initiatives that support entrepreneurial activities with strong linkages to diaspora entrepreneurs and investors.

*Development Marketplace Egypt – supporting Innovative Social Entrepreneurs and Innovative Ideas:* The well established model of the Development Marketplace is designed to support new and innovative business proposals. Increasingly this model has moved outside of Washington and focused on Innovative Social Entrepreneurs – particularly impacting the lives of those operating at the Bottom of the Pyramid. In FY12 the MENA Region and WBI will be supporting an Egypt Development MarketPlace which will support Innovative Social Entrepreneurs with a major emphasis on Job Creation. With assistance from key bilateral and possibly other multilaterals, it is anticipated that this model will be scalable and replicable across the region.

*A Virtual Market Place – Alibaba in the Middle East:* Helping MSMEs enter these more demanding export markets, while also supporting greater MSME integration within the Arab world is the vision of the Virtual Market Place. Similar platforms in China and elsewhere have provided on-line buying and selling platforms, in conjunction with on-line payments services, to greatly simplify the movement of goods (and potentially services) across a common market. Initial contacts have been made with Google to partner on this joint activity and funding has been secured from the World Bank’s Innovation Fund to take these ideas forward.

*Innovation and Competitive Industries:* The Global Practice approach of the FPD Network links Innovation strongly with support for Competitive Industries. This is NOT an attempt to “pick winners” but rather an effort to build on the natural comparative advantages of a country. MNSFP is partnering with the regional IFC Investment Climate team to undertake a pilot competitive industries project in Jordan focusing on medical tourism, ICT and renewable energy/energy efficient services. In cooperation with WB and IFC tourism and investment specialists, a Tourism Workshop is being planned for April 2011 – which could lead to the preparation of a regional Tourism Sector strategy.

## Multi-sectoral interventions in the Innovation Agenda in MENA:

*Innovation and Sustainable Development – Green Innovation:* MNSSD has a range of innovation-focused initiatives underway: studies on "green growth", waste-to-energy and wastewater reuse projects, creation of climate innovation centers, capacity-building in NASA-created techniques of remote mapping of water resources, regional deployment of concentrated solar power studies on renewable energy desalination, and bus rapid transit as a solution for urban congestion – to name but a few. The demand from the region for technology and innovation-based interventions by the Bank is expected to substantially increase as part of the political transformation. Given the costs of years of environmental neglect, Green growth is likely to be an important dimension.

*Private Sector driven Education, Training and Learning for Innovation and Competitiveness:* A major challenge for most businesses in the region is that educational institutions and vocational colleges do not produce individuals with the requisite skills to meet private sector needs. MNSFP is working with MNSHD in linking tertiary education, private sector firms and global industry experts to develop a competitive pilot apprenticeship scheme in West Bank and Gaza. The scheme will complement the successful WB Tertiary Education project.

*Grass Roots Innovation:* Innovation that reaches down to the bottom of the pyramid is important for many countries of the region. While its importance is clearly evident in countries such as Egypt, Yemen, Djibouti, Morocco, and Lebanon – with either large populations or high levels of poverty or both – it could be equally important for wealthier countries with pockets of poverty such as Libya, and Saudi Arabia. Learning from other countries where grass roots innovation experiments have traditionally played a much more important role – such as in India – will be critical to this new agenda item.

**Developing an Innovation Strategy for MENA (iMENA):** The experiences gained and lessons learned through the above interventions and engagements are evolving into a regional strategy. In collaboration with the Innovation, Technology and Entrepreneurship (ITE) Global Practice, MNSFP is preparing a MENA Region Innovation Strategy. It is envisaged that the MENA Innovation Strategy (iMENA) will be produced initially as a short document and will become a living document as knowledge and understanding of the issues deepens and our involvement in this work increases. The team is also being brought into the preparation of the ECA Innovation Strategy – so that both teams can learn from each other in this new area of regional Innovation Strategy formulation.

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