



Concept Note

UNIDO

Business, Investment and Technology Branch

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Creating job opportunities for youth and women through the promotion of MSMEs in Iran

1. BACKGROUND

Iranian economy is experiencing a negative per-capita income growth rate; many sectors have been suffering harsh business conditions with loss of jobs. Employment has become the first priority for the Iranian Government and policymakers. This concept note addresses the **Government objective and strategy to create job opportunities and increase the employment rate.**

Iran is the **second largest economy in the Middle East and North Africa (MENA)** region in terms of GDP - US\$484 billion in 2012 (after Saudi Arabia) and in terms of population - 78 million people (after Egypt). It is characterized by a large hydrocarbon sector, small scale private agriculture and services, and a noticeable state presence in manufacturing and finance.

Late 2013, the **overall and youth unemployment rates were estimated at 10.3% and 24.3%, respectively.** Unofficial sources, however, estimate the overall unemployment rate to be as high as 20% or more. Only 36.7% of the population is economically active. The relatively weak prospects for employment creation combined with the increased number of new entrants into the labor market – fuelled by the rise in the participation rate of women and the large number of youth entering the labor market – suggest that labor conditions will remain tight in Iran in the foreseeable future. The participation rate of women in the labor market has risen from 14% to 16% between 2000 and 2011. This trend is expected to be maintained in line with the evolving socio-economic profile of the country, which is increasingly characterized by higher educational attainment levels for women (as of 2006, female students comprised over half of overall university students and 70% of all students enrolled in science and engineering). The demographic profile of the country is characterized by a disproportionately high youth population (with over 60% of the 73 million individuals under the age of 30). As a result, **some 750,000 youth are estimated to enter the labor market every year**, with a large portion of them being unemployed or abandoning their job search and joining the ranks of the economically inactive population. Some 150,000 youth are estimated to be migrating to other countries every year in search of better economic prospects, which may lead to a substantial shortage of skilled labor in the long-term.¹

¹ World Bank country overview; <http://www.worldbank.org/en/country/iran/overview>

As of 2007, Asian entrepreneurs made the largest **investments** in Iran by investing in 40 out of 80 projects funded by foreigners. The largest amount of foreign investment was in the industrial sector, including food and beverage, tobacco, textiles, clothing, leather, chemical, steel and oil derivatives. The figure exceeded US\$8.76 billion. Water, electricity and gas sector ranked second, attracting \$874.83 million. In the third place, the real estate sector absorbed more than \$406 million. Investments in service, telecommunication, transportation and mines reached \$193 million, \$14.3 million and \$14.2 million respectively. Asian countries invested \$7.666 billion in various projects followed by several multinational consortia. Investments by these multinational companies exceeded \$1.39 billion (in four projects). Although European entrepreneurs were involved in 34 projects, they invested only in the range of \$1.2 billion in the Islamic Republic. American countries also committed \$12.329 million in the country; while investments by African states registered close to \$4 million.

A recent study undertaken with the cooperation of UNIDO shed light on **the significant role of SME's as employers of more than 63% of the total manpower in Iran's industrial sector**. The study also showed that more than 98% of all businesses are micro enterprises with 1 to 9 employees. However the same study reveals the inefficiencies of such micro enterprises when compared to medium sized companies. Medium sized enterprises worldwide typically account for a large proportion of a country's export volume however, as in Iran they accounts for less than 0.1% of the total number of enterprises they do not make a significant contribution to the exports. A 2003-report made by UNIDO regarding the state of SME's in Iran identified these causes as the ones **impeding Iran's industrial development**: lack of monitoring institutions, inefficient banking system, lack of sufficient R&D, shortage of managerial skills, corruption, inefficient taxation, socio-cultural apprehensions, absence of social learning loops, lack of familiarity with international markets necessary for global competition, cumbersome bureaucratic procedures, shortage of skilled labor, lack of intellectual property protection, shortage of research centers, lack of social capital, social learning, social responsibility and socio-cultural values. Despite these problems, recent studies reveal that over the past few years Iran has progressed rapidly in various scientific and technological fields. Major advancements have taken place in the petrochemical, pharmaceutical, aerospace, defense, and heavy industry sectors. Even in the face of U.S. economic sanctions, Iran appears to be emerging as an industrialized country.

2. THE PROJECT PROPOSAL

The **main objective** of the project is the **creation of decent and productive work for young women and men through MSME creation and growth**, inter alia through facilitating access to finance, entrepreneurship development and skills training, in sectors with a high potential for economic growth.

Iran has enormous potential in terms of economic growth through job creation due to its relatively young population. However, prior to determining in which sectors the project can assist, an overall mapping needs to be undertaken to select the provinces and sectors; the project will be implemented in three phases and will address progressively provinces and sectors selected based on their comparative advantages, so to assure the best cost effectiveness and the sustainability of the project and therefore of the jobs created. Both urban and rural enterprises will be targeted, with particular attention to micro and small enterprises. Educated

youth, women and vulnerable parts of the population will be the priority beneficiaries of this project.

The proposed project will **identify value chains and sectors** with opportunities for business creation as well as enterprise growth and the potential to absorb job-seekers, particularly educated youth, women and vulnerable parts of the population. Potential sectors could be the automotive sector, agriculture and manufacturing. Along the selected value chains the project will identify possible entry-points and opportunities for **self-employment and employment** particularly for educated youth, women and vulnerable parts of the population, in close cooperation with the private sector. The project will subsequently encourage and support young entrepreneurs to set up their businesses as well as equipping young job-seekers with the technical skills needed by the private sector. Once assessed and fine-tuned, the methodology will be replicated to other provinces. In the first phase, and in order to keep the project to a manageable size, a limited number of provinces and selected sectors will be addressed, on the second phase and third phase the sectors' approach will be replicated to further provinces and new sectors.

After analysing opportunities and challenges for MSME creation and development as well as employment in Iran and a thorough assessment of the financial and non-financial services available to young entrepreneurs, the project will assist local financial institutions in providing access to financial services to young women and men who want to start a business, develop their existing business further and eventually achieve growth.

The project will also provide policy advice to strengthen the business environment and create the condition for the further development and consolidation of the sectors.

Job creation through the creation, development and growth of MSMEs can contribute to sustainable economic development in the country. **Within the larger objective of facilitating access to finance to (starting) MSMEs, the project's approach is twofold.** On one hand, the project will focus on **strengthening institutional capacities** in order for these institutions to adequately coach and assist youth and women led MSMEs in selected value chains. On the other hand, the project focuses on **training these youth and women led MSMEs** by assessing their needs and assisting them in their entrepreneurial activities.

3. OBJECTIVES

Development Objective: To assist the Government of Iran in its efforts to create employment opportunities for women and youth through the entrepreneurship development in the productive sectors of the economy.

Key Immediate Objective (Outcome): Enhanced capacities of selected productive sectors in selected provinces, with [amount to be identified] jobs created for young women and men.

Outputs:

1. Priority provinces and sectors identified;
2. Sector-specific technical assistance delivered;
3. Entrepreneurship development trainings to young women and men provided;
4. Sector-specific institutions' capacity built.

4. BENEFICIARIES

The beneficiaries will be:

- Urban and rural micro and small enterprises
- Educated youth, women, vulnerable people (disabled and household-head women etc.)

5. COUNTERPART

The project counterpart is the Ministry of Cooperative, Labor and Social welfare (MCLS) in cooperation with the State Welfare Organization, under the MCLS.

6. DURATION

The project will be implemented over 5 years and rolled out over potentially 30 provinces in consecutive phases.

7. ESTIMATED BUDGET

The estimated budget is 12,000,000 USD to be paid by the Government of Iran.