



# **BUSINESS CLIMATE DEVELOPMENT STRATEGY**

## **Phase 1 Policy Assessment**

### **EGYPT**

#### **DIMENSION I-6**

#### **SME Policy and Promotion**

June 2010

Partner: European Union

This report is issued under the authority of the Steering Groups of  
the MENA-OECD Initiative

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## Acronyms

<b>BCDS</b>	Business Climate Development Strategy
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>GDP</b>	Gross domestic product
<b>MSME</b>	Micro, small and medium-sized enterprises
<b>UNDP</b>	United Nations Development Programme
<b>SME</b>	Small and medium-sized enterprise
<b>GEM</b>	Global Entrepreneurship Monitor
<b>ETTIC</b>	Egypt Technology Transfer and Innovation Centres
<b>SFD</b>	Social Fund for Development
<b>FDI</b>	Foreign direct investment
<b>NSDP</b>	National Supplier Development Programme
<b>IMC</b>	Industrial Modernisation Centre
<b>GAFI</b>	General Authority for Investment
<b>IDA</b>	Industrial Development Authority
<b>MOF</b>	Ministry of Finance
<b>MOTI</b>	Ministry of Trade and Industry
<b>MOHER</b>	Ministry of Higher Education and Research
<b>MOI</b>	Ministry of Investment
<b>EU</b>	European Union
<b>RDI</b>	Research, Development and Innovation Programme
<b>NGO</b>	Non-governmental organisation
<b>R&amp;D</b>	Research and development
<b>SEDO</b>	Small Enterprise Development Organisation
<b>MSEs</b>	Micro and small-sized enterprises
<b>EGP</b>	Egyptian pounds
<b>SMEI</b>	Small and medium-sized investments
<b>ICT</b>	Information and Computer Technology
<b>BDS</b>	Business Development Services
<b>IDS</b>	Industrial Development Strategy
<b>USAID</b>	United States Agency for International Development
<b>CIDA</b>	Canadian International Development Agency
<b>FEI</b>	Federation of Egyptian Industries
<b>MENA</b>	Middle East and North Africa
<b>IDRC</b>	International Development Research Centre
<b>MNE</b>	Multinational enterprise
<b>EEIF</b>	EU–Egypt Innovation Fund
<b>EIA</b>	Egyptian Incubator Association
<b>MCIT</b>	Ministry of Communications Information and Technology
<b>IMP</b>	Industrial Modernisation Programme

## EXECUTIVE SUMMARY

Micro, small and medium-sized enterprises (MSMEs) account for over 90% of active enterprises in Egypt and contribute to over 80% of GDP and 75% of total employment.<sup>1</sup> Yet they remain at a clear disadvantage vis-à-vis larger businesses. According to a survey conducted by NILEX (the Egyptian stock exchange for growing medium and small companies), SMEs account for only 10% of total capital accumulation in Egypt and, while 75% of SMEs apply for banking loans, 92% of applications are rejected. The result is that loans to SMEs account for only 6% of the total loan portfolio of Egyptian banks.

Nevertheless, Egypt has a vibrant entrepreneurial population with strong potential for growth. The Global Entrepreneurship Monitor's 2008 report on Egypt ranked it 11th out of 43 countries for entrepreneurial performance. Of the Egyptian adult population 13.1% were either actively trying to start a business in 2008, or already owned and managed one that was less than three years old.<sup>2</sup>

### Achievements

*Egypt has developed a policy framework to support MSEs*

Egypt has recognised the importance of a policy framework to support SMEs. Under the terms of a 2004 law on SMEs, it has developed a structured policy framework for micro- and small enterprises (MSEs). It is the responsibility of the Social Fund for Development (SFD), the main public player and policy coordinator for the micro and small segment of the SME population. In parallel, the SFD has developed targeted policy tools to help MSEs establish and grow their businesses. The SFD provides a range of programmes, including business support services, micro-finance activities, and a network of business incubators.

Egypt has made considerable improvements in delivering targeted policy to enhance SME innovation through dedicated centres and networks – namely, the Egypt Technology Transfer and Innovation Centres (ETTIC). Egypt also performs well in helping to improve SME operations through start-up and growth services provided by the Industrial Modernisation Centre (IMC). The government has successfully transformed the National Supplier Development Programme (NSDP) from a pilot project to an operational linkage platform which works actively to connect foreign investment with small firms.

### Challenges

This BCDS assessment reveals that there are still a number of institutional and policy-related challenges and gaps that limit the ability of the government to solve co-ordination issues or address the specific market failings that affect SMEs' growth and development.

*There is a policy gap as regards SMEs with high-growth potential, a sector where institutions are active but work in isolation from each other and are sometimes ill-equipped to meet the needs of fast growing SMEs*

The institutional setting of SME policy is complex, encompassing a range of ministries and specialised agencies. Ambiguities in the delegation of responsibility and task assignment pose a risk of policy gaps, overlaps, and the duplication of policy measures. There are five institutions that have a prominent role in shaping SME policy in Egypt: the SFD, the Ministry of Trade and Industry, the Ministry of Investment (MOI), the Ministry of Finance (MOF), and the Ministry of Higher Education and Research. Yet there is no dedicated inter-ministerial committee or body to coordinate policy initiatives in the SME field.

In practice, there is a significant level of co-operation through a high-level economic committee, chaired by the Prime Minister, which meets monthly to co-ordinate economic policies.. Participants include line ministries (in charge of policy execution) and include executive agencies (i.e. SFD, the General Authority for Investment [GAFI], the Industrial Modernisation Centre [IMC] and the Industrial Development Authority). Although the economic committee ensures programme co-ordination, there is a policy vacuum as regards enterprises with medium- and high-growth potential – a critical segment of the SME population. Several institutions are active in this area (e.g. GAFI, MOTI), but do not share a common framework, vision or definition of SMEs and high-growth enterprises. SFD has a mandate to cover MSEs.

As a result, the opportunity to develop synergies and complementarities between different programmes is often missed. The SFD operates with a broad mandate focusing on poverty reduction and social and regional inequalities. Its approach is not well suited to addressing the issues of high-growth and medium-sized enterprises which demand access to credit beyond micro-finance and specific business support services. The Small and Medium Sized Investments Strategy recently proposed by GAFI is a first positive step towards addressing this issue. (Dimension I-1, “Investment Policy and Promotion” discusses GAFI’s investment strategy role at length.)

*The high number of informal businesses in the SME sector distorts competition and inhibits the effectiveness of government policies*

A second, more structural, weakness is related to the high level of informality in the SME sector. According to a recent study, enterprises that operate informally constitute nearly 82% of total economic units, while informal employment constitutes nearly 40% of the total.<sup>3</sup> Such a high level of informality distorts competition in the SME sector and greatly reduces the effectiveness of government policies. So far, the government has not drawn up an action plan to curb SME informality. The MOF has conducted initial work in this area and is currently working on increasing tax compliance among SMEs. But the issue of informality goes beyond tax policy and administration: it requires a concerted effort from different institutions to co-ordinate their action.

*Targeted policy tools appear to favour medium-sized, well established industrial enterprises over younger, smaller enterprises with high-growth potential operating in the services*

Egypt does not lack tools and programmes to address targeted policy areas. It has an active, well structured Industrial Modernisation Programme (IMP) which includes specific measures to foster backward linkages. The Ministry of Trade and Industry also operates a network of technology transfer centres (ETTICs) to promote technology absorption and diffusion among small and medium-sized industrial enterprises. The Ministry of Higher Education and Research has launched a research, development and innovation programme (RDI) with the support of the European Union (EU). It has many elements in common with EU innovation policy.

The main issue is that the scope of the RDI programme is still limited and access requirements for grant applicants are sometimes too restrictive. The RDI programme seems to favour medium-sized and well-established enterprises over younger, smaller, enterprises with higher growth potential. Most of the targeted enterprise support programmes are limited to industrial enterprises and do not embrace the high-value service sector sufficiently. In general, there is a disconnect between business support service activities and access to finance (see BCDS Dimension III-3, “Access to Finance”). Finally, access to services is still concentrated in the Greater Cairo and Alexandria urban regions.

*A common theme is the lack of co-ordination between institutions with the result that the main beneficiaries of support programmes are not the MSMEs for which they were designed*

The above set of challenges is related in part to weak institutional linkages between the different programmes targeting SMEs. In other words, there is little opportunity for maximising synergies and complementarities between public programmes to generate positive spill-over effects. The risk is that well established companies that are in the know and already members of an industry network may benefit from the services provided by the ETTICs, the IMC or the RDI programme. Furthermore lack of coordination means that there is a disconnect between business and innovation support policies on one hand and investment localisation on the other. Technical centres, laboratories, and training facilities can act as catalysts for industry/sector aggregation and support the establishment of clusters and specialised investment zones

## **Recommendations**

Taking into consideration existing institutions, targeted SME support programmes, and the challenges faced by SMEs in Egypt, a number of preliminary recommendations were formed.

*The institutional setting of MSME policy should be reconfigured: a single interministerial body should oversee and co-ordinate the work of ministries, while a one-stop shop arrangement for assisting and informing SME should be rolled out across Egypt's regions*

Within the SME institutional and legal framework the SFD has clear responsibility for drawing up, co-ordinating, and implementing policy directed at small and micro-enterprises. However, when it comes to medium-sized enterprises and those with high-growth potential there is a gap. The institutions active in this area do not co-ordinate their work or share a common strategy or vision. There is a need to reconfigure the institutional framework for SME policy by harmonising approaches to policy-making and co-ordinating the work of institutions active in implementing policy.

Reconfiguration of the institutional framework was extensively discussed at a BCDS workshop organised in Cairo on 9 March 2010 and attended by representatives from the Ministry of Trade and Industry, the Ministry of Investment, the SFD, GAFI, private sector organisations, and the donor community.

The key recommendation to emerge from the workshop was that institutional coordination and cooperation should be further strengthened in an effort to close the policy gap and create synergies between programmes. Such a move would not change the mandates and roles of the institutions and agencies already operating in the SME policy area. Co-ordination and co-operation could, therefore, be tightened within the current legislative framework to make operations more efficient, policy planning and formulation more inclusive, and monitoring more effective.

Institutional operating efficiency would gain from establishing single-window contact points. They would be SMEs' sole ports of call when seeking assistance and information about government support programmes. Building on the experience of Morocco's Regional Investment Centres, the contact points would identify an SME's needs, direct it to the right institution or organisation, and help entrepreneurs in completing forms. GAFI is currently planning to establish a network of SME centres across the country. They could act as single-window contact points, storing and channelling information about all the government's SME programmes.

A single on-line portal site should also be created to offer SMEs a customised information service. They could browse it for the information they need and check out links to the websites of other organisations for further information.

Rounding off this provision of single, centralised services would be an interministerial committee on SME policy that would report to the Prime Minister's office. It should bring together key economic ministries (Finance, Trade and Industry, Investment, Labour) and the SFD. Its job would be to formulate a coherent policy towards SMEs and review all legislation that affects them. It would secure the cooperation of other institutions, co-ordinate communication between them, and monitor how they implement policy. In this way the interministerial committee could overcome the obstacles caused by the segmentation of SME policy.

The committee would meet only a few times a year, but its permanent secretariat in Prime Minister's office would keep operations running between meetings. It would coordinate the flow of information between ministries, conduct technical consultations, and follow up interministerial meetings.

One of the first tasks of the committee would be to draft a document setting out the perspectives for SME policy. It would define a coherent common policy framework to support programmes and horizontal actions across the full spectrum of the SME population.

Another useful reinforcement to the institutional setting would be an advisory body with members drawn from ministries and agencies, SME organisations, the Chamber of Commerce, expert bodies and academia. Such a cross-section would enhance dialogue and policy making and help to improve the monitoring of policy implementation and its impacts on SME programmes. This SME advisory committee would supply input to the SME Interministerial Committee and to individual ministries and government agencies.

*The SME sector, dominated by informal businesses, needs formalising: a task force from the Ministry of Finance should take a comprehensive, carefully co-ordinated approach towards the informal sector that combines incentives to encourage formality*

The high number of SMEs that operate informally has major implications for the medium-term growth of this vital segment of the enterprise population. Informality affects the quality and sustainability of development, distributes its benefits unequally, and impairs the effectiveness of every component of government policy towards SMEs (taxation, regulations, innovation, labour). It is, therefore, vital that the government develop a comprehensive, co-ordinated strategy for reducing informality among SMEs, looking beyond non-compliance to a specific set of laws, regulations, and budgetary implications.

A successful approach should build on the rigorously analysed risks and rewards of informal business operations and aim at modifying the behaviour of economic agents (enterprises, employees, and customers) through a combination of incentives and penalties.

The government should designate an institution to lead and co-ordinate government action. It would be supported by a task force of key players and stakeholders (from key line ministries, the Office of Statistics, executive agencies, chambers of commerce, employers' federations, small business associations, and NGOs). The MOF is well placed to play this central role, as tax evasion is a key driver of the informal economy and its SME unit has conducted initial work in this area with the support of a highly representative working group. One of the task force's objectives could be to draw up a new definition of "MSME". It would have a single meaning that would be accepted across administrations and programmes and would incorporate the measurement issues related to high levels of informality.

*Going for growth and innovation: Egypt should improve its service provision and financial support to innovative SMEs by establishing linkages, promoting synergies between different support programmes, and by developing alternative financing, guarantee schemes, and R&D funds*

The Egyptian government is developing a number of measures to promote and support innovation and upgrade technology in the private enterprise sector. In order to enhance those programmes it should:

- Establish a system of communication and co-operation between the institutions and private sector organisations operating in the area of technological upgrading, innovation, finance, technical standards, public procurement, and education and training (see BCDS Dimension III-2, “Human Capital Development”).

OECD experience shows that significant progress is achieved in this area by developing a continuous, effective dialogue among all the key players. This generates enhanced co-ordination effects and addresses potential policy inconsistencies. In a number of countries the task has been the work of a competitiveness council operating under the authority of a business-related ministry. Such councils have a cross-section of members from the public and private sectors, including representatives from young, innovative enterprise networks and civil society (universities, economic and scientific research bodies).

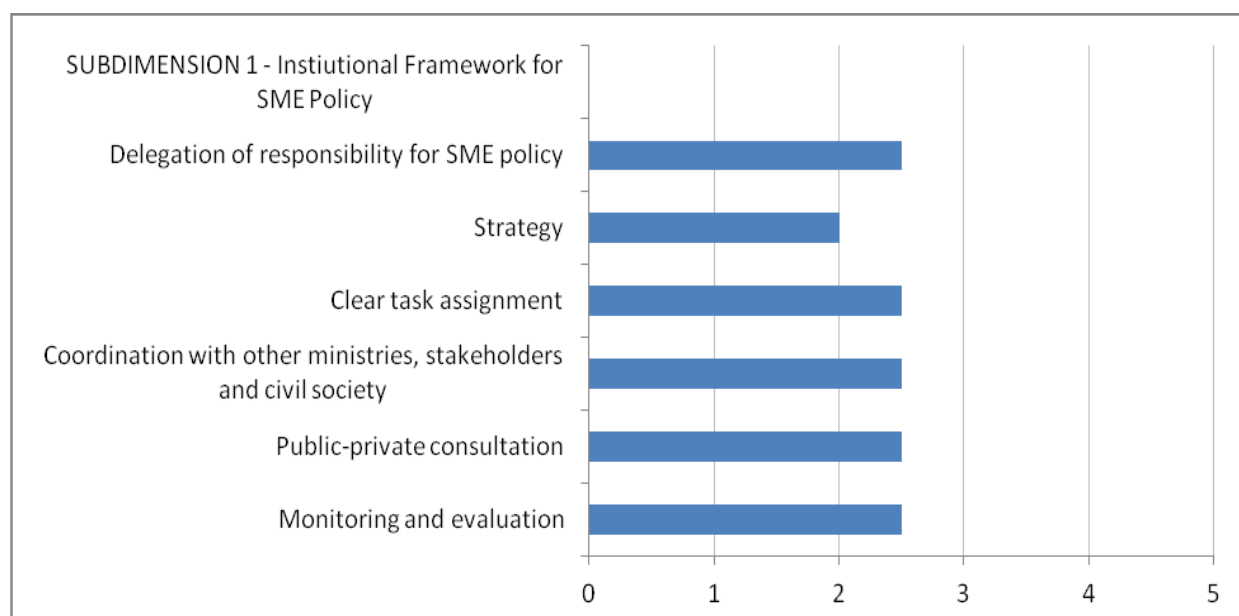
- A key element of innovation policy in Egypt should be, rather than supporting advanced R&D, to enhance SMEs’ technology absorption capacity and to diffuse and adapt existing technology and innovative management tools. A considerable effort has been put into developing the ETTIC network and work is currently under way to incorporate it into the Enterprise Europe Network established by the EU.

It would be useful to conduct an evaluation of the ETTIC network’s impact in order to learn from the lessons of its more successful sector-specific centres and benchmark them against international good practice. Another valuable move would be to widen ETTIC’s scope to high-value service sectors and redefine its role in the national strategy for innovation, technology upgrading, and investment.

- A critical element in an effective innovation strategy is the establishment of links between support services and programmes and access to funding. Recently, there have been initial positive developments in this area, particularly in relation to the availability of equity. However, the banking sector’s lending practices remain conservative. As a result, innovative enterprises with intangible instead of real estate assets in their balance sheets have limited access to finance (see BCDS Dimension III-3, “Access to Finance”). It is critical to explore alternative avenues, such as new credit and equity guarantee facilities for SMEs. (This issue is addressed in a forthcoming OECD publication on innovation and credit and equity guarantee facilities in the MENA region.)<sup>4</sup>

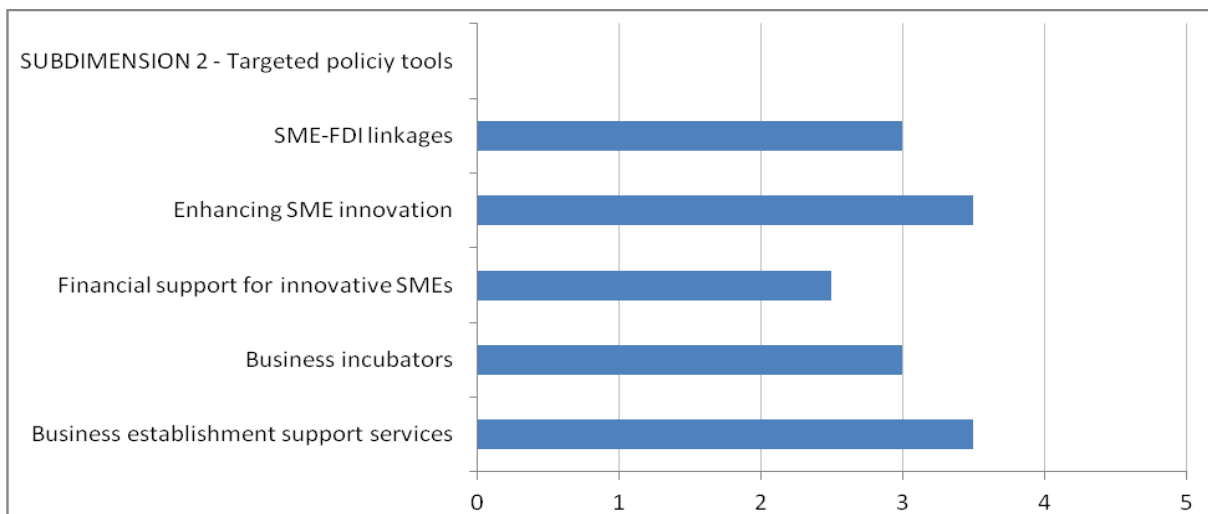
**Figures 1 and 2. SME institutional framework and targeted policy tools**

#### **Subdimension 1:**





### Subdimension 2:



## INTRODUCTION

Small and medium-sized enterprises (SMEs) are the backbone of both OECD and emerging market economies. They make a significant contribution to job creation and are behind the expansion and creation of value-added in a number of sectors which drive economic growth and development. OECD research over recent decades has reinforced this truth by emphasizing the importance of promoting and developing the private sector through an improved environment for SMEs and entrepreneurs.

In the global economy SMEs account for approximately 50% of local and national gross domestic product (GDP), 30% of export and 10% of foreign direct investment (FDI).<sup>5</sup> Empirical studies show that SMEs contribute to over 55% of GDP and over 65% of total employment in high-income countries. SMEs and informal enterprises account for over 60% of GDP and over 70% of total employment in low-income countries and contribute over 95% of total employment and about 70% of GDP in middle-income countries.<sup>6</sup>

In Egypt medium-sized, small and micro-enterprises account for over 90% of active businesses and contribute to over 80% of GDP and 75% of total employment. The Global Entrepreneurship Monitor's 2008 report for Egypt estimated that over 13% of adults were in the process of starting a business or already owned one that was under three years old. With an average of 1.83 jobs per start-up, GEM estimated that the job creation potential of the 1.34 million ventures created in 2008 was significant: if they succeeded, they would create some 2.5 million potential jobs.<sup>7</sup>

Despite their economic importance, SMEs are at a disadvantage compared to larger enterprises. The reasons are:

- the lack of economies of scale, which limits SMEs' ability to invest in fixed capital and technological development;
- proportionally higher compliance costs, which increase the impact of the legislative and regulatory framework;
- information asymmetries, which limit access to external financing;
- limited resources for internal training and human capital development.

Against this backdrop, policy makers have given increasing attention to policies which, on one hand, favour the growth and development of all enterprises through such broad horizontal policy reforms as the streamlining of regulations and the easing of administrative burdens. On the other hand, selective, targeted government policies have been introduced to actively promote SME development in cases of market failure. They support the most vulnerable ventures, like micro-enterprises, those operating in economically disadvantaged areas, and those created by young entrepreneurs and women. Some active SME policies can have very specific objectives, such as the greater economic inclusion of women, given that women's entrepreneurship is an important, untapped source of growth.<sup>8</sup>

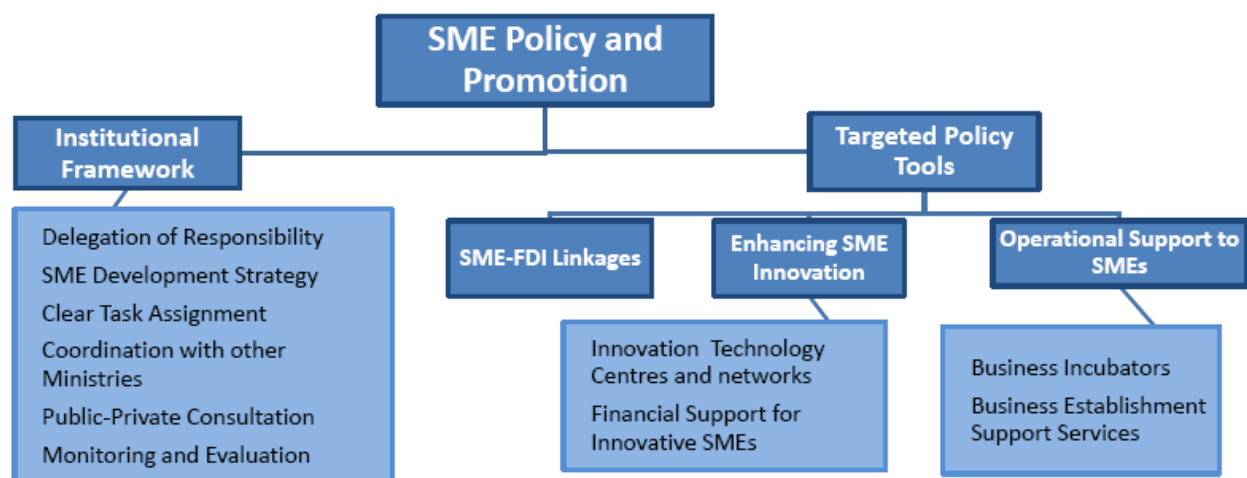
The broad spectrum of horizontal policies which have an impact on SMEs are covered in other chapters of this BCDS report. They include "Better Business Regulation", "Access to Finance", "Business Law", and "Tax Policy and Administration". This chapter focuses on the institutional framework for SME policy such as active, targeted policy tools for enhancing SME innovation and competitiveness, business incubators and linkage programmes. It is part of a wider business climate assessment conducted over the period April to October 2009, during which the Government of Egypt and private-sector associations

submitted their own assessments of SME policy and promotion. The OECD team also conducted on-site visits were conducted and gathered information from other non-government sources. The chapter builds on and updates results from a regional assessment of enterprise policy published in 2008 as the *Report on the Implementation of the Euro-Mediterranean Charter for Enterprise* and conducted in partnership with the European Commission, European Training Foundation, and the European Investment Bank. This BCDS assessment is more in-depth than the 2008 project. Furthermore, it focuses on SMEs and a single country, whereas the 2008 assessment was regional in scope and considered the entire enterprise population in general. For this reason, scores cannot be compared among the regional and national assessment.

## THE SME POLICY AND PROMOTION ASSESSMENT FRAMEWORK

The figure below shows the assessment framework of BCDS Dimension I-6, “SME Policy and Promotion”. Its two sub-dimensions are the institutions that support policy and the targeted tools that implement it.

**Figure 3: SME policy and promotion assessment framework**



The Institutional Framework sub-dimension encompasses all the institutions that steer government policy in the SME sector. It examines their roles in policy making, implementation and monitoring, while reviewing how policy is co-ordinated between agencies and through public-private consultation.

The Targeted Policy Tools sub-dimension addresses measures taken to correct market failures in the areas of technology absorption, access to market information, innovation, access to finance, and training for SME growth and development.

- SME-FDI Linkages addresses to what extent SMEs have developed business connections with larger foreign enterprises through active government support. The policy objective is to enhance SME access to international markets, skills development, finance, and technology.

- Enhancing SME Innovation addresses government action to foster innovation networks, linking firms to technology and research centres, and promoting inter-firm cooperation. It also examines financial support for innovative SMEs.
- Operational Support for SMEs addresses whether there is support for day-to-day operations such as business incubation for start-ups and business establishment support services for expansion and growth.

### **Sub-Dimension 6.1.: Institutional Framework**

SME policy involves almost all government ministries from finance to industry. As such, clearly assigned mandates, missions, and tasks and an advanced level of interministerial coordination are essential for high standards of policy drafting and implementation and the right policy mix. Monitoring and evaluation measure the impact of policy and gauge the effectiveness of support programmes. Finally, well-developed consultation mechanisms with civil society and stakeholders are critical to policies' success.

#### ***6.1.1. Delegation of Responsibility***

In countries where the transition to horizontal policies for SMEs has just started or is not yet complete, delegation of responsibility and the assignment of tasks and mandates are not yet well defined. This can lead to overlaps in competencies and policy inconsistencies. It is therefore important to develop a sound framework for SME policy.

According to OECD good practice the following criteria are important in assessing the delegation of responsibilities for SME policy:

- mechanisms in place that prevent overlap and duplication of policy measures;
- clearly mapped responsibilities to ensure that institutions take action consistently and in accordance with the agreed structure (which can be found in official planning documents such as the country's SME strategy if there is one);
- a mechanism in place that facilitates communication (e.g. an IT platform) and policy coordination between the institutions involved in SME policy making;
- wide-spread consultation with stakeholders to ensure consistency and effectiveness.

In Egypt, a number of ministries and specialised agencies handle SME policy. The main bodies are the Social Fund for Development (SFD), the Ministry of Trade and Industry (MOTI), the Ministry of Investment (MOI), the Ministry of Finance (MOF), and the Ministry of Higher Education and Research (MOHER). There is no common definition of SME and each body is responsible for designing and implementing its own policy – which further add to confusion, overlaps, and duplication.

**Table 1: Institutional Framework for SME Policy in Egypt**

Ministry	Institution / Agency	SME Policy Priority	Strategy	Main activities	Definition for SMEs
<b>Inter-Ministerial</b>	Social Fund for Development (SFD) established in 1991  SFD Incubators  Small Enterprise Development Organisation (SEDO)	Micro small enterprises (MSEs) under Law 141 of 2004	National Strategy for MSE Development 2008-2012  National Strategy for Micro-Finance	<b>Poverty reduction through provision of financial and business support services</b>  <b>Facilitation of administrative procedures</b>  <b>Company registration</b>	Based on capital paid and number of employees: - <b>Micro enterprise</b> : less than EGP 50 000 capital paid up to 10 employees - <b>Small enterprise</b> : EGP 50 000 to EGP 1 million capital paid Up to 50 employees - <b>Medium enterprise</b> : <u>Industrial sector</u> – up to EGP 10 million capital, 50 to 100 employees <u>Trade &amp; services sector</u> – EGP 500 000 to EGP 2 million, 10 to 19 employees
<b>Ministry of Trade and Industry</b>	Industrial Modernisation Centre  ETTIC  Industrial Development Authority (IDA) established in 2005	Industrial SMEs	Industrial Development Strategy 2005-2025  Industrial Modernisation Programme	<b>Expansion of export and upgrading of quality in seven existing sectors<sup>9</sup></b>  <b>Investment in technology and upgrading of skills in six areas of niche development<sup>10</sup></b>  <b>Allocation and equipment of areas for industrial activities</b>	By size and industrial activity. Over 10 employees.
<b>Ministry of Investment</b>	General Authority for Investment (GAFI)	Small and medium-sized investments (SMEI) as defined by GAFI	SMI Strategy 2009	<b>Facilitate company registration, offer services, assist investors and promote Egyptian investment opportunities</b>	By size, turnover and sector  Agro-based industries, manufacturing: 5 to 150 employees Up to EGP 20 million turnover  Services, Trade and ICT: 5 to 50 employees Up to EGP 10 million turnover
<b>Ministry of Finance</b>	SME Development Unit	SMEs	Micro, Small and Medium-sized Enterprise Strategy 2004	<b>Research and co-ordination</b>	No set definition

<b>Ministry of Higher Education and Research</b>	RDI Programme (see 1.3.2)	R&D and innovation in SMEs, high-tech orientation	No SME-specific strategy.	<b>Science and Technology orientation</b>  <b>Funding innovation</b>	No set definition
<b>Source: OECD (2009)</b>					

### Social Fund for Development

The SFD was established as a social safety net as part of Egypt's Economic Reform and Structural Adjustment Program (ERASP). Law 141/2004 mandated the SFD to develop micro and small enterprises (MSEs) by supporting them in access to finance, establishment, licensing, etc. Law 141/2004 states that the SFD should be the key coordinator in MSE policy development and implementation. It devotes 62% of its total budget to supporting the development of small enterprises (loans and technical support), 28% to financing community infrastructure, and the remaining 9% to microcredit. Although it has a multifaceted role, its main objectives are poverty reduction, increasing employment opportunities, and encouraging small enterprise development.<sup>11</sup>

### Ministry of Trade and Industry

Three entities under the MOTI apply targeted policies to support SME development:

- The Industrial Modernisation Centre (IMC) seeks to improve the competitiveness of Egyptian industries, increase their integration in global markets, and create job opportunities in the industrial sector (see section 6.4.2.).
- The Egypt Technology Transfer and Innovation Centres (ETTICs) develop R&D capacities in certain strategic industries (see section 6.3.1).
- The Industrial Development Authority (IDA) deals primarily with registration and land allocation for SME industrial activities.

Although the MOTI also has an SME Development Policies Sector, it appears to conduct most of its SME-linked work through its Technological Cooperation Unit.

### Ministry of Investment/General Authority for Investment

The Ministry of Investment's investment promotion agency, the General Authority for Investment (GAFI), facilitates investment procedures through a one-stop shop that provides a wide range of services including company registration, site location, partner identification, and contract and license procedures (see Dimension I-1, "Investment Policy and Promotion"). GAFI's Small & Medium Investment (SMI) Strategy launched in November 2008 is built on four pillars designed to foster job creation through foreign and domestic investment:

- Revive Egypt's entrepreneurial culture by building incubators in cooperation with MOHER to develop technology-based businesses;
- Establish competitive enterprise clusters in public free zones and special investment zones and put in place training programmes to upgrade skills;
- Improve SMEs' access to finance by setting up sector-specific SMI funds in co-operation with international donors to mobilise conventional and non-conventional financing;

- Promote business development services (BDS) by expanding BDS networks of offices and building a web-based portal for SMEs.

Each pillar is benchmarked to good practices in countries – Malaysia, France, Canada, Italy and Denmark – and in international organisations like the International Labour Organisation and the International Training Centre. GAFI has also developed a monitoring tool, the *SMIndex*, to measure SMI development and the evolution of entrepreneurship.

The GAFI approach differs from SFD’s social orientation in that it promotes corporate principles. It aims to “shift the emphasis from enterprises to entrepreneurship” and to “change youth from job seekers to job makers”.<sup>12</sup>

### Ministry of Finance

In 2000 the Ministry of Finance established an SME development unit devoted to policy development and research. The unit has produced publications and policy documents which include a national strategy to improve SME competitiveness endorsed by the Prime Minister in 2004. While the SME unit has played a formative role in supporting the SME reform process in Egypt (e.g. through policy guidance which examined a regulatory reform initiative later implemented as ERRADA<sup>13</sup>), it lacks a mandate to enforce policy implementation, which may be why the 2004 strategy yielded limited results.

#### ***BCDS Score for Delegation of Responsibility: 2.5***

Several institutions are simultaneously responsible for different areas of SME policy making, but there are limited coordination mechanisms in place to identify overlapping policies and inconsistencies.

Egypt should consider restructuring the institutional framework for the design and implementation of SME policy. The responsibilities of each institution should be clearly mapped and agreed upon in consultation with the private sector. A system of communication should be devised to ensure that overlapping policies and inconsistencies are identified and rectified (see also recommendations in 6.1.2 “Strategy” and 6.1.3 “Clear Task Assignment”).

#### ***6.1.2. Strategy***

A strategic document that defines medium-term targets for private sector development and includes a SME-specific policy strategy will help ensure consistency in government policy, secure consensus on government action, and send clear signals to private enterprises on the direction of policy. It should be endorsed by the government and be consistent with and complement other strategic government papers, such as industrial and innovation policy strategies.

The following criteria are important for assessing an SME development strategy:

- It should have an implementation timeline that spans the medium-term. It should also be formalised, comprehensive and proactive, taking into account any past or expired strategies; and it should be sector-specific.
- It should be approved by the government after a wide consultation process with all stakeholders.
- A good strategy should demonstrate impact by meeting its time-bound qualitative and quantitative targets.
- An adequate annual budget should be earmarked to the implementation of the strategy.
- An SME strategy should generate impact and strengthen the SME sector. (A strategy can also be assessed by examining whether it has met development goals such as alleviation of poverty, social exclusion, and whether it has served to generate employment and foster growth.)

The SFD has developed two national strategic documents to guide MSE Development: *Mobilising Egyptian Micro and Small Enterprises: 2008-2012* and *Framework for the National Strategy for Micro*

*and Small Enterprise Development.*<sup>14</sup> Under Law 141/2004, the SFD does not have the mandate to work with medium-sized enterprises, which leaves a gap in policy, as it fails to cater for enterprises which have more than 50 employees.

GAFI launched its SMI Strategy in November 2008 and has hosted some co-ordination meetings with other organisations and stakeholders. The strategy is in the early stages of implementation (see 6.1.1 “Delegation of Responsibility”). MOTI also has its SME-oriented sector-specific strategies which it operates through the Industrial Development Strategy (IDS).

### ***BCDS Score for Strategy: 2***

Multiple SME development strategies exist in Egypt, while sector-specific strategies are still being drawn up and a review of expired strategies is ongoing.

According to the mandate set out by Law 141/2004, the strategy for micro and small enterprises falls under the auspices of the SFD. Nevertheless, SME policy in Egypt remains a horizontal issue. Various ministries intervene in policy-making and implementation in accordance with competing strategies defined for the small to medium-sized segment of enterprises, e.g. the SFD strategy which has a social orientation and the new GAFI strategy document on SMIs which is geared to high-growth firms. Although the SFD strategy seeks to bring together the Cabinet, the Ministry of Finance, the Ministry of Trade and Industry, the Ministry of Economic Development, the Ministry of Investment, the Ministry of Social Solidarity, and the Central Bank of Egypt, it still does not resolve the fact that there are numerous competing strategy documents on SME development in Egypt. They have not been harmonised or streamlined into one coherent policy document reflecting a co-ordinated government approach.

To move higher up the BCDS scale, a proactive, coherent SME development strategy should be drawn up by all relevant government institutions working in SME policy. The strategy should be horizontal, incorporating key sector and existing SME strategies and targeting certain SME segments (e.g. women, youth, high-growth firms). The strategy should identify policy gaps, overlaps, and inconsistencies across government and should assign tasks and time-bound targets to monitor progress in implementation.

Finally, the strategy should be drafted in consultation with the private sector, particularly entrepreneurs, to ensure government policy responds appropriately to market failures. The strategy’s implementation should be monitored by an inter-ministerial steering group and, ideally, be chaired by the Prime Minister to ensure a sound implementation platform and co-ordination mechanism at the highest level. The SFD National Strategy for Micro and Small Enterprise Development may be a step in that direction, but a provision must be added for medium-sized enterprises (see 6.1.3. “Clear Task Assignment”).

### ***6.1.3. Clear Task Assignment***

Ideally, a single institution should lead policy implementation with effective mechanisms co-ordinating the work of key ministries, agencies, and local government offices (if relevant). Some countries create bodies that implement and co-ordinate base programmes for policy like SME promotion agencies. But regardless of the institutional set-up, an implementation body specifically tasked with implementing an SME policy should fulfill certain requirements:

- It should operate with an official mandate prescribed by law;
- It should be assigned enough staff and a high enough budget to fulfil its mandate; and,
- It should have a track record of efficient implementing SME policies.



### ***BCDS Score for Clear Task Assignment: 2.5***

The government has several institutions tasked with SME policy implementation. But no single institution implements a policy for medium-sized enterprises. According to Law 141/2004, the SFD has exclusive responsibility for micro and small enterprises of up to 50 employees and EGP 1 million paid-in capital. Yet, no body has been assigned the task of steering policy for firms whose staff and capital are the next echelon up.

The policy gap has been filled for industrial companies which have access to services via the IMC under the auspices of the Ministry of Trade and Industry, as for medium-sized investments in GAFI's public free zones and investment zones. However, for service-oriented firms the lack of coverage constitutes a real policy gap. Furthermore, the lack of a harmonised approach to SMEs across government institutions leads to ambiguous task assignment, which in turn causes policy inconsistencies and overlaps in implementation. The lack of a clear common definition of SMEs can create distortions in policy, as the its impact on formal and informal firms cannot be measured. (For more on informality, see Box 2.)

Egypt should have a single institution leading the implementation of SME policies and co-ordinating all the other key institutions involved. In an institutional setting such as Egypt's, the government should consider a number of options to better harmonise SME policy implementation across all its institutions and agencies:

- improve coordination to ensure tasks are clearly assigned and there is no overlap or policy inconsistencies,
- widen the mandate of the SFD to medium-sized enterprises,
- mandate the GAFI to work on SMEs,
- create an SME executive agency assigned with multiple mandates to coordinate policy implementation across government.

Box 1: OECD good practice: adopting a common definition

In 2008 the International Development Research Center (IDRC) sought to establish an SME Observatory and Entrepreneurship Monitor in a number of MENA countries, including Egypt. The project is expected to provide clear measures, indicators, and data related to entrepreneurial activity in Egypt and its constraints. Findings will provide policy makers with tools to assess the effectiveness of SME programs implemented and enable them to target areas of deficiency and weakness. Part of the aim of the project is to adopt common definitions for SMEs across government to ensure that policy impact can be measured at the company level.

OECD (2009)

#### ***6.1.4. Co-ordination with Other Ministries, Stakeholders and Civil Society***

Inter-governmental co-ordination is essential to transparent, harmonised policy-making. Enterprise policy should be drawn up in close consultation with representatives of the key stakeholder groups. Well developed public-private sector consultation mechanisms are vital for the quality of the overall policy. The following requirements should be met by any co-ordination body:

- It should be chaired by a high-level government entity;
- It should be supported by a secretariat which ensures co-ordination, policy exchange, and consultation with stakeholders through agreed mechanisms
- Mechanisms are regularly assessed to ensure their effectiveness.

In the case of Egypt, there are no institutionalised mechanisms of policy co-ordination. In practice, however, a significant level of co-operation, particularly between executive agencies, ensures programme co-ordination:

- A high-level economic committee, chaired by the Prime Minister, meets monthly to co-ordinate economic policies;
- GAFI, SFD and IDA are supervised by inter-ministerial boards.

Various SME strategies have been carried out with co-ordinated input from the Ministry of Investment, the Ministry of Finance, the Ministry of Trade and Industry, and the SFD. In addition, stakeholders from academia, the private sector, the donor community (CIDA, USAID, EU, etc.) and elsewhere have taken part in co-ordination meetings and exchanges of information held on an *ad hoc* basis.

Moreover, there is a donor committee which convenes regular sub-donor group meetings, chaired by the Canadian International Development Agency (CIDA) and UNDP, where all government and NGO stakeholders are represented, together with support organisations that provide SMEs with financial and technical backing.

Within the framework of SMEPol<sup>15</sup>, a programme to help the Egyptian government improve its MSME policy, the Ministry of Finance has sought to bring stakeholders together in inter-ministerial committees on topical issues related to SME policy, such as public procurement, the formalisation of the SME sector, and venture capital. However, since the end of SMEPol in late 2008, it is not clear whether the SME Unit of the Ministry will continue to host these committees.

## **Box 2. Informality and SMEs**

Informality is defined as lack of compliance with laws and regulations. Its main drivers are high social-security and/or labour levies, tax compliance practices, and regulations. Informality can produce such short-term benefits as higher profits and greater flexibility, but it has long-term drawbacks – e.g. limited access to credit, keeping qualified staff, and lack of protection from the law.

Companies decide their degree of informality on the basis of risks and rewards. High tax rates with limited controls foster informality. An additional factor is how many informal competitors are in the same market.

Informal companies do not respond as expected to standard policy measures, like tax incentives or support programmes. A backlog of unpaid taxes or possible fines will act as an obstacle against moves towards greater formality. High concentrations of informality in specific sectors distort competition and long term growth, as they force companies to compete on tax and labour charge avoidance instead of on innovation, management, and marketing tools.

There should be a system in which companies can grow by competing fairly and legally. To bring such a system about, greater compliancy should be encouraged among SMEs. There needs to be a concerted action from the government and the private sector to design paths for companies to move towards greater formality. Private-sector support is essential for identifying non-compliant companies and ensuring that compliance measures are properly targeted and designed.

In Egypt, the informal economy is estimated to account for 82% of business units.<sup>16</sup> With a rate as high as this, the government should put in place a plan to incentivise firms to operate in the formal sector. Most operate in the so-called “grey” economy as partially non-compliant, particularly when it comes to taxes, labour and national insurance charges. These types of companies are often sub-contractors competing with formal businesses.<sup>17</sup>

The institutional framework for a successful SME policy may be a factor that further encourages informality, as there is ambiguity as to which institutions cater to which segments of enterprises. Overlapping policies and inconsistencies may lead to higher business transaction costs for firms when they comply with regulatory requirements, thus encouraging informality.

### ***BCDS Score for Co-ordination with Other Ministries, Stakeholders and Civil Society: 2.5***

Inter-ministerial co-ordination meetings and exchanges of information take place only on an *ad hoc* basis and only on specific issues. There are co-ordination mechanisms (through interministerial boards), but they do not focus primarily on co-ordinating or implementing SME policy.

To score higher, Egypt should consider a number of measures. An inter-ministerial co-ordinating body should be put in place under the authority of a high-level government office. It could function like the economic committee chaired by the Prime Minister, but would focus on the SME sector. Topical sub-committees should tackle problematic areas of SME policy, like the need for a harmonised definition of “SME” and how to formalise the informal sector. The Ministry of Finance would be well suited to chair such a co-ordinating body given its experience in SME policy development through the various working groups led by the SME Development Unit.

#### ***6.1.5. Public-Private Consultation***

Effective private-public consultation mechanisms are essential to improving the quality of government policy towards SMEs. They are critical to filling the information gap between government and SMEs, to building consensus on key policy objectives, and to understanding the effect of government measures.

To be effective, public-private consultations should meet a set of assessment criteria.

- They should build on an agreed, well structured framework.
- They should take place at different levels on a regular basis and not only in response to major policy measures or critical situations.
- They should be held at multiple levels of decision-making, with private sector experts in technical working groups conducting high-level dialogue with senior members of the government.
- They should include representatives from SMEs and business associations.
- They should be well-prepared – e.g. the government should present its proposals to business associations well in advance, allowing them enough time to study proposals and consult their members;
- The government should be ready to review its policy proposals and to study alternative measures proposed by SMEs.
- The results of consultations should be made public and the government should regularly report on the implementation of measures agreed at the consultation table.

Over the last five years, the government has striven to include and/or consult the private sector in its strategic decision-making in order to ensure Egypt’s competitiveness. Examples that illustrate this closer collaboration include:

- the involvement of the Business Advisory Committee in setting up and operating the National Competitiveness Council,
- extensive consultation with the Federation of Egyptian Industries (FEI) in developing Egypt-EU co-operation;
- The Ministry of Investment’s SMI strategy;
- The appointment of leading businesspersons to high-level cabinet positions.

Nevertheless, the mistrust of the private sector (especially small and micro-enterprises) towards the public sector persists. This is due in part to the fact that business associations and enterprise networks which advocate for the business community do so mainly for big or well-established companies. As a result, they fail to capture the interest of the majority of underrepresented SMEs.

### ***BCDS Score for Consultation: 2.5***

While there is public-private consultation through various channels, there is no overall framework to facilitate stakeholder engagement in policy-making. Consultation occurs at a late stage of the process and does not cover all key issues.

In order to achieve a higher score on the BCDS scale, consultation should take place earlier to ensure that when policy is drafted it incorporates private sector input. To develop an effective consultation framework, key players from across the SME population should be represented.

At a more advanced stage in policy-making, representatives from the private sector should join co-ordinating bodies like the expert working groups of the Ministry of Finance to help ensure that a broad range of issues is addressed.

Finally, continuous input from the SME sector in national economic policy is a critical aspect of public-private consultation. In this respect, the Business Advisory Committee of the National Competitiveness Council is an established body which could be enlarged to include more SME representatives.

### ***6.1.6. Monitoring and Evaluation***

In order to gauge the effectiveness of SME policy tools, especially publicly funded programmes and services, they should be regularly monitored and evaluated. Yet there is often no systematic monitoring or evaluation, despite the very sizeable resources channeled into SME support and development programmes (like enterprise upgrades and business services).

Innovative monitoring to obtain companies' feedback on programmes should be assessed according to whether:

- it takes place on a regular basis and is comprehensive, e.g. how many firms, of what types, and in which localities obtain different forms of support;
- it is complemented by an *ex-post* evaluation of the impacts of programmes (to determine whether they have helped to produce a better outcome and/or whether one type of publicly funded programme works better than another);
- its cost is built into the budget of an SME support programme.

### ***BCDS Score for Monitoring and Evaluation: 2.5***

Monitoring and evaluation (particularly of publicly funded business service programmes) calls for further improvement. Sizeable resources (both public and donor funds) are channelled into enterprise upgrade programmes and basic business services. These can be critical in addressing market failures and creating better opportunities for business development in a country. There is no regular monitoring and evaluation of SME policy, although some government schemes incorporate such service delivery monitoring techniques as key performance indicators (and other mechanisms). The ETTIC network, for example, monitors the delivery of its services, but does not evaluate their impact. There is, in fact, very little impact evaluation, although one example is that of the SFD (sponsored by the World Bank) which evaluated its impact on living standards (short-term and long-term effects that took in poverty, illiteracy, and employment). The evaluation also incorporated a cost-benefit analysis of SFD's interventions.<sup>18</sup> In no instance examined by this study, however, has the private sector been included in monitoring.

It is recommended that Egypt consider creating innovative monitoring tools to obtain feedback from companies on programmes, so ascertaining how many firms (of what type and where from) benefit from the different forms of support. Monitoring must be complemented by evaluations of a programme's impact.

Proper monitoring and evaluation is, in fact, a relatively sophisticated undertaking, and monitoring and evaluation databases and tools may need to be established in co-operation with donor institutions (see Box 3 below). Using a similar impact assessment as that of the SFD would be useful. Egypt could consider widening the scope of impact assessment to include the SFD's SME support projects (which account for 62% of its spending).

Finally, it is important that public and private sector representatives agree on mechanisms to evaluate the costs and benefits of government policies and their impact on private sector development. Results should be used to inform and improve the national enterprise policy. To that end, the prompt availability of statistical data (including observations from micro-businesses), company surveys conducted by independent and qualified institutions, and policy reviews and programme evaluation exercises are very important tools for advanced dialogue on policy.

**Box 3: Good practice in monitoring and evaluation**

**Apply the C.O.T.E. framework to SME policy:**

- **Clarity and coherence of SME policies** require a clear rationale for policy intervention and statement of purpose. The various parts of government interacting with SMEs to facilitate their development should ensure that their efforts are consistent and co-ordinated.
- **Objectives of SME policies** should be clearly specified. Examples would include the creation of new firms, the growth of existing firms, or promoting enterprise among target groups in the population.
- **Targets** should be specified in measurable ways to facilitate evaluation of the extent to which objectives should have been achieved.
- **Evaluation of policy**, which must be based on clear policy targets, should be the most important test of its effectiveness.

**Develop an "evaluation culture" by making evaluation of programmes central to the policy process.** Evaluation should not be simply undertaken as a historical accounting exercise but should be used to inform current policy, the objectives and targets of which may be modified in the light of the results of evaluation.

**Integrate the methodology of, and budget for, evaluation of programmes as part of the legislative process.** These should not be delayed until after the programme has been implemented.

**Ensure that all, rather than merely some, selected programmes are subject to evaluation.**

**Major evaluations should be undertaken with independent but informed assessors.** Nevertheless, the involvement of the programme teams, both policy makers and deliverers, is vital.

**Evaluate all programmes using the most sophisticated techniques that are feasible and taking into account the need to be cost-effective.** In practice, more approximate approaches will be necessary in assessing smaller programmes.

Quoted directly from: OECD (2004), *Evaluation of SME Policies and Programmes*, background report prepared for the Istanbul Ministerial Conference, Centre for Entrepreneurship, SMEs and Local Development, pp. 6  
[www.oecd.org/cfe/sme](http://www.oecd.org/cfe/sme)<sup>19</sup>

## Sub-Dimension 6.2.: Targeted Policy Tools

Governments have responded to market failures by introducing selective, targeted policies to correct the failures and actively support the most vulnerable segments of the SME population, *e.g.* micro-enterprises, enterprises operating in deprived areas, and young and female entrepreneurs.

The Targeted Policy Tools indicators address measures taken to correct market failures in the areas of technology absorption, access to market information, innovation, access to finance, and training for SME growth and development.

### 6.2.1. SME-FDI Linkages

Linkage programmes between SMEs and multinational enterprises (MNEs) can help local firms enhance their competitiveness through improved access to international markets, finance, technology, management skills and other specialised knowledge. In return for their collaboration – which may be government-backed – foreign investors can gain better access to skills, manufacturing distribution capacity, and local markets.

Effective linkage programmes may facilitate economic growth, technology spillovers, human capital formation, and contribute to a more competitive business environment. They can take different forms depending on the objectives that governments want to meet. The OECD identifies five distinct forms:<sup>20</sup>

1. backward linkages with suppliers
2. forward linkages with customers
3. linkages with competitors
4. linkages with technology partners
5. other spillover effects.

The table below summaries these typologies.

**Table 2: Summary of linkage types and examples**

Type	Examples
Backward linkage with suppliers	Local SME becomes supplier to MNE.
Forward linkage with customers	SMEs act as buyers or purchasers of outputs from MNEs, such as in the form of franchises.
Linkage with competitor	New, large entrant into a national market puts incumbent enterprises under pressure to enhance production, distribution, and marketing.
Linkage with technology partner	SMEs and MNEs initiate common projects in the form of joint-ventures, licensing and strategic alliances.
Other spill-over effects	Trained personnel leaves MNE and works for local firm or sets up their own SME.

Source: OECD (2005)

Linkage promotion activities and networks can help match the right domestic suppliers with the right foreign firms. In-depth consultation with MNEs and local suppliers should be conducted to identify their linkage needs and opportunities. Furthermore, as linkage programmes are sophisticated tools which require significant resources and target a limited number of domestic SMEs, there should be an adequate budget and proper planning. The programmes should be monitored and evaluated.

Improving the business performance of SMEs is an important facet of broader economic development. Commercial relationships or business linkages between SMEs and FDI can be a powerful conduit for diffusing knowledge, skills and management practices. Among OECD countries Ireland's approach to stimulating linkages has been identified as an international best practice. The Irish National Linkage Programme began by targeting the electronics sector but was expanded to cover engineering, chemicals, pharmaceuticals, food and consumer products. From 1985 to 1992 local sourcing in the electronics sector increased from 9% to 19%. Overall, more than 200 foreign firms and 83 domestic firms participated in the programme.

The SME-FDI Linkage indicator assesses to what extent an investment promotion agency (IPA) or SMEs incorporate SME-FDI linkage programmes into their activities. The criteria used to determine a score are:

- whether there is a defined linkage strategy (e.g. have specific sectors been prioritised and are there potential foreign and local participants);
- if there a basic operating structure (e.g. a unit within the IPA or SME agency to run the programme);
- a monitoring and evaluation mechanism (to measure the programme's success);
- an expansion phase (where new sectors and participants are included).

### ***BCDS Score for Linkage/Supplier Development Programmes: 3***

In 2004 the Ministry of Trade and Industry (MOTI) launched a "National Suppliers Development Programme" (NSDP) designed to help upgrade local Egyptian enterprises supplying MNCs in Egypt. It is managed and sponsored by the IMC.

The NSDP began as a pilot programme specifically targeting suppliers for General Motors Egypt. It was then expanded to include 37 parent companies from a variety of industrial sectors. Companies that have participated in the programme include Procter&Gamble, Unilever, Cadbury, Siemens and LG. Data on results of the NSDP appear scarce. Even so, the programme clearly serves as a blueprint for the type of activities that GAFI or the MOTI should implement.

GAFI and the MOTI should explore the possibility of launching a new phase of the NSDP programme in GAFI-administered public free zones. Such a programme should aim to build stronger linkages between Egyptian firms inside and outside public free zones.

IMC reports that the NSDP programme has plans to pilot linkage programmes in other sectors. The IMC should consider hosting match-making events (using the wide network of companies linked to sector-specific chambers of the Federation of Egyptian Industries) to promote linkage opportunities among domestic SMEs and MNEs. It could also use the media and run promotion campaigns to attract companies from the services sector. Another valuable move would be to coordinate the activities of the NSDP with GAFI so that foreign investors may have immediate access to information about domestic suppliers.

### ***6.2.2. Enhancing SME Innovation***

Recognising the importance of innovation as a source of long-term prosperity, most governments have taken steps to establish key components of an innovation system. These efforts are often concentrated on fostering linkages between business and university, developing business incubators, upgrading human capital, and implementing a range of enterprise-level technology upgrading programmes (some of which have a sector-specific focus).

In OECD economies, policy makers concerned with accelerating innovation focus their attention on a wide range of institutional and policy settings. This breadth of focus reflects the fact that innovation is an outcome of multiple economic and institutional conditions. These conditions range from the quality of physical and virtual infrastructure to the level of available skills, degree of competition in markets, tax

treatment of R&D, sophistication of markets providing services to business (including specialised forms of finance), and the broader environment enabling business growth. There is no configuration of policy settings that guarantees an optimal level of innovation. Progress must be aimed for across the board, with governments and other stakeholders finding the mix of policy measures most apt for each circumstance.

However, policy must recognise that innovation takes many forms and varies across companies of different sizes and across sectors. For instance, research shows that innovation in SMEs is project- rather than portfolio-based and tends to generate innovations of lower value than in larger firms. And radical innovation in SMEs usually arises in only a few sectors, while incremental innovation is important in SMEs in all sectors. Innovation in SMEs also depends crucially on external linkages and skills, capital and knowledge. In addition, particularly in emerging markets, absorption capacity and adaptation of existing technologies play a crucial role. This external dependence reflects the limited internal division of labour present in most small firms. Indeed, a lack of partners is often cited by SMEs as the most significant barrier to innovation, with finance and skills also being important.<sup>21</sup> Hence the appropriateness of these innovation indicators with their emphasis on establishing innovation and technology centres and networks and securing financial support for SMEs.

Activities in research and development are relatively new in Egypt with leadership taken by the Ministry of Higher Education and Research through a series of donor-funded initiatives sponsored by the European Commission.

#### **Box 4: Women's entrepreneurship in SMEs**

Women's entrepreneurship is growing in OECD member countries and around the world. In some countries, women-owned businesses are increasing at a very rapid pace in terms of both numbers and turnover. Women entrepreneurs constitute a growing share of SME owners, with start-up rates outpacing the national average in several OECD member and non-member countries. For example, women are beginning new businesses at a faster rate than men and expanding their share of business ownership in Brazil, Ireland, Spain and the United States, among others. Women business owners are creating new niches for entrepreneurial activity and have the potential to become key players in the new, knowledge-based economy. However, while women's entrepreneurship is very dynamic in some countries, it is much less significant in others and remains constrained by various barriers.<sup>22</sup>

*OECD (2001)*

#### **6.2.2a. Innovation and Technology Centres and Networks**

International experience demonstrates that technology and innovation centres must be demand-oriented and closely linked with the productive system. This is essential in terms of financial sustainability (bringing about a degree of cost-recovery from fees for services). It is also essential in terms of relevance as willingness-to-pay is an ideal measure of usefulness. Such centres also need to be proactive in their outreach to the SME sector because entrepreneurs in many small firms are not fully aware of all their assistance needs, and are often unable to dedicate significant time to the search for reliable partners and sources of advice.

This indicator focuses on government action to foster innovation networks, linking firms to technology and research centres, and promoting inter-firm cooperation. Innovation and technology centres and networks can be assessed as follows:

- Innovation promotion schemes implemented;
- Regulatory framework for public-private projects in place;



- Strong public-private partnerships among research institutions and private sector (can be on international, national, regional, and local levels); and,
- A network of high-level innovation and technology centres present.

Egypt stands out in terms of institutional strength in this area: a network of Technology Transfer and Innovation Centres (ETTIC) has been created by the Ministry of Trade and Industry (MOTI). Each is privately managed and has a board that includes representatives from the private sector. ETTICs develop R&D capacities in certain strategic industries. They have established 2 new technology centres, raised the efficiency of 13 existing technology centres, initiated four programmes to enhance technological capabilities, and established the Mubarak City for Scientific Research and Technology Applications and the Egypt Smart Village.

They offer training and technical assistance in sector-specific areas (see Table 3 below) and are often linked to European or international service providers.<sup>23</sup> ETTICs also co-operate with technology transfer organisations internationally, particularly in Europe. Public funding is significant, but services are charged for, helping to provide a demand orientation. Currently the overall financial sustainability of the ETTICs is 40% with the aim in 2010 to reach an overall sustainability of 80%. ETTICs are limited geographically to either Greater Cairo or Alexandria.

**Table 3. Technology and innovation centres**

<b>National Cleaner Production</b>
<b>Engineering Industries Technology</b>
<b>Fashion and Design</b>
<b>Food Technology</b>
<b>Furniture Technology (2 centres)</b>
<b>Jewellery Technology</b>
<b>Leather Tanning</b>
<b>Leather Technology</b>
<b>Marble and Quarries Technology</b>
<b>Plastic Technology</b>
<b>Productivity and Quality Improvement</b>
<b>Textile and Clothing Business</b>

The IMC also co-operates with the Ministry of Higher Education and Scientific Research to link industry with R&D. To this end, it has brought together research centres, private sector representatives and industrial companies to create linkages and to nurture the development of science research that can be applied to the industrial sector.

### ***BCDS Score for Innovation and Technology Centres and Networks: 3.5***

The government has laid the foundations of an innovation policy geared to the absorption and transfer of technology through the IMC and ETTICs network. Linking technology upgrading with R&D is still in its beginning stages and doesn't necessarily have an SME orientation. Technology transfer is oriented more towards medium-sized companies (which have at least 10 employees). However, the bulk of their activity caters to medium-sized and large companies which do not serve the huge needs of the economy at large.

It is recommended that the work of the IMC should be followed through to maintain basic technology upgrading across a large number of sectors (including services). At the same time, there is a need to focus on the priority sectors already identified, further strengthening links with research centres, universities,

vocational training, and education in general. Furthermore, very little is known about the high-growth segment<sup>24</sup> of firms in Egypt and more work should be done to identify them.

International experience demonstrates that technology and innovation centres must be demand-oriented. This is essential in terms of financial sustainability (bringing about a degree of cost-recovery from fees for services). It is also essential in terms of relevance: willingness-to-pay is an ideal measure of usefulness, and even cash-starved small firms will often find a way to pay for services that provide benefits that exceed costs. Such centres also need to be proactive in their outreach to the SME sector because entrepreneurs in many small firms are not fully aware of all their assistance needs, and are often unable to dedicate significant time to the search for reliable partners and sources of advice. Egypt's ETTICs are moving towards a demand-driven model where their services are only partly subsidised which is a step in the right direction. Going forward, there should be a focus on developing specific programmes for small enterprises.

#### **6.2.2b. Financial Support for Innovative SMEs**

This indicator considers support for innovative SMEs, with an emphasis on funding. Funds may come from a variety of sources including financial engineering to generate venture capital. Support for innovative SMEs can be assessed as follows:

- legal and regulatory framework for innovation support schemes adopted after consultation with stakeholders;
- an implementing institution is in place to deliver support schemes;
- a complete range of funding schemes is available (grants, loans, and private equity schemes like seed funding and venture capital); and
- information on funding is available and a significant number of projects are funded.

The Ministry of Higher Education and Scientific Research recently announced a grants programme supported by the EU-Egypt Innovation Fund (EEIF), the main component of the Research, Development and Innovation (RDI) Programme. Funded by the European Commission under the 2007 EC-Egypt bilateral Science and Technology Cooperation Agreement, the RDI Programme is designed to strengthen Egypt's economic growth and international competitiveness. The EEIF aims to support applied research projects and has one grant programme aimed broadly at innovation and another focused on ITC development.<sup>25</sup> Applicants will have to compete for grants.

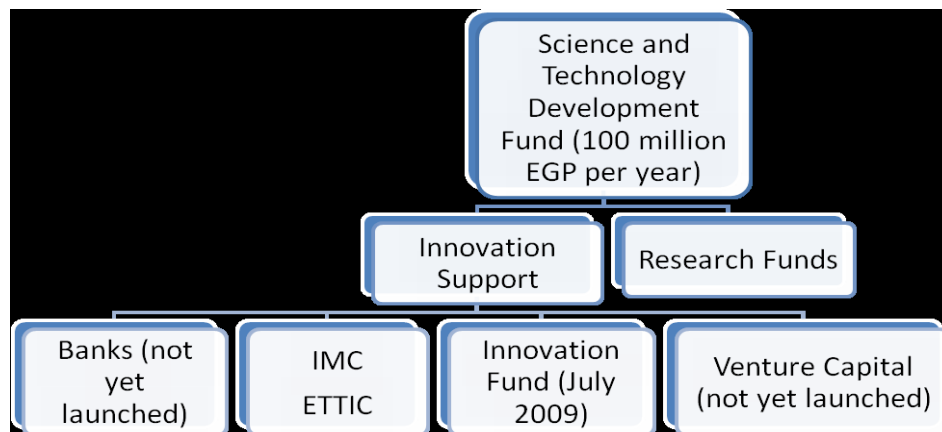
The first evaluations emerging from the RDI Programme indicate that the pilot scheme that ran through 2009 was not as successful as hoped. In fact, the grants were underutilised. The RDI programme administrators indicate that one reason was the highly demanding minimum requirements set by the programme – only 33% of the applications were able to meet them. However, the evaluation also reveals that there is a demand for funding, with requests 20 times greater than amounts disbursed. To improve the programme, its administrators are considering funding not only R&D, but also projects to commercialise innovation, which requires management and marketing training.

The RDI programme is adopting a new three-phase approach through 2011 to identify Egypt's innovation and research needs and match them to FDI. It will consult widely, examine R&D performance, and conduct a survey of SME capacities with the aim of drawing up a national innovation strategy with an improved legal and financial framework that will help promote innovation. The strategy will also consider how to entice FDI to innovative SMEs.<sup>26</sup>

In general, there is little awareness, especially among industrial companies, that there are resources available for SMEs. The RDI programme therefore aims to raise awareness, create networking opportunities, and develop capacity-building activities in enterprises.

The Egyptian government recently set up its Science and Technology Development Fund which will be allocated upwards of EGP 100 million per annum. The fund is managed by an inter-ministerial Higher Council for Science and Technology and overseen by the Prime Minister. The figure below shows how the funding system is structured.

**Figure 4: Innovation and R&D funding schemes in Egypt4**



The Egyptian government is also promoting its equity fund. A venture capital committee was established by the Ministry of Finance in 2004 and the project for a government fund targeting SMEs is well advanced. Nine private equity funds already operate in Egypt, but less than 10% of their funding goes to SMEs. The IMC has invested EGP 90 million in two private equity funds that will attract national and international investors and will put money into companies that have benefitted from the support of the IMC. The opening of NILEX, a separate stock market for small and medium-sized capitalised companies, in October 2007 should help contribute to the expansion of equity funding with an SME slant. There is already a similar programme in operation through the Information Technology Industry Development Agency; (ITIDA) affiliated to the Ministry of Communications Information and Technology (MCIT). Its mission is to raise capacity and to seek funding for the development of Egypt's IT industry.

GAFI's SMI strategy is designed to improve SME access to alternative financing – *i.e.* equity – by establishing a privately managed SMI Fund Management Company. Investment in the company will come from major established SME fund management companies (with proven track records) and from multinational donor agencies.

#### *BCDS Score for Financial Support for Innovative SMEs: 2.5*

Schemes to finance innovation in SMEs are being rolled out. Funding is satisfactory, and even underused. Cooperation with private equity funds is managed by the Science and Technology Fund. Although funding schemes have been established, they have been little implemented. There is low awareness of the existence of financing schemes and, in general, SMEs are ill-equipped to use grants for a number of reasons – the lack of viable business plans, unawareness of funding, and too little collateral.

Furthermore, access to finance for SMEs through traditional channels remains highly problematic. Small companies rely mainly on internally generated funds or informal lenders. Companies with funding requirements above the thresholds of microfinance institutions but below those that attract the interest of commercial banks are facing the biggest obstacles. (This topic is analysed in detail in the *Access to Finance* chapter of the BCDS.)

There should be more outreach to innovative entrepreneurs to promote funding for innovation schemes. This should be done not only through awareness campaigns, but also by offering entrepreneurs services like those of the ETTICs network and the IMC which promote viable business plans that could benefit from alternative financing. To mitigate risk, funding schemes aimed specifically at innovative firms could be devised. They could include innovative credit guarantee instruments (including equity guarantee schemes in addition to credit guarantees). Furthermore, capacity building activities must be increased for SMEs to take full advantage of the benefits of existing innovation and R&D funding programmes.

### **6.2.3. Operational Support to SMEs**

#### **6.2.3a. Business Incubators**

This indicator considers a specific instrument for developing innovative SMEs: business incubation. The indicator includes informing people that an incubation strategy actually exists and is being developed. It also covers the expansion of incubation schemes, and the adoption of operational standards considered best practice in the OECD context.

International experience suggests that business development should take precedence over job creation in the design and evaluation of incubation programmes. Job creation is best attained through successful business outcomes. OECD experience also indicates that the development of professional incubator associations should be encouraged in order to disseminate best practices, create benchmarks, and implement training – indeed, the success of incubation programmes often turns on the quality of management. Associations can also create accreditation programmes. Business incubation can be assessed as follows:

- There are several incubators, or a network of them, throughout the country;
- Incubators provide high-quality services for a fee;
- Exit strategies exist for firms enrolled in incubation programmes;
- Evidence that incubators have fostered innovation in SMEs; and,
- Monitoring and evaluation to ensure the effectiveness of incubation programmes.

The Egyptian incubator programme was launched in 1995 by the SFD, the World Bank, and the Egyptian Incubator Association (EIA). The EIA has launched a pilot project for business and technology incubators, although its focus is more on employment generation than innovation. It provides technical assistance in setting up the incubators. The EIA also serves as a representative body for the incubators. There are currently six operating incubators run by the SFD, with another seven in the process of being established across different governorates in Egypt. An additional five incubators are being considered, among which three are virtual incubators.

The Ministry of Trade and Industry, through its ETTICs network, also hosts business and technology incubators that offer entrepreneurs a wide range of services including technological support, technical assistance, advice, and mentoring. The advantage of being linked to the ETTICs is direct access to the facilities within ETTICs premises (*i.e.* machinery) and being able to use existing market channels to promote projects.

Finally, a third type of incubation is offered in Egypt through the Small Industries Development Tabbín Technology Incubator, which is sponsored through the SFD. This programme is set up with an exit strategy, where firms are expected to attain financial sustainability after two to four years. The aim is to give technologically oriented small-sized firms access to a physical space, to technical and consultancy services, to research centres and to laboratories (*e.g.* industrial pollution monitoring facilities).

### *BCDS Score for Business Incubators: 3*

A score of 3 is justified as follows: There is currently a network of incubators in operation in Egypt, providing basic services to incubated firms with a focus on job creation. There are no exit strategies for firms in incubators.

To obtain a higher score on the BCDS scale, Egypt should consider undertaking broader-based initiatives to raise interest in entrepreneurship, which would in turn prompt interest in and demand for incubation services. Incubation sponsors should aim to achieve scale, especially since many incubation and R&D programmes accommodate only a small number of SMEs. Greater scale opens up possibilities for cost and risk reduction, as well as the leveraging of private finance. When given, public support should come at the initial stages, not through the subsidy of operational costs. Without exposure to commercial discipline the incubator is unlikely to provide competitive services. There should be a shift in the focus of incubators towards fostering innovation. They should offer firms a wider variety of services, including the technical expertise that will enable them to shift their focus to innovation.

Careful evaluation of incubation programmes is essential. Experience with the incubators in some OECD countries has been disappointing, and in many cases the evidence base with which to judge success is weak. It could be advantageous for incubation, as well as public agencies responsible for incubation programmes, to develop links with highly experienced industry bodies such as the National Business Incubation Association in the United States and United Kingdom Business Incubation.

#### **6.2.3b. Business Establishment Support Services**

Business establishment support centres (usually industrial parks or zones) are location-specific and target established SMEs. The aim is to upgrade SMEs which perform at low levels of growth but have high-growth potential. Programmes may also target high-growth enterprises with innovation potential.

Their service provision may be geared to function and support schemes (industrial modernisation programmes), location (industrial parks), or a combination of the two (business incubators that provide start-ups with a location and support services).

Services should be comprehensive and address the needs of enterprises with innovation or high-growth potential. They may be provided in-house or from public or private sources that are off-site but easily accessed. The co-location of enterprises serves a number of purposes. It not only facilitates the development of networks and information sharing among firms in areas of common concern (although such outcomes usually require deliberate action on the part of programme managers), it can also lower the unit costs of providing services and basic infrastructure. Industrial parks or zones are also sometimes associated with other incentives for entrepreneurs to grow. The aim is to support the growth of enterprises with innovation potential, to address market failures, and to ensure more favourable opportunities for business development. This indicator can be assessed as follows:

- Well-structured, budgeted establishment support programmes are available throughout the country (SME zones, industrial parks, etc.);
- A wide range of services is offered to SMEs, including technical services required for innovative SMEs;
- Programme designs are based on public-private partnership; and,
- Programmes are regularly monitored and evaluated.

Business services developed out of the MOTI's 1997 Industrial Modernisation Programme (IMP), a scheme that received substantial financial support from the EU and benefited from other donor-led initiatives. After almost five years of implementation, the IMP was given a more demand-driven orientation and evolved into the Industrial Modernisation Centre (IMC), a public-private institution,

operating under the auspices of the MOTI and the FEI. IMC's personalised business services are delivered at business resource centres in seven regions and local and multinational firms.

Business services range from assistance in the start-up phase and drafting business plans, to accessing finance, developing human resources and, finally, for the most advanced enterprises, assistance in delivering innovative projects. They are generally provided on a cost-sharing basis through the SFD for smaller firms and, for larger ones, through the IMC.

The SFD's services range from assistance in the start-up phase (such as drafting a business plan), guidance in accessing finance and developing human resources. The SFD caters to small firms, usually in low-growth activities. However, it also has a network for entrepreneurs with the potential to create innovative projects.

#### *BCDS Score for Business Establishment Support Services: 3.5*

A number of programmes provide basic business establishment support services.

It is recommended that Egypt should consider further expanding its network of business establishment support centres to cover more of the country. There should also be a business service provision for SMEs with a track record of innovation and for those with innovative potential.

## **CONCLUSION**

Over the last five years Egypt has made strides in recognising the importance of the SME sector and the significant contribution it makes to economic growth and job creation in the Egyptian economy. Egypt has taken a two-pronged approach to supporting the development of SMEs.

On the one hand, it has put in place social policies to support the restructuring of the public sector and address the important issue of poverty reduction. The establishment of the Social Fund for Development with a mandate to support small and micro-enterprises demonstrates the government's approach to supporting the development of a vibrant private sector by encouraging socially oriented entrepreneurial activities.

On the other hand, the Egyptian government has recognised the potential of SMEs as an engine for growth and has particularly concentrated its efforts on upgrading SMEs to meet both domestic and international market demands. Its approach is to support technology transfer, absorption, and diffusion, especially in the industrial sector.

The government's two pronged approach, while pragmatic, leaves a policy gap: no institution addresses the needs of medium-sized, high-growth oriented SMEs that operate in the services sector and not in the industrial sector. Over the next five years, the government should adopt a proactive, comprehensive approach to supporting the SME sector with a national strategy which defines priorities and assigns tasks to the line ministries and agencies that already have SME support projects and programmes in place. The strategy would also set targets that address not only social needs, but also the government's economic growth needs by developing a private sector that is fuelled by innovative, growing SMEs.

Within the SME institutional and legal framework the SFD has clear responsibility for drawing up, co-ordinating, and implementing policy directed at micro and small enterprises. However, when it comes to medium-sized enterprises and those with high-growth potential there is a gap. The institutions active in

this area do not co-ordinate their work or share a common strategy or vision. There is a need to reconfigure the institutional framework for SME policy by harmonising approaches to policy-making and co-ordinating the work of institutions active in implementing policy.

Reconfiguration of the institutional framework was extensively discussed at a BCDS workshop organised in Cairo on 9 March 2010 and attended by representatives from the Ministry of Trade and Industry, the Ministry of Investment, the SFD, GAFI, private sector organisations, and the donor community.

The key recommendation which emerged from the workshop was that institutional co-ordination and co-operation should be further strengthened in an effort to close the policy gap and create synergies between programmes. Such a move would not change the mandates and roles of the institutions and agencies already operating in the SME policy area. Co-ordination and co-operation could, therefore, be tightened within the current legislative framework to make operations more efficient, policy planning and formulation more inclusive, and monitoring more effective.

Institutional operating efficiency would gain from establishing single-window contact points. They would be SMEs' sole ports of call when seeking assistance and information about government support programmes. Building on the experience of Morocco's Regional Investment Centres, the contact points would identify an SME's needs, direct it to the right institution or organisation, and help entrepreneurs in completing forms. GAFI is currently planning to establish a network of SME centres across the country. They could act as single-window contact points, storing and channelling information about all the government's SME programmes.

A single on-line portal site should also be created to offer SMEs a customised information service. They could browse it for the information they need and check out links to the websites of other organisations for further information.

Rounding off this provision of single, centralised services would be an interministerial committee on SME policy that would report to the Prime Minister's office. It should bring together key economic ministries (Finance, Trade and Industry, Investment, Labour) and the SFD. Its job would be to formulate a coherent policy towards SMEs and review all legislation that affects them. It would secure the cooperation of other institutions, co-ordinate communication between them, and monitor how they implement policy. In this way the interministerial committee could overcome the obstacles caused by the segmentation of SME policy.

The committee would meet only a few times a year, but its permanent secretariat in Prime Minister's office would keep operations running between meetings. It would coordinate the flow of information between ministries, conduct technical consultations, and follow up interministerial meetings.

One of the first tasks of the committee would be to draft a document setting out the perspectives for SME policy. It would define a coherent common policy framework to support programmes and horizontal actions across the full spectrum of the SME population.

Another useful reinforcement to the institutional setting would be an advisory body with members drawn from ministries and agencies, SME organisations, the Chamber of Commerce, expert bodies and academia. Such a cross-section would enhance dialogue and policy making and help to improve the monitoring of policy implementation and its impacts on SME programmes. This SME advisory committee would supply input to the SME Interministerial Committee and to individual ministries and government agencies.

The high number of SMEs that operate informally has major implications for the medium-term growth of this vital segment of the enterprise population. Informality affects the quality and sustainability of development, distributes its benefits unequally, and impairs the effectiveness of every component of government policy towards SMEs (taxation, regulations, innovation, labour). It is, therefore, vital that the

government develop a comprehensive, co-ordinated strategy for reducing informality among SMEs, looking beyond non-compliance to a specific set of laws, regulations, and budgetary implications.

A successful approach should build on the rigorously analysed risks and rewards of informal business operations and aim at modifying the behaviour of economic agents (enterprises, employees, and customers) through a combination of incentives and penalties.

The government should designate an institution to lead and coordinate government action. It would be supported by a task force of key players and stakeholders (from key line ministries, the Office of Statistics, executive agencies, chambers of commerce, employers' federations, small business associations, and NGOs). The MOF is well placed to play this central role, as tax evasion is a key driver of the informal economy and its SME unit has conducted initial work in this area with the support of a highly representative working group. One of the task force's objectives could be to draw up a new definition of "MSME". It would have a single meaning that would be accepted across administrations and programmes and would incorporate the measurement issues related to high levels of informality.

The Egyptian government is developing a number of measures to promote and support innovation and upgrade technology in the private enterprise sector. In order to enhance those programmes it should:

- Establish a system of communication and cooperation between the institutions and private sector organisations operating in the area of technological upgrading, innovation, finance, technical standards, public procurement, and education and training (see BCDS Dimension III-2, "Human Capital Development").

OECD experience shows that significant progress is achieved in this area by developing a continuous, effective dialogue among all the key players. This generates enhanced co-ordination effects and addresses potential policy inconsistencies. In a number of countries the task has been the work of a competitiveness council operating under the authority of a business-related ministry. Such councils have a cross-section of members from the public and private sectors, including representatives from young, innovative enterprise networks and civil society (universities, economic and scientific research bodies).

- A key element of innovation policy in Egypt should be, rather than supporting advanced R&D, to enhance SMEs' technology absorption capacity and to diffuse and adapt existing technology and innovative management tools. A considerable effort has been put into developing the ETTIC network and work is currently under way to incorporate it into the Enterprise Europe Network established by the EU.

It would be useful to conduct an evaluation of the ETTIC network's impact in order to learn from the lessons of its more successful sector-specific centres and benchmark them against international good practice. Another valuable move would be to widen ETTIC's scope to high-value service sectors and redefine its role in the national strategy for innovation, technology upgrading, and investment.

- A critical element in an effective innovation strategy is the establishment of links between support services and programmes and access to funding. Recently, there have been initial positive developments in this area, particularly in relation to the availability of equity. However, the banking sector's lending practices remain conservative. As a result, innovative enterprises with intangible instead of real estate assets in their balance sheets have limited access to finance (see BCDS Dimension III-3, "Access to Finance"). It is critical to explore alternative avenues, such as new credit and equity guarantee facilities for SMEs. (This issue is addressed in a forthcoming OECD publication on innovation and credit and equity guarantee facilities in the MENA region.)<sup>27</sup>



## Notes

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- <sup>1</sup> United Nations Development Programme, Egypt Human Development Report, 2008.
- <sup>2</sup> Global Entrepreneurship Monitor (2008), Egypt Entrepreneurship Report, Hala Hattab.
- <sup>3</sup> Attia, Sayed Moawad (2009), The Informal Economy as an Engine for Poverty Reduction and Development in Egypt, MPRA Paper, No. 13034, 27 January 2009.
- <sup>4</sup> OECD (2009). Credit Guarantee Schemes: A Tool to Promote SME Growth and Innovation in the MENA Region – Report and Guidelines, MENA-OECD Investment Programme Working Paper.
- <sup>5</sup> OECD-APEC Conference in Athens (2006).
- <sup>6</sup> Ayyagari, Beck, and Demircuc-Kunt, Small and Medium Enterprises across the Globe: A New Database, World Bank Policy Research Working Paper 3127, (August 2003).
- <sup>7</sup> Global Entrepreneurship Monitor (2008), Egypt Entrepreneurship Report, Hala Hattab.
- <sup>8</sup> OECD (2005), SME and Entrepreneurship Outlook, Paris, 29.
- <sup>9</sup> Engineering, food processing, chemicals and pharmaceuticals, textiles and garments, building materials, furniture, and paper and paperboard.
- <sup>10</sup> Engineering machinery and equipment (renewable energy), labour-intensive consumer electronics, automotive components, life sciences, biotechnology, ethnic products.
- <sup>11</sup> World Bank (2009), Evaluating the Impact of the Egyptian Social Fund for Development Programs, World Bank Policy Research Working Paper, Series 4993, Impact Evaluation Series No. 31, July 2009. From 1991 through 2007 a total of EGP 7.1 million were spent on support for small enterprises including loans and technical support.
- <sup>12</sup> Small and Medium Investment (SMI), A Window of Opportunity for Egypt: Proposal for a new Initiative at GAFI, September 2008, GAFI.
- <sup>13</sup> See BCDS Chapter, “Better Business Regulation”.
- <sup>14</sup> The strategy was prepared by the SFD with technical assistance from the Canadian International Development Agency (CIDA), the Ministry of Finance/SMEPol Project and external consultants, July 2007. The strategy is still waiting for the approval of the SFD Board of Directors.
- <sup>15</sup> SMEPol which lasted from 2000 to 2008 was a partnership between the Egyptian Ministry of Finance, the Canadian International Development Agency and the International Development Research Centre (IDRC). It was designed to support the Egyptian government in improving policies supporting MSMEs through: 1) policy development; 2) research; 3) capacity-building; and 4) networking and dissemination.
- <sup>16</sup> Attia, Sayed Moawad (2009), “The Informal Economy as an Engine for Poverty Reduction and Development in Egypt,” MPRA Paper No. 13034, 27 January 2009.
- <sup>17</sup> It should be noted that the SFD National Strategy for Micro and Small Enterprise Development has as one of its aims to reduce the proportion of informal enterprises in the total stock of MSEs by fifty% over the coming five years; in other words to reduce the number of informal MSE from 82% to 41% (out of total MSE).
- <sup>18</sup> World Bank (2009), Evaluating the Impact of the Egyptian Social Fund for Development Programs, World Bank Policy Research Working Paper Series 4993, Impact Evaluation Series No. 31, July 2009. The Impact Evaluation did not cover the SME support activities of the SFD.
- <sup>19</sup> For more on good practice in monitoring and evaluation of SME policy to measure impact, see also: Storey, D.J. (2000), Six Steps to Heaven: evaluating the impact of public policies to support small businesses in developed economies., in Landstrom H and Sexton D.L. (eds.) Handbook of Entrepreneurship, Blackwells, Oxford.
- <sup>20</sup> OECD (2005), p. 6-7.
- <sup>21</sup> Hewitt-Dundas, 2006.
- <sup>22</sup> Directly quoted from: OECD (2001) Women Entrepreneurs in SMEs Realising the Benefits of Globalisation and the Knowledge-Based Economy, Paris pp. 23.

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<sup>23</sup> Egypt will participate in the Enterprise Europe Network under the Competitiveness and Innovation Framework Programme of the European Commission. Joining this network will also establish the European-Egyptian Innovation and Information Network which will be linked to the ETTICS.

<sup>24</sup> Defining high growth according to the OECD-Eurostat proposed definition:

- Average annualised growth > 20% per year
- Demonstrating accelerated growth over a 3 year period
- Growth can be measured by: employees and turnover.

<sup>25</sup> Emmanuel Noutary (2008), *Funding Start-ups and SME Innovation: A Guide for MEDA Countries*, Cairo: Medibtikar.

<sup>26</sup> It should be noted that in January 2010, the EU pledged an additional 20 million Euros to fund the RDI programme in Egypt with the aim to foster the culture of innovation in Egypt and strengthen cooperation among European and Mediterranean counterparts from both research and business sectors.

<sup>27</sup> OECD (2009). *Credit Guarantee Schemes: A Tool to Promote SME Growth and Innovation in the MENA Region – Report and Guidelines*, MENA-OECD Investment Programme Working Paper.



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## **ANNEX**

### **DIMENSION I-6: SME Policy and Promotion**

## A1. OVERVIEW OF SCORES

I-6 SME POLICY AND PROMOTION ASSESSMENT FRAMEWORK		SCORE
<b>6.1</b>	<b>Institutional Framework</b>	
6.1.1	Delegation of responsibility	<b>2.5</b>
6.1.2	Strategy	<b>2</b>
6.1.3	Clear task assignment	<b>2.5</b>
6.1.4	Coordination with other ministries, stakeholders and civil society	<b>2.5</b>
6.1.5	Public-private consultation	<b>2.5</b>
6.1.6	Monitoring and evaluation	<b>2.5</b>
<b>6.2</b>	<b>Targeted Policy Tools</b>	
6.2.1	SME-FDI linkages	<b>3</b>
6.2.2a	Innovation and technology centres and networks	<b>3.5</b>
6.2.2b	Financial support for innovative SMEs	<b>2.5</b>
6.2.3a	Business incubators	<b>3</b>
6.2.3b	Business establishment support services	<b>3.5</b>

## A2. ASSESSMENT FRAMEWORK

6.1 – INSTITUTIONAL FRAMEWORK FOR SME POLICY					
6.1.1 Delegation of Responsibility	Level 1	Level 2	Level 3	Level 4	Level 5
	Measures concerning SME policy are taken <i>ad hoc</i> by the ministry concerned.	Several institutions are simultaneously responsible for different areas of SME policy making. No mechanisms are in place to identify overlaps and inconsistencies.	Several institutions are responsible for different areas of SME policy. Identification of overlapping policies and active measures to limit overlapping and to avoid major policy inconsistencies.	Several institutions are responsible for different areas of enterprise policy. Government has created a clear map identifying responsibilities in enterprise policy for each institution.	Several institutions are responsible for different areas of enterprise policy. Government action is consistently conducted according to the agreed structure. There is a sound system of information exchange on SME policy among the institutions. Wide-spread consultation with stakeholders.



6.1 – INSTITUTIONAL FRAMEWORK FOR SME POLICY					
6.1.2 Strategy	Level 1	Level 2	Level 3	Level 4	Level 5
	No formalised SME development strategies, including sector strategies, exist.	SME development strategies, including sector strategies, are being drawn up. Review of expired SME strategies under way.	Multi-year SME development strategies, including sector strategies for current period are approved by the government after a wide consultation process involving, in particular, the private sector, civil society and the social partners. The strategies have been openly announced. They are at an initial stage of implementation. Annual budget established but entirety of funds for the whole year not always available.	Solid evidence of implementation of SME development strategies with indication of key targets achieved and assignments completed. Entirety of funds received and in process of being disbursed.	A pro-active, global and coherent SME development strategy is put in place after a wide-consultation process. The global strategy incorporates key sector strategies. There is significant evidence that all components of the global strategy have been implemented, as demonstrated by time-bound targets achieved and number of assignments completed. SME strategy has a demonstrated impact and has strengthened the SME sector.

6.1 – INSTITUTIONAL FRAMEWORK FOR SME POLICY					
6.1.3 Clear Task Assignment	Level 1	Level 2	Level 3	Level 4	Level 5
	No clear structure is in place for SME policy implementation. Legislation is passed without a clear indication of when and how it will be implemented.	Government is in the process of establishing institutions specifically responsible for SME policy implementation.	Key institutions in charge of SME policy implementation are in place (such as a SME/business promotion agency) but are not yet fully operational.	The institutions are fully operational and have been assigned staff and budget in line with their mandate.	The institutions are fully operational, are well-staffed, and work with a budget sufficient to fulfil their mandate. They have a track record of efficient implementation of SME policies.

6.1 – INSTITUTIONAL FRAMEWORK FOR SME POLICY					
6.1.4 Co-ordination with other Ministries, Stakeholders, and Civil Society	Level 1	Level 2	Level 3	Level 4	Level 5
	There is no inter-ministerial co-ordination and exchange of information on enterprise policy.	Enterprise policy co-ordination meetings and information exchanges occur on an <i>ad hoc</i> basis and only on specific issues. There are plans to introduce co-ordination mechanisms.	Inter-ministerial co-ordination mechanisms have been agreed upon and formalised but are not yet fully operational and are not administered by a co-coordinating body.	A co-ordination body is in place (e.g. steering committee, inter-ministerial committee) and is chaired by a high political authority and supported by a well structured secretariat, which ensures that policy exchange, co-ordination and consultation with stakeholders and civil society is carried out through previously agreed upon mechanisms.	Level 4 <b>plus</b> existence of a long track record of policy co-ordination, consultation and exchange. There is also regular assessment of the co-ordination, consultation and exchange mechanisms.

6.1 – INSTITUTIONAL FRAMEWORK FOR SME POLICY					
6.1.5 Public-Private Consultation	Level 1	Level 2	Level 3	Level 4	Level 5
	There is no structured (institutional, consultative) framework for conducting consultation on SME policy issues between the public and private spheres. There is limited dialogue and it is conducted on an <i>ad hoc</i> basis.	Government is consulting to establish a regular framework for public/private consultation, including private sector representatives, civil society and social partners.	A framework for public/private consultations has been established but the range of issues discussed is limited. Limited participation of senior policy makers. Meetings have a predominantly informational purpose and are held at a late stage of the policy drafting process.	Effective consultations involving key actors, including private sector representatives, civil society and social partners, take place at the early policy planning stage and cover all key issues. Presence of legal framework and measures to encourage the establishment of private sector representative and professional associations.	Level 4 plus effective consultations occur on a broad range of issues and are organised in joint expert working groups. Impact assessment of national economic policy is applied as part of the consultation process and the private sector is involved in monitoring and assessing the impact of enterprise support measures.

6.1 – INSTITUTIONAL FRAMEWORK FOR SME POLICY					
6.1.6 Monitoring and Evaluation	Level 1	Level 2	Level 3	Level 4	Level 5
	There are no monitoring and evaluation tools in place to gauge the effectiveness of SME policy tools and programmes.	There are plans to establish monitoring and evaluation tools to gauge the effectiveness of SME policy tools and programmes.	Monitoring and evaluation databases and tools are being established in co-operation with donor institutions. Pilot monitoring and evaluation programmes are being tested.	Monitoring and evaluation databases and tools have been established and in operation. Costs for the monitoring and evaluation are included in the budget of the respective programme. Monitoring and evaluation takes place on a regular basis.	Level 4 <b>plus</b> innovative monitoring tools have been used to obtain feedback from the companies benefiting from programmes. There is also <i>ex poste</i> evaluation of the impacts of these programmes to gauge the effectiveness of SME policy tools and programmes.

6.2 –TARGETED POLICY TOOLS					
SME-FDI LINKAGES					
6.2.1 Linkages/Supplier Development Programmes	Level 1	Level 2	Level 3	Level 4	Level 5
	Government has no programme to promote SME-FDI linkages. <i>Ad hoc</i> initiatives to link MNEs with domestic suppliers.	Proposals to develop linkage development programmes and networks. Consultations with business sector. Pilot project in one key sector. Mainly donor-funded.	Creation of and approval of linkage development programmes and networks and adequate budget mainly co-financed by donor and state. Pilot projects expanded to other sectors. Database for linkage opportunities is in place.	Level 3 <b>plus</b> effective implemented linkage development programme which is based on an in-depth consultation with MNEs and local suppliers to identify specific linkage needs and opportunities. Match-making events to promote linkage opportunities are held on a frequent basis. Timing media and promotional campaigns are used to promote domestic suppliers.	A. Level 4 plus linkage development programmes and networks cover a range of sectors. B. Database is functioning with full use of virtual networking. C. Monitoring and evaluation of linkage programmes to ensure effectiveness. D. Solid evidence that linkage programmes have strengthened the domestic SME sector through the creation of sustainable networks and clusters.

6.2 –TARGETED POLICY TOOLS					
ENHANCING SME INNOVATION					
6.2.2a Establishment of Innovation and Technology Centres and Networks	Level 1	Level 2	Level 3		
	No networks, centres, or schemes to promote cooperation on innovation in place. Single, <i>ad hoc</i> initiatives in place.	Pilot projects to establish innovation networks, centres or schemes to promote cooperation on innovation have been launched.	Action taken, specifically to promote cooperation in innovation among enterprises, universities, and funded research centres. This promotion is publicly funded. Regulatory framework for PPP projects is in place.	Implementation of innovation promotion schemes. Innovation and technology centres in operation. Private/public partnership on national, regional, and local level in R&D, innovation and development.	Network of high level innovation and technology centres present in the country. Strong relationship with research institutions and private sector at domestic and international level.

6.2 –TARGETED POLICY TOOLS					
ENHANCING SME INNOVATION					
6.2.2b Financial Support for Innovative SMEs	Level 1	Level 2	Level 3	Level 4	Level 5
	No support scheme for innovative SMEs is in place. <i>Ad hoc</i> initiatives in place.	Scheme under consideration and pilot project being launched, funded by government, donors and/or other organisations.	Legal and regulatory framework for support scheme has been adopted following wide consultation with stakeholders. Implementing institution has been identified.	Schemes are under implementation and adequately funded. Independent project evaluation system has been established. Co-operation with private equity funds is being developed.	A complete chain of funding schemes is available for innovative projects, from grants, subsidiaries, seed funding to big venture capitals and loans. Project holders are well informed and aware of the availability of the funds and a significant number of projects are funded every year.

6.2 –TARGETED POLICY TOOLS					
OPERATIONAL SUPPORT TO SMEs					
6.2.3a Business Incubators	Level 1	Level 2	Level 3	Level 4	Level 5
	No incubators and no plans to establish them.	Strategy on incubators under discussion. Pilot incubator projects in operation, publicly funded, funded by donors and/or other organisations.	Strategy on incubators approved, following wide consultation with stakeholders. The strategy incorporates input and lessons learned from pilot projects and include detailed proposals and budget allocations. Focus on job creation, no exit strategies.	Level 3 <b>plus</b> several incubators in operation, out of the experimental phase. Provision of basic services, some incubators used to foster innovation. Partial implementation of OECD guidelines on business incubators (see CNRST).	Level 4 <b>plus</b> network of incubators throughout the country. Focus on innovation; provision of high quality services; existence of exit strategies. OECD guidelines widely implemented.

6.2 –TARGETED POLICY TOOLS					
OPERATIONAL SUPPORT TO SMEs					
6.2.3b Business Establishment Support Services	Level 1	Level 2	Level 3	Level 4	Level 5
	No government- or donor financed programmes in place to support SMEs through the establishment phase.	Establishment support programmes (such as creation of enterprise/SME zones, industrial parks, etc.) in the pilot phase.	Establishment support programmes adopted by central government/local authorities. Limited resources available and restricted geographical spread. Programmes focus on the provision of basic establishment services.	Well structured, budgeted establishment of support programmes available throughout the country. Services provided go beyond basic establishment needs and are directed to promote the establishment of innovative SMEs.	Level 4 <b>plus</b> programmes regularly monitored and evaluated and structured on public-private partnership.