



A Global Vision for Small Business in Egypt

Once overlooked and undervalued, small-scale businesses are now front and centre as Egypt takes bold steps to transform its economy, with the strategic support of the SMEPol project and research backed by IDRC.

“Most developing countries, including Egypt, lack a robust and dynamic medium enterprise sector similar to the one that emerged in East Asia, hence suffering from what is known as ‘the missing middle’ syndrome.”

Egypt’s Ministry of Finance in *Enhancing Competitiveness of SMEs in Egypt: General Framework and Action Plan*



IDRC: C. Harris

The Development Challenge: Help small businesses join the global economy

Big business is often seen as the ticket to a country's economic growth. Particularly in the past century, large-scale firms capable of mass-producing goods or services have been the symbol of a "modern" economy. By this measure, Egypt's economy has seemed locked far in the past. The country's private sector is dominated by a plethora of small businesses: farmers, furniture makers, tailors, potters, metal workers, and restaurant owners. The list is long and varied but all businesses share a common characteristic: they rarely employ more than 10 people. In most cases, they employ four people or fewer — 93% of the non-agricultural private sector employs one to four people.

However, in the late 1990s, the Government of Egypt started asking: rather than depend on a few big firms to increase exports and create jobs, why not make a massive effort to lift thousands of tiny enterprises into growth? Egypt had been favouring big business in its policies. Yet, the country's small-scale

Egypt: a nation of entrepreneurs.

entrepreneurs work doggedly to earn a living in the face of numerous obstacles. They don't have access to credit services so they build personal networks to obtain loans based on trust. They lack marketing channels, so they make use of personal contacts with merchants and suppliers. In the struggle to keep their businesses alive, they rarely have the time to look into how new approaches or technologies could make their enterprises more efficient. But if constraints were removed and new opportunities created, could Egypt's small and medium-sized enterprises (SMEs) surge forward?

It is a vision that holds promise — a way to boost the economy and create jobs for the hundreds of thousands of disenchanted youth who swell the ranks of the unemployed every year. However, turning this vision into reality requires a careful blueprint and an almost seismic shift in thinking. The Government of Egypt turned to Canada for support in generating relevant research that could lay the groundwork for change. In 2000, the Small and

Medium Enterprise Policy development project (SMEPol) was created, with the support of Canada's International Development Research Centre (IDRC) and the Canadian International Development Agency.

The Idea: Short-term change and long-term gain

Egypt's business environment has often been referred to as extremely "unfriendly." To cite just one example: it used to take up to a year for an entrepreneur to get a business license — a process that takes mere days in countries such as Canada. In fact, according to the Ease of Doing Business index produced by the World Bank and International Financial Corporation, Egypt's policy environment is considered highly unfavourable. Out of 155 countries indexed, Egypt is ranked at 141. SMEPol therefore

"SMEPol is the only organization making a difference toward coherent SME policy in Egypt."

Ahmed Salem,
Cooperative Society
for Small Industries

used research to determine how policies, regulations, and legislation could be changed in order to create a friendlier environment for SMEs. With a view to the long term, SMEPol also focused

on training and mentoring Government of Egypt staff on how to develop effective SME policies.

The Research: Turning ideas into action

Researchers and consultants engaged by SMEPol analyzed Egypt's business environment and existing policies in order to pinpoint clear and specific actions for making improvements. Focusing on issues designated as priorities by the Government of Egypt, they developed recommendations for action-oriented policy reforms. Researchers took into account issues related to gender equality, the environment, and child labour in all their work. Recommendations for policy reforms were made directly to the Minister of Finance. SMEPol then supported the policy formulation process, in part by providing urgently needed analysis upon request. In addition, researchers examined the capacity of institutions in Egypt

to implement measures to promote SME growth. SMEPol's focus on policy development has been complemented by work to share research results, promote dialogue among stakeholders, provide training, and improve research tools.

On the Ground: Policy development, research tools, training, and awareness-building

- Researchers undertook a range of studies on how to create a general framework for SME development, improve SME access to financial services, increase government procurement from SMEs, and reform regulations to make compliance easier and less costly. Research also focused on strategies for increasing exports.
- Through workshops, focus groups, and seminars, researchers heard from SME owners and identified their common constraints. Researchers also communicated findings to a range of stakeholders. Various print and electronic publications were also developed to raise awareness of the issues and create a common focal point for discussing policy remedies.
- To bring Government of Egypt staff up to speed, a comprehensive training and mentorship program was undertaken. Formal training programs were complemented by international and local study tours. Senior project staff provided mentoring to help officials acquire the knowledge, skills, and attitudes necessary for SME policy-making.
- Consultations with a broad range of stakeholders were held in 15 governorates. SME owners had the opportunity to learn about the government's new directions for supporting SMEs and to talk about the services they require.
- Researchers provided improved sources of information for evidence-based policy-making by publishing their research studies, providing relevant statistics, and creating information databases.

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Small businesses dominate Egypt's private sector.

The goal is to promote the growth of SMEs

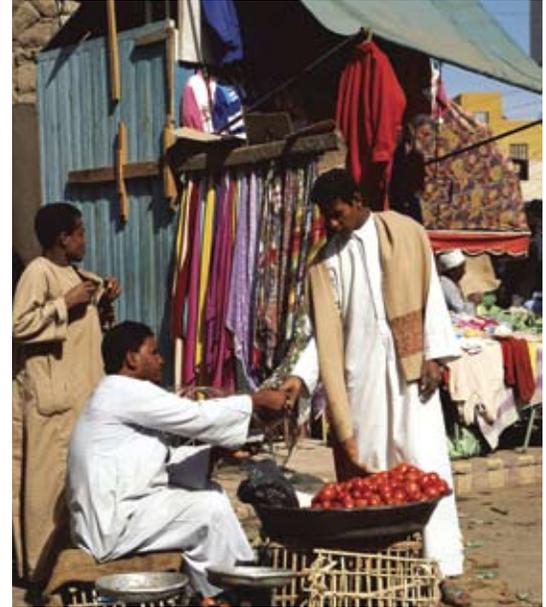
The Impact: Creating a better business environment

SMEPol's research has informed the Government of Egypt's efforts to bring about significant policy changes. For example, a more favourable regulatory framework is being developed, revisions to the income tax regime were enacted, a thorough assessment of the informal sector was initiated, and changes to the Tender Law were made. The Prime Minister has directed the Minister of Finance to develop additional venture capital opportunities for SMEs.

Moreover, based on SMEPol's work, a coherent new vision for SME development has been endorsed and adopted: *Enhancing Competitiveness of SMEs in Egypt: General Framework and Action Plan*. This is a first. While there had been successful initiatives undertaken by several actors in the field of SME development in Egypt, these efforts had been largely scattered, uncoordinated — if not conflicting — and isolated. The new framework addresses this problem by setting out broad parameters for how to promote the growth of SMEs. It also details concrete measures (along with timelines) that will help SMEs become competitive in the global marketplace. The institutional framework needed to implement the action plan was established through a ministerial decree.

Future Challenges: Repeat the process

As Egypt strives to reduce unemployment and increase exports by making SMEs more competitive, it will also blaze a trail for other countries grappling with similar challenges. IDRC is now considering how the approach used by SMEPol could be replicated elsewhere in Africa and the Middle East.



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