

**SMEPoL's Newsletter**  
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## **Towards Enhancing SME Competitiveness in Egypt**



Under the auspices of Prime Minister Dr. Ahmed Nazif, the Ministry of Finance is holding a National Conference titled “Towards Enhancing SME Competitiveness in Egypt” on Saturday the 26<sup>th</sup> of March. The conference marks the formal launch of the strategic document “Enhancing Competitiveness for SMEs in Egypt” that has been adopted by the Prime Minister in August 2004.

The purpose of the conference, which is expected to attract a large number of cabinet ministers, businessmen and other stakeholders, is to present the document as a five year plan of action to enhance SME competitiveness, encourage interaction among entrepreneurs & policy makers, and enhance awareness on efforts to endorse integration of SMEs into the economic cycle. It is worth noting that a Policy Committee, including members of concerned governmental and non-governmental organizations, is designated to discuss implementation of the action plan.

The activities of the conference stretch over a full working day at the Semiramis Intercontinental. Ten small companies will participate in a fair organized on the sidelines of the national event as a showcase of efforts exerted to integrate small business into the development process. Over 300 guests are expected to attend the national gathering on a unified strategy for the support of SMEs. Ministers will chair the sessions alongside key speakers representing donor agencies, private sector and NGOs.

## **Regional Workshops**

SMEPoL Project is organizing a series of workshops in 8 governorates to move to a regional level of consultations. Taking the policy discussion to the regions is a step to ensure the input of a significant number of the beneficiaries toward the formation and prioritization of SME development policies.

This is the 2<sup>nd</sup> round of regional workshops that includes 8 governorates, after the success of the first round. These workshops help establish a link with different regional organizations and stakeholders that serve SMEs and raise awareness about the work done by the Ministry of Finance, Ministry of Foreign Trade and Industry, Ministry of Investment and the Social Fund for Development. It also presents to stakeholders the achievements of the government in implementing the different policy areas and action plan as laid out in the document endorsed by the Prime Minister titled "Enhancing Competitiveness for SMEs in Egypt. General Framework and Action Plan". Local representation through the Governor, local NGOs and Universities will also be in the workshops to ensure the continuation of the recommendations after each workshop.



***Regional workshop held in Alexandria on the 12th of March***

## Canada Study Tour

International study tours are key activities of the capacity building component of SMEPoL Project. The last study tour took place from the 6<sup>th</sup> to the 10<sup>th</sup> of December 2004 to Ottawa & Toronto, Canada. This is the second study tour to Canada, with the first one conducted late 2002 aiming at providing basic information on a broad range of general policy issues to identify Canada's strategy in small and medium enterprise development and its application in Egypt.

This second mission sought more in-depth discussions with senior Canadian officials representing 20 government and non-government organizations concerned with SME development. Specific issues discussed included: coordination of Government initiatives on SME development, entrepreneurship development, inter-firm linkages, SME information systems, reducing regulatory burden, improving SME competitiveness, tax reform and tax collection mechanisms and incentives, the role of the informal (grey market) sector, customs tariff framework and government roles related to imports and exports, improving the continuum of financing for SMEs, foreign direct investment, trading houses, improving access to government procurement for SMEs through enhanced laws and regulations, and social issues such as gender considerations and child labor.

In order to grasp information in such a wide range of fields of interest, the Egyptian delegation comprised 11 members representing SMEPoL Project, CIDA-Egypt, Ministry of Finance, Ministry of Investment, Social Fund for Development, the Federation of Economic Development Associations, the Small Business Association and the Commercial Minister Plenipotentiary in Ottawa as a representative of the Ministry of Foreign Trade and Industry.

After completion of the study tour, all members of the delegation worked collaboratively on developing a compiled report encompassing information on Canadian organizations visited, conclusions of the meetings and recommendations & lessons learned. Among such lessons learned is the following:

- The Canadian Government does not have a single panacea for SME development. Acknowledging this fact, the government has worked on creating a healthy non-discriminating overall business environment that will enable all types of businesses to operate successfully.
- The government has focused on services and ease of procedures rather than directly intervening with set asides and assistance programs, that encourages small businesses to grow within the economy. The Canadian Government does not seem to provide services to small businesses per se. Rather, it provides particular services to starting businesses, and other services to the business community at large. This was of great interest to the mission participants, especially those representing small businesses and has changed their perception of the government's role in SME development.
- The importance of public-private-NGO sector dialogue. In virtually all of the meetings, the organizations referred to their ability to speak directly with government through parliament, various committees and task forces, etc. These various access channels have enabled all stakeholders to voice their interests and concerns and have created a platform for mutual accountability amongst stakeholders.



*Members of the delegation with Mr. David Smith, Finance Canada*

SMEPoL Project will continue to cooperate with other key players and policy makers to explore other countries' experiences in the field of SME development. The upcoming study tour to China will take place late April 2005 and participants are expected to include representatives of the Ministry of Investment, Ministry of Foreign Trade and Industry, the Social Fund for Development, and others.

## **Export Strategy for SMEs in Egypt**

Export Promotion has been identified as a priority policy area that is being tackled by SMEPoL Project in collaboration with the Ministry of Foreign Trade and Industry. For this purpose, an “Export Strategy for Small and Medium Enterprises in Egypt” is currently being developed through a research study undertaken by “Parliamentarian Think Tank”.

The significance of the study lies in its attempt to consolidate two major pillars of growth in Egypt that the Government has identified as national priorities; exports and small and medium enterprises. The study started with a literature review of international experiences in the field of export promotion for SMEs in several developed and developing countries spanning Canada, UK, Jordan, China and South Africa. Attributes of the SME sector and impediments to their exports were reviewed vis-à-vis those experienced in Egypt.

A survey of more than 200 SMEs operating in the manufacturing and services sectors was carried out in several governorates including Cairo, Damietta, Beni Suef & Menia. The survey covered several issues including, but not limited to, percentage of exports to total production, measures pursued by SMEs to promote their exports, success factors, constraints faced, and the impact of the latest economic reform on their exports.

The research also described the legislative framework governing exports in Egypt including government agencies dealing with exporting firms as well as the procedures that have to be followed. Based on all the previous activities, the study presented the results of data analysis in attempts to identify the comparative advantage of SMEs in Egypt.

The final section of the study builds on the information and conclusions reached in the previous sections and provides a roadmap for enhancing SME exports. Recommendations were classified according to 5 main categories, namely; ensuring the sustainability of a comprehensive SME export promotion strategy & its continuous updating, improving the macroeconomic environment for SMEs, mobilizing marketing activities for SMEs exports with special focus on promising sectors, improved access to export finance, and promoting SME clusters. The roadmap goes into in-depth detail for each category, describing activities, and roles and responsibilities.

The SMEPoL project will work closely with the Ministry of Foreign Trade & Industry to finalize this strategy and other relevant stakeholders, seeking their feedback and commitment for implementation of actions recommended so that this study would eventually be adopted as Egypt’s Export Strategy for SMEs.

## **Joint Committee to Support Procurement Opportunities for SMEs**

An inter-ministerial committee led by the Ministry of Finance is raising access of small and medium enterprises to public procurement contracts. Members of the committee meet on a monthly basis in order to discuss, debate and propose measures of reform within the framework governing public procurement in Egypt to streamline the legislative process and pave the way for a significant integration of SMEs in the Egyptian economy.

The Government of Egypt had originally taken significant steps towards improving access of SMEs to public procurement whereby a Prime Ministerial decree called for the allocation of 10% of government purchases of goods and services to SMEs. Together with this significant achievement, a joint committee of Ministry of Finance and Ministry of Foreign Trade representatives was appointed in early 2003 with a view towards reviewing the tender law governing public procurement and mechanisms to incorporate procurement opportunities for SMEs. However, the committee froze its activities pending the issuance of the small and micro enterprise law that would resolve the issue of a definition for SMEs and hence make the efforts of the committee more informed.

In 2004, the Small and Micro Enterprise Law 141/2004 was issued and one of the main articles called for the allocation of at least 10% of government procurement to this sector, hence solidifying the government's position on this issue. Since then, the joint procurement committee has expanded its membership to comprise the Ministry of Finance, Social Fund for Development, Ministry of Foreign Trade & Industry and the Ministry of Investment to ensure that relevant government authorities are consulted throughout this process.

## **Legal and Regulatory Reform**

The Small & Medium Enterprise Policy Development Project, under the Ministry of Finance has initiated a comprehensive study on “Streamlining the Egyptian Laws, Regulations and Procedures Governing SME Establishment, Growth, Export and Exit”.

Legal and regulatory barriers have been predominant amongst obstacles facing small and medium enterprise development both internationally and in Egypt also. Governments worldwide have taken extensive measures to streamline the regulatory framework governing SMEs in order to ensure that businesses can focus on becoming competitive.

The Government of Egypt has also attempted to take significant steps in this area, including its efforts through the Social Fund for Development and the Ministry of Investment to minimize the time taken to issue licensing and registration documents through the One Stop Shop model that has also taken place with the support of the Government of Canada.

This study, commissioned by MOF/SMEPol to Megacom Consulting Firm, comprehensively reports on all the laws and regulations governing the four main phases of the business cycle in Egypt:

1. Establishment
2. Operation and Licensing
3. Import/Export
4. Exit

The study compares the current status in Egypt to that in various other countries and draws heavily on international experiences and best practices to develop a complete set of recommendations to streamline the existing legal and regulatory framework. Recommendations emanating from the report for the most part fall under the main categories of transparency and predictability; automation and e-government; measurement; and human resource needs. Consolidation and elimination of unnecessary activities is suggested throughout the report under various phases as a streamlining measure in addition to publication of all procedures to the public in order to increase transparency and accountability. The report also provides a suggested process of continuous reform amongst concerned government agencies.

The study is reaching its final stages, where currently, an action plan is being developed to encompass the recommendations proposed and to set roles, responsibilities and the timeframe for the implementation of the recommendations. Throughout this process, the Ministry of Finance and SMEPol have been, and will continue to be committed to a consultative process with all stakeholders to achieve consensus and a buy-in to the proposed framework.