

**SMEPoL's Newsletter**  
**Issue # 11**  
**September 2005**

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## **Golden Opportunities for Entrepreneurship 50<sup>th</sup> ICSB World Conference, USA**

The International Council for Small Business founded in 1955 is the oldest and largest global membership organization dedicated to examining and discussing issues affecting the teaching, research and delivery of entrepreneurship and small and medium enterprise worldwide. Collectively, the over 2,000 members of the ICSB through their eleven national affiliates work and assist tens of thousands of individuals currently in business or desiring to start a business relatively soon.

The 50<sup>th</sup> ICSB World Conference was held in Washington D.C. from the 14<sup>th</sup> to the 18<sup>th</sup> of June 2005 with the theme of “Golden opportunities for Entrepreneurship”. The conference was attended by approximately 500-700 of the leading teachers, researchers, policy-makers and practitioners interested in entrepreneurship and small and medium enterprise from all over the world.

The ICSB Conference was particularly relevant to:

- Small business and entrepreneurship educators and researchers
- Small business managers
- People and organizations that provide guidance and assistance to SMEs worldwide
- People who establish and implement local, regional, national, and international policies affecting the development and growth of SMEs
- Those interested in teaching and research in the areas of Entrepreneurship and SMEs.

The conference was divided into parallel workshops and paper sessions where discussions tackled the following issues:

- Entrepreneurship and Small Business
- Entrepreneurship Education and Training
- Women's Issues
- Entrepreneurship and Economic Development
- Ethics
- Technology and High Growth SMEs
- Family Business
- Social Entrepreneurship
- Youth Entrepreneurship

The conference was an excellent exposure for exchanging the national efforts of every country in the field of developing SME's. Discussions were initiated in every session and workshops on a certain policy in a certain country, point of views were exchanged to comment on the usefulness of the policy and share their own experience. Potential policy initiatives were also under discussion, tackling the special circumstances of the country that lead to that initiative. The concept of gathering developing and developed countries all in one place to share their experience and exchange their views, was surely the main advantage of attending such conference.

## **The Chinese Experience in SME Development**

One of the key outcomes of SMEPoL project is strengthening the capacity of staff members to develop policies creating an SME conducive environment. A component of which, is to conduct international study tours in order to learn from other countries' experience.

SMEPoL organized a study tour to China from the 16<sup>th</sup> to the 28<sup>th</sup> of April 2005 for an Egyptian delegation of government officials working in the field of SME policy development. This fact finding mission aimed at enhancing cooperation between Egypt and China especially in finding resolutions to constraints faced by SMEs in both countries and creating linkages between Egyptian and Chinese counterparts supporting SMEs and enhancing their competitiveness. Members of the delegation were representatives of the Ministry of Finance, Ministry of Foreign Trade and Industry, Ministry of Investment, General Authority for Investment and Free Zones, International Development Research Center – Egypt and the Canadian International Development Agency – Egypt. Other organizations were also invited to take part in the study but were not able to join the delegation, namely; Ministry of Local Development, Social Fund for Development, the Federation of Egyptian Industries and the National Council for Women.

In order to grasp the Chinese experience in the field of SME development, meetings were held with various Chinese governmental and non-governmental organizations located in 4 provinces; namely, Beijing, Jiangsu, Zhejiang and Shanghai. Members of the delegation discussed issues pertaining to SME policy formulation, access to finance, taxation, formalization of the informal sector, export promotion, foreign direct investment, business development services, innovation & technology and Research & Development. Among the Chinese organizations visited were the Ministry of Finance, Ministry of Commerce, National Development and Reform Commission, People's Bank of China, Technology Innovation Fund for SMEs and Shanghai Small Enterprises Development Coordination Office.

Constraints that Chinese SMEs faced were quite similar to those faced by Egyptian SMEs; low level of technology, lack of skilled workforce, low level of management expertise, lack of access to international markets, unsupportive legislations, ineffective incentive policies and lack of financing. However, during the past few years, China has introduced new measures that promote the growth of private sector enterprises, especially SMEs, and has also issued an SME Promotion Law and designed and implemented a wide range of SME-supportive programs. This helped SMEs operate in all types of industries, export to international markets, find foreign partners and contribute to the Chinese economy with more than 50% of the GDP, 60% of exports, 43% of total tax income and 75% of new jobs created.

Findings of meetings, recommendations as well as lessons learned were all consolidated in a report. These included:

- Having an effective management system is essential for any organization's success.
- Environmental rules and regulations and Intellectual Property Rights cannot be ignored and raising SMEs' awareness on such issues is essential.
- Circulation of the study on "Promoting Trading Houses in Egypt" conducted by SMEPoL to the Ministry of Foreign Trade and Industry, the General Authority for Investment and Free Zones and the Social Fund for Development.
- Implementation of the study on "The Application of Venture Capital within the SME sector" conducted by SMEPoL.
- Education is an area of focus for CIDA's program in Egypt and can thus incorporate in its activities building the entrepreneurship culture in the society which starts from education.



*Members of the delegation with a beneficiary of the SME Applied Management and Environment Project in Jiangsu Province*

## National Conference Proceedings

Under the auspices of the Prime Minister, the National Conference entitled “Towards Enhancing SME Competitiveness in Egypt” was launched on March 26<sup>th</sup>, 2005 with the opening remarks of the Minister of Finance, the Ambassador of Canada to Egypt and the Secretary General of the Social Fund for Development. The conference concluded its proceedings with recommendations to start implementing the Action Plan that was approved by the Prime Minister along with the document entitled “Enhancing Competitiveness for SMEs in Egypt”.



*Opening remarks by H.E. Youssef Boutors Ghali, Minister of Finance*

The Conference recommendations came to address the 7 policies that were presented in the first session of the conference. Some of the main points were to:

- The necessity to create a strategy for Industrial Clusters that would identify specific products and niche markets.
- Take immediate steps to introduce new methods of financing to the sector, especially through Venture Capital and Leasing
- Continuation and speeding the efforts and legislations aiming at creating a favorable environment for foreign investment, that would in turn assist in enhancing the competitiveness of SMEs in Egypt.
- Creating a comprehensive and reliable database for all information relating to the SME sector.

*A participant of the fair held on the sidelines of the National Conference*



For more information about the “Enhancing Competitiveness for SMEs in Egypt” document or the recommendations of the National Conference, please visit [www.sme.gov.eg](http://www.sme.gov.eg)

## **Child Labor**

A Child Protection Strategy has been developed by SMEPoL project addressing the issue of child labor as a cross-cutting theme in the project's activities. This strategy is not a duplication of what is already being carried out by other projects and initiatives rather than an attempt to have an overview of the attributes of the problem and the status quo so as to accordingly incorporate actions that would help consider child labor when developing M/SME policies and helping alleviate poverty. This is also in line with CIDA's Child Protection Programming which includes exploitative child labor as an area of focus.

SMEPoL's Child Protection Strategy starts with reviewing attributes of the child labor problem; reasons for children to work and reasons for employers to prefer children, and the dilemma which is not the work per se but being deprived of education, the normal social life and the harmful conditions that children have to work in. The strategy also mentions another economic aspect which is USA's Executive Order prohibiting government agencies from procuring imported goods produced by child labor despite the refusal of inclusion of labor standards in the WTO.

Then an overview of efforts exerted in Egypt is mentioned including the Child Law, ratification of the Convention on the Rights of the Child, Minimum Age Convention and the Worst Forms of Child Labor Convention, in addition to other initiatives by the National Council for Childhood and Motherhood and CIDA's project for Promoting and Protecting the Interests of Children Who Work (PPIC-Work project). On the other hand, constraints hindering total abolition of child labor in Egypt are also illustrated.

Despite the scarcity of data and information integrating the child labor problem and SME development in Egypt, one can figure out that the child labor phenomenon does exist within M/SMEs, especially where laws are not effectively enforced. Linking child labor to SMEs in Egypt reveals that 2.9% of those employed in SMEs in Egypt are children under the age of 14.

The last section of the strategy illustrates how child labor can be incorporated as a cross-cutting theme in SMEPoL's activities. It mentions what is meant to be achieved in each of SMEPoL's outcomes; policy development, capacity building, research & information and networking & public awareness, and how child labor can be embedded in associated activities. This includes having child labor as an aspect to address in research studies to be conducted by the project, focusing on formalization of enterprises falling in the informal sector where child labor prevails, getting to know possible resolutions adopted by foreign countries during international study tours, updating the profile of M/SMEs in Egypt with data being segregated by the age of workers, and establishing linkages with other key players in the field of child protection in Egypt. Actions mentioned in this strategy will be pursued by SMEPoL Project as an indirect contribution to the resolution of the child labor problem in Egypt.

### **A Committee to implement the Action Plan for Enhancing Competitiveness for SMEs in Egypt**

After launching the “Enhancing Competitiveness for SMEs in Egypt” strategy, the Ministry of Finance issued a ministerial decree establishing a committee for discussing means and mechanisms for implementing the strategy and activation of the action plan. The committee comprises representatives of several entities concerned with SME development, namely; the Ministry of Finance, Ministry of Foreign Trade and Industry, Ministry of Investment, Ministry of Insurance and Social Affairs, Ministry of Local Development, National Council for Women, the Chairman of the Federation of Economic Development Associations and the Chairman of the Cooperative Society for Small Businesses.

This committee is to implement actions recommended in the strategy which has also been endorsed by the Prime Minister as a general policy framework for enhancing SME competitiveness in Egypt. The action plan comprises 7 policy areas;

- Regulatory changes.
- Financial Services.
- Business Development Services
- Organic clusters.
- Foreign direct investment and inter-firm linkages with large, local and foreign enterprises.
- Innovation and technology.
- Promotion of direct exports.

The Prime Minister has also designated this committee to discuss means and mechanisms of formalization of the informal sector for its significance in developing the SME sector. The first meeting of the committee was held in May 2005 which enhances cooperation and coordination between all members in adopting a common vision.

## Regional Conferences

SMEPoL continues to organize the second phase of regional conferences in 8 governorates. Seven conferences were held so far in Alexandria, Qena and Sohag and Fayoum. Presentations were given by representatives of regional NGO's, Universities, Taxation and Customs Authorities, Ministry of Finance, Ministry of Foreign Trade and Industry, Ministry of Investment and the Social Fund for Development. Such presentations helped raise the awareness on regional organizations' services to SMEs and Ministries' efforts towards enhancing SME competitiveness. Sessions were very interactive and included significant discussions between speakers and entrepreneurs, especially on issues related to the new tax law. Recommendations emanating from each conference are available on the SME portal: [www.sme.gov.eg](http://www.sme.gov.eg)



*The presentation given in Fayoum governorate on the document “Enhancing Competitiveness for SMEs in Egypt”*

## **SME Procurement Committee**

One of the important tools provided by the Ministry of Finance to assist the activation and implementation of SME Development Law # 141 of 2004 is the SME<sup>1</sup> Procurement Committee that was established by the Minister of Finance's decree no. 1431 of 2004 to suggest the necessary policies to best implement the provisions of article no. 12 of the SME Development Law that allocates a proportion of at least 10% of public procurement for SMEs.

For this purpose, the committee works on reviewing laws, regulations and decrees that govern public procurement and suggest the amendments needed to facilitate its procedures. The committee also suggests new mechanisms in this respect to increase SME competitiveness and to help create more market accessibility to their products.

Officials from Ministry of Finance, Ministry of Foreign Trade and Industry, Ministry of Investment and the Social Fund for Development represent the government side in the committee; whereas members of SME Cooperative Association represent SMEs and the private sector side.

Since the commencement of its activities in January 2005, the committee has fulfilled a good deal of achievements, among which are the following:

1. The General Authority for Public Services (GAPS) has issued its Periodical no. 8 of 2004 to inform government entities about the provisions of article no. 12 of SME Law and articles no. 20, 21 and 22 of its Executive Regulations concerning the implementation of allocating a proportion of not less than 10% of public procurement for SMEs.
2. GAPS is currently collecting data about contracts that have been performed with SMEs to establish a database on SME Procurement.
3. GAPS issued its Periodical no. 4 of 2005 to explain and organize registering SMEs in "Register no. 2 Purchase" mentioned in article no. 6 of the Executive Regulations of Law no. 89 of 1998. It is stated in the Periodical that the enterprise is to be given a letter to confirm its registration number and date.
4. The committee suggested immediate implementation of SME registration at government entities and not considering the registration at the SFD to receive the enterprise national number as a prerequisite for SMEs to register as suppliers and to enjoy the incentives provided by SME Law.
5. Law no. 5 of 2005 was passed upon a suggestion by GAPS and support by Minister of Finance. This new law amends some provisions of Law no. 89 of 1998 adding two new articles as follows:
  - The first article allows imposing compensation on the delay of payment by the government entity to the contractor within sixty days from the date of submitting his/her invoice.
  - The second article states that in case of long term contracts (more than a year), the government entity must be flexible to adjust the value agreed

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<sup>1</sup> The acronym (SME) in this context stands for Small and Micro Enterprises according to law 141 of 2004.

upon in the contract at the end of each year according to the increase or decrease in costs of the contract items.

## **The New Income Tax Law**

Egypt's Ministry of Finance has undertaken long awaited radical institutional and structural reforms in its tax systems and structures. The Ministry's program deals with various chronic problems which hinder economic efficiency, as well as effectiveness of the country's fiscal and budgetary policies. Less than two months after the appointment of the new cabinet, Minister of Finance Dr. Youssef Boutros Ghali presented a new tax code which "complies with best international standards and practices" during the annual conference of the National Democratic Party, held in September 2004. And in a landmark ceremony, the President Mohamed Hosny Mubarak ratified the new income tax law, this month signaling a new era in Egypt's move towards economic reform.

The new tax code is based on "far-reaching economic and developmental goals rather than short term inward-looking fund raising ideologies". It overcomes several existing shortcomings in the old system and allows for better business and investments environment. The tax code legislates a significant reduction in tax rates by one-half to 20 percent, a non-recurring investment allowance of 30 percent of the value of any new investment or expansion, faster and clearer depreciation schemes, standard tax deductibles in line with conventional practices, fair treatment of bad debts and loss carryovers, and clear tax treatments in cases of acquisition, mergers, revaluation of assets, and business closures. The law restructures income tax brackets into three categories, with rates of 10, 15 and 20 percent.

For small and micro businesses, the main impact of the law will be in the use of simplified accounting and auditing procedures to minimize administrative costs, both on the sides of tax payers and the tax authority. Another clause that was added to the law based on discussions within Parliament is that of tax exemptions for micro and small enterprises. Based on the new law, businesses receiving loans from the Social Fund for Development will receive a tax exemption proportional the size of the loan.

In addition to these clauses that affect micro and small enterprises, the Ministry of Finance is looking further into creating a fair and equitable taxation system for M/SMEs and is undertaking significant research into this area, based on which recommendations will be included in the executive regulations of the new law which are currently being drafted.

It is noteworthy that the law extends to abolish the issuance of new tax holidays and covers activities and types of incomes which were previously exempt. In addition, a temporary well structured and tight amnesty system is granted during the first year of enacting the new tax law. This will help include much of the informal sector in the tax base, encouraging them to legalize their status, and reduce the numerous outstanding cases and disputes between the tax authority and tax payers. A major reform which takes place under the new law is the fair and more civilized tax treatment of incomes generated by women. The old system undermines those incomes in terms of providing married women (with or without children) the same allowances stipulated for a single man. This does not only affect the fairness of the system, but also contradicts all initiatives and

efforts that Egypt undertakes in favor of women's rights and prosperity. The new tax code brings this deficiency to an end and bases the tax structure on the income generated by the unit of production and not according to unjustified discriminatory practices.

Further, with its broader base, progressive rate structure and entrust of tax returns submitted by the tax payers, the new tax code promotes greater tax fairness and stability into the system. "The improvement of the overall tax structure, meaning lower tax rates, faster capital recovery frameworks, non-extension on new tax holidays and wider tax base, achieves a solid balance in Egypt's tax system and closes long lasting shortcomings within the current system". Says Minister Boutros-Ghali.

One of the major principles of the new law is the establishment of a foundation for new relations between the tax authority and tax payers where self-assessment and mutual trust are at its core. Under the new law, tax returns filed by taxpayers would be the basis for tax assessment. The new tax code has inclusive sections on self-assessment, sampling based audits, appealing and disputes systems, burdens of proof, prohibitive penalties to deal with current difficulties, all based on international experience. Meanwhile, the Ministry of Finance started a widespread program of deep institutional and administrative reforms in the income tax (and in customs) authorities to help bring those measures to full success.

A major public awareness campaign has also been launched in order to disseminate information to the public at large regarding the law.

## **The 16<sup>th</sup> WASME International Conference Bucharest, Romania**

The World Association for Small and Medium Enterprises (WASME), established in 1980 in India, is now recognized as the largest professionally managed global non-governmental organization serving micro, small and medium enterprises worldwide. The 16<sup>th</sup> WASME International Conference was held in Bucharest, Romania from the 15<sup>th</sup> to the 18<sup>th</sup> of May 2005. The conference's theme was "SMEs Internationalization and Transition to the Knowledge-based Economy" which confirms that the knowledge-based revolution is taking place globally and especially in developed countries.

Two staff members attended the 16<sup>th</sup> WASME International Conference which provided the opportunity for networking and learning other countries' experiences. During the conference, papers presented and discussions included issues related to globalization and its consequences on SMEs, integrating crafts with the SME internationalization process, innovative SMEs in the perspective of knowledge-based economy & e-business, SMEs and R & D, and new business creation, incubation and growth.

Such presentations and discussions revealed that for SMEs to meet the requirements of the knowledge-based economy, they need the following:

- Extensive and continuous information on current trends of the knowledge-based economy, through conferences, workshops, specialized websites, guidelines, manuals, books, etc.
- Intensive training for entrepreneurs to obtain knowledge via methods and techniques that are specific to the knowledge-based economy through seminars, distance learning and mentoring in management techniques, marketing, finance, informatics technology, etc.
- Constancy and assistance in obtaining, using and improving knowledge for SMEs, by extensive, public-private partnerships, projects and programs and local, national and international co-participation.
- Investments from entrepreneurs, venture-capitalists and foundations to ensure the availability of technical support for SMEs.
- Networking among SMEs and between SMEs and other enterprises at local, regional, national and international level, realized through clusters, incubators and subcontracting.