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Small and Medium Enterprise (SME) Program Review—Egypt

Executive Report

**Evaluation Division
Performance and Knowledge Management Branch**

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ACRONYMS AND ABBREVIATIONS

BDS-SP	Business Development Support Services Project
CCI	Climate Change Initiative
CDPF	Country Development Programming Framework
CENACT	Community Environment Action Project
CIDA	Canadian International Development Agency
EEIF	Egypt Environment Initiatives Fund
ELMSR	Egyptian Labour Market Service Reform Project
GoE	Government of Egypt
IDRC	International Development Research Centre
INC	Industrial Cooperation Program (CIDA)
MIC	Ministry of International Cooperation
MOF	Ministry of Finance
NGOs	Non-governmental organizations
OSS	One Stop Shop
PDP	Participatory Development Program
PEMA	Centre for Project Evaluation and Macroeconomic Analysis (MIC)
PKMB	Performance and Knowledge Management Branch (CIDA)
PPIC-Work	Promoting and Protecting the Interests of Children Who Work
PSD	Private Sector Development
SAE	Strengthening Aid Effectiveness (CIDA Policy Document)
SMBS	Small and Medium Business Support Project
SME	Small and medium enterprises
SMEDUP	Small and Medium Enterprise in Upper Egypt Project
SMEPOL	M/SME Enterprise Policy Development Project
TORs	Terms of reference
WIF	Women's Initiative Fund

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1.0 Introduction

1.1 Rationale for the Review

CIDA's Egypt Program is currently in the process of implementing its Country Development Programming Framework (CDPF) approved in June 2001 for the period 2001-2011. The goal of the CDPF is to support Egypt in its efforts to reduce poverty of the country's marginalized groups, in particular women and children/youth. The CDPF identified two objectives: to further human resource development in Egypt through support to basic education; and to foster better employment opportunities through support to small and medium enterprise (SME) development.

Originally, a mid-term evaluation of the overall progress on the Egypt CDPF was planned by Performance and Knowledge Management Branch (PKMB) for 2005. The original evaluation was designed to assess the following: the continuing relevance of the CDPF; the effectiveness of the strategy based on an analysis of the cumulative results achieved thus far; and the steps necessary to strengthen the current strategy and ensure sustainability of the benefits from the development initiatives given new realities faced by the Egypt Program.

In developing the terms of reference (TORs) for the full CDPF evaluation, it became clear that the implementation of the CDPF had not advanced sufficiently in all areas to allow for a full mid-term country program evaluation to take place. In particular, due to a series of factors, the new emphasis on education had limited initiatives underway that could be evaluated. In addition, the major SME projects approved under the new CDPF were only in a start-up phase.

PKMB and the Egypt Program reached a mutual agreement that a more appropriate approach would be to focus on the SME programming over the last five years and review that portion only of the overall portfolio. It was agreed that the Review would not be a full evaluation but would be an SME Program Review having two main focuses:

- an assessment of results emerging from the SME programming under the past and current CDPFs; and
- an analysis of the broader issues related to the implementation of a program approach to the SME portfolio.

It was also agreed that the Egyptian Ministry of International Cooperation (MIC) would participate as a partner in the Review through its Centre for Project Evaluation and Macroeconomic Analysis (PEMA). Working jointly with PKMB staff and consultants, PEMA was involved in the Review process, participating as part of the Review Team, providing advice during the process, providing inputs into the Review report, and reviewing the documents produced.

The SME Review, including the involvement of PEMA, was seen by the Egypt Program as being an important part of their overall programming effort—providing an opportunity

to clarify the Program vision, assess what has been done, and determine what needed to be done. Coming at the mid-point of CDPF implementation, the Review was seen by the Program as a method to assist in charting the future course for programming over the remaining CDPF period.

1.2 Objectives of the Review

The SME Program Review had a number of objectives:

1. Provide an indication of results achieved from the SME component of the Program over the last five years;
2. Identify lessons from innovations implemented by the Program in moving towards a Program approach;
3. Identify the challenges to be addressed within the SME component of the Program and adjustments to be made in the remaining years of the CDPF; and
4. Identify broader lessons that might be useful for other middle-income countries undertaking SME programs.

The Review was intended to provide a method for promoting lessons, advancing the good practice culture throughout CIDA, informing the Agency's future strategy, and providing accountability.

1.3 Review Issues, Parameters, and Constraints

The SME Program Review focused on two groups of issues:

- *Achievement and sustainability of results* – Achievement of results is the extent to which results were achieved under the Program. Sustainability refers to the continuation of those benefits from the Program after the assistance has ended.
- *Progress towards a Program Approach* – Program approach refers to the emphasis within CIDA currently on moving towards a more integrated approach to programming where individual initiatives within a Program have a synergy, and programs are adopting CIDA's *Strengthening Aid Effectiveness* (SAE) principles.

The Review was not intended to focus on the performance of individual projects but rather concentrate on overall issues of performance on the SME Program as a whole. As a result, no individual projects were assessed in depth. In addition, the focus was on bilateral projects only, due to the lack of SME initiatives in Egypt funded through other CIDA funding streams such as Canadian Partnership Branch, including Industrial Cooperation (INC), and Multilateral Programs Branch.¹

¹ CIDA's Industrial Cooperation (INC) Program is active in Egypt but a review of the projects funded under INC over the last five years reveals little overlap with the SME sector. In Egypt,

The SME Review also faced a series of constraints:

- The final decision regarding the involvement of PEMA in the Review was made during the scoping mission in March 2005. This was due to the changes required in moving from a full country program evaluation to a more limited SME Review. As a result, much of the initial planning and methodology were developed by CIDA, with more limited input by PEMA. The ideal approach would have been to have more active involvement by PEMA from the beginning of the process.
- The Program does not have a results framework against which to assess progress. Consequently, a framework had to be developed based on information in the CDPF (see Annex 1). The framework is, at best, notional in terms of intended results. This made assessing progress more difficult. The CDPF also did not highlight many of the other results being targeted by the Program such as donor coordination.
- The timeframe for the Review was also limited due to a series of circumstances. Lengthening the three-week field work period could have allowed more time in the governorates, including more interviews with clients of CIDA's programming partners.
- While the Program had undertaken recent evaluations of some projects, many of the projects reviewed did not have recent assessments. This meant that more work needed to be done to gather basic information on the projects and results for verification in the field. This heavy reliance on secondary information provided by projects constrained the type of information available to the Review—making it more qualitative than quantitative.

1.4 Review Questions and Methodology

A scoping mission was undertaken by PKMB to Egypt in March 2005 in order to engage the primary stakeholders in the design of the Review and its scope. Initial discussions with various stakeholders occurred and helped to introduce and shape the Review. This included consultations with CIDA Program staff and consultants, primary project staff of the SME portfolio, individuals from the Government of Egypt, and the PEMA Team.

As a result of the scoping mission, a Team was designated to undertake the Review including representatives from PKMB and PEMA, and independent consultants from Canada and Egypt. An SME Review Work Plan was developed and agreed to by the Team. Since the objective of the Review was to have an overall assessment of the SME Program, a series of key review questions were developed to guide the investigation. These focused on the two areas of investigation namely: an assessment of results from past programming; and an analysis of the key lessons from the innovations tried by the

most of the INC projects funded relate to infrastructure or public private partnerships with the Egyptian public sector. As a result, the INC projects were not investigated under the Review.

Program in implementing the overall Program approach. Specifically, the Review addressed a number of questions.

Results and Sustainability

1. What results have been achieved from previous initiatives? Have our initiatives addressed relevant and important needs in Egypt? Have the completed projects left behind sustainable results? Have they met the needs of the SME clients? What have been the factors that have contributed to achieving sustainability?
2. Are the assumptions made regarding SME development when drafting the current CDPF still relevant? Has the enabling environment shifted substantially to either improve or detract from the effective implementation of future SME programming?

Program Approach

3. What lessons can be learned from the SME portfolio regarding *Strengthening Aid Effectiveness* principles—namely local ownership, improved donor coordination, stronger partnerships, results-based approach, and greater coherence of programming? How effectively have they been incorporated into the SME programming?
4. To what extent, and in what ways, has CIDA’s SME Program coordinated with other donor programs in the SME area?
5. To what extent has the Program been able to integrate its SME activities—including Industrial Cooperation and non-governmental organizations (NGO) division SME initiatives—into a more coherent program and to make individual activities mutually reinforcing? What are the lessons and how can the positive practices be replicated? What have been the factors for success? What have been the obstacles to implementation?
6. Has there been progress in mainstreaming crosscutting themes into the SME program? Which techniques have been most effective? Which least effective?
7. Have “non-projectized” initiatives been useful in facilitating the success of CIDA’s programs in Egypt? How successful was the Program in creating local networks, strengthening partnerships, and influencing Government of Egypt (GoE) policy in the SME area? How is the CIDA Program perceived by other donors in Egypt? What spin-offs have been generated by CIDA’s program in the greater donor community?

As part of the Work Plan, a Review Framework was developed that included a series of questions, sub-questions, and indicators. These were intended to guide the Review. In addition, general interview guides were developed to ensure that the Team members working on various aspects of the Review were collecting similar information.

In addition, the specific projects to be included in the Review were agreed upon (see Table 1). In some cases, this was straightforward, with some of the past projects clearly linked to SME support. In other cases, the older projects had been grouped under the SME objective of the CDPF by default—they had to fit within one of the two objectives of the new CDPF (either education or SME development). These projects needed to be assessed to ensure that there was some linkage to the SME objective and to document how they had been adjusted over time to reflect new programming priorities. Those with a link were included in the Review process.

Table 1 - Summary of Projects Under the SME Program 2000-2005

Project Title	Dates	Amount (Cdn \$ million)
Projects Approved Under Past CDPF		
Women’s Initiative Fund (WIF)*	1991–1995 (Phase 1) & 1996–2000 (Phase 2)	\$8.5M
Small and Medium Business Support (SMBS)*	1996–2003	\$15.8M
Small and Medium Enterprise in Upper Egypt (SMEDUP)*	1996–2006	\$11.9M
Egypt Environment Initiatives Fund (EEIF)*	1997–2004	\$14.6M
M/SME Enterprise Policy Development Project (SMEPOL)*	2000–2006	\$ 4.3M
Projects Approved Under Current CDPF		
Promoting and Protecting the Interests of Children Who Work (PPIC-Work)	2002–2007	\$ 2.5M
Egyptian Labour Market Service Reform Project (ELMSR)	2002–2006	\$4.9M
Climate Change Initiative (CCI)	2003–2006	\$ 5.0M (Climate Change Fund)
Community Environment Action Project (CENACT)	2004–2008	\$5.0M
Business Development Support Services Project (BDS-SP)	2004–2010	\$20.0M
Participatory Development Program (PDP)	2003–2008	\$14.7M
Total		\$107.2M

* These five projects were the focus of the Review in relation to achievement of development results.

The assessment of the first set of Review questions regarding results and sustainability required looking at specific projects that had been completed in recent years and undertaking a brief review of their results and sustainability. The exercise was intended to

focus on success factors emerging from the past portfolio. The Work Plan outlined the criteria for selection of the projects for review. The two most important factors were the following:

- The projects needed to be over three years old in terms of implementation in order to have results evident at the time of the Review.
- The varying conditions within Egypt, between Upper Egypt and the Delta region, made it important to have geographic representation in the projects reviewed and site visits undertaken by the Team.

Since the methodology focused on building from the experiences of individual projects, it was important to review the information available within CIDA on these projects as well as the other SME projects underway. The lack of recent evaluations on many projects meant that the Team focused on reviewing project performance reports, project evaluations, final project reports, monitoring reports, or quarterly reports summarizing results. The intention was to start with the basic project documents and use the interviews in Egypt to ensure that the data were credible, of good quality, and consistent. The heavy reliance on secondary information made it critical that information collected be verified from a number of different sources and cross-checked. In addition, it was also important to review background documents on SME development in Egypt, GoE and donor documents, CIDA policies, and Program reports.

Interviews were then conducted by the Team in Cairo, Giza, Dakahlia Governorate, Aswan, the Canal Zone (Port Said and Ismalia) and Qena between May 2 and May 18, 2005. These interviews involved a wide range of individuals including: project participants, clients of projects, CIDA program staff, government officials, donors, program advisors and consultants, and experts in the SME field.

The Team reviewed the information collected, undertook the process of triangulation to verify its veracity, and identified broader patterns of results and conclusions that emerged from the work. The Review Report presents the conclusions that were able to be drawn from the Program experience.

2.0 SME Program Context

2.1 Egyptian Context

The overall mandate of CIDA is poverty reduction. As stated in the 2001–2011 Country Development Program Framework of the CIDA Egypt program, the goal of the Program is “to support Egypt in its efforts to reduce poverty of the country’s marginalized groups. The stated Program objective of fostering better employment opportunities recognized the continuing need to support the job creation effort within Egypt. At the time of approval of the CDPF, tackling unemployment, underemployment, and unpaid labour were seen as major poverty challenges facing the Government of Egypt (GoE).

Since the development of the CDPF, the conditions within Egypt have reinforced these priorities, and in some cases, made them more urgent. The recession that started in 2000 intensified after September 11, 2001 and resulted in growth rates far below the required 7% to tackle the employment issue. While poverty has been declining nationally, it rose in Upper Egypt. The economic situation of women has also not improved substantially. In the 2004 *Poverty Reduction Strategy*, the GoE reinforced the importance of job creation along with its commitment to SME development. This commitment has been further translated into key policy initiatives in recent years such as the passage of the SME Law (which provides the legal basis for the promotion of SMEs and designates the Social Fund for Development as the coordinating agency for the GoE) and the development of a National SME Strategy.

Despite these gains, SMEs face a wide range of obstacles to increasing their competitiveness including a complex regulatory environment, limited access to financing, poor quality services, and limited access to technology.

These needs and issues within Egypt have greatly influenced CIDA's SME Program, with increasing emphasis being placed on coordinating policy support, improving services, untangling the regulatory environment, and improving coordination including donor approaches.

2.2 Canadian Policy Context

The SME Program has also been influenced by changes in CIDA policy. In 2002, CIDA issued its Strengthening Aid Effectiveness policy statement that clearly put forward principles for programming by CIDA as an agency including: increased local ownership; improved donor coordination; stronger partnerships; a results-based approach; and greater coherence of programming. The Policy called for new programming approaches to be developed by CIDA—shifting away from relying solely on discrete projects and moving towards more programmatic forms of support.

As a result, the Egypt SME Program increasingly began to adopt new approaches such as increasing the synergy between its projects, engaging donors and government in greater efforts towards coordination, and decentralizing the management of the Program to the field.

The International Policy Statement issued by the Government of Canada in 2005 reiterated these principles including private sector development as a priority. It also raised challenges for the Egypt Program since CIDA will be focusing an increasing share of its funding on a limited number of countries. Egypt is now considered a transition country—where programming will be phased out over time. While the current projects will be completed, it is unclear whether any new SME projects will be able to be developed. This current lack of certainty within CIDA regarding the future programming options in Egypt makes it difficult to plan and manage the Program for the remaining CDPF period.

2.3 Program Framework

CIDA's overall portfolio contributing to SME development represents budgets of C\$107.2 million (see Table 1 on page 5). The initial projects, started in the mid-1990s, focused on experimenting with various SME non-financial service models and policy support. As part of the development of the CDPF 2001–2011, stocktaking exercises were done which concluded that CIDA should remain in these two areas but change its approach. The Program began to shift away from creating new service institutions towards strengthening existing ones. The size of CIDA's program in Egypt—at less than one percent of overall donor funding—also made it clear that replicating models was not the best approach. Instead, the Program should continue to test new ideas and initiatives.

As a result, the current portfolio focuses on non-financial services and policy support. A series of complementary projects in four crosscutting themes—gender equality, environmental sustainability, institutional capacity building, and child protection—are also being undertaken.

3.0 Program Results

3.1 Results Overview

The long-term results of the Egypt Program and its SME Program, in terms of poverty reduction and better employment opportunities, are linked to direct support to SMEs (the focus of past programming) through three intermediate results: 1) increased income for owners of small enterprises; 2) increased wage employment in participating small enterprises; and 3) additional economic growth leading to net increase in wage employment. The current focus on working with existing business development service providers in support of SMEs targets change agents and institutional structures to accelerate development. Both approaches—the first more directly targeting the poor and the second targeting institutions—are recognized as effective in addressing poverty, particularly when complemented by policy level interventions.

The emphasis of initial programming on testing non-financial service models produced important lessons for SME development within Egypt. Respondents during the Review indicated that CIDA's primary contribution was the demonstration, via the development of a series of institutions and approaches, of the importance and potential of non-financial services for SMEs. The growth of similar initiatives within Egypt over the last five years and the establishment of benchmarks by CIDA projects are evidence of this demonstration effect. Indeed, a major success of the Program has been the attraction of other donors and government to providing support services to SMEs. Success of the approaches used by

The Women's Initiative Fund (1991-2000)

- reached low-income women and their families
- created 250 small enterprises
- created 1,000 employment positions with combined incomes of three million LE/yr
- provided and/or brokered thousands of microcredit loans for women
- developed the Egyptian Association for Community Initiatives and Development, which continues as an effective and well-respected NGO.

the Program was apparent in client responses to the services, which were seen to meet the needs of firms and be demand driven.

Some of the highlights of the SME Program include the following output and outcome level results:

- Through support to new start-up enterprises, including training, technical assistance and micro credit, the Program has created over 9,050 employment positions in over 2,250 enterprises.
- Five new institutions were developed in five governorates, along with an umbrella support group. These institutions are providing a wide range of support services to SMEs in terms of starting businesses, technical support, brokering of bank loans, and management training. New models of service delivery are continuing to be developed, with each group now reaching a level of sustainability.
- Existing institutions supporting various aspects of SME development have been strengthened. Banks have been provided with assistance to improve their small-business lending. New approaches to entrepreneurship training have been developed including formal programs at educational institutions. Governorate-level departments have been supported in developing new approaches in areas such as environmental awareness and the regulatory environment.
- Links were improved between vocational and technical training and industry, making vocational training more relevant to industry needs. Specific partnership initiatives begun by the Program are now ongoing.
- A One-Stop Shop (OSS), with the representation of seven line ministries, was created

Small and Medium Enterprise in Upper Egypt (1996-2006)

- reached marginalized groups, including the unemployed
- developed three Regional Enterprise Development Centres
- established 2,000 new enterprises
- created 8,000 employment positions
- provided 3,500 loans, 23% to female borrowers
- increased incomes of informal sector entrepreneurs

Small and Medium Business Support Project (1996-2003)

- Formed the Industrial Partnership Unit involving the aluminium industry and government, now a self-sustaining unit training
- Developed the Professional Development Institute (PDI) that provides industry-focussed and training to key ministries (including training of trainers, curriculum development skills and vocational training),
- Trained 531 ministry officials through the PDI
- Created the Business Advisory Support Unit and the One-Stop Shop (OSS)
- Through the OSS, issued more than 5,000 licences and decreased the approval times for firms from over 1 year to 15 days
- Held 15 workshops at the governorate level to build awareness of policy and regulatory issues with participation by ministries, SFD, local service providers and universities
- Led to the inclusion of the OSS concept in the SME Law and its national replication

to provide support to SMEs in obtaining documents necessary for issuing licences to open new businesses. This concept has since been widely accepted throughout Egypt and was embedded in the SME Law. Two replications of the OSS have been implemented in other governorates, with the assistance of the Regional Enterprise Development Centres.

- A less tangible but equally important outcome is the change in mindset and attitudes at the Governorate level towards the importance and respectability of entrepreneurship, including women’s involvement in businesses. Coordination efforts, among SMEs and institutions that support SMEs, have resulted in successful advocacy efforts on behalf of SMEs.

Gains were also made in supporting a strengthening of the national policy environment for SMEs. For example:

- The Ministry of Finance’s *Enhancing SME Competitiveness in Egypt – General Framework and Action Plan* received official endorsement from the GoE and lays out an Action Plan for better coordination of support to SMEs.
- A new procurement policy, decreed by the Prime Minister, will provide improved access by SMEs to procurement opportunities within government.
- Capacity-building efforts have led to the development of skills and know-how of key ministries relevant to the needs of SME policy formulation and implementation.

Small and Medium Enterprise Policy Development Project (2000-2006)

- Worked at the national level supporting the development of policies aimed at SMEs and capacity building in policy formulation in a series of Ministries
- Assisted in the development of the MoF’s General Framework and Action Plan
- Advocated and supported formulation of a new procurement policy requiring that 10 percent of all government procurement be from SMEs
- Contributed to the establishment of functioning SME Units in the Ministries of Finance and Foreign Trade and Industry
- Advocated successfully for the inclusion of SME representatives on 13 community councils

3.2 Crosscutting Theme Results

In general, the integration of the crosscutting themes into the individual projects reviewed varied widely. Some highlights of the results achieved in these areas to date include the following:

- *Gender Equality* – Some of the initial projects undertaken placed a strong emphasis on gender equality issues. This resulted in improvements for women in areas such as: improved self-esteem and decision-making roles within businesses and the community; greater involvement in non-traditional sectors; improved access to services to support their businesses; and increased job opportunities, albeit in traditional sectors like textiles and food processing. During the implementation of programming, the challenges that face business service providers in targeting women were identified. These challenges require new methodologies and tools to effectively meet women’s needs.

Small and Medium Business Support Project (1996-2003)

- Women owned 43 % of businesses created
- Women received 40% of bank loans
- Women held 33% of the jobs created

- *Environmental sustainability* – Environmental results were seen in areas such as improvements in environmental technologies and management within SMEs (including low cost solutions to environmental problems and the reuse and recycling of raw materials), awareness-raising of environmental issues with SMEs and the general public, strengthening of government departments, and improving worker health and safety within firms.
- *Institutional capacity building* – At the heart of CIDA’s Program has been support to capacity building of both government and non-governmental agencies. A key element of CIDA’s initial program in SME development was the establishment of local

Institutions initiated under the SME Program that continue to provide support and services

- Industrial Partnership Unit
- Professional Development Institute
- Egyptian Association for Community Initiatives and Development
- Regional Enterprise Development Centres
- Business Advisory Support Unit
- El Mobadara (national umbrella organization)

institutions—both non-governmental and, to a lesser extent, governmental. This strong institution-building focus was effective in sustaining the institutions after CIDA funding ended. It also attracted project staff who later became the main members of the newly established NGOs and institutions.

- *Child protection* – Improving the working conditions and learning opportunities for children working within SMEs was a new priority under the CDPF in 2001. As a result, limited work was done within the older projects to support this effort, specifically in awareness-raising of children’s issues and improving the conditions of child employment. The emphasis is increasing in the current programming, with significant results emerging including the development of models for supporting children who work, a series of products and processes to improve health, safety and learning opportunities for children working in small businesses, and positive feedback from parents, children, and SME owners on the models and practices.

3.3 Sustainability of Results

Strengthening of institutions is only a positive result if the institutions are sustainable after the individual projects end. While direct results such as job creation have been seen, those figures would not be high enough to warrant the investment without continued growth and development of the institutions. Sustainability in the Egyptian context is a particularly important issue given the tendency of many groups (including government agencies, donors, and NGOs) to establish heavily subsidized services, with no plans for sustainability.

CIDA's portfolio has demonstrated a high level of sustainability in three areas: financial, organizational, and technical. The struggle for financial sustainability is the most common issue facing groups that are supporting service delivery to SMEs. Full cost recovery is not possible for many services. As a result, the CIDA-supported institutions have developed innovative combinations of revenue sources to ensure financial sustainability. These include: government funding for core services; fee for services from SMEs; other revenue sources that can cross-subsidize operations; and donor or government programs for specific services.

While the focus on financial sustainability is critical for long-term benefits for SMEs, organizational sustainability is also important. Groups need to develop and maintain high visibility in their communities and a profile for specific service delivery—in essence, a market niche. Trade-offs often develop between reaching financial sustainability and ensuring that the organization maintains a clear niche. While most of the SME Program institutions have managed to maintain this balance, some risks are evident. Chasing after money will solve short-term problems but can also cause longer-term problems if an NGO or other group no longer has a clear mandate or role in the market. In essence, they lose their competitive edge unless a new clear niche can be developed.

Finally, technical sustainability refers to the ability to generate new products that respond to the market. Some good examples are being seen of product development that meets the demands of SMEs. El Mobadara (the national umbrella organization) has developed new products and services for SMEs and tested them for use by the Regional Enterprise Development Centres and other groups.

The One-stop-Shop continues to work to streamline the approval process for business applications, reducing the number of forms from 21 to 6, establishing new OSS branch offices, and extending the duration of newly issued licenses.

3.4 Replication

CIDA's Program wanted to promote innovative approaches to SME development that could have broader application within Egypt. While there are some striking examples of replication such as the OSS, which is now embedded in the SME Law, replications have been more limited than anticipated. Those initiatives that have been replicated are not necessarily incorporating lessons learned or applying best practices. However, CIDA is

recognized as having done important groundwork in establishing non-financial services for SMEs, evidenced by the proliferation of government and donor programs now in place in support of SMEs. The issues around replication are complex and require buy-in and support at many levels. CIDA's experience in this area is not uncommon within Egypt.

4.0 Building a Program Approach

An important part of the Review was intended to focus on “program” issues—i.e. whether the SME Program has been able to effectively implement a series of principles that CIDA has now adopted as the basis for its overall development assistance. The following sections summarize the results that have been achieved to date in these program areas, along with some of the challenges to more effective implementation.

4.1 Extent of Local Ownership

An important principle for CIDA is ensuring that its programming is relevant and based on local priorities and needs. In the interviews with outside groups, a number of consistent and positive comments were heard about the approach that CIDA took to its SME programming. These approaches were seen to be critical for the success of the programming to date and allowed it to respond to local needs and instil ownership. These approaches included: high levels of consultations with a range of stakeholders to assist in building a consensus on SME issues; provision of informal and formal opportunities to bring groups (particularly government and civil society) together to make contacts and exchange ideas; testing new innovations; and building on the approaches and ideas of Egyptians.

The importance of these approaches is understood when looking at the current environment for SME support within Egypt. The lack of coordination, the fractured nature of the policy environment, and conflicting approaches to service delivery decrease the overall effectiveness of support to SMEs. By promoting more inclusive processes as well as testing new innovations, CIDA promoted methods for addressing some of these bottlenecks.

The approach taken, however, does have risks to a Program like CIDA's. For example,

- Defining local ownership is difficult in areas such as SME policy support. The environment within Egypt continues to show little consensus among local partners (government and non-governmental) on the appropriate approach to SME development, roles and responsibilities, or methods to coordinate activities. To support “local” efforts often means supporting an individual agency's perspective, not an overall Egyptian approach.
- Maintaining a commitment to the achievement of SME development and employment objectives can also be challenging. A number of projects that have been funded under the current CDPF were, in essence, follow-on projects to previous work done by

CIDA under the past CDPF. They were approved based on requests from partners even though they have a more limited connection to SME development.

- Some recent projects have moved towards a “funding facility” approach. These responsive funds can foster a high degree of local ownership, are highly flexible, and can often fund activities that are small scale but important in the large landscape of SME support. There are potentially some disadvantages, however. The initiatives can turn out to be: very short term; not sufficient to effectively tackle the issue being addressed; difficult to track in terms of results particularly at a program level; and potentially resource-intensive for the projects.

4.2 Donor Coordination

In recent years, the interest among donors in SME development has increased—an overall positive trend. However, at times, donors are working on parallel initiatives that do not always complement each other. This is particularly true with groups that continue to subsidize financial and non-financial services, while others (such as CIDA) are trying to make them more financially sustainable.

Lead by CIDA, the donor community formed the Small and Medium Enterprise Donor Sub-Group in June 2002. Canada has chaired the Sub-Group for three years, bringing together donors and GoE Ministries and agencies active in SME development.

Overall, the Sub-Group appears to have made good gains in improving information flow among donors, providing a forum for discussing current issues and ideas, and providing a mechanism for the donor community to have one voice on important policy issues with the GoE.

The SME Sub-Group has not been able to achieve greater coordination among donors along with greater complementarity, however. While information sharing is a good starting point, advances in coordination are blocked by a series of factors including the following: pressure to disburse funds by some donors, resulting in practices that are not supported by the broader donor group; an unwillingness to be open in the project design process; rules and regulations of the donors; and a lack of clarity within the GoE regarding the direction for SME development, making greater cooperation among donors and between donors and GoE more difficult.

4.3 Building Partnerships

The SME Program has focused on promoting and supporting partnerships and linkages among institutions, organizations, and/or individuals. On an overall level, the Program has been successful in developing effective partnerships with government institutions. CIDA is generally perceived as a successful donor, an impartial advisor, and honest broker. The technical expertise and partnerships developed within project contexts also provide a mutual respect with Egyptian partners that then forms a basis for continued collaboration.

The CIDA Program has effectively capitalized on these perceptions by playing a supportive role, without a pre-set agenda, and by being responsive to the needs of partners. This has allowed it to play a role as convener and facilitator.

The Program has engaged Egyptian organizations as active partners in implementing projects. It has supported the building of networks for SMEs, associations and government agencies.

On the other hand, partnership development is not always easy at a project level given the contracting regime of CIDA which uses Canadian agencies. These groups are held accountable for results and ensuring consistency of programming initiatives. This can cause friction at a project level with project partners, and can make it difficult to build a synergy among partners within a project.

4.4 CIDA Program Coherence

The Program has undertaken a wide range of activities to improve its internal coherence. One of the most important was the development of the SME Synergy Group for CIDA-funded projects. This group has produced a number of benefits including building greater awareness of project approaches, expanding networks, identifying lessons, and allowing an entry point for input into policy discussions in Canada and Egypt.

As with donor coordination, however, greater information sharing does not equate to greater coherence in programming. A number of issues were identified by the projects in terms of why greater synergy or coherence was not possible among CIDA's projects currently. These issues included the following: the diversity of the portfolio with some projects having limited links to SME development; and contracting arrangements for some projects that do not embed the concept of coordination.

The Program has been highly successful in mobilizing input into policy formulation within CIDA in areas such as the new CIDA Private Sector Development (PSD) Policy. Both the project staff and the CIDA Headquarters staff have found the approaches beneficial.

The SME Program has been attempting to build greater coherence with other branches within CIDA as well as other Canadian government departments. This is proving difficult on both levels. CIDA branches are often responsive to and driven by Canadian partners. Their priorities for Egypt have not tended to be in the area of SME development and have not included the same type of development concerns. Some recent approvals have had more complementarity but overall it remains difficult for the SME Program to influence CIDA's programming by other Branches.

This is also the case with working with other Canadian government departments and agencies, including Agriculture and Agri-Food Canada, the Canadian Mortgage and Housing Corporation, and IDRC. These departments and agencies determine their own priorities and receive some support from CIDA for their in-country work. SME

development is not a high priority for most (although working with larger firms does support trade and investment initiatives). While some initiatives have been undertaken that are complementary, overall government policy coherence is virtually impossible at this point given the differing objectives.

4.5 Egyptian Policy Coherence

The lack of coherence of Egyptian SME policy is an issue that has been cited throughout this Review as a critical stumbling block to SME development. CIDA has attempted to support initiatives which lead to better coordination and coherence. This process has been difficult, however. Some successes have been seen at the local level where CIDA has been able to build partnerships with governmental institutions that have led to improvements in the enabling environment and access by SMEs to government agencies.

At the national level, successes are more difficult to achieve. Some strong partnerships have been developed with key groups that have allowed broader contacts, facilitation of ideas, and input into policy formulation. While this is an important step, more limited progress has been seen in actual improvements in the policy environment.

4.6 Crosscutting Themes

The crosscutting themes within the Program (Gender Equality, Environment, Institutional Capacity Development, Child Protection) were intended to have two purposes: provide programming with value added in support of SME development in Egypt; and integrate the issues in a consistent way into the implementation of CIDA's portfolio.

To provide value added beyond a specific project context meant, for example, that strategic issues for SME development, (e.g. legislation or regulations and their impact on women) would be the primary focus. The use of financing and networks to assist Egyptian partners to implement changes in key areas was part of the intended approach. The process of developing the strategies for the four crosscutting themes was, therefore, an important consideration. They were not aimed simply at developing ways for projects to integrate the issues but to gain a broader approach for support within SME development.

The development of the four strategies has not been simple as a result. The Gender Equality Strategy is the only one completed to date. The approach taken to developing the Strategy has received positive feedback and is seen within the donor community as being a good example of integrating issues into a program effort through a consultative process within Egypt. There are some indications as well that the consultative process has been positive in terms of building a heightened awareness of gender concerns, with the Program Team building linkages with other groups in Egypt to discuss and explore methods for building a stronger focus on gender issues.

However, for all four themes, the value added of the processes and approaches in terms of elements outside specific CIDA projects has not been developed to any extent to date.

It is even unclear to many on the Program what potential links are intended to these broader SME issues.

In the CDPF, it was intended that all the projects would integrate the four crosscutting themes into their efforts. The extent to which this has taken place varies, however. The Program staff feel this is due to a reluctance by the projects to undertake what the project staff feel is additional work. The project staff feel there are other obstacles to implementation such as a lack of clarity in what is intended, CIDA's expectations, and the results being targeted. There was also concern that theme concepts were changing and the projects were not being made aware of the differing expectations that resulted from these changes.

It would appear that the greatest success in integrating gender, children rights, environment, and institutional capacity building at the project level occurs when there is a specific component in the project designed for such objectives.

4.7 Knowledge and Management

A strong emphasis has been placed on improving the knowledge base within the Program and this has been done successfully. A wide range of examples are seen of the Program promoting a greater understanding of SME issues and building a broader dialogue within Egypt.

While the management of the Program was specifically not a primary focus of the Review, a number of lessons did emerge that are highlighted. The decentralization of the Program by CIDA to Egypt provided an opportunity for staff in Headquarters and the Embassy to broaden their approach—becoming more knowledgeable on the SME sector, undertaking donor coordination, engaging in policy analysis, and building longer term partnerships with counterparts. The long-term tenure of the Egyptian professional staff at the Embassy and PSU, the high degree of professionalism, and networks within Egypt have contributed to the Program's ability to engage in dialogue, and build strong networks and enduring relationships of trust with Egyptian partners. It has, in fact, been a key success factor.

The approach is resource intensive, however. While these efforts support CIDA's new programming approaches, CIDA does not recognize that they require additional management resources to effectively implement.

4.8 Results Focus

While CIDA puts considerable emphasis on sharing its experiences, it has not necessarily been consistent in identifying, measuring, and analyzing results generated through its projects and overall Program. A number of factors contribute to this. First, the lack of an overall results framework for the Program on SME development makes it unclear what results are being targeted. Second, the projects, while providing extensive information on

activities undertaken during the year, have limited reporting on actual results achieved—beyond those activities.

These two elements are further complicated by the current trend within the Program to focus on the broader “employment” agenda, not just SME development. Basically, anything that supports employment creation is within the framework of the CDPF. The danger here is that the strategic focus is lessened and the areas which the Program supports are more ad hoc and disparate.

CIDA’s Program management appears to have a clear vision for the Program overall. This vision is not conveyed to partners and projects, however. As a result it is difficult to assess: progress being made towards the Program results; how the Program makes decisions and trade-offs; how it checks its assumptions such as the links to poverty reduction; and how it ensures that it facilitates a strategic Program approach versus a series of ad hoc initiatives that have limited cumulative impact.

5.0 Conclusions, Recommendations and Lessons

5.1 Conclusions and Recommendations

The overall conclusion of the Review is that CIDA has achieved important results over the last five years in terms of its SME programming. The Program has undertaken a range of experiments at both the project and Program level that have had a positive influence on the environment for fostering SME development and the competitiveness of SMEs.

The climate facing SMEs, and SME support services, has changed in the last five years, however. What does this mean for the future results to emerge from the current Program? Despite its size, the Program continues to have strong potential for influencing SME development in Egypt. Since the Program is only midway through the current CDPF, a number of recommendations are put forward to maximize its impact over the next five years.

Recommendation #1: A new national policy project (following up on SMEPOL) is important to support the evolution of the policy environment, and the Program should try to secure funding for this.

Recommendation #2: The SME Program should clarify its results framework in order to maximize the results over the next few years and more clearly convey its vision to projects and partners.

Recommendation #3: The SME Program should further clarify the intentions of the crosscutting themes for supporting the SME development agenda, and the specific links to that agenda.

Recommendation #4: The SME Program should identify methods for further building networks between projects and diverse partners.

Recommendation #5: With the Program winding down over a period of time, greater emphasis and thought should be placed on how successful initiatives can have a further chance of being replicated in Egypt.

Recommendation #6: Methods should be further explored to move the donor coordination agenda forward, particularly in the area of best practices in SME development services.

5.2 Lessons for CIDA as an Agency

A number of lessons are evident from the Review that have relevance for other middle-income countries and SME programming by CIDA as well.

- The Program has worked at both the governorate and national levels, and with SMEs directly, institutions providing services to SMEs, and ministries and institutions involved in SME policy making. Linking practical experience at the local level with national policy development at the centre has been a very effective model for SME development.
- The size of the donor program does not dictate leverage in a sector. More important than size are the qualitative and innovative interventions a program facilitates in dealing with key development issues. A sound knowledge base is necessary to gain credibility; building partnerships and networks broadens engagement and fosters opportunity.
- Sustainability issues need to be integrated into programming from the start. Some key lessons on sustainability success factors have been identified within the Program, including the following: commitment of partners to sustainability, integration of sustainability into planning and implementation of interventions, an emphasis on organizations and services rather than project activities, a sense of local ownership in the institutions, and staffing that encouraged individual commitment to institutions and to the services they deliver.
- Crosscutting themes are important elements within CIDA's programming. The most successful projects in terms of seriously addressing crosscutting issues were ones that had specific components designed for such objectives. These components were also translated into budgets, time allocation in the work plan, and staff priorities.
- The principles of CIDA's aid effectiveness approach are excellent as a basis for assisting in establishing the institutions, capacity, and human resource base necessary for sustainable, self-reliant development. Their application is complex, however, varying from situation to situation. There is a need within CIDA for a common understanding of how these principles can be applied and lessons that are emerging. It is also critical that CIDA recognize the resource-intensive nature of pursuing

programs based on increased ownership, improved donor coordination and improved knowledge sharing.

Annex 1: Management Response

- The Egypt Program requested the review for several reasons. The present program is a mix of old (previous CDPF) and new projects. Many of them, eight projects in total, seem not to be making a direct contribution to the SME Program goals and Management wanted to find ways to bring them into the mainstream. We wanted to assess progress toward implementing the principles of Strengthening Aid Effectiveness and moving toward a Program approach. At the same time, we wanted to adjust the Program to be in line with CIDA's Private Sector Development (PSD) policy.
- The six recommendations are helpful in setting a course of adjustment that can be made within the existing CDPF in the short term until there is clarification of what the future holds for a middle-income country such as Egypt.
- In preparing the Management Response we called upon the SME Synergy Group, for several reasons. First, it is our practice to seek their guidance and advice on topics such as these. Second, they come with incredible knowledge and experience—collectively over a century of time spent working in SME development in Egypt. Finally, implementing effectively the recommendations will take teamwork—responsibility rests at both the program and project levels.
- Given the Program's long history and the likelihood that the relationship with Egypt will be changing, we feel it is important to document the Egypt SME case for CIDA's future programming. The Review proposes some lessons learned for other middle-income countries and these were further developed during events such as the EMM Field Reps Meeting (Morocco, April, 2006) and the PSD Knowledge Fair (Ottawa, May, 2006).
- The Review analyzed progress toward implanting the Strengthening Aid Effectiveness principles and it made some important observations. It concluded that a Program approach means more effective development. The SAE principles are geared toward putting development into the hands of our partners. CIDA's program in Egypt is one of the smallest but we have managed to effectively leverage funding not based on size but on the approach taken. However, this kind of development takes time and more experienced resources; success comes only after there is trust and respect among the partners.
- The review calls for a Program Results Framework and we are in the final stages of developing one. The basis will be the KARs and current CDPF, and it will reflect the transition to a Program Approach.
- We agreed with all of the recommendations but we have reservations with one—"the SME Program should further clarify the intention of the crosscutting themes for supporting the SME development agenda, and the specific links to that agenda." Management feels that we have done our part: strategies are being put in place, training organized and tools developed. The projects, however, feel that the crosscutting themes are 'additional work' and are waiting for the Program to tell them how to integrate them into their results frameworks. As well, the projects feel that CIDA is continually changing its mind and introducing new concepts without

thinking them through clearly, e.g. HRAD (Human Rights Approach to Development). It seems that progress is best accomplished when the themes are integrated from the beginning, as was the case for PPICWork and the BDSSP projects, for example. Retrofitting new concepts is more difficult than having them as part of existing project structures. However, it is clear from this Review that Management has to send a clearer message and to put in place mechanisms to more directly monitor project performance.

Recommendations	Commitments / Actions	Responsibility Centre	Target Completion Date	Status
<p>A new national policy project is important to support the evolution of the policy environment and the Program should try to secure funding for this</p>	<ul style="list-style-type: none"> • Agree. Although there continues to be uncertainty about future programming, we still intend to plan for a new policy project. In the meantime, we will be extending the SMEPOL project for 18 months. • The intent is the help the GoE develop a single, shared vision that involves all Ministries and that moves SME development into mainstream private sector development and economic reform. • A new project needs to move beyond the high level formulation to implementation of policy reforms. 	<p>Egypt PTL & HQ rep</p>	<p>SMEPOL extension to December 2007; new project to commence January, 2008</p>	<p>Negotiating extension proposal with IDRC/Ministry of Finance</p>
<p>The SME Program should clarify its results framework in order to maximize the results over the next few years and more clearly convey its vision to projects and partners.</p>	<ul style="list-style-type: none"> • Agree. We are finalizing a Program Results Framework that takes into account initiatives that were not anticipated in the present CDPF and projects that were negotiated under the old CDPF and, addresses the links between poverty reduction, employment generation and SME development. • The program approach is a recent phenomenon of CIDA and the programs will take time to make the adjustments, given that we are constrained by existing contractual agreements and with a negotiated CDPF. 	<p>Egypt Program PTL with assistance from HQ</p>	<p>September 2006</p>	<p>Synergy Group input provided. Need to identify expert resource to assist with indicators.</p>

Recommendations	Commitments / Actions	Responsibility Centre	Target Completion Date	Status
<p>The SME Program should further clarify the intention of the crosscutting themes for supporting the SME development agenda, and the specific links to that agenda.</p>	<ul style="list-style-type: none"> • Agree. Management supports strongly and advocates continuously the social dimensions of sustainable development. Program level strategies and policy documents already exist to provide an overall framework for integration at the program and project level. • It is the responsibility of the CEAs to integrate crosscutting themes into the projects. Program management is doing likewise at the program level. • Management will be putting mechanisms in place to more directly monitor project performance. • The GE team will establish a GE Synergy Group where GE project advisors can meet on a regular basis. Child Protection and Institutional Capacity Building strategies are currently being developed. 	<p>Egypt Program management; CEAs; Crosscutting specialists</p>	<p>Ongoing</p>	<p>GE strategy, training and tools in place. Coming on line are ones for child protection, environment and institutional capacity building.</p>
<p>The SME Program should identify methods for further building networks between projects and diverse partners.</p>	<ul style="list-style-type: none"> • Agree. Newer projects (e.g. BDSSP) have a level of effort for synergy with other projects and a requirement to utilize CIDA-supported institutions. • The SME Synergy Group has helped to build networks and identify synergies. • We plan to build greater program coherence with partners such as CIDA INC and the Trade section of the embassy. 	<p>Egypt Program</p>	<p>Ongoing</p>	<p>Meetings held with CIDA INC and trade section. Dialogue with the regional program started.</p>

Recommendations	Commitments / Actions	Responsibility Centre	Target Completion Date	Status
With the Program winding down over a period of time, greater emphasis and thought should be placed on how successful initiatives can have a further chance of being replicated in Egypt	<ul style="list-style-type: none"> • Agree. Replication is difficult. Egypt is overcrowded with donors and the GoE is complacent and resistant to change. • The Program plans to foster the relationship with organizations, such as El Mobadara, that have a track record of testing and replicating innovative business models. • We intend to document the Program with case studies and success stories and profile our legacy in Egypt for other middle-income countries. 	Egypt PTL & HQ rep	Ongoing	Program to be presented at the EMM Field Reps meeting and at the PSD Knowledge Fair.
Methods should be further explored to move the donor coordination agenda forward, particularly in the area of best practices in SME development services.	<ul style="list-style-type: none"> • Agree. The Program has made tremendous strides by putting forward the idea of a SME Donor Sub-group of the DAG and chairing it for 3 years. • A goal is to identify like-minded organizations and move toward common programming and to pooled funding as budgets are reduced. 	Egypt PTL as chair of SME Donor Sub-Group	Ongoing	Canada coordinated the six-donor joint paper – <i>Donors Involvement in Business Enabling Environment Reform in Egypt</i> - at the 2005 Conference of the Committee of Donor Agencies for Small Enterprise Development.

Annex 2

Summary of Expected Results

Level of Results	Targeted Results from CDPF 2001-2011
SME Program Results	
CIDA's Overall Program	To support Egypt in its efforts to reduce poverty of the country's marginalized groups, in particular women and children/youth
Long Term Impact Level Results for SME Program	To foster better employment opportunities through support to small and medium enterprise development
Medium Term Outcome Level Results for SME Program	<ul style="list-style-type: none"> • Contribute to increased training, employment, income and export performance for targeted SMEs in developed governorates • Work towards obtaining optimal conditions in governorates which are less developed yet conducive to SME development • Contribute to more equitable economic development among the governorates • Support the definition and implementation of coherent national support systems for SMEs, including the formulation of a realistic and effective policy, based on a better understanding of SME conditions and needs
Short Term Output Level Results for the SME Program	<ul style="list-style-type: none"> • Strengthen existing activities of SME support agencies/institutions through CIDA resources and technical assistance • Improve interface between vocational training and technical education, based on competency oriented and industry-based standards • Establish low cost, proactive and demand driven non-financial support systems for SMEs, capable of effectively responding to the needs of SMEs • Establish SME decision support system, institutional policy formulation/implementation processes, and enhanced awareness and support for SME development

Level of Results	Targeted Results from CDPF 2001-2011
Crosscutting Theme Results Applied to SME Program	
Short Term Output Level Results for the Cross Cutting Themes for the SME Program	<ul style="list-style-type: none"> • <i>Gender equality</i> - Establish methods for targeting women micro-entrepreneurs and groups that improve socio-economic conditions of low income families • <i>Environmental sustainability</i> – Assist entrepreneurs, SMEs and business associations to implement sound environmental management practices and improve worker health and safety • <i>Institutional capacity building for Government</i> – Strengthen the mechanisms to address obstacles to SMEs in upgrading and training personnel • <i>Institutional capacity building for civil society</i> – Strengthen non-governmental organizations (NGOs) and associations to play an active role in meeting the large demand for services to SMEs • <i>Child protection</i> – Improve the working conditions and learning opportunities for children working within SMEs