



Independent Evaluation of the SMEPOL Project: Impact, Lessons and Options for Replication

Julius Court and David Osborne

Evaluators
Date Submitted
Commissioned by

Julius Court and David Osborne, Overseas Development Institute, London
20 March 2006
IDRC, Regional Office for the Middle East and North Africa

Contents

Acknowledgements	iv
Executive Summary	v
Section 1: Introduction	1
Section 2: Background, Objectives and Approach	3
<i>2.1 Background to the Project</i>	3
<i>2.2 SMEPOL Project Objectives and Structure</i>	4
<i>2.3 Objectives of the Study and Key Questions</i>	10
<i>2.4 Approach and Methods for the Study</i>	11
Section 3: Findings	14
<i>3.1 Background</i>	14
<i>3.2 Project Evaluation Findings</i>	15
Section 4: Placing SMEPOL in a Broader Theoretical Context	25
<i>4.1 Introduction</i>	25
<i>4.2 Analysing Policy Processes</i>	25
<i>4.3 Factors Affecting the Uptake of Research into Policy</i>	27
<i>4.4 Other Case Studies of Successful Research-Policy Development Projects</i>	29
Section 5: Lessons for Replicability	31
<i>5.1 Introduction</i>	31
<i>5.2 Contextual Lessons</i>	32
<i>5.3 Project-Related Lessons</i>	33
<i>5.4 Towards Broader Application</i>	34
<i>5.5 Revisiting Key SMEPOL Project Decisions</i>	35
Section 6: Options for Future MSME Interventions in Egypt	37
<i>6.1 Context for Future Intervention</i>	37
<i>6.2 Principles for Future Intervention</i>	38
<i>6.3 Future Options for Interventions</i>	39
Section 7: Options for Replication Across MENA	44
<i>7.1 Introduction</i>	44
<i>7.2 SMEPOL Context Lessons and Conditions in MENA Countries</i>	45
<i>7.3 Country Context Information</i>	50
<i>7.4 Discussion and Preliminary Recommendations</i>	53
<i>7.5 Generic Project Structures for Policy Interventions</i>	54
Section 8: Conclusions and Recommendations	61

Annex 1: Budget Review	66
Annex 2: List of People Interviewed	68
Annex 3: SMEPOL Policy Formulation Process	69
Annex 4: SMEPOL Performance Assessment	70
Annex 5: Bibliography of all Documents Reviewed	75
Annex 6: Country Information	78
Annex 7: List of Acronyms	79
Annex 8: Terms of Reference for the Evaluation	80
Annex 9: Biography of the Evaluators	83

Boxes, Figures and Tables

Box 1: IDRC Value Added in SMEPOL	18
Box 2: The One Stop Shop Approach	20
Box 3: Close Links: SMEPOL Lessons and IDRC Strategic Evaluation Findings	34
Figure 1: Jobs created by the private sector in Egypt: 1986-1996	3
Figure 2: Initial (2001-4) Project Management Structure and Project Inputs	5
Figure 3: Influences on Small Firms	11
Figure 4: Outline of the Policy Process	14
Figure 5: The RAPID Framework: Context, Evidence and Links	28
Figure 6: MENA Governance Ratings, 2000-2004	47
Figure 7: A Partnership Model for Direct Policy Development	55
Figure 8: A Model for Interventions Towards Indirect Policy Influence	58
Table 1: Contributions to the SMEPOL Project	6
Table 2: Breakdown of Project Costs	7
Table 3: Project Results Framework, 2001 (Logical Framework)	8
Table 4: Fundamental Lessons from SMEPOL	31
Table 5: MSME Issues Where the Ministry of Finance Has Responsibility	42
Table 6: Summary of Contextual Factors Across MENA and Threshold for SME Policy Development Projects	46
Table 7: Business Context Indicators for the MENA Region	48
Table 8: How to Influence Policy and Practice	57

Acknowledgements

Particular thanks go to Greg Goodwin (Senior SME Specialist, SMEPOL) and Eglal Rached (Regional Director for Middle East and North Africa, IDRC) for their support in doing the work – facilitating access to key people and relevant documents – and for extensive feedback during the study.

We would like to thank all the people listed in Annex 2 who gave their time so generously in interviews and workshops to provide the information for this report. The openness and insights were greatly appreciated.

Thanks also to all those who commented on earlier drafts of this report, including Fred Carden (Director, Evaluation Unit, IDRC), Sarah Earl (Senior Program Officer, Evaluation Unit, IDRC), Brent Herbert-Copley (Director, Social and Economic Policy, IDRC), SMEPOL staff and colleagues at the Overseas Development Institute.

The authors are responsible for the content of the analysis and any errors or omissions.

Executive Summary

Introduction

We know a lot about why micro, small and medium-enterprises (MSMEs) are important and the types of policies that can help foster their development. We know much less about how donors can actually catalyze policy reform in developing countries. Reform of MSME policy is often particularly complicated given the range and types of issues that matter – which includes access to markets, tax reform, finance, legal and regulatory changes. Comprehensive reform is almost always going to be challenging politically. The Small and Medium Enterprise Policy Development (SMEPOL) project in Egypt is an important case because it has been a successful project and one where the lessons have a broader resonance.

This report covers four main sets of issues. First, it provides an assessment of the SMEPOL project – what happened, what worked and why. Second, it highlights some lessons for replicability – setting the findings of the SMEPOL project within the context of the literature and practical experience in this area. Third, we make recommendations regarding how Canadian stakeholders might continue to work on policy development on MSME issues in Egypt. Fourth, we outline options for replicating SME policy development type interventions in other parts of the Middle East – based on an analysis of where the context conditions are favourable and the types of activities that donors might support in different contexts.

The study was commissioned by the Middle East and North Africa Office of the Canadian International Development Research Center (IDRC). It was undertaken by the Overseas Development Institute (ODI) during the period August 2005 to March 2006. This report is intended to feed into these processes of programme development at the International Development Research Center (IDRC); they may also be useful for other donors. It was an independent evaluation – the findings, conclusions and opinions are those of the authors based on research conducted.

Clearly identifying and attributing a projects' influence on policy – and then drawing lessons – is rarely straightforward. In common with IDRC principles, our approach to the study was based on the principle of triangulation. We have used a set of specific individual methods – including project document reviews, composition analysis, literature reviews and interviews with a range of SMEPOL stakeholders as well as independent experts on the Middle East. These have given us a range of data to support our conclusions and generate a comprehensive assessment of the evaluation questions. We believe our assessment of the SMEPOL project, key lessons and recommendations for future steps in Egypt is robust. We do stress that our assessment of the potential for replicability across countries in the Middle East is more preliminary – given the much wider focus (on 11 other countries) and the less intensive data collection.

Assessing the SMEPOL Project

The Small and Medium Enterprise Policy Development Project (SMEPOL) ran from April 2000 to December 2005¹. It was supported by the Canadian International Development Research Center (IDRC), the Canadian International Development Agency (CIDA) and the

¹ Recently a short term extension of the project to 31 May 2006 was agreed, with a possibility of a further extension of 18 months.

Government of Egypt (GoE). MSMEs are estimated to represent over 90% of the non-agricultural private sector, three quarters of the total labour force in the private sector and 75% of the value added in Egypt. But they faced a confused policy situation at the start of the project; the objective of the SMEPOL project was to improve the policy environment for MSME development. It aimed to do this through improving policies, legislation, regulations and procedures regarding MSMEs. The central axis of the project was on policy development – with training, research and networking activities designed to support the primary goal.

The SMEPOL project has made a valuable contribution to MSME policy development in Egypt. The project has helped put MSME issues much higher on the policy agenda, generate a range of policy-relevant research, enhance capacity in key ministries, improve policy development processes and develop a cohesive Competitiveness Strategy for Egypt. This is no small achievement given the widely acknowledged difficulty of policy influence projects and low rates of projects achieving substantial success. It is particularly notable given the challenging and unpredictable context and the “shocks” the project faced over its duration.

The project was well designed to address the need for a coherent MSME policy – and in an area that is important to the development of Egypt. Implementation was challenging given the political shifts, but the project achieved its primary objectives of policy development, as well as the supporting objectives regarding policy relevant research, training and consultation. The project was particularly notable for its partnership approach, embedded project structure (within the Minister’s office), flexibility and strategy of following the Ministerial champions. It was particularly impressive from a strategic and tactical perspective – characterised by a “strategic opportunism” – and particular credit here goes to the project director. These, combined with sound risk management structures, accounted for the extent of project effectiveness.

For purposes of learning, we highlight a number of limitations. Policy influence was mostly achieved at the ministerial level rather than across the government. While not a specific objective, we do believe the project should have given greater consideration to issues of policy implementation – an area where progress has been slow. There has been little change in the actual operating environment for SMEs in the last few years. The sustainability of some impacts remains uncertain given the limited mandate in the Ministry of Finance (MoF) for coordinating MSME policy development. The broader legacy of SMEPOL is uncertain and depends on acceptance of the Competitiveness Strategy across the Government of Egypt (GoE) – and its implementation.

Maximizing Chances of Policy Impact: What are the lessons?

SMEPOL is one of a small set of IDRC policy development projects characterized by an explicit, direct and primary focus on policy change, large project size and with external (usually CIDA) funding. SMEPOL was distinct in the extent to which it was embedded within a Ministry. Given the success of SMEPOL, there is interest to learn what the lessons are and how they might be applicable more broadly. We have identified some of the key lessons from the project and set them within the context of the literature and practical experience in this area. Our findings about SMEPOL resonate well with what we know about policy change and how donor efforts can maximize their chances of influence (though this area remains under-explored).

Put crudely, chances of policy impact seem to be maximized when projects do the right kinds of things in the right kinds of contexts. First, therefore, we have outlined the key context lessons. The four most important factors are:

- *Need* – in terms of development need, but more specifically for policy development;
- *Context of reform* – there is broader demand to improve policy;
- *Mandate / authority* – there exists a policymaking organization with the mandate and authority to develop policy; and
- *Champions* – there are key individuals willing to take the reform forward.

We also note that domestic research capacity matters and that donor country presence and a good reputation are important for donors to be able to effectively manage policy change projects.

Second, we have outlined a set of project specific lessons. We argue that policy impact is maximized if the following key issues are addressed:

- *Explicit policy focus* – is more likely to result in policy change. In policy influence projects, it is always important to consider implementation issues and ultimate impact.
- *Partnership approach* – working together to develop and implement the project. The greater the proximity to power, the greater the potential for policy impact. But the risks are also greater.
- *Risk management* – structures must be developed to ensure that the project remains “on track”.
- *Strategic opportunism* – an approach that builds towards long term goals, while being ready to respond nimbly if opportunities arise.

We have also highlighted the importance of having adequate resources, taking a consultative approach, being flexible and ensuring research quality. The SMEPOL project addressed these exceptionally well on the whole, thus enabling the project to achieve its objectives.

MSME Policy Development in Egypt: Suggestions for Next Steps for IDRC

Egypt still has some way to go before it has a supportive operating environment for MSMEs. The legal and regulatory environment remains complex, access to finance is limited and the costs of informality (and barriers to formalization) remain high. The problems – and many of the solutions – are well known. Many are outlined in the comprehensive policy document ‘Enhancing Competitiveness of MSMEs in Egypt’ issued by the Ministry of Finance and developed as part of the SMEPOL project. However, the political and policy context remains uncertain – with a poor SME Law and the limited effectiveness of a key government agency.

We have considered a wide range of options for Canada to continue policy development interventions in this area. We have assessed them according to a set of criteria including widespread impact, sustainability, technical feasibility, political feasibility and Canadian niche. Based on our assessment of the current context and the merit of different options we make three particular recommendations for possible future work in Egypt.

- *First*, in the short term, we think the priority is for SMEPOL staff (and IDRC and CIDA) to ensure SMEPOL findings and strategy are included in the National Strategy currently being developed.
- *Second*, in the longer term, it would be beneficial for IDRC and CIDA to support work on implementing areas of the Competitiveness Strategy which are the core responsibility of capable Ministries. In particular we would recommend continuing to work with the Ministry of Finance – most importantly on issues of legal and regulatory reform that are within their area of mandate.

- *Third*, we recommend that IDRC might help develop and provide initial support for regular, credible, timely statistical data on key policy relevant issues facing the MSME sector (perhaps on an annual or bi-annual basis).

We believe these interventions would be beneficial to the MSME sector in Egypt and would enable IDRC and CIDA to pursue their niche and comparative advantage.

Replicating MSME Development Projects: Recommendations for the MENA Region

Both IDRC and CIDA highlight the issue of Private Sector Development as a priority and are considering how to develop further programming in this area. In the report, we provide a framework for assessing whether a country exhibits the need and threshold conditions for considering direct policy development interventions. We focus on the context criteria identified above (reform agenda, need, mandate / authority, etc) as well as considering issues of development need (income per capita), governance context and Canadian niche. We provide preliminary assessment for selected countries in the Middle East and North Africa (MENA) region.

Our initial analysis suggests that the countries could be divided into the following categories regarding the need for and value of direct SME policy development interventions (or more indirect interventions) or lack of need or value of interventions. Our analysis suggests that IDRC and CIDA should:

- Consider direct SME policy development interventions in: Jordan and perhaps Sudan – although in Sudan in particular further detailed assessment would be needed and the partnership model should be different due to wider governance concerns.
- Consider an indirect approach to policy influence through undertaking research and influencing activities as appropriate: Algeria, Morocco, Syria, West Bank and Gaza, and Yemen. While the specific focus in each country would vary, activities could be managed as part of a regional policy influence programme.
- Refrain from policy development activities at this point:
 - Turkey and Iraq (since little comparative advantage or value added for Canadian interventions).
 - Lebanon and Tunisia (since no clear need – though it might be worth learning and promoting the experiences of Tunisia across the MENA region).

The bottom line is that we are suggesting direct policy intervention projects only where we think there is actually a problem with overall MSME policy, the contextual factors appear to be in place and there would be value added in a Canadian intervention.

Our assessment suggests a number of conclusions regarding the broader applicability of the SMEPOL experience. First, that Egypt is not a unique state in a sense that would prevent its experience from being adapted elsewhere (in MENA and beyond). Where threshold conditions exist, it should be possible to carry out policy development projects similar to SMEPOL (although they will need to be adapted). Where threshold conditions do not exist, the key is for donors to assess the context and put in place relevant programmes – whether research, consulting stakeholders or influencing key policymakers – to help spur change. Second, country contexts vary considerably (in terms of specific needs and political contexts) and more effort to understand the political context and mechanisms or drivers of change would help maximize the chances of policy influence. Third, there remain broader issues about governance in some of the countries (Yemen and Sudan) that would question whether an MSME intervention is really the key issue – and would significantly affect how any interventions should be carried out.

Responding to different contexts we outline two generic policy development models.

- *Direct Policy Development (DPD) Projects*: Where the key foundational characteristics are present – that is i) context of reform; ii) need for policy development; iii) organizations with a mandate and authority; and iv) champions – then direct policy development projects similar to SMEPOL could be explored. We believe that these four factors are the critical and necessary conditions needed to ensure a direct policy development project has a reasonable chance of success. We suggest a model for a direct “partnership” policy development approach. Similar to SMEPOL or other experiences, the focus is on large policy development projects (with a supporting role for research, communications and training) and working with government closely. The exact approach and choice of components depends on the context.
- *Indirect Policy Influence (IPI) Projects*: Where one or more of these four key foundational characteristics are not present then a partnership model for direct policy change, similar to SMEPOL, is unlikely to be successful. Alternative strategies can however be developed and there is still strong potential for Canadian value added. In particular, a realistic approach would be to move towards a more limited “policy influence” model. The package of interventions here might include research, networking, communications and influencing activities – i.e. with the objective to help develop the threshold contexts for policy development. These would generally be significantly smaller than direct policy development projects.

How should IDRC structure their programmes to best address these challenges? If the primary focus is on direct policy development (and much IDRC work does not have such an explicit policy focus), our view is that a country-level intervention is most appropriate. Having a country capacity makes it much more straightforward to work on assessing the specific problems and context, conducting research, consulting stakeholders and influencing key policymakers. A presence in a country and a good reputation are particularly important (often vital) for direct policy development projects – where the degree of partnership is higher and the need to manage risks more critical.

In many ways, the same structural considerations also broadly apply to policy influence projects. As with direct policy development, the bottom line is that “proximity is destiny” – many policy influencing activities cannot be done effectively at a distance. Any activities in each country will need to be focused on the context and needs in that country. This questions the rationale for regional programmes on specific issues. We do think, however, that there is scope for an IDRC regional programme for *managing* a stream of work on private sector issues with an MSME focus (perhaps a Policy Development Facility for Private Sector Policy Development). Our analysis suggests that the programme should focus on Algeria, Morocco, Syria, West Bank & Gaza and Yemen although the specific country activities should be different. A regional programme makes sense for a number of reasons. There would be some benefits in terms of learning. Furthermore, the need for constant interaction and risks of indirect policy influence projects (research, pilot projects, and networks) are lower than for direct policy work. The North Africa component could also form part of Canada’s contribution to the new Investment Climate Facility for Africa (ICF).

Section 1: Introduction

This report presents the findings of a study to assess the Small, Medium and Micro Enterprise Policy Development Project (SMEPOL) and outline options for replicating SMEPOL-type interventions in other parts of the Middle East. The 4 year project started in April 2000 and was extended in July 2004 to December 2005.² It was supported by the Canadian International Development Research Center (IDRC), the Canadian International Development Agency (CIDA) and the Government of Egypt (GoE). The independent evaluation was commissioned by the Middle East Office of the Canadian International Development Research Center (IDRC). It was undertaken by the Overseas Development Institute (ODI) during the period August – November 2005. The findings, conclusions and opinions are those of the authors based on the research conducted.

The importance of the micro, small and medium-enterprise (hereafter MSME) sector in promoting economic growth and development is widely recognised.³ The economic argument is that MSMEs can help improve competition, entrepreneurship and productivity.⁴ Furthermore an efficient MSME sector can provide a strong input into local, regional and national demand for, and supply of, goods and services. Since MSMEs are often more labour intensive, they can also have an accentuated impact on unemployment and poverty. Not surprisingly, many national governments and international aid agencies have programmes to provide particular assistance to MSMEs.⁵

Within this context, the SMEPOL project aimed to support Egypt's transition towards a market economy – more specifically to improve the policy environment for small and medium enterprise development. It aimed to do this through activities to improve the development of policies, legislation, regulations and procedures regarding SMEs. The SMEPOL project is widely seen to have been successful in many ways. It has helped put MSME issues much higher on the policy agenda, generate a range of policy-relevant research, build capacity in key ministries, improve policy development processes and develop a cohesive competitiveness strategy for Egypt.

While much has been written on the desired content of specific MSME policy, much less has been written on how to go about such policy reform in the MSME sector. There often seems to be the assumption that reform is a technical process of choosing the optimal solution. In reality, almost all reforms are deeply political. Fortunately, there is a growing literature on the politics of economic policy reforms and the challenges of policy implementation.⁶ Though an assessment of the SMEPOL project and drawing on the broader literature and experience, we

² Recently a short term extension of the project to 31 May 2006 was agreed, with a possibility of a further extension of 18 months.

³ World Bank "World Development Report 2005: A Better Investment Climate For Everyone, World Bank, Washington, D.C, September 2004.

⁴ Beck, T., A. Demirgüç-Kunt, and R. Levine, R. 2004. "SMEs, Growth, and Poverty: Cross-Country Evidence." Paper for the Conference on Small and Medium Size Enterprises, October 14-15, 2004. Washington DC: The World Bank.

⁵ There is also a growing literature that questions value of focusing particularly on SMEs versus a more general emphasis on improving the business climate for all economic agents. For a discussion of these issues, please refer to papers prepared for and the synthesis document stemming from the recent international conference on Reforming the Business Environment (http://learning.itcilo.org/entdev/cairo/info/conf_back.htm)

⁶ Williamson, (1994); Knack and Keefer (1995); Rodrik (1996) focus on economic reform processes. Brinkerhof and Crosby (2002) provide an excellent analysis of the challenges of implementing policy reforms.

focus on a range of critical questions: What drives policy change? How can donors help catalyze or support progressive policies? What maximizes the chances of policy impact?

This report will also address future options for interventions within and beyond Egypt. Given the importance of MSMEs to development efforts and the initial reports of success of the SMEPOL project, there is expressed interest in further work in this area. A Private Sector Development task force of IDRC is considering whether and how to develop further programming in this area. CIDA has announced Private Sector Development as one of its five major programming areas and is also interested in continuing their intervention at a policy level in Egypt at least. This report is intended to feed into IDRC processes of programme development but also to inform CIDA's work.

The report is organised into seven further sections:

- **Section 2** provides background information on the SMEPOL programme, covering its objectives, structure and operational activities. This section also provides information on the aims of this study and the methods used.
- **Section 3** presents the main findings arising from an assessment of the relevance, implementation, sustainability and particularly impact of the SMEPOL project.
- **Section 4** places the SMEPOL case in the context of policy change literature and broader experience of policy development project.
- **Section 5** highlights the lessons from the SMEPOL experience and comments on their broader applicability.
- **Section 6** discusses some options for continuing SME policy development work in Egypt.
- **Section 7** outlines our scoping on the options for replicating SMEPOL type interventions in 11 other countries in the Middle East. It highlights the key foundational issues for different types of interventions. It also comments on the types of approach that IDRC might take to policy influence.
- **Section 8** presents a summary of our main conclusions.

Supporting information is presented in a series of Appendices. This includes further details on the SMEPOL project and budget, the Terms of Reference for the study and lists of people interviewed and documents consulted.

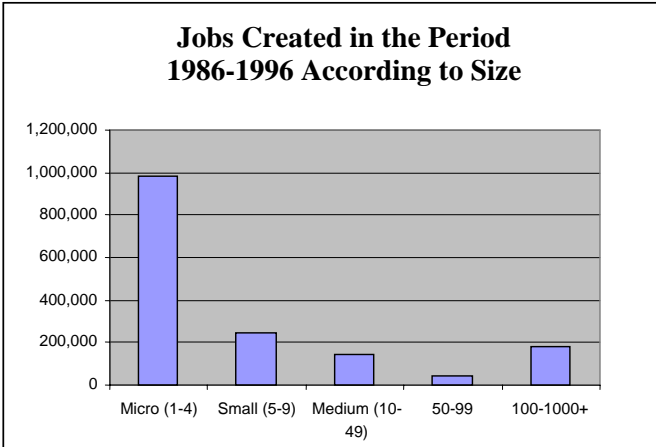
Section 2: Background, Objectives and Approach

2.1 Background to the Project

The evolution of Egypt’s economic policy left the MSME sector facing a difficult environment at the start of the SMEPOL project. From 1956, with moves towards nationalization of the domestic economy, the private urban SME sector was largely neglected by the state. Moves towards economic liberalization in the 1970’s focused upon large scale private investor participation, again with little effort made by government to promote the MSME sector. A Structural Adjustment Program (SAP) was launched in 1992, however, some measures further inhibited the governments’ ability to develop SME policy.

Despite the adverse context the MSME sector continues to play a crucial role in the Egyptian economy.⁷ MSMEs are estimated to represent over 90% of the non-agricultural private sector, three quarters of the total labour force in the private sector and 75% of the value added in Egypt.⁸ Around 1.4 million jobs were created by micro, small, medium sized enterprises (i.e. with less than 50 employees) between 1986 and 1996. In contrast, firms with more than 50 employees only created around 200,000 new jobs in the same period (see figure 1).

Figure 1: Jobs created by the private sector in Egypt: 1986-1996



Source: CAPMAS' 1996 Establishment census.

What are the main constraints MSMEs currently face in Egypt? Based on recent research and our assessments, we want to highlight four key constraints.⁹ These are:

- Adverse legal and regulatory context
- Lack of access to finance
- Lack of information sharing and effective industrial strategy
- Challenges of high levels of informality (and costs of formalization)

⁷ Official information on the M/SME sector in Egypt is unfortunately not up to date. Most of it relies on the 1996 Census. (Hence our recommendation that IDRC support efforts to collect regular policy-relevant data.)

⁸ Project Implementation Plan – SMEPOL, Small, Medium and Micro Enterprise Policy Development Project, IDRC & MEFT, February, 2001, p.7.

⁹ ‘Profile of Micro and Small Enterprises in Egypt’, Alia El-Mahdi, 2005, Draft Paper, Economic Research Forum.

Earlier, we highlighted why international development agencies (including Canadian stakeholders and the World Bank) and national governments consider small scale enterprises as important for economic development, employment and poverty reduction. The realization of the importance of MSME sector among certain policymakers, specifically Minister Youssef Boutros-Ghali, led to increasing interest in the Government of Egypt (GoE) to improve the operating environment for MSMEs. Through internal assessment, it was perceived that the GoE needed:

- Reliable information characterizing the MSME sector, particularly concerning the economic activities of the informal sector;
 - Enhanced core competencies in the Ministry of Economy and Foreign Trade (MoEFT) to enable a more constructive role in shaping government MSME policy,
 - A closer working relationship with all stakeholder groups in order to leverage MSME sector knowledge and expertise and ensure stakeholder participation in policy formulation.
- In light of this situation, in 1998 the MOEFT approached CIDA and IDRC, for support to initiate a process of institutional and capacity building to strengthen the Ministry's capability to develop MSME policy. The SMEPOL project emerged from these discussions.

2.2 SMEPOL Project Objectives and Structure

The overall goal of the SMEPOL Project was to support Egypt's transition towards a market economy, through activities that would lead to *"An improved policy environment, resulting in reduced financial and non-financial constraints and opportunities for M/SME development."* The purpose of the project was to support the Ministry of Economy and Foreign Trade (the host Ministry changed over time), in the development of policies, legislation, regulations and procedures supporting MSME development.¹⁰

The project was distinct from many IDRC projects¹¹ because of the explicit, direct and primary focus on policy change, the large size of the project with external (usually CIDA) funding and the strategy of embedding the project within government.

Overall Four Outcomes were established (see Table 3 below for the Project Logical Framework). These were:

- Policy development (the central axis of the project);
- Training;
- Research; and
- Networking

The other three outcomes were designed to support development. For example, SMEPOL's research was intended to be action orientated, focused on specific policy development and support decision making of the Minister. For IDRC, the rationale and much of the substantive input was focused upon the research component of the project (see Box 1 for further discussion).

¹⁰ Project Implementation Plan – SMEPOL, Small, Medium and Micro Enterprise Policy Development Project, IDRC & MEFT, February, 2001.

¹¹ IDRC projects tend to focus upon: applied research; technical support to researchers; building local capacity to undertake research and innovate; and fostering knowledge sharing between scientific, academic, and development communities.

Initial Project Partners: designated by the Government of Egypt were:

- The Ministry of International Cooperation (MIC) as the Egyptian agency responsible for the implementation of the Memorandum of Understanding.
- The Ministry of Economy and Foreign Trade (MoEFT), designated to assume responsibility related to project implementation.

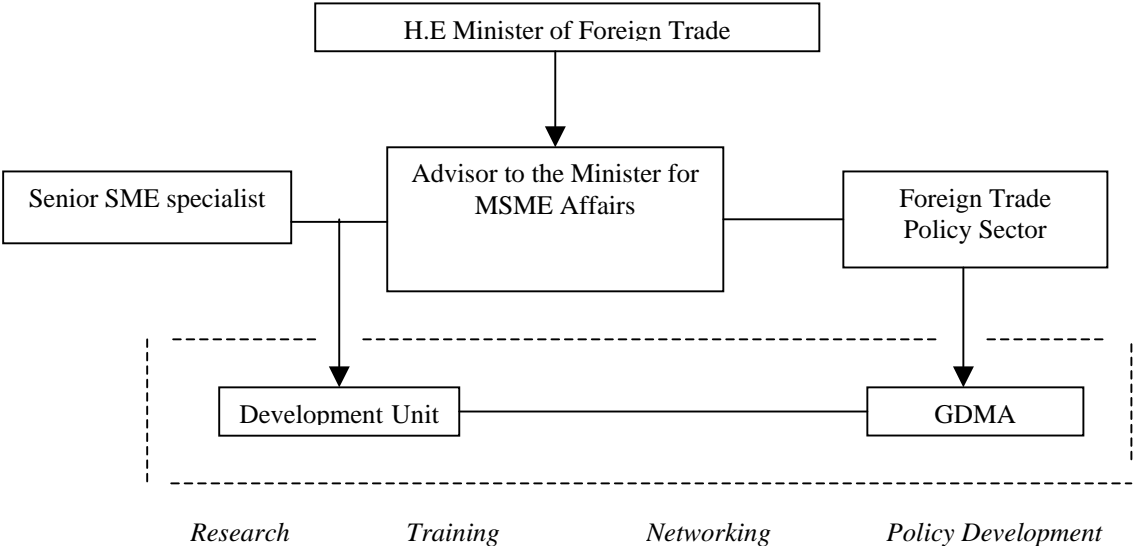
The project partners designated by the Government of Canada were:

- The Canadian International Development Agency (CIDA)
- The International Development Research Centre (IDRC), which in addition to its direct financial contribution to the project, acted as the Canadian Executing Agency (CEA).

Project Management Structure: Early on, it was agreed that the project would be embedded within the Government of Egypt’s own structures. Thus, the SMEPOL project also represents a different approach to that of most IDRC projects. The normal approach to policy influence has tended to involve consultation around the key questions, the production of research and analysis by independent researchers, the dissemination of these research results and efforts to facilitate and improve policy dialogue among policy stakeholders. The SMEPOL project took a distinct ‘embedded’ approach by having the research and advisory unit within the appropriate Ministry (and actually within the minister’s technical office). The argument was that this makes the Ministry a more active partner and that research and policy linkages are closer. It is argued that this model proved a very effective method to influence policy activities.

The following project management structure was therefore agreed:

Figure 2: Initial (2001-4) Project Management Structure and Project Inputs



Project Timeline: It is important to note, however, that the project host in the GoE changed three times over the course of the project. This was due to structural changes in the mandate of Ministries and Cabinet reshuffles. The basic project timeline is outlined below:

- June 2000 SMEPOL operations began
- February 2001 Start up phase completed
- November 2001 Ministry (therefore project host) changed from MOEFT to MoFT (Minister remained Youssef Boutros-Ghali)
- July 2004 Youssef Boutros-Ghali made Minister of Finance. Project move from MOFT to MoF with the Minister.
- End 2005 SMEPOL operations to end
- Extension Recently a short term extension of the project, to May 31, 2006 was agreed, with a possibility of a further extension of 18 months.

Project Budget: The total budget for the SMEPOL project was Cdn\$5.9 million over the full project duration. While there is a stream of large projects, SMEPOL is much larger than many IDRC projects. In terms of funding sources, see Table 1 for the proportions contributed by different partners to the budget. As noted, the emphasis of the project was very much on policy development (Outcome 1) and this is reflected in project expenditure – see Table 2 below. (Please refer to Annex 1 for detailed information on the budget).

Table 1: Contributions to the SMEPOL Project

Contributor	% of Total Budget
CIDA Contribution (Direct Costs)	65.27%
IDRC Contribution (Direct Costs)	8.39%
MOEFT Contribution (Direct Costs)	20.25%
CIDA Contribution (Indirect Costs)	6.09%
Total	100%

Table 2: Breakdown of Project Costs

Costs (Type)	Direct (CAD\$) (1)	Technical Assistance (2)	Total	Percentage
Project Outcome 1 Strategic vision & specific policies, legislation and regulations	837,010	934,182	1,771,192	29.7
Project Outcome 2 Human and institutional capabilities strengthened	496,973	479,654	976,627	16.4
Project Outcome 3 Knowledge and information base improved	519,400	524,009	1,043,409	17.5
Project Outcome 4 Enhanced relationships between GoE and other stakeholders	294,846	271,109	565,955	9.5
Administration and fixed costs				
Long Term technical Assistance (15% of total)		185,403	185,403	3.1
IDRC Management		277,958	277,958	4.7
MOE office costs	264,751		264,751	4.4
Start up phase costs (consultants, workshops, travel)	141,902		141,902	2.4
MOE Office space	103,443		103,443	1.7
IDRC office costs	79,643		79,643	1.3
Office equipment	51,500		51,500	0.8
JR system administrator for MoE office		50,000	50,000	0.8
Vehicle	40,000		40,000	0.7
Hardware	45,000		45,000	0.7
Indirect costs	363,000		363,000	6.1
Total Costs			\$5,959,785	100.0

Notes: (1) Direct costs are for contractors, purchases of equipment and other non-staff costs. (2) Attribution of staffing based on level of effort for each outcome – 15% of staffing costs dedicated to administration.

Table 3: Project Results Framework, 2001 (Logical Framework)¹²

Overall Goal – An improved policy environment resulting in reduced financial and non-financial constraints and opportunities for M/SME development.

Project Outcome 1	Outputs of Outcome 1	Related Activities
<p>The MOEFT has provided strategic vision for overall MSME policy, and has developed specific policies, legislation and regulations that facilitate MSME development.</p>	<p>1.1 Overall MSME policy framework strengthened. 1.2 MSME policy development process at MOEFT regularised. 1.3 Policy development carried out on priority issues.</p>	<p>1.1.1 Update the draft (1988) National Policy Document 1.1.2 Develop unified operational definitions of MSMEs 1.2.1 Develop policy development agenda and update on an annual basis 1.2.2 Develop and implement guidelines and procedures for management of policy development process 1.3.1 Develop proposals for reform of financial system to remove constraints to extension of financial services to MSMEs 1.3.2 Develop proposals to MoF for procurement policy reforms to increase participation of MSMEs 1.3.3 Propose reforms to legal and regulatory framework governing firm establishment, operation and growth (1.3.4 Propose legal, regulatory framework and financial reforms/other initiatives to encourage exports by MSMEs)</p>
Project Outcome 2	Outputs of Outcome 2	Related Activities
<p>The human and institutional capabilities of the MOEFT to develop MSME policies, legislation and regulations have been strengthened.</p>	<p>2.1 MOEFT staff have acquired the knowledge, skills and attitudes (KSA) necessary for policy development through training, mentoring and participation in other project activities. MSME policy development process at MOEFT regularised. 2.2 MOEFT has developed a base of in-house capability to transfer KSA's on MSME issues on an ongoing basis. 2.3 Manuals of Standard Operating procedures developed and updated regularly.</p>	<p>2.1.1 General training programs 2.1.2 Specialised training programs 2.1.3 Long term training programs 2.1.4 Study tours 2.2.1 TOT program 2.2.2 Training procurement / evaluation systems established 2.3.1 Development of SOP manuals 2.3.2 Regular updating of SOP manuals</p>

¹² Source: Project Implementation Plan – SMEPOL, Small, Medium and Micro Enterprise Policy Development Project, IDRC & MEFT, February, 2001, p.13.

<p>Project Outcome 3</p> <p>The knowledge and information base available to MOEFT, on MSME development issues has been improved.</p>	<p>Outputs of Outcome 3</p> <p>1.1 Completed research and analysis on priority policy issues. 1.2 Capacity of decision-support system at MOEFT strengthened to address MSME policy issues</p>	<p>Related Activities</p> <p>3.1.1 Develop and update research agenda and funding 3.1.2 Targeted research studies 3.1.3 Monitoring and Evaluation</p> <p>3.2.1 Design, install and populate MSME database 3.2.2 Design and installation of website 3.2.3 Select, install and operate statistical analysis 3.2.4 Purchase and install hardware and software 3.2.5 Establish resource centre</p>
<p>Project Outcome 4</p> <p>Collaborative relationships between MOEFT and other stakeholders have been enhanced to support policy development and implementation.</p>	<p>Outputs of Outcome 4</p> <p>4.1 Regular channels of consultation with stakeholder groups at local and national levels established. 4.2 Results of research and other information on MOEFT MSME activities shared with stakeholder groups and the public. 4.3 Collaboration with international groups in the MSME field enhanced. 4.4 Increased public awareness and support for MSME development policies.</p>	<p>Related Activities</p> <p>4.1.1 National MSME conference 4.1.2 Focus groups 4.1.3 Ad hoc consultative groups established (Research and Policy Development Advisory Committee) 4.1.4 Formal inter ministerial committees 4.1.5 Working Groups</p> <p>4.2.1 Quarterly newsletters 4.2.2 Research reports 4.2.3 Utilising the internet for dissemination of policies 4.2.4 Workshops / seminars</p> <p>4.3.1 Participation in international conferences / events 4.3.2 Memberships 4.3.3 Email discussions</p> <p>4.4.1 National public awareness campaign 4.4.2 Press Training</p>
<p>Cross Cutting Themes</p>	<p>5.1 Gender Equality 5.2 Environment 5.3 Children and Work 5.4 Institutional Capacity Building</p>	<p>5.1.1 Gender and MSMEs training 5.1.2 Establishment of gender Equality Committee</p> <p>5.2.1 Literature Review 5.2.2 MSMEs and Environment training</p> <p>5.3.1 Public Awareness Campaign</p>

Note: This is the original Project Results Framework. The final framework has changed slightly.

2.3 Objectives of the Study and Key Questions

Given the importance of MSMEs to development efforts and the perceived success of the SMEPOL project, IDRC are interested in (i) further evaluating the SMEPOL project; (ii) learning lessons regarding what worked in the project and why; and (iii) the options for replicating SMEPOL type projects in other countries in the Middle East as well as further work in Egypt. The Terms of Reference for the study are reproduced in full in Appendix A.

The key questions for the study focus on two sets of issues:

Impact and Lessons for Replicability

- Document the extent to which SMEPOL has in fact had an influence on formal policy documents and on practice of government ministries.
- Based on the SMEPOL experience, what strategies could be successfully implemented in other contexts and which were specific to Egypt at the time? Isolate a set of success factors – what worked in the case of SMEPOL? Why?
- Based on the SMEPOL experience, validate, deepen, and expand the list of lessons for supporting replication. (i.e., What are the key factors, contexts, and lessons that can be drawn from SMEPOL?)
- Provide an assessment of the options for replication (e.g. Regional policy advisory facility) given the inherent and high risks associated with SMEPOL.

Scoping for Replicability

- In what other Middle Eastern and North African countries could IDRC/CIDA successfully support a similar type of SME policy reform effort?
- Building on lessons for replicability outlined, what factors make each country and context conducive to a SMEPOL replication?
- Confirm the threshold country specific conditions which must exist for a successful intervention at the policy level to enhance the enabling environment for private sector development in other developing countries in the Middle East and North Africa Region. Discuss whether the Egyptian case is exceptional or typical compared to situations in other developing countries?
- Provide a critical reflection on ways in which this experience could be replicated and/or built on in the future, either in Egypt or in other countries. During this process we also identify gaps in the scoping that might need to be considered by IDRC or CIDA before launching any interventions.

In terms of analysis, we believe the lessons and the scoping results allow us to develop the building blocks for a SMEPOL-type model that could be replicated in different ways in different contexts in the MENA region. This would be based on the SMEPOL case and other lessons/experience about policy reform processes. This could help IDRC and CIDA:

- Assess whether or not any sort of SMEPOL-type project is likely to have any impact; and
- Make recommendations about the necessary programme components in each context (research, pilot projects, networking, advocacy etc), and the sort of tools that might be useful.

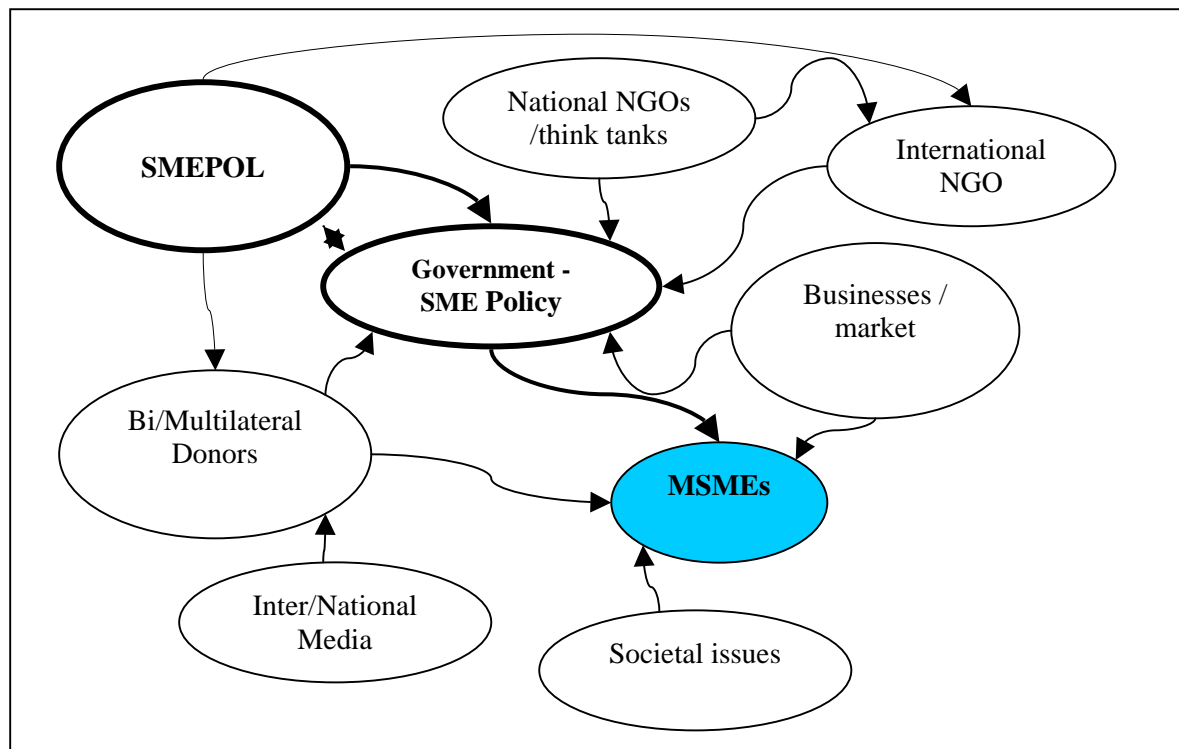
2.4 Approach and Methods for the Study

In common with IDRC, we see the process of evaluation as serving the purposes of accountability and learning. This study is as much focused on learning and scoping for the future as it is on evaluating the SMEPOL project.

The strategic evaluation by IDRC¹³ and work in ODI's RAPID program¹⁴ demonstrate that clearly identifying and attributing a projects' influence on policy – and then drawing lessons – is rarely straightforward. Policy change is often the product of a confluence of events for which no single agency or group of agencies can realistically claim full credit. The behaviours of key MSME policy agents then will be influenced by multiple actors. Furthermore, there are other influences or policies that could contribute towards that very same desired impact: for instance funding and technical assistance from alternative programs, as well as changes in the international economy. See Figure 3 below for a rough, preliminary indication of the different issues acting on SMEs and SME policy. Policy change also often takes a long time to lead to impact, and this tends to be underestimated.

One of the realities of a study like this is that there are no perfect tools. Individual methods are not always robust in isolation and can prove misleading. However, based on the overall principle of triangulation and using a set of specific approaches we believe we can generate a more comprehensive assessment of the SMEPOL project; addressing key lessons and the scope for replicability of similar type activities elsewhere in the Middle East. Our approach, therefore, involved several inter-related steps, undertaken in parallel, and the identification of 'convergent partial indicators' in support of our conclusions.

Figure 3: Influences on Small Firms



¹³ Carden et al, 2005

¹⁴ Court et al, 2005; RAPID webpage: <http://www.odi.org.uk/rapid/>

Below we outline each of the specific methods we used. For each activity: (i) refers to key questions regarding *Impact and Lessons for Replicability*, (ii) refers to key questions regarding *Scoping for Replicability*.

a) Desk Review of Project Documents:

The study team has reviewed a large amount of program documentation:

- (i) To orient the study team and gather information on the programs context, objectives, structure, operational activities and impact.

b) Composition Analysis:

- (i) The study team has analyzed the available data, investigating the composition of the project activities and expenditures. This information provides both a useful perspective on how program resources have been used and highlights issues important to sustainability.

c) Literature Review / Analysis: The consultant provided further analysis to:

- (i) Put the specific SMEPOL assessment and lessons in the context of broader experience and literature.
- (ii) Include a preliminary assessment of the broad MSME context in the 11 other MENA countries (drawing on data, academic literature and grey sources, as well as existing donor interventions); to put the specific SMEPOL replication assessment in the context of broader experience and literature.

d) Interviews with Project Staff: The study team has undertaken a number of interviews with policymakers and program officials in the SMEPOL project, IDRC and CIDA. For a full list in interviews refer to Annex 2.

- (i) Interviews to deepen understanding of the history, context and performance of SMEPOL, and determine GoE / IDRC / CIDA perceptions
- (ii) Where appropriate additional questions were added regarding replicability in other MENA countries.

e) Interviews with Egyptian Stakeholders: MSME and other stakeholders.

- (i) These interviews have been used to deepen our understanding of the history, context and performance of the program, to determine perceptions, and to identify any issues or problems.
- (ii) Where appropriate additional questions were added regarding replicability.

f) Independent output / expert reviews and opinion: The consultant sought views from independent experts on:

- (i) The quality of specific outputs, and perspectives on the program.
- (ii) Contexts for MSMEs policy, MSME policy priorities, types of policy interventions and replicability of SMEPOL type projects.

g) In-country Visit: was made to Egypt to review

- (i) The impacts of, and issues arising from, the SMEPOL project.
- (ii) Issues arising from replication.

The study also draws on the findings of an initial 3-day workshop with SMEPOL staff and their GoE counterparts.¹⁵

h) Review: To ensure accurate reporting and to validate the main findings. Preliminary review meetings were held in Cairo – separately with IDRC staff and with SMEPOL/GoE staff. A draft of this report was also reviewed by a reading group comprising various IDRC staff. The preliminary findings were also presented at the Cairo conference on Reforming the Business Environment organized by the Committee of Donor Agencies for Small Enterprise Development.¹⁶

¹⁵ See: http://www.odi.org.uk/rapid/Meetings/SMEPol_Egypt/Index.html

¹⁶ See: http://learning.itcilo.org/entdev/cairo/info/conf_back.htm

The findings arising from the various components have been synthesized into this final report. We want to highlight two points here. First, we have agreed to keep the specific comments by our informants confidential unless they specifically noted otherwise. This is important to ensure they are comfortable giving a true reflection of their views. Particularly for Egypt, we did include perspectives from all the relevant stakeholders on SME policy. Second, given issues of confidentiality and the triangulation of different approaches (and for the sake of readability), we do not provide the detailed evidence supporting each point in the report. We have only included issues in the report where we have a robust evidence base to support them.

Given the focus and extensive documentation, we believe our assessment of the SMEPOL project is accurate and recommendations on the ways forward are informed and fair. Assessing issues of broader applicability and specific replicability across countries in the Middle East is more complicated – it is affected by a range of specific issues and context factors. With a focus on 11 countries, the scoping was also less intensive and the findings and conclusions here should be taken as more preliminary. They should provide useful insights for IDRC and CIDA, but a more detailed country-specific assessment will be needed prior to any programme implementation.

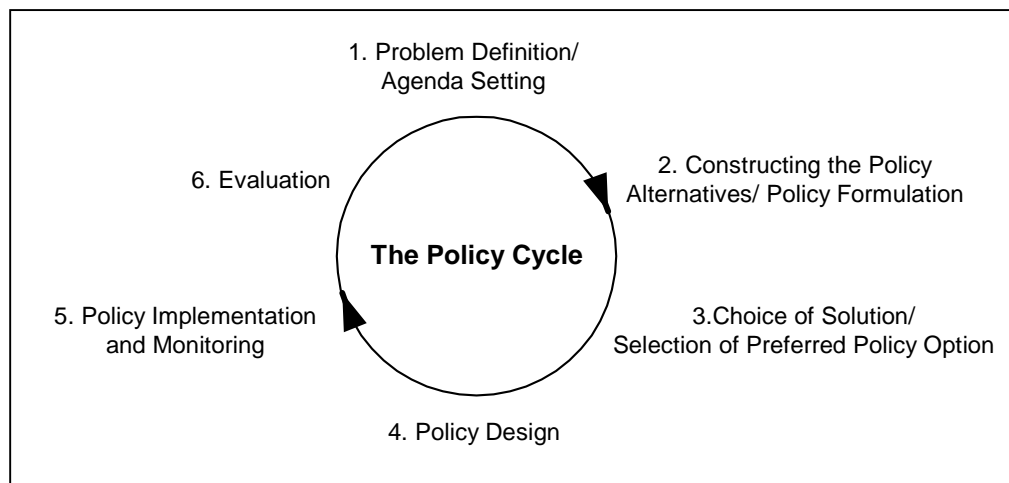
Section 3: Findings

3.1 Background

This section presents the main findings arising from an assessment of the SMEPOL project. We consider how the programme has been planned, managed and implemented and the impact it has had. The section also highlights the lessons from the SMEPOL experience and comments on their broader replicability.

Given the focus on policy change, it is important to set out here exactly what we mean by policy. As reflecting much of the literature on public administration and practice, we suggest that policy is defined as a ‘purposive course of action followed by an actor or set of actors’ (Anderson, 1975) – in this case the actions of the Government of Egypt. Following Lasswell (1977), an idealized model of such a policy cycle tends to include many of the stages shown visually in the diagram below (Fig. 4). This is very similar to the SMEPOL approach used – see Annex 3.

Figure 4: Outline of the Policy Process



Source: Young and Quinn, 2002.

There are extensive literatures about the policy process (Hill, 1997; Sabatier, 1999; Sutton; 1999) and it is not our intention to repeat them here. We stress that policymaking is not linear and does not in reality work through these stages logically. Rather, the key point is that policy change does (or should) involve more than what is written in documents, plans and laws and include changes in implementation and actions on the ground. Therefore, in this evaluation, we include a discussion of the following components:

- **Agenda setting:** Awareness of and priority given to an issue or problem – this is often referred to as “broadening policy horizons” in IDRC documents.
- **Policy formulation:** The options and strategies chosen (i.e. strategy documents, work-plans, budgets, legislation, regulation, legal precedents). Referred to as “affecting policy regimes” in IDRC documents.
- **Policy implementation:** The forms and nature of policy administration and activities on the ground (i.e. programmes, approaches, funding levels, communication).

- We also focus on the issue of **policy capacities** since this was important to the project. In this case the focus was on policymaker capacities rather than research capacity.

The challenge facing government agencies and their donor partners is not only to ensure the development of appropriate and quality policy statements and laws, but also to ensure that they are being effectively implemented and that they eventually lead to a positive impact on development *outcomes*. Rather than only assess the specific project outcome areas and activities (this is done in Annex 4), we believe it is important for learning and replication to set the study within a broader framework of what is meant by policy and policy change. Therefore the following section presents the main findings arising from the evaluation of the SMEPOL project. We consider how the programme has been planned, managed and implemented and the impact it has had. Section 4 will put this evaluation in a broader context of literature and experience.

3.2 Project Evaluation Findings

As with most standard evaluations we address the issues of:

- *Relevance*, the extent to which the activity is suited to the priorities and policies of the target group. (Has SMEPOL done the right things?)
- *Implementation*, how the project proceeded, how the outputs relate to inputs and issues of efficiency. (Has SMEPOL done things in the best way?)
- *Impact*, the positive and negative changes produced by a development intervention, directly or indirectly, intended or unintended.
- *Sustainability*, are the benefits of the project likely to continue?

Our focus is particularly on issues of impact.

3.2.1 Relevance

Relevance refers to the extent to which the project is suited to the priorities and needs of the target group. Given the stated objectives of improving policy environment for MSMEs in Egypt, the overarching question is: Has SMEPOL done the right things? Our Overall conclusion is that *the project was highly relevant at the time of its conception and MSME issues remain important today*. There are a number of elements here.

We know that MSMEs were and remain crucial for Egypt's development – in terms of number of firms, importance to economy and numbers employed. The project clearly focused on an important issue. More specifically, our findings confirm that the project did focus on the specific key constraints facing MSMEs. These were outlined in the comprehensive MOEFT study in 1998 and reinforced by subsequent research and consultations.

The most important issue was the real need for a comprehensive GoE policy framework for MSMEs. Prior to SMEPOL the MSME environment was characterized by incoherent GoE policy interventions, with several governmental bodies, including the MOI, SFD, and CBE,¹⁷ beginning work in the sector. Furthermore there was donor fragmentation with almost 200 international organizations (IOs) and NGO's working on MSMEs. Research was limited and fragmented, whilst operational work and implementation projects emphasized finance not policy development. SMEPOL therefore responded to a necessary rationale for coordination.

¹⁷ Ministry of Industry; Social Fund for Development; Central Bank of Egypt.

Finally, the project addressed the perceived lack of capacity in the GoE in general and MOEFT in particular. An external staff ‘Needs Assessment’ revealed a lack of capacity and subsequent need for training within the MOEFT.

The SMEPOL project focused on the types of activities that are considered good practice in policy formulation. The policy development process promoted in the project compares according to a widely used checklist of “good” policy processes.¹⁸ The main outcome areas – not just direct policy development, but also an emphasis on research, capacity building and networking – were also very much the ones that work in this area suggests are crucial to successful policy change.

There are two key areas we wish to raise here, where the relevance of the project could be questioned. The first issue is that the original project design did not give enough consideration to *issues of implementation* regarding the policies that were being developed (and perhaps piloting of approaches). With the project focused primarily upon policy formulation (where achievement has been significant), implementation was not considered within the scope of this project. To ensure a sustainable and relevant impact of policy reforms, however, it is necessary to give significant consideration to issues of future implementation – options, opportunities and constraints. While implementation issues were considered to some degree throughout (especially for the Competitiveness Strategy), we believe the project should have assigned more consideration to these concerns.

The second issue is the debate around a focus on MSME development versus an approach that emphasizes Private Sector Development (PSD) more broadly. Whilst not a key issue during project inception, international approaches are moving towards favouring a broader PSD approach over focusing particularly on MSME development. The PSD approach recognises that policies to support the private sector as a whole key to development, generating jobs and growth, and should also spur SME development. Key areas include: Structural issues (e.g. lack of infrastructure and capital and lack of skilled professionals and educators); Good Governance (e.g. red tape, macroeconomic governance, rule of law, corruption and distribution of resources); and the Barriers and Incentives that motivate entrepreneurs to engage with the broader context of development. It is argued that specific MSME interventions are unlikely to have much impact where the broader PSD context is adverse and / or where governments are unable to effectively implement more complicated strategies.

However, we know MSMEs are important. Therefore, it is vital in developing overall policy frameworks to understand the MSME sector and the linkages between the informal economy, formal economy and the formal regulatory environment. Without this understanding, policy frameworks can be based on assumptions that are biased towards larger, more formal enterprises. Also, a PSD approach does not preclude a specific policy or project focus upon MSME development – where the context is supportive and there are specific constraints that can be resolved. Therefore, the implication is that governments and their donor partners should proceed with some caution before focusing specifically on MSME policy. Given the initial theoretical and political context of SMEPOL, the decision to focus on MSME development seems appropriate. However, we do note that future activities should be aware of the changing context and greater emphasis on PSD.

¹⁸ Bullock, J, Mountford, J, and Stanley, R (2001) *Better Policy-Making*, Centre for Management and Policy Studies.

Two further points are relevant here. First, the emphasis on ‘*Micro*’ waned during project implementation. This was due to the shifts in political context (MOEFT to MOFT) which resulted in an increased focus upon competitiveness. Though understandable, this was unfortunate in that a majority of Egyptian firms are micro in nature. Linked to this is a second issue: the project did not directly address the issue of *informality* – a major issue – and the challenge of formalizing the informal sector. Whilst the project has indirectly addressed informality through positive reforms (such as tax reform), taking an MSME approach, and focus on size, can act as a diversion from directly addressing informality, which some argue may be more fruitful.

3.2.2 Project Implementation

The project has followed established good practice in its implementation¹⁹. In this section, we highlight the way the project implemented activities in the specific project outcome areas. We then focus on some key issues that have emerged in project implementation.

Project Outcome Areas

A detailed assessment of the specific activities and achievement in each of the SMEPOL outcome areas is provided in Annex 4. Here we provide a summary of how project implementation went by each outcome area.

Policy development: SMEPOL developed specific policies and legislation that facilitated MSME development. Key achievements included:

- Substantial contribution to preparing the MoF document: ‘Enhancing Competitiveness of SMEs in Egypt’;
- Input into: Procurement Policy; Taxation law; SME law 141; Customs & Tariff reforms;
- Completion of a manual on policy development process.

There has been a lot of activity and achievement despite the changes in context. A high level of stakeholder satisfaction exists (GoE, MSME and donor) with regard to policy documents produced, specifically the policy document ‘Enhancing Competitiveness of SMEs in Egypt’.

Training: SMEPOL staff participated in an extensive training program, which included: General training; Specialised training in support of employment functions; Study tours; Mentoring; a Training of Trainers system. Furthermore an internal training plan was developed and updated every 6 months, or prior to initiation of each phase of training and manuals for training were completed. There was a resulting recognition of increased participation and interaction by SMEPOL staff and improvements in the number and quality of tasks they produced. The staff of SMEPOL are generally considered professional and a strong resource, due to a successful training program.

Research: SMEPOL developed a specific research agenda, with procedures for approval and monitoring. A total of 51 reports were prepared, with 22 published and made public and 29

¹⁹ Please note that this section refers to project implementation not implementation of policy as previously discussed.

for internal use. The research conducted by the project is generally deemed by the various stakeholders as high quality and policy-relevant.²⁰

Box 1: IDRC Value Added in SMEPOL

Given the policy development focus of the SMEPOL project, some question why IDRC got so directly involved and what was the value added. IDRC has been increasingly involved in policy work, where it is research based. Such projects provide two main types of benefit: (i) additional (often greater) opportunities for evidence-based impact and (ii) new ways of learning. IDRC's value added in SMEPOL was principally through the research component within Outcome 3, *'The knowledge and information base available to MOEFT, on M/SME development issues has been improved.'* The project financed research on MSME related issues, providing research based evidence for SMEPOL and indirectly strengthening non-government capacity for MSME related research. Government capacity to perform research 'in-house' was not targeted as this was not a goal of the project, which focused instead on developing the 'structures' for effective policy formulation, which would ensure future research was effectively utilized, had a stronger impact and that future demand for research from government would increase, providing a sustainable benefit to research capacity in-country. IDRC's expertise and input ensured that ideas and processes of research and evidence use were more established in government practices. And there has been substantial learning about research-policy links from IDRC involvement in the project.

Consultation: Prior to SMEPOL, consultative processes were rare in policymaking in Egypt. Consultation was a critical component of project implementation and discussions were held at all levels, including the governorate level, involving government officials, bureaucrats, researchers, donors and MSMEs in the process. Stakeholder consultation has been provided through a variety of mechanisms:

- Direct: 2 National conferences, 22 workshops and 24 focus groups sessions and feedback solicited from 65-500 participants.
- Inter-Ministerial Committees: for Procurement; Implementation of 'Enhancing Competitiveness of SMEs in Egypt'; Bi-lateral partnership with SFD.
- Other: Website to disseminate information and 13 newsletters distributed

Stakeholders have generally reported a high level of satisfaction with regard to the level of consultation; however MSME stakeholders have expressed a lower level of satisfaction.

Cross Cutting Themes: The themes were considered in policy development and (limited) training courses were developed for each topic. More emphasis was given to gender than the others – environment and child-rights. However, they were really seen as 'add ons' from outside – essentially there was no effective structure to support the development of these activities. As a result SMEPOL had limited emphasis and impact on these issues. The reasons for this (and therefore areas for improvement in future projects) include unrealistic objectives and strategies, inadequate support for project design, and limited technical support to the project about how actually to undertake work on the issues.

²⁰ Note: we did not review each individual research product. Rather we sought the views of a range of relevant stakeholders – researchers, policymakers, SME associations, etc – on the range of research produced by SMEPOL.

Key Themes

In summary the approach to project implementation was characterized by flexibility, a strong partnership focus, and a number of risk management measures. Specifically the key themes regarding project implementation were:

- *Partnership Approach*: SMEPOL was built on a high degree of partnership – in the development and implementation of the project outcome areas.
- *Embedded Project Structure*: At an early stage it was decided to strategically place the project – not just in the Ministry, but actually in the Minister’s technical office.²¹
- *Changing context*: There have been shifts in Ministry structure in Egypt and Cabinet reshuffles that have significantly affected the context for the project.
- *Following the Champions*: As the shifts occurred, a key project decision was to follow the project ‘champions’ Minister Youssef Boutros-Ghali and his senior advisors – especially as they moved from the MoFT to MoF – rather than stay with the Ministry. This was due to the Minister’s technical knowledge, political power and desire for results.
- *Risk Management*: The project approach entailed real risks, but it seems that the project managed these risks through standard IDRC practice, great skill and some unintended approaches.

We return to many of these key issues later.

Efficiency

In general, we believe that resource use in the project can be deemed efficient. There are a couple of issues here. Based on our previous experience, we note that the project could be seen as resource intensive. However, we found that significant levels of resources were necessary for SMEPOL to have an impact on project outputs. The higher than expected costs were partly due to the use of an expatriate project coordinator given considerations of Canadian value added. Again, however, based on our research, we do believe this was necessary for project success.

3.2.3 Impact

As outlined above, it is difficult to assess and attribute impact. However, given the various approaches we have used, we feel confident in saying that there is little doubt that SMEPOL has been a successful project. A senior official in the Egyptian Ministry of Finance has commented that: “*SMEPOL has had a much greater impact than many projects 10 times its size.*” Magdy Khalil at USAID has noted that “*Due to SMEPOL, there is a considerable improvement in understanding in Egypt of what needs to be done regarding MSMEs.*” Many domestic and international actors see SMEPOL as a first place to look for policy direction regarding MSME issues.

SMEPOL has certainly contributed to policy development in Egypt, but there are some reservations. Below we outline our judgments on the kinds of impacts the project has had. Appendix 2 contains our assessment for each project outcome and activity. Here, however, we follow the stages of the policy cycle as outlined above. The discussion is focused on impact in

²¹ While the project was “embedded” it was also often seen as a project rather than truly integrated into Ministry structure.

terms of (i) agenda setting; (ii) impact on formal policy documents; (iii) changes in process of policy formulation (iv) impact in terms of implementation – actual changes in the policy context; and (v) development of policy capacities.

Agenda Setting: SMEPOL has been instrumental in raising awareness regarding SMEs and keeping the issue of on the agenda in policymaking circles in Egypt – and among international organizations. This has happened through workshops, private briefings, open and inclusive channels of communication, and publication of research. While there are many others who work on this issue, and the issue would receive some attention anyway, there is no doubt that SMEPOL has deepened and broadened the significance given to SME issues.

A few examples are worth noting. The ‘Competitiveness’ conference brought together high-level representatives from the 16 Ministries involved with over 400 other participants. MSMEs were high on the agenda at the recent Presidential elections. The National Democratic Party (NDP) and Governorates are also more exposed and sensitized to the concept of an enabling environment at a high level. SMEPOL has successfully helped shift discussions from generalities to specifics, though more focused research and policy analysis. A specific case here concerned the promotion of the One-Stop-Shop approach.

Box 2: The One Stop Shop Approach

The OSS concept (developed initially through a CIDA funded project in Mansura), was designed to bring together a number of government agencies to facilitate and streamline the registration and approval process for firms. The OSS project is designed to highlight the practical benefits of effective regulatory reform, thus highlighting the potential for future implementation of the comprehensive policy framework. The Mansura agency has been effective: it has reduced waiting time for business licensing from an estimated 2-6 months to one week and reduced application procedures from 26 to 6.²² CIDA has given strong support to promoting, institutionalizing and replicating the approach across Egypt. SMEPOL supported the concept by promoting its adoption within government circles demonstrating the need to have policy reform work at all levels in a coordinating way.

Formal Policy Documents: SMEPOL has had clear and substantial success in influencing the strategies and formal policy documents at a ministerial level. The project’s conceptualisation of policy issues was viewed as excellent. Policy documents also effectively developed plans / identified mechanisms for implementation.

The most notable success is the document: ‘Enhancing Competitiveness for MSMEs in Egypt’. It is widely viewed as a high quality document, with a useful framework and effective action plan. MSME stakeholders commented that a majority of MSME constraints were addressed in the document. Ahmed Salem, Coordinator of the Cooperative Society for Small Industries noted: ‘SMEPOL is the only organization making a difference towards coherent SME policy in Egypt’. In many ways, the project has achieved its objectives in policy development.

There are two important qualifications here. Firstly, the project’s influence has primarily been at the Ministerial rather than Government of Egypt level (so far). Whilst some policy documents were approved at a prime-ministerial level (in particular the ‘Competitiveness

²² Data from SMEPOL interviews and World Bank & International Finance Corporation (IFC) Business Database

Strategy') formal documents were produced under the MoF 'banner' and influence over other ministries was limited.²³ Whilst project Outcomes were focused on a ministerial level, this limited reach is a concern because the overall goal of the project, '*An improved policy environment resulting in reduced financial and non-financial constraints and opportunities for MSME development*' required cross cutting GoE support, given the wide nature of constraints on MSME development.

Second, despite efforts by the project team, there was little impact on the national SME law. After the call for an SME law were expressed, initial drafts were submitted by the MOF and Social Fund for Development (SFD). Although SMEPOL reviewed the drafts and participated in discussions regarding the law, the SFD had the primary mandate and developed the law itself. The result has been unfortunate. The SME development Act 141 (2004) is widely considered a poor, distortionary piece of legislation. Although some areas were influenced by the project, the SME definition from SMEPOL was not used in the SME law and general impact is perceived as minimal.

Influencing Practice of Government Ministries: SMEPOL has succeeded in piloting a dramatically new policy development process, including use of research and consultation. Use of research was increased and embedded, with non-traditional solutions developed through comprehensive and technical studies. Mechanisms (including workshops and conferences) were developed to aid a widespread consultative process, including dissemination of information, which has become familiar to ministry actors. The MSME policy development climate is generally considered much more open than at the start of SMEPOL. The development of this process was seen as 'revolutionary' by some actors and is generally considered well embedded.

It is notable that repeated changes (in Ministry structure and then the move of the host Ministry) reduced the influence of the project in terms of regularizing processes. Interestingly, however, the policy making process and use of research, has carried beyond the principal project ministry, due to changes in ministerial partners, dissemination, movement of staff and competition between ministries. An example of the last point is that the SFD is using more systematic research and greater consultation in the development of the 'National Strategy for Micro and Small Enterprises'.

However, embedding the project in one Ministry created challenges for integrating the project across the Government. This is important since a comprehensive approach to MSME policy requires a range of actions from different government organizations. While SMEPOL was able to engage constructively with other economic Ministries (MOFTI and MOI) and there was some influence on government practice in these, processes developed through SMEPOL have not been replicated more broadly. This is particularly relevant with the SFD, which has the main mandate for SME policy.

Improvement in Policy Environment for MSMEs: This was the overall goal of the project. The most recent report available have highlighted improvements in Egypt's business environment. In particular the World Bank report, '*Doing Business in 2006, Creating Jobs*', rates Egypt as the 6th best reformer in 2004, having successfully reduced constraints for: starting a business; registering a property; getting credit and; trading across borders. Egypts

²³ SMEPOL highlighted 5 key impact areas: Definition; Access to Finance; Procurement; Legal and Regulatory Reform; Necessity for a Broad Strategy. Only procurement policy was implemented at a GoE level.

streamlining of customs procedures and trade documents were singled out as one of the boldest reforms of 2004.

Improvements have therefore been registered. However more actors than SMEPOL were involved and stakeholder reports conducted during this study suggested SMEPOL has had minimal impact on the actual operating environment for SMEs, which remains difficult. According to 2004 data, starting a business requires 43 days; registering property 193 days and; enforcing contracts 410 days.²⁴ The policy context has improved on paper and reform in some key areas is being taken forward. SMEPOL is however considered a high level policy project. Therefore whilst project ‘Outcomes’ were widely achieved, SMEPOL has not changed the operating environment for the majority of micro, small and medium entrepreneurs in Egypt. The limited change on the ground is not surprising given that policy change takes time to filter through to a measurable impact and there are a range of non-project factors that also affect the context. The likelihood of impact would have been much greater if the coordinating mandate for MSME development wasn’t given so clearly to the SFD, which is not seen as an effective organization by many stakeholders.

The tangible impacts generally have been limited to areas where the MoF has a mandate and non-comprehensive efforts. A few examples illustrate this. First, the new tax law is recognized as an improvement and may have helped reduce corruption. But it has not gone far enough to transform SME prospects. Second, SMEPOL work has led to the idea that SMEs could benefit more from government procurement processes. Although this is a limited area, the principle has been included in the SME law, a committee for implementation was arranged, government stakeholders have been mobilized and achievement of the 10% target for SMEs seems on the way. Finally, SMEPOL has worked to promote the OSS concept (which can help save time and money for SMEs to get licences) in partnership with CIDA and other GoE ministries. However, only a limited number of SMEs can benefit and the OSS approach is not a solution (see Box 2). It was intended to provide an example to spur policy changes towards coherence and efficiency at a general level.

In sum, the impact of SMEPOL on the operating environment for MSMEs had been limited. Although much of the policy was developed with strategies and action plans for implementation, actual implementation still requires a huge effort.

Unplanned Outputs: It is worth mentioning an unplanned yet significant benefit of the project. The idea of a donor sub-group on MSMEs seems to have developed partly from SMEPOL – and SMEPOL was asked to provide the Secretariat. The sub-group, which CIDA helped initiate and currently chairs, has helped with issues of knowledge sharing, prevention of duplication and coordination – among donors and with Egyptian stakeholders.

Would all this have happened anyway, irrespective of the SMEPOL project? Our view is that some change might have occurred, but far less. The issue of MSMEs would not be as high on the political agenda. There would have been less policy development and any formal MSME policies would have been less informed by stakeholder views and policy-relevant analysis. The level of debate on MSMEs would also have been lower. The capacity in the Ministries would not be as developed – and there would be less awareness of the better approaches to policy development. In sum, the existence of the project was central to achieving the positive developments that have been seen.

²⁴ World Bank and IFC, 2005, <http://doingbusiness.org/Default.aspx>

3.2.4 Sustainability

The SMEPOL project was primarily intended to improve the policy environment for small and medium enterprise development. It carried out a range of activities to develop a cohesive policy framework, build capacity in the GoE and promote a more consultative and evidence-based approach to MSME policy development. The key question here is: To what extent is the project likely to leave a legacy once the activities finish? We address this question by focusing on the key elements of policy processes we focused on in the impact section.

It does seem likely that MSMEs will remain high on policymaking agendas for some time to come. This is despite that the original champions are now dealing with a much larger set of issues (and are thus less focused on MSMEs). A range of key stakeholders, from the President down, have highlighted the importance of small firms to Egypt. While there still remains much discussion about how best to promote MSMEs in Egypt, there can be no doubt about the importance attributed to improving the operating context for them.

There are two aspects regarding the likely legacy of the strategies developed by SMEPOL. It does seem likely that the MoF will continue to address the areas where it has responsibility (tax and procurement in particular). There are also currently three policy committees that have been developed to implement policy regarding: (i) formalizing the informal sector; (ii) venture capital; (iii) procurement.

However, the broader legacy remains uncertain – this will depend on acceptance of the key issues at the GoE level and the mandate of the MoF remains limited.²⁵ The context is that the SFD has been tasked by the Prime Minister to develop a new ‘National Strategy’ for SMEs – essentially to implement the SME law. The key issue for the sustainability of SMEPOL’s work is the extent to which the new National Strategy contains the issues and approaches identified by SMEPOL, particularly those contained in the SMEPOL-developed ‘Competitiveness Strategy’.

Another challenging question concerns the extent to which SMEPOL has left sustainable changes in practice in Government Ministries. It does seem that some key stakeholders (particularly SMEPOL staff) are inspired to continue “good” policy development processes (consultative, evidence-based, etc). This should provide a benefit to domestic applied research capacity, with continued demand from government ministries. This is no small achievement given the way policy has been made in the past. However, such processes are resource intensive (particularly with regard to outside research) and are unlikely to be continued with such rigour if solely funded by GoE.

One example here is provided by the division between the DU and GDMA staff. The approach in SMEPOL required the use of DU staff (outside the normal civil service who were more highly paid) to take the lead. Although human capacity building has allowed the GDMA to fill some of the DU’s responsibilities, it is unlikely that this would adequately suffice when SMEPOL is no longer providing support or resources.

²⁵ Research will continue to inform stakeholders, but will be less and less relevant over time particularly given the policy focus.

A positive example of where change is more likely to stick is provided by the acceptance of a consultative approach to policymaking. We believe this is more likely to continue given its perceived value and due to lower costs. A key will be to continue to consult MSME stakeholders in policy development processes and get their 'buy in' since MSME trust in government remains very low.

It is difficult for us to say anything about SMEPOL's enduring impact on the actual operating environment for MSMEs. The technical contributions have been put in place. The project has increasingly brought in MSME voices towards the end. This gives the potential for eventual impact on the ground. However sustainability of policies developed is reduced, with the project established within a GoE entity with only a limited mandate for MSME development. In this current environment, comprehensive implementation of policy developed will be difficult (This issue is explored further in Section 5). The extent to which implementation proceeds in the key areas identified in SMEPOL policy documents will depend strongly on future political developments.

Section 4: Placing SMEPOL in a Broader Theoretical Context

4.1 Introduction

In this section, we want to put the specific findings of the SMEPOL project in the context of the broader literature of why policy change happens. Given space constraints this can only be done in a rather cursory manner. We also want specifically review the literature on the factors that influence the uptake of research into policy. These broader discussions are important in assessing the findings of the SMEPOL project (taken up in Section 5) and also for considering issues of broader application of SMEPOL type work (taken up in Section 7).

4.2 Analysing Policy Processes

Earlier we highlighted the approach to policy processes used in much public administration work. We noted that policy processes tend to have similar functional elements of which we focused on three in particular that were most relevant to SMEPOL:

- *Agenda Setting*: awareness of and priority given to an issue or problem;
- *Policy Formulation*: the ways (analytical and political) options and strategies are constructed;
- *Policy Implementation*: the forms and nature of policy administration and activities on the ground.

The SMEPOL project was designed to influence directly the first two functional elements of this policy process, with the overall objective influencing the third element. This conceptualisation therefore provides a useful entry point for understanding the policy processes – and how the lessons from SMEPOL relate to these different components.

Agenda Setting

Focusing in greater detail on specific aspects of policy processes: regarding *agenda-setting*, Kingdon (1984) provides one of the most coherent analyses. He sees the agenda-setting process as the result of three streams:

- *The problem stream*, i.e. to get on agendas issues must be recognised as significant problems – and ones where policymakers are able to provide a solution;
- *The policy stream*, i.e. this stream relates to those putting forward options, alternatives and solutions – what is regarded as ‘good advice’ at a given time.
- *The political stream*, which refers to the wider political environment of elections, government changes, public opinion, etc. Cultural norms and political contestation are also important in affecting the way policy-makers select issues for attention.²⁶

Applying this analysis to SMEPOL highlights several features of SMEPOL. First SMEPOL addressed an issue where intervention was seen as important for the country (there was a problem). There was also a political salience to the issue given government concern over levels of unemployment and poverty. SMEPOL helped extend the awareness of SME issues

²⁶ Hall suggests that for an issue to become an agenda item, it must rank highly in relation to criteria of legitimacy, feasibility and support (Hall, 1996).

in the political sphere. Finally, the project developed a structure (embedded in the Ministry) and credibility that enabled it to be seen as a good source of advice – especially given the limited capacity in government and low knowledge base. In sum, the case reflects very much some of the key issues from the theory.

Policy Formulation and Reform

Drawing on the work of Max Weber, Shaffer has written that ‘policy is a political craft’ and it almost necessarily involves conflict (Shaffer, 1984). Much of the recent economic literature on policy reform deals with such issues. There has been increasing interest as to why (rational) policymakers will not adopt reforms towards the most efficiency enhancing policies. It essentially comes down to who gains or loses and the influence special interests and electoral systems have on policymakers (Rodrik, 1996, Krueger, 1993). Discussions of special interests naturally are more relevant for specific issues (where they can have great impact depending on their strength). For more general policy issues, discussions of the distributional impact of reforms and public accountability mechanisms are more relevant. In either case, policymakers are likely to make some kind of political cost-benefit calculation.

It is not news that if there is contestation, reform can get delayed, distorted or diverted. Political interests vary – in their objectives and strength. There can be a stalemate or “war of attrition” between different groups (Alesina and Drazen, 1991). Important lessons from Alesina and Drazen’s work are that it often takes time and multiple stages to complete reform – the implication in such contexts is that reform will not be “one shot” but require various opportunistic attempts within a concerted, sustained effort. Another lesson is that external actors can have an impact. However, in most cases, reforms follow a political consolidation – and one group has to throw in the towel (Alesina and Drazen, 1991).

In the SMEPOL case, neither accountability mechanism or distributional impacts are particularly important. Contestation is very much between Ministries over turf and is fierce. The case does seem to represent a “war of attrition” at times and it seems likely that reform will require various attempts.

Policy Implementation

Although one of the key areas identified in our categorization of the policy process, the divide between formulation and implementation is partly false. Implementation issues are separated only because (i) they are particularly important; (ii) people tend to underestimate their importance; and (iii) different issues tend to be relevant. A key reference here is the work of Lipsky (1980) who argues that policy implementation in the end comes down to the people who actually implement it: the practitioners or ‘street level bureaucrats’. Critical then are issues of the incentives and constraints on the bureaucrats who actually have to implement policies – they can exert enormous influence on what actually happens when new policies are put into practice.

This indicates that SMEPOL, like other policy reform efforts, needs to consider those that will actually have to implement policy. In this case, it is the many bureaucrats from different Ministries who have to process applications, enforce regulations (health, safety, tax, etc). Not giving consideration to such issues is likely to mean that policy design is going to be detached from reality. When they consider policy changes, ministry officials are also likely to consider

what reforms will mean for them – eg loss of jobs, status or opportunities for corruption – as they repond.

Other issues

It is also often noted that ‘timing is everything’ in policy impact. Crucial to the discussion here is what Kingdon (1984) calls policy windows where more radical solutions are needed. Policy windows provide opportunities where reform initiatives can have a substantial impact, but they tend to occur suddenly by chance or due to an external crisis, and are difficult to predict. Policy windows have the effect of increasing demand for change while reducing contestation. Some policy windows may be more predictable – and thus possible to plan for. Reformers may have more luck in engaging actively with policy windows once they have occurred (rather than attempting to trigger them).

This stream of literature resonates with a crucial success of SMEPOL – namely strategic opportunism. In addition to the longer term approach, the flexible structure of SMEPOL enabled the project to respond to opportunities nimbly. These included the windows provided by the need for a procurement policy and MSME law.

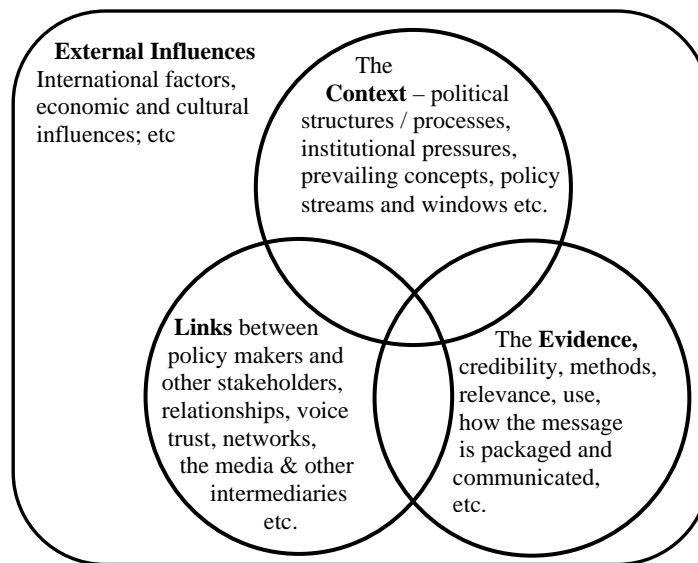
It is worth closing this section with reference, for two reasons, to a widely cited paper by Williamson (1994). First, the work is important here because he synthesizes the key issues that may spur policy reform. He identifies 16 issues that are important for reform. These include issues such as the importance of crises, the need for a legitimate support base, the strength of government, visionary leadership, weak opposition, a “honeymoon” period, the implementability of reform and degree of external support (aid). A strong political base and leadership emerged as most important from his survey. However, none of the issues was found to be either necessary or sufficient for successful reform. This links to his second key point – and one that reinforces a key lesson from existing work (Court et al, 2005) – there are likely to be no simple answers and the best approach will depend on the circumstances.

4.3 Factors Affecting the Uptake of Research into Policy

What issues matter most in affecting the uptake of research on policy change? This set of issues has been given intense attention in the recent IDRC strategic evaluation (see Box 3) and in the work of ODI’s RAPID programme. RAPID’s theoretical, case study and practical work (Court et al, 2005) has identified that there tend to be four main sets of issues. These factors can broadly be divided into three overlapping areas: the political context; the evidence; and the links between policy and research communities, within a fourth set of factors: the external context. A generic outline of the interplay of these four areas is laid out in Figure 5.

The evidence clearly indicates that the *political context and institutional framework* are the most important dimensions affecting the impact of a project on policy documents and practice. Political contestation, institutional pressures and vested interests matter greatly. So too the attitudes and incentives among officials, their room for maneuver, local history, and power relations greatly influence policy implementation. In certain contexts, policy documents may be completely ignored by staff on the ground or may be inappropriate. At its broadest level, the degree of policy change seems to be a function of political demand minus contestation.

Figure 5: The RAPID Framework: Context, Evidence and Links



Experience suggests that *evidence* does play a role in policy change. Influence on policy is affected by topical relevance and, equally important, operational usefulness. The credibility of evidence is important; it helps if a new approach has been piloted and documents can demonstrate the value of a new option. Participatory approaches that include implementers in defining strategies contribute to effective policy change.²⁷ A key set of issues concerns *communication*. Strenuous efforts are often required to change policies and practice, both within agencies and by external actors, in particular in sensitive areas of economic reform. Policy uptake tends to be greatest if the process has a clear communication and strategy from the start. The sources and conveyors of information, and the way new messages are packaged (especially if couched in familiar terms) and targeted can all make a big difference to how a policy change is perceived and utilised. The key message is that communication is a very demanding process, and it is best to adopt an interactive approach.²⁸

Third, the framework emphasises the importance of *links* – communities, networks and intermediaries such as the media and campaigning groups – in affecting policy change. Issues of trust, legitimacy, openness and formalisation of networks have emerged as important, including the role of ‘translators’ and communicators.²⁹ There is often an under-appreciation of the extent and ways that intermediary organisations and networks impact on how formal policy influences officials.

Finally a synthesis of the RAPID experience emphasizes the impact of external forces and donor actions. Key issues include the impact of international politics and processes, as well as the impact of general donor policies and specific research-funding investments. As policy processes become increasingly global, this arena is growing in importance.

²⁷ Neilson, S. (2002) *Knowledge Utilisation and Public Policy Processes: A Literature Review*. Ottawa: IDRC, Evaluation Unit.

²⁸ Mattelart, A. and Mattelart, M. (1998) *Theories of Communication: A Short Introduction*. London: Sage Publications.

²⁹ Gladwell, M. (2000) *The Tipping Point: How Little Things Can Make a Big Difference*. London: Little, Brown & Co.

4.4 Other Case Studies of Successful Research-Policy Development Projects

In addition to the academic literature, there is also a wealth of practical experience on policy development projects. A number of international case studies of policy change highlight the different approaches taken by successful projects and the ways they have responded to varying contexts. For indicative purposes, we provide an outline of four below.

a) Embedded Autonomy: TIPS in South Africa

The South African Trade and Industrial Policy Secretariat (TIPS) was established in the context of a post-apartheid government demanding new economic policies. TIPS provided a mechanism to facilitate communication between researchers and policy-makers by acting as a clearing-house for policy relevant and academically credible research. The Department of Trade and Industry (DTI) was its main client. The organisational structure included an Advisory Committee and Board, consisting of key policy-makers, and permitted informal, highly effective and regular contact with government officials. This generated strong policy-making influence, effective demand driven research and enhanced the absorptive capacity within government. Whilst there are some trade-offs for an institution that is directly accountable to one department in government, as opposed to a broader responsive approach, TIPS has been more effective by focusing its resources on a single department. Source of further information: TIPS Website: www.tips.org.za

b) Supporting Local Reform: Tanzania Essential Health Interventions Project (TEHIP)

Ideas discussed in the 1993 World Development Report (Investing in Health) spurred a series of interventions in the health system in two districts in Tanzania to promote evidence based health planning and practice. TEHIP provided a structure encouraging innovations, which could be integrated into the routine of the community health case workers and managers, thus making research an intrinsic part of its work. Health managers and Tanzanian District Health Management Teams were provided a tool kit for decentralized, evidence-based planning. These allowed stakeholders to change the way that local health policy and practice was planned and resources allocated across geographical and technical areas. Funding and implementation priorities were based upon locally owned evidence-based plans and linked to concrete development agendas thus facilitating local actor involvement. Piloted in two regions with dramatic impact, infant mortality fell by over 40% in the years following the introduction of evidence-based planning. The approach has now been adopted at the national level by the Government of Tanzania. Source of further information: IDRC website: www.idrc.ca/tehip

c) Strategic Opportunism: DELIVERI in Indonesia

The Decentralised Livestock Services in Indonesia Project was an action-research project aiming to make livestock service institutions more responsive to the needs of small-scale farmers. DELIVERI had a clear strategy for policy influence from the start and explicit sequenced activities: first to undertake field research and establish pilot projects; then research the policies and practices; then synthesise evidence; and finally work with senior policy makers, planners and managers. The project therefore worked concurrently at several levels: field-level; district and provincial level; national level (using the support generated from field, district and provincial partners to encourage change). Although initial resistance was incurred from senior bureaucracy, the economic, social and political crisis of 1997/8, introduced a new era of reform. This context change enabled the evidence, through champions developed, to influence policy makers and senior managers. Source of further information: DELIVERI website (www.deliveri.org/default.htm).

d) Emergent Issues: ICT policy Mozambique, Senegal, South Africa and Uganda

The Acacia Initiative focused on the use of information and communication technologies (ICTs) for development. Initial emphasis focused upon feasibility and background research studies as well as the establishment of pilot projects, which laid the groundwork for an integrated, multi-pronged approach. Facilitating, planning and coordinating bodies were established in each country to manage the execution of Acacia strategies. The most effective mechanisms for policy influence were: Action research; dissemination of findings; pilot projects; Exposure of national and local decision-makers to projects and findings; Appointment of respected individuals on facilitating bodies, ensuring participation in policy formulation processes; Advocacy and awareness activities; Direct funding of policy formulation processes; Support for consultative and transparent processes; information collection and dissemination; Exposure of researchers and policy-makers to high-level technical expertise provided by the IDRC; Capacity building through partnerships; Training of stakeholders. The case highlights that policy development can be particularly rapid if a new issue emerges, stimulating policymaker demand (but where vested interests have yet to develop). Source of further information: http://www.idrc.ca/acacia/ev-5895-201-1-DO_TOPIC.html.

There is clearly no single blueprint for a policy development project. The first key is to fit the intervention to the context. Nevertheless we find several factors which these successful policy development interventions share with SMEPOL. The issue of intent to change policy is common. There have been clear efforts in all to engage with government policymakers – although the mode and level of engagement has varied. All have generated high quality and policy relevant evidence. The issue of opportunism is also striking. In the DELIVERI project the project was able to take advantage of the change in context, when the Indonesian leadership changed and demand for the project grew. TIPS was launched in the honeymoon period in transition South Africa. The Acacia work focused on an emerging policy area.

In summary, the theory and case study evidence demonstrate that there are likely to be no simple answers to policy influence. The best approach will depend on the circumstances. Successful policy development projects tend to respond flexibly to different contexts. However, whilst no formal, structured model can be directly replicated, by combining our theoretical understanding, with the practical example of SMEPOL we can develop a set of lessons, located within a comprehensive framework. Some key generic lessons and specific examples from the SMEPOL project are presented in the following section.

Section 5: Lessons for Replicability

5.1 Introduction

This section highlights the lessons from the SMEPOL experience and comments on their broader applicability – i.e. by linking them to the literature and broader experience of policy reform. The key question here is: ‘how, why, and under what conditions does a policy intervention work, or fail to work?’ It is widely argued that the success of an intervention depends on the nature of an intervention and the context within which it is undertaken. We try to outline here why the SMEPOL project had the impact it had and the implications for replicability. The analysis highlights (i) the broader contextual factors that were important; and (ii) the project specific lessons. For each we highlight the issue and discuss why it is important. We also highlight other relevant issues for replication as they emerge.

Table 4: Fundamental Lessons from SMEPOL

<u>Contextual Lessons</u>	<u>Project-Related Lessons</u>
1. Relevance / Need	1. Explicit Policy Focus
2. Context of Reform	2. Partnership (& Embedded)
3. Mandate / Authority	3. Risk Management
4. Champion(s)	4. Consider Implementation
5. Country Presence	5. Strategic Opportunism
6. Research Capacity	5. Project Resources
	6. Consultative Approach
	8. Flexibility
	9. Research Quality

Bold = Critical Factors

5.2 Contextual Lessons

1. Relevance / Need	<p>Generic Lesson: The topic must be important to the country and there must be a need for policy reform (in the MSME sector)</p> <p>SMEPOL Example: MSMEs are crucial to the Egyptian economy and there was a clear and strong rationale that a high level policy framework program was needed with regard to the MSME sector.</p>
2. Context of Reform	<p>Generic Lesson: A context of reform dictates the extent to which policy makers are interested in and able to adopt new ideas, policies and approaches.</p> <p>SMEPOL Example: SMEPOL was demand driven. Key issues that provided a context of reform included: Global and national moves towards economic liberalization, structural adjustment and private sector development; Political trends towards more effective policy and public pressure for job creation; A positive approach to change in the lead government department. As a result SMEPOL was implemented in a context of reform with a clear demand from project partners. One example of this was the provision by the Egyptian government of 20.25% of the project budget.</p>
3. Mandate / Authority	<p>Generic Lesson: Policy development processes should be led or coordinated by a government organization with appropriate mandate and authority. Cohesive MSME policy development does not fit within the mandate of one ministry. It must be regarded as a cross cutting issues of relevance to a range of government agencies. A government agency with the mandate and authority to coordinate in this sector, across a wide range of government actors, is therefore crucial. Success is likely to be maximized if policy development projects work with a central, government agency, mandated for PSD development, and with the authority to coordinate cross-government action.</p> <p>SMEPOL Example: When SMEPOL was instigated there was no clear mandate and the decision to follow a ‘Champion’ provided strong initial momentum. SME policy development however remains somewhat confused in Egypt. The SFD now has the legal mandate for coordinating SME policy, but lacks the external legitimacy and authority required to carry out this function. MOF has a great deal of authority but lacks a formal mandate except in certain areas. The ongoing situation means that the broader policy impact of the project remains uncertain.</p>
4. Champion(s) / Change Agent	<p>Generic Lesson: A key factor is often the presence of powerful individuals, who see change as an opportunity not a threat, and are instrumental in managing change, providing direction and momentum to new policies and methods.</p> <p>SMEPOL Example: The unique aspect of SMEPOL is that the project followed an individual minister (and his senior staff) rather than remaining in one Ministry. The political support provided by Minister Youssef Boutros Ghali, and the second level of change agents of senior ministry staff (including Deputy Minister Manal Hussein), provided strong domestic direction and momentum to the project. A key factor here was the Minister’s technical knowledge, political power and desire for results.</p>
5. Country Presence	<p>Generic Lesson: External donors must have a significant country presence and reputation for i) the government to trust their motives and seek their expertise and ii) to ensure effective risk management and troubleshooting.</p> <p>SMEPOL Example: Both IDRC and CIDA had a prior presence in Egypt (over many years) and good reputation for expertise in their area of specialty (research and donor support respectively) as well as the reputation as a constructive partner. This enabled the GoE to approach the donor, enabling a demand driven project, and was instrumental in building trust and respect between partners. IDCR and CIDA had to provide significant human capital when developing and implementing the project (for example through the PMC) to ensure objectives were met.</p>
6. Research capacity	<p>Generic Lesson: Domestic research capacity is a helpful basis for relevant and informed policy advice. A prior and reasonable level of applied research capacity is required and support for research should be sensitive to the level of prior capacity.</p> <p>SMEPOL Example: Strong prior domestic research capacity (academic and policy analysis) enabled a wide range of evidence to be developed and used (from background documents to focused policy research) in support of policy change. Without a strong domestic capacity policy relevant research could not have been as easily produced.</p>

5.3 Project-Related Lessons

1. Explicit Policy Focus	<p>Generic Lesson: An explicit policy focus is more likely to result in direct policy change (O’Neil, 2005). SMEPOL Example: Rather than conducting basic research and then communicating it to policy makers, SMEPOL explicitly focused on policy change from the start. This direct approach ensured greater policy change outputs.</p>
2. Partnership (& Embed)	<p>Generic Lesson: Policy development projects tend to be more successful if there is a strong partnership approach, and a project is linked to government actors. “Proximity is destiny.” Embedded projects are likely to have greater impact, but also have greater risks of diversion away from project goals. SMEPOL Example: The various stakeholders worked together to develop and implement the project. Embedding the project in the Minister’s Office enabled access to key decision makers, a continued focus on policy and greater institutionalization of the policy development process. It enabled the project to nimbly respond to the changing environment and priorities. However, project resources were pressured towards the other goals of the partner ministry and strong risk management processes were required.</p>
3. Mission Focus / Risk Management	<p>Generic Lesson: Management structures must be developed to ensure that the project remains “on track”. SMEPOL Example: The project contained the real risks – cabinet changes; becoming a pet project of the Minister; a loss of focus; inappropriate use of funds. The key risk management structures included: (i) Donor / stakeholder management and accountability structures (PMC and PSC); (ii) The gatekeeper / diplomat function of the Canadian project director was vital; (iii) IDRC Control of project funds; (iv) Formal and informal support from IDRC and CIDA staff. Structures (ii) and (iii) were particularly important and ensured a continued focus upon project outputs and minimized the risks associated with the project.</p>
4. Consider Implementation	<p>Generic Lesson: Implementation issues are rarely considered enough in policy formulation. SMEPOL Example: SMEPOL was focused on policy formulation and the Competitiveness Strategy did give some consideration to implementation issues. Although not within the formal focus of the project, the link to implementation should have been highlighted more strongly during project development and implementation. This is particularly important in Egypt where local resistance to policy change, especially with regard to the informal sector, often constrains implementation and the context firms face.</p>
5. Strategic Opportunism	<p>Generic Lesson: Whilst a strategic approach is necessary (often requiring ‘patience, persistence and perseverance’), impact is maximized if projects are also politically aware and willing to opportunistically respond if unanticipated policy windows arise. SMEPOL Example: SMEPOL pursued a comprehensive and long-term agenda. However, the politically savvy project leader and project flexibility allowed staff to react nimbly to opportunities to provide an input. Examples included sudden demands for a procurement strategy and input to the SME law.</p>
6. Project Resources	<p>Generic Lesson: High level of human and financial resources helps to achieve outputs. SMEPOL Example: Trained and skilled human resources (SMEPOL staff) were necessary for effective implementation. Financial resources were necessary to ensure GoE interest in the project and effective project implementation.</p>
7. Consultative Approach	<p>Generic Lesson: Consultation is a key to ensure effective and legitimate policy development processes. SMEPOL Example: Strong consultation and networking ensured a wide support base and project ownership in SMEPOL. However this should have been extended to include MSME stakeholders more extensively early on in the project.</p>
8. Flexibility	<p>Generic Lesson: Contexts do change and policy impact is maximized if there is room for manoeuvre. SMEPOL Example: The project was able to adapt nimbly to the changing context and this helped to maximize project impact.</p>
9. Research Quality	<p>Generic Lesson: All evidence suggests that the quality of research does matter to uptake (other things being equal). SMEPOL Example: SMEPOL research was generally regarded as high quality with a strong policy focus.</p>

5.4 Towards Broader Application

We have identified above a number of the key factors that helped SMEPOL have the impact it had (and some that may have limited its impact). Based on experience elsewhere (particularly our own plus the recent IDRC Strategic Evaluation on Public Policy Influence), it seems that projects with these general characteristics and within a favourable contextual environment are quite likely to succeed (though they may have to do it differently). The SMEPOL project clearly shares many characteristics with other successful direct policy development projects. A substantial number of key factors regarding replicability are within the control of the project. These include: Partnership / Embedding; Focus on policy impact; Risk management; and Flexibility.

Box 3: Close Links: SMEPOL Lessons and IDRC Strategic Evaluation Findings

It is worth mentioning here how closely these SMEPOL lessons relate to some of the key findings from the IDRC Strategic Evaluation on Public Policy Influence. These include the importance of:

- *Intent* – desire to change policy is a key conclusion across cases and highlighted in O’Neil (2005).
- *Context* – the context issues highlighted in the IDRC evaluation – economic pressures, special opportunities in transition countries, the constraint of policymaker capacity and institutional stability – are also all part of the SMEPOL story.
- *Relationships* – the issue of credibility and personal links was a key conclusion across cases.
- *Process* – the importance of focusing on changing processes, not just specific policy regimes.
- *Flexibility* – particularly for example the MIMAP (Micro Impacts of Macroeconomic and Adjustment Policies) case in Senegal demonstrated flexibility in responding to the opportunity of Poverty Reduction Strategy Paper (PRSP).
- *Timing* – particularly the strategic evaluation cases in Vietnam and Bangladesh
- *Ownership* – particularly the strategic evaluation cases in Vietnam and Bangladesh
- *Persistence and Perseverance* – particularly the strategic evaluation cases in Vietnam and Bangladesh.
- *Being Part of Broader Strategy* – the Peru case demonstrates that projects should not stand alone but be part of a broader strategy.

An interesting question is: Which of the key factors would change if our analysis was focusing on implementation, not just policy formulation? This is important since SMEPOL primarily focused on changing policy statements – and we have highlighted the importance of considering implementation. IDRC is also increasingly working to better link research to implementation. Our view is that the long list of factors would be the same. But different people would need to be consulted. And the emphasis might be different. For example, consultation and participatory approaches with key stakeholders is particularly crucial for successful implementation. In this case it would have been important to work more with street level bureaucrats and MSMEs themselves. Whereas a Ministry may have the mandate for policy development, it may not have the authority to achieve implementation or there may be significant sources of resistance that need to be considered.

5.5 Revisiting Key SMEPOL Project Decisions

We have highlighted a number of contextual lessons regarding replicability that have emerged. These have been specific to the SMEPOL project, but are also supported by the literature and our experience of policy change work. Whilst these factors are considered further in section 7 (applied to alternative specific country contexts) they allow us to briefly assess, with hindsight, the choices made at key points during the SMEPOL project. A key area for us to highlight here, are the trade-offs, which exist between project areas. For example, the further embedded the project, the greater the potential impact on policy development but this comes with greater risk of the diversion of project resources. Similarly, whilst issues of ‘mandate’ and ‘champion’ are sometimes complementary, they can also become competitive pressures (a factor highlighted below).

Options Prior to Project Inception in 2001

SMEPOL was initially placed within the MoEFT allowing the project to harness the input of a powerful individual ‘champion’ (who had called for SME policy development) and within an influential ministry (at the time all key macro-institutions reported to MoEFT) and with a strong informal mandate for MSME development. This position allowed the project to potentially take advantage of strategic opportunities and powerful contextual factors.

We have highlighted that MSME development is a cross cutting issue, therefore ideally a government partner should be in a position to coordinate a comprehensive response.³⁰ The project could have been placed within the SFD (not seen as a credible option) or attached to the Prime Ministers Office (not feasible). The project could have acted as a independent entity, but our view is that it would not have had nearly as much impact (in the Egyptian context). Therefore in the original context, with an unclear mandate, a strong champion and relevant partner, a partnership the MoEFT was most appropriate and valuable.

Change of Mandate of Project Partner: MoEFT to MoFT (November 2001)

At this time MoEFT had proven to be a dynamic partner, capable of achieving project outputs and influential at a high level. However, a change in government structure left the project in the MoFT Ministry with a narrower mandate (with the project champion Youssef Boutros-Ghali still as Minister). The Ministry had a reduced mandate for MSME policy development (and not for overall SME policy coordination). MOFT was primarily responsible for trade and competitiveness. However, no other ministry had a natural mandate for SMEs either. Alternative options, embedding with the SFD and PM’s Office, continued to be unavailable (as above). Also, a change in GoE partner would have resulted in a loss of a dynamic and productive ‘champion’ and not resulted in any significant gains. The decision to continue with the MoFT was appropriate.

Change of Responsibility of Project ‘Champion’: MOFT to MOF (July 2004)

At this point, there was a cabinet reshuffle and Youssef Boutros-Ghali was made Minister of Finance. The SMEPOL project moved with the Minister. Moving the project from MoFT to MoF allowed SMEPOL to remain with the project champion(s), and allowed the project to

³⁰ For example SME policy success in Tunisia and Morocco was built upon coordination by a national organization under senior authority, such as the Prime Minister.

realign itself back to some of the core issues that it could not tackle at MoFT (including taxation, customs, tariffs, regulation and corruption). However, the new project host, MoF, had no formal role for coordination of MSME affairs, although the Minister was in a more influential position as chair of the economic group of Ministers.

Embedding the project with the PM's office continued to be a non-option. Arguments for embedding the project within the SFD were strengthened, as the mandate for SME policy coordination was now given to the SFD. However the SFD continued to be lack legitimacy or effectiveness in the eyes of most stakeholders. The real choice here was regarding continuing with the MoFT. The project was already established in the MoFT, capacity had been developed and an effective partnership existed. MoFT however asked SMEPoL to favourably consider a move to MoF. Furthermore, given the importance of personal relationships and the desire of the Minister and his staff to keep the project, the decision to move the project was correct despite the drawbacks.

In summary, there have been trade-offs. By following a powerful champion, the project has been able to delivery strong policy development products – particularly at the Ministerial level. However, the project is perceived as a project of the Minister rather than a broader initiative of the government of Egypt. The lack of a coordinating mandate for SME policy in the MoF has certainly limited the broader impact of the project. Given the clack of mandate and close association with a Minister, the policies in the very credible policy documents are less likely to be translated into practice by the relevant Ministries. The situation remains uncertain after the recent election and any government changes are likely to determine the extent to which the policy development by SMEPOL will be taken forward.

Section 6: Options for Future MSME Interventions in Egypt

This section puts forward some suggestions for how ways IDRC (and CIDA) could build upon the SMEPOL Project in Egypt and continue SME policy development initiatives at the national level. We first outline the current contextual factors relevant to SMEs that are present in Egypt. We also outline some principles by which future Canadian interventions might be guided. We conclude with some of the options.

6.1 Context for Future Intervention

Future intervention should first of all recognise that SMEPOL has resulted in a comprehensive policy document, ‘Enhancing Competitiveness of MSMEs in Egypt’. This document accurately highlights the key current MSME constraints and interventions. We think it is important to highlight here some of the key constraints. These include³¹

- *A Complex Legal and Regulatory Environment*: this is particularly important since many MSMEs work on credit, with low guarantees of payment, and with a higher relative cost of regulations in comparison to large firms.
- *Lack of Access to Markets*: both domestic and international.
- *Lack of Access to Finance*: Despite many finance interventions, there remains no coherent solution for most firms.
- *Costs of Widespread Informality*: Informality is estimated at almost 80% of the MSME sector. Evidence suggests that informality is a reaction to a poor market structure, which makes it difficult for the formal sector and strongly discourages the informal sector from formalising and contributing fully to the economy and pro poor growth.
- *Weak Industrial Strategy*: Experience from other countries has demonstrated an industrial strategy can enhance MSME development (interventions such as investment maps; industrial zones; data; business clusters / sub sector support; subcontracting and integration into production networks. However only minor interventions have occurred in this field.
- *Others*: Other challenges for SME development include weak infrastructure, widespread corruption, high levels of taxation and lack of adequate technical assistance (specifically a lack of accredited and relevant training centers).

The Competitiveness Strategy does provide a very sound policy base for interventions to improve the operating context for MSMEs – one based on research and consultations. So far however, it is important to recognise that implementation of the ‘Competitiveness Strategy’ document has been very limited. In a few areas, reforms are being, or have been comprehensively pursued. For example, in the area of taxation, the MoF has recently introduced a new taxation law, which contributes strongly to the ‘Competitiveness Strategy’ aim of reducing financial, legal and regulatory constraints on MSMEs.³² However, in the majority of areas identified for reform, implementation activities have been minimal.

The current political context for MSME policy is mixed. There is a high level of political support for MSME policy development. The President has recently set high targets for job

³¹ These constraints have been confirmed through an analysis of government reports, academic reports and information garnered from in-country interviews.

³² MoF, ‘Enhancing Competitiveness for SMEs in Egypt –General Framework and Action Plan’, 2004, p.50

creation from the SME sector. However, there is a fractious political context for MSMEs. Three current MSME / PSD strategies are in place, or in construction, and there remains a continued lack of coordination and communication between government agencies.³³ This is a concern since coherent MSME policy requires coordinated and cross-cutting interventions across a range of ministries.³⁴

It is also important to recognise that future donor interventions, in the MSME field, will occur in the framework of a weak SME law. Law 141 is generally viewed as poorly formulated and contributing to the ‘ghetto-isation’ of MSME development, as a tool for poverty and unemployment reduction and therefore requiring government support, rather than as an issue that requires a positive enabling environment and thus a range of measures across government (and almost certainly the reduction of government involvement in many areas). This refers back to section 4, where we highlighted the recognition that MSME development should be understood within the context of PSD.

For Canadian interventions, a positive factor is the high levels of political capital, which Canadian donors have built with respect to their competence to support government activities. The networks, experience and political capital generated by SMEPOL provide a very sound base for developing future activities. It must be noted that Canada remains however a very small donor in Egypt.

Our conclusion is that there is a strong understanding of the needs and solutions to improve the operating environment for MSMEs in Egypt (in large part generated by the SMEPOL project). The key now is to implement measures that have been identified. However, where possible, to have a widespread and sustainable impact, implementation must move away from short term, localized initiatives, common to SMEPOL, towards comprehensive, widespread reform. It is this final step that has proved elusive at present. Future donor intervention should therefore focus on scaling up implementation activities, with a specific focus upon implementing the policy suggestions contained within the document ‘Enhancing Competitiveness for SMEs in Egypt’. The key is to focus on issues that are really necessary, ensure policy is clear and that it can be implemented effectively and fairly.

6.2 Principles for Future Intervention

We believe that options for future intervention should be assessed and weighted according to a number of principles that would help maximize the opportunities for improving the operating environment for MSMEs in Egypt. Some of these are standard issues for assessing for policy options; others are based on our assessment of the context in Egypt.

We have tried to assess the options according to the following considerations:

- ***Widespread Impact:*** Ideally future donor interventions should promote issues that have a widespread, systemic impact, promoting reform across government. It seems

³³ SMEPOL has developed a national SME Strategy. USAID, KFW and UNDP are developing a microfinance strategy in partnership with the Egyptian Banking Institute and in coordination with the SFD. SFD are developing a national ‘Micro and Small’ Enterprise Strategy with CIDA support.

³⁴ Highlighted in the document, ‘Enhancing Competitiveness for SMEs in Egypt’, which allocates responsibilities to numerous government organizations, including GAFI, MoF, MOFTI, SFD, MoJ, IDSC.

that too many donor interventions in Egypt are small and focused and do not have a widespread impact on the operating context for most MSMEs.

- *Technically Feasible Interventions*: that the intervention should actually resolve the problem. And that adequate support for interventions will need to be provided – i.e. realistically addressing issues of the time, cost or other resources needed.
- *Sustainable Interventions*: that donor activities should recognise the importance of achieving sustainable change.
- *Politically Feasible Interventions*: A key factor is also to focus on an issue where there is a good chance of being achievable in the existing political context.
- *Canadian Niche*: Future Canadian intervention should build upon the reputation that Canada (IDRC and CIDA) has established as a small donor working on innovative projects in partnership with the government. Therefore future interventions should continue where Canada has a comparative advantage and where a high level of value added impact is possible at low cost.

6.3 Future Options for Interventions

We consider below a number of options for the way that IDRC (and CIDA) might continue with policy level initiatives in the MSME sector in Egypt. We draw our conclusions based on considerations of the existing context (based on an extensive review of documentation and interviews with stakeholders in Egypt) and the principles outlined above.

1. No Future Activities

Our first option is that there are no further activities. There are valid arguments that IDRC and CIDA should focus much less on Egypt than other countries in the region (let alone other parts of the developing world) that have greater development challenges. There are many countries where incomes are lower and needs are higher (in terms of rates of poverty and lack of sound development policy frameworks). Please see the next section for some comparisons across the MENA region on these issues. This would imply refraining from developing further activities in the SME area in Egypt. We raise this as an option for consideration, but recognize that taking this direction depends on corporate priorities that are beyond the scope of our analysis.

Some options that are not feasible or that we would NOT recommend:

2. Replication of SMEPOL with SFD

The legal mandate for SME development has now been established with the Social Fund for Development (SFD). Therefore there is potentially scope for a project to build the capacity of the SFD to develop and implement SME policy. However, as previously noted, the SFD was widely seen to lack external legitimacy, credibility and accountability (in the SME sector and more generally) and by virtually all stakeholders. It is very unlikely a project will be able to remedy this situation; indeed some donors are pulling out of working with SFD. In the current context, we don't think IDRC (or CIDA) should work with SFD on any significant way (e.g. major policy development projects like SMEPOL) until there has been significant and clear

reform. We do think there will need to be some consultation with SFD given their mandate and there is scope for some short term work to help promote the findings of SMEPOL so far.

3. *Implementation from the Prime-Ministers Office*

Full and cohesive implementation of an MSME policy program is unlikely to be possible without engaging a range of GoE stakeholders. Full implementation, would require a project partner with the mandate to coordinate all GoE actors, in a factious context. In theory this could be achieved through the PM's office. Currently the PM's office does not implement its own projects with donors. Attempts to work with the PM's office in the SME sector have been referred to the SFD. So this is not a feasible option at present. Also Canada's position as a smaller donor gives it less comparative advantage for such major projects.

Some options we think are feasible, but lower priority:

4. *Implementation of Specific Reforms with non-MoF Ministerial Partners*

The Competitiveness Strategy provides a very sound policy base for interventions to improve the operating context for MSMEs – one based on research and consultations. Building upon this document and consultations, we can identify several key areas for action, including; Legal and regulatory reform; Finance; Market access; Informality; Industrial strategy; Infrastructure; Corruption and; Technical assistance. There is therefore wide scope for future interventions. So far however, it is important to recognise that implementation of the 'Competitiveness Strategy' has been very limited. In a few areas, reforms are being, or have been comprehensively pursued. For example, in the area of taxation, the MoF has recently introduced a new, reformed taxation law. However, in the majority of areas identified for reform, implementation activities have been minimal. There is scope to work further with some ministries, (primarily within the 'economic group') which have a mandate for certain important aspects of SME development. For specific issues, it is helpful to refer to the 'Competitiveness Strategy' document. MOFTI in particular is reported to contain a strong commitment and desire to work within this field.

5. *Implementation Through local Agents*

Another option would be to work with local GoE entities, pursuing implementation through the 2nd and 3rd echelons of political power, including municipalities and governorates. Working at a lower level, to create change and influence government, has proven successful in other policy development projects (eg TEHIP). However, considering the context in Egypt, Canada's position as a small donor but the relationships and experience SMEPOL has developed at higher levels we think this is very much a second- or third-best option.

Our recommendations for further interventions are:

6. Short Term Goal: Maximize SMEPOL Policy Work in National Strategy

As previously highlighted, of crucial importance to the sustainability of SMEPOL outcomes, is the extent to which research and policy recommendations are translated into the National Strategy currently being developed by SFD with the support of CIDA. A short term priority for should be to ensure that the findings of SMEPOL work are contained in the national strategy. This is currently an approach sought independently by CIDA, through their partnership with the SFD for developing a national ‘Micro and Small’ Enterprise Strategy. Given the background of work done already in the SMEPOL project and its quality, it would make sense to ensure SFD includes all the existing thinking in the new document. This suggests SMEPOL (& CIDA and IDRC) staff monitoring the development of the new policy, engaging with SFD and working directly via other stakeholders (other government departments, SME associations and the donor sub-group) to ensure key ideas are included.³⁵

7. Implementation of Targeted Issues with the Ministry of Finance

Although we have identified a wide scope for future interventions, within the current context Canada should probably move away from trying to implement a broad strategic vision, requiring all partners to cooperate, towards targeted initiatives which can be achieved with mandated and effective partner ministries. Therefore, it is our belief that future reform should be appropriate to each specific department. The aim would also be to identify “wedge” issues that are not only important in their own right but could also help spur change more widely in the SME sector. A (long) list of the priorities for SME reform and responsibilities of different GoE entities is provided in the document ‘Enhancing Competitiveness for SMEs in Egypt’ (Annex IV: Action Plan).

We particularly focus on the Ministry of Finance (MoF) for a number of reasons. It deals with policy issues that have a widespread and systemic impact. It is the current project partner (and a strong working relationship has been established) and it has proven its capacity to develop and implement policy effectively. There is scope for further support to the MoF on important SME policy issues.

We stress that any Canadian intervention to support MoF should focus on issues that are within its area of mandate. In Table 5 below, drawn directly from the ‘Enhancing Competitiveness’ document, we highlight the areas where the MoF is identified as having sole or primary responsibility. This provides a good indication of areas where Canada could support future interventions in partnership with a mandated and effective GoE entity.³⁶

It is our belief that legal and regulatory reform is the most important area for immediate reform. It is currently estimated to take around 1 year to start a firm, and 4 years to close one, facts which are indicative of the huge levels of red tape which MSMEs face, which constrain their work, encourage corruption in regulation and discourage formalisation. There is a need for a regulatory regime that is simple, clear, intervenes only when necessary, balances risks

³⁵ This suggestion is not inconsistent with previous comments warning against long term partnership with the SFD, as this is only a short term strategy towards developing a document that would help ensure the sustainability of previous SMEPOL work.

³⁶ Whilst this strategy will require some consultation with the SFD (and SFD should not be ignored), with a more narrow and targeted approach there is still no need to work directly with SFD or consider SFD as a direct partner. While overall policy coordination is the mandate of SFD, specific ministries retain the mandate to work on issues in their area of responsibility.

and costs, is flexible, is enforceable and is monitored and evaluated. The MoF has a strong role to play in this area although it will need to remain focused on issues in its jurisdiction. Some options are highlighted in Table 5 – regarding government procurement, reducing the costs of registering real estate and tax reform. Specific future initiatives should be explored and developed further by the SMEPOL team in collaboration with the Egyptian and Canadian stakeholders.

Table 5: MSME Issues Where the Ministry of Finance Has Responsibility

Issues and Tasks		
Promotion of Direct Exports	<i>II. Fiscal Incentives</i>	<ul style="list-style-type: none"> ▪ Tax incentives to promote R&D efforts of exporting companies ▪ Abolition of customs and taxes on Capital equipment imported by SMEs
	<i>VIII. Access to finance</i>	<ul style="list-style-type: none"> ▪ Increase the support to export guarantee companies with the aim of decreasing premium to insurance policy in order to facilitate export through banks.
Financial Services	<i>I. Lending</i>	<ul style="list-style-type: none"> ▪ Increasing Profitability of banks Lending to SMEs and the privileges they receive: 1) Amending tax law to allow for the acknowledgement of reserves allocated to cover bad debts.
	<i>II. Leasing</i>	<ul style="list-style-type: none"> ▪ Increasing the number of leasing companies
	<i>IV. Venture Capital</i>	<ul style="list-style-type: none"> ▪ Completion of directory of venture capital companies prepared by MoF and SMEPOL
Innovation and Technology	<i>IV. Vitalising Demand on R&D services</i>	<ul style="list-style-type: none"> ▪ Providing tax incentives for private sector to conduct R&D ▪ Elimination of customs on scientific books, equipment and software.
	<i>IX. Fiscal incentives</i>	<ul style="list-style-type: none"> ▪ Tax incentives for technological upgrading ▪ Abolishing customs on modern imported equipment and components.
Organic Clusters	<i>III. Services and Technical Support</i>	<ul style="list-style-type: none"> ▪ Offering a variety of financial services on the local / cluster level.
FDI and Interfirm Linkages with Large Local and Foreign Enterprises	<i>III. Incentives</i>	<ul style="list-style-type: none"> ▪ Providing tax incentives to large local and foreign enterprises to promote linkages with local SMEs and provide them technical assistance and training. ▪ Incentives to SMEs subcontracting with large foreign enterprises ▪ Amendments to the tenders Law No.198.
Regulatory Changes	<i>VI. Business Transactions</i>	<ul style="list-style-type: none"> ▪ Following up the implementation of allocating no less than 10% of government procurement to SMEs ▪ Reducing the costs of registering real estate
	<i>VIII. Tax reform</i>	<ul style="list-style-type: none"> ▪ Supervising the implementation of upcoming new tax law to guarantee the actual implementation of the incentives given to SMEs.

Source: Taken from MoF, 2004, 'Enhancing Competitiveness for SMEs in Egypt'.

8. *Set up MSME Monitoring Surveys*

At present, the capability for economic research in Egypt is higher than that present in many MENA and African countries, with a large and competent pool of academic researchers as well as analysts in think tanks and consultancy companies. In our view there is little need for further academic research or research capacity building. However, there is very poor up-to-date policy information on MSME conditions. Although the state statistical unit, CAPMAS, provides some information regarding the MSME sector (primarily via its 10 yearly survey) there is a serious lack of timely, time series, statistical data regarding the MSME sector. Consistent monitoring and evaluation of conditions and policy interventions in this sector is weak. Our main recommendation for IDRC therefore is to help set up the production of annual, or bi-annual, surveys of the sector. This would generate information on firm performance and on the constraints faced by SMEs. This could be done via an independent observatory (see example below) or via CAPMAS – depending on a more detailed assessment of the pros and cons. Such an output would allow a more coherent understanding of the conditions in the MSME sector and the effects of policy interventions as well as other external factors. It would also provide a regular spur to policymakers to consider MSMEs in broader economic policy and work to improve the context facing MSMEs.

An example of a similar survey is found at the Egyptian Centre for Economic Studies (ECES). ECES publish a biannual ‘Business Barometer’, which attempts to gauge economic trends on the real side of the Egyptian economy. They report real indicators and reflect a sample of 210 large firms from the manufacturing, construction, and tourism sectors regarding the changing nature of constraints on business, including their perception of overall economic performance, as well as their assessment of own activities during the six months, and expectations for the second half of the year. An MSME survey would obviously have a different focus and approach – in terms of respondents and issues – but the ECES initiative gives an indication of what might be done and how. There are many examples around regarding how to do SME surveys that could be assessed and adapted to Egyptian realities.

6.4 *Summary of Recommendations*

We have made three strong recommendations for possible future work in Egypt. *First*, in the short term, we think the priority is for SMEPOL (and IDRC and CIDA) staff to ensure SMEPOL findings and strategy are included in the National Strategy currently being developed by SFD. *Second*, and more generally, we argue for the need to focus upon a few key areas of implementation. While the technical policy priorities are outlined in the Competitiveness Strategy, we also note the importance of a realistic appraisal of the political constraints. We argue that future Canadian intervention should focus upon working with effective ministries (specifically the MoF and possibly others in the ‘economic group’) to implement MSME policy in areas within which the respective ministry has a mandate to act. We have particularly recommended that it would be beneficial to continue to work with the Ministry of Finance on issues of regulatory reform within their area of mandate. *Third*, we have suggested the need to develop and provide initial support for an initiative to generate regular, credible statistical data on key issues facing the MSME sector (perhaps annual or bi-annual). This recommendation is particularly relevant for IDRC. Overall, we believe these interventions would be beneficial to the MSME sector in Egypt and would enable IDRC (and CIDA) to pursue their niche and comparative advantage.

Section 7: Options for Replication Across MENA

7.1 Introduction

Both IDRC and CIDA highlight the issue of Private Sector Development as priority areas and are considering how to develop further programming in this area. As the IDRC Corporate Strategy notes³⁷:

‘Particular attention will continue to be directed to... domestic economic policies This includes attention to ‘behind the border’ trade issues such as investment and competition policy, to the overall regulatory climate facing enterprises, to sectoral policies in key fields such as agriculture and services.’

Future SME policy interventions will need to fit within the broader IDRC and CIDA programming frameworks.

In this section we focus on where and how SME policy development projects might be implemented in other countries in the MENA region. This involves discussion of two sets of issues.

First, we want to assess whether there exists the need and threshold conditions for considering direct policy development interventions. We have identified in Section 5 a number of the key contextual factors that are important for direct policy development projects – based on our assessment of the SMEPOL experience and drawing on key themes in the literature. Here we provide an outline of the key contextual conditions for each of the 11 MENA countries. This is based on evidence from: (i) existing datasets on governance and SME issues; and (ii) the results of our independent assessments. We then provide a preliminary recommendation as to whether supporting a direct policy development project in the SME sector is likely to be worthwhile. We stress again that these are preliminary assessments.

Our second step is to outline two generic policy development models. Based on SMEPOL and experience elsewhere, we outline the menu of options for direct policy intervention projects – the exact choice of components depends on the political context. We also provide a generic indirect model for policy influence. This is more relevant for countries where the threshold conditions do not exist for direct policy development interventions.

We also note here that international approaches (including at both IDRC and CIDA) are moving towards favouring a broader PSD approach as the starting point. Future interventions regarding MSME policy should be taken after considering the PSD context. It is important to note that sometimes political realities in countries may mean that a discussion of PSD is not feasible and therefore MSME development can at times be an appropriate way of framing interventions towards PSD.

Future interventions should also recognize Canada’s history and comparative advantage in this area. They should recognize, and build upon, the role and high levels of expertise that IDRC and CIDA have established. Interventions should also continue to pursue innovative,

³⁷ Source: Corporate Strategy and Program Framework, 2005–2010’, International Development Research Centre, Ottawa, 2005, p 42.

niche projects, where a high level of value added is possible. This is particularly important given the vast amount of technical assistance provided in the MENA region.

7.2 SMEPOL Context Lessons and Conditions in MENA Countries

Below we assess the situation for the six key context issues in the 12 selected MENA states (including Egypt). The six key lessons were: (i) Context of Reform; (ii) Relevance / Need for SME Policy Development; (iii) Mandate / Authority; (iv) Existence of Champion(s); (v) Country Presence; and (vi) Research Capacity. The first four were seen as critical. For each country, we also highlight the GDP/capita (as a proxy to indicate broader developmental need) and make a governance assessment (in order to help us comment on the extent to which embedding the project is a good idea).

We must stress that the analysis is preliminary and intended to be indicative. The findings are based on limited information and would need to be clarified through a more rigorous analysis. We did not feel sufficiently able to provide any analysis for Iraq. Without significant country presence, we have also not been able to ascertain in a rigorous way whether champions exist for any of the countries. Although left empty, we have included these categories in Table 6 for indicative purposes.

The governance information in Figure 6 (and which provides the basis for our assessment in Table 6) is from the aggregate governance indicators prepared by Daniel Kaufmann and his colleagues at the World Bank Institute. We provide the data for four indicators – regulatory quality, government effectiveness, rule of law and control of corruption – for a range of countries in the MENA region with comparators to the MENA average, OECD average and Sub-Saharan African average. While these indicators are seen as the best source of evidence for giving a broad, comparative assessment, there remains real concern that they are subjective and have high margins of error (and they are from 2004). We use them here to spur discussion and make a general point about the need to consider the governance context carefully.

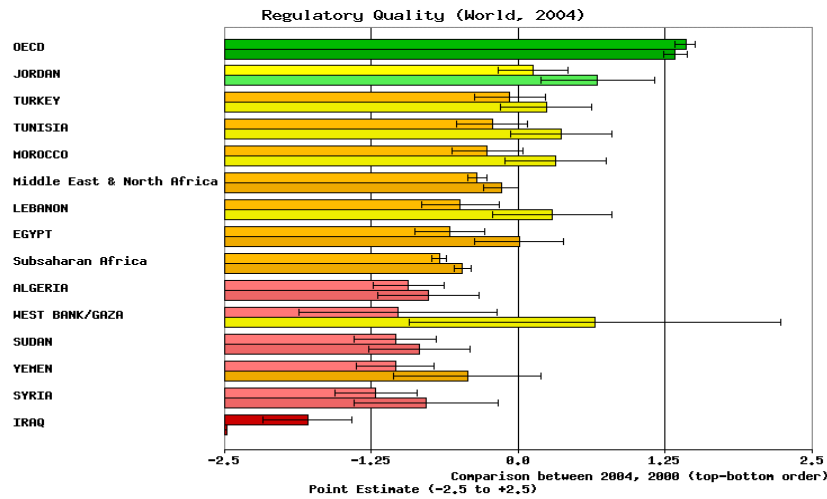
Our summary recommendations are included in the table. These are based on our more detailed assessments for each country discussed later. In our conclusions, we distinguish between Direct Policy Development (DPD) Projects and Indirect Policy Influence (IPI) Projects. The generic DPD model is based on SMEPOL and is a larger, partnership-type project focused on policy development. IPI projects would be smaller, indirect and focusing on improving the context conditions. This is of course a blunt categorization (and both models are fleshed out in more detail later), but we have found it a useful classification in helping us make practical recommendations. The exact interventions would need to reflect a more detailed and nuanced assessment of the different contexts. The bottom line is that we are suggesting DPD projects only where we think there is actually a need for SME policy development, key foundational factors for successful interventions appear to be in place and there would be value added in a Canadian intervention.

Table 6: Summary of Contextual Factors Across MENA and Threshold for SME Policy Development Projects

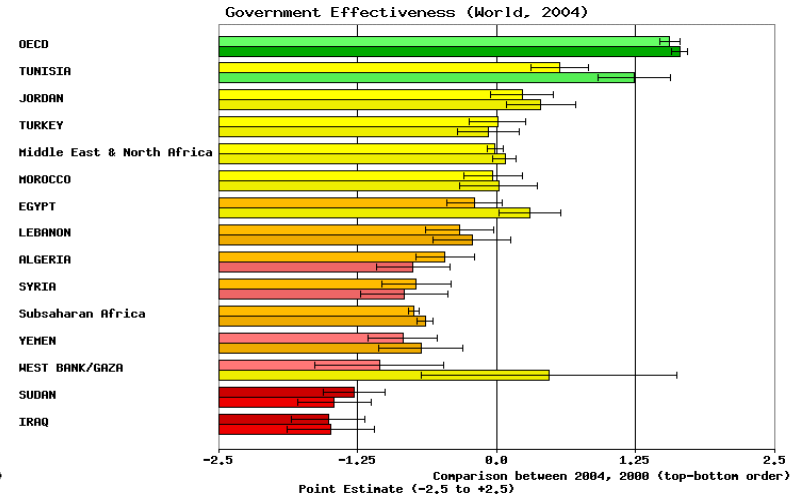
COUNTRY	GNI Per Capita (US\$) ³⁸	Summarised Governance Ranking	Context of Reform (Demand)	Relevance / Need	Mandate / Authority	Champions / Change Agent	Country Presence (CIDA & IDRC)	Research Capacity	Recommendation (& Rationale)
Algeria	2,280	Low	Yes	Yes, but focused	--	--	Moderate	--	No DPD intervention (little value added), but IPI potential on improving policy processes.
Egypt	1,310	Medium	Yes	No	Mixed	Yes	Strong	Yes	Targeted Implementation.
Iraq	--	--	--	--	--	--	--	--	--
Jordan	2,140	Medium	Yes	Yes	Yes	---	Limited	Weak	Full Partnership Model for Direct Policy Development (DPD)
Lebanon	4,980	Med-Low	Yes	No	Yes	--	Limited	Yes	No DPD or IPI intervention (wealthy country and little value added)
Morocco	1,520	Medium	Yes	No	Yes	--	Limited	Yes	No DPD intervention, but IPI potential on specific MSME policy constraints.
Sudan	530	Very Low	Yes	Yes	Yes	--	Very Limited	Weak	Limited DPD project or IPI (threshold conditions largely there, except concern about weak governance)
Syria	1,190	Low	Uncertain	Yes	Yes	--	None	Weak	No DPD intervention yet, but IPI seems a calculated risk.
Turkey	3,750	Medium	Yes	Uncertain	No	--	Very Limited	Yes	No DPC or IPI interventions (wealthy country and little value added)
Tunisia	2,630	Medium	Yes	No	Yes	--	Limited	Yes	No DPC or IPI interventions (wealthy country and little value added)
WBG	1,120	Low	Yes	Possibly	Uncertain	--	Moderate	Yes	No DPD intervention, but IPI potential on cohesive policy and clarifying institutional mandates.
Yemen	570	Very Low	Uncertain	Yes	Yes	--	Very Limited	Yes	No DPD intervention, but IPI potential to complement existing initiatives.

³⁸ www.worldbank.org/data

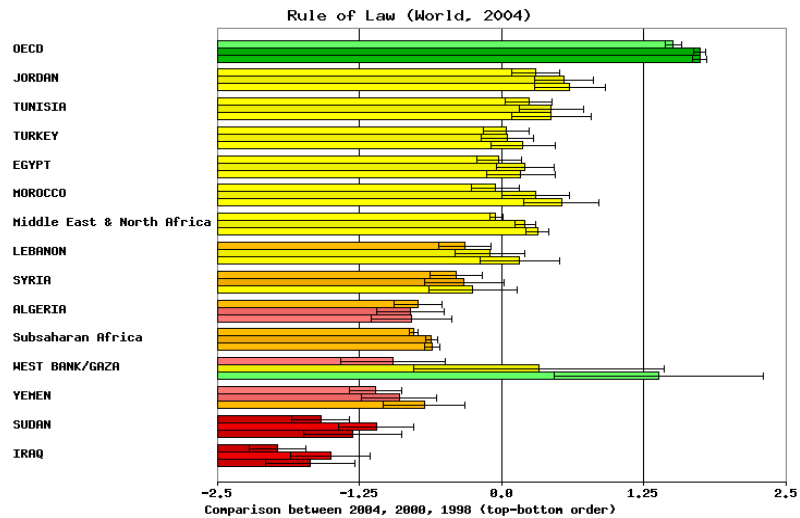
Figure 6: MENA Governance Ratings, 2000-2004³⁹



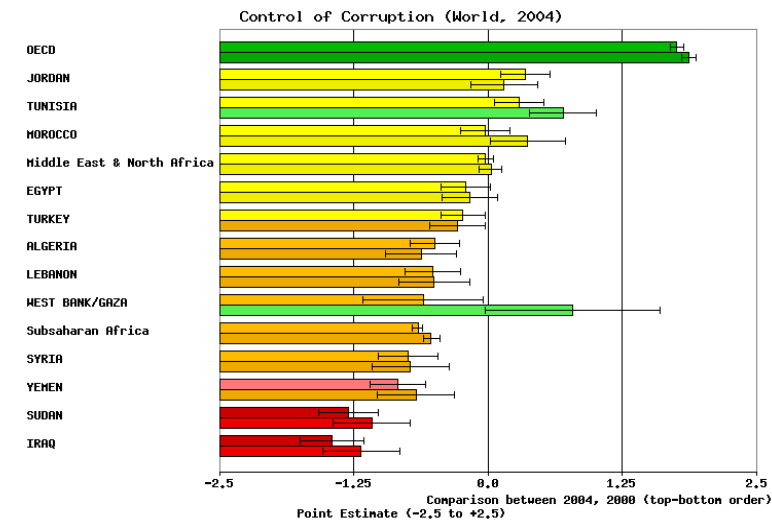
Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004 (<http://www.worldbank.org/abi/governance/pubs/govmatters4.html>)



Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004 (<http://www.worldbank.org/abi/governance/pubs/govmatters4.html>)



Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004 (<http://www.worldbank.org/abi/governance/pubs/govmatters4.html>)



Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004 (<http://www.worldbank.org/abi/governance/pubs/govmatters4.html>)

³⁹ Source: GRICS: Governance Research Indicator Country Snapshot – Comparison for Political Stability across a number of countries

Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004, <http://info.worldbank.org/governance>

Table 7: Business Context Indicators for the MENA Region

Indicator	Algeria	Egypt	Jordan	Lebanon	Morocco	Syria	Turkey	Tunisia	Yemen	MENA	OECD Av
Starting a Business (2004)											
Number of procedures	14	13	11	6	5	12	8	9	12	10	6
Time (days)	26	43	36	46	11	47	9	14	63	39	25
Hiring and Firing Workers (2004)											
Difficulty of Hiring Index	56	0	11	44	100	0	44	61	0	22.6	26.2
Difficulty of Firing Index	50	80	50	40	70	50	40	100	30	40.7	26.8
Registering Property (2004)											
Number of procedures	16	7	8	8	3	4	8	5	6	6	4
Time (days)	52	193	22	25	82	23	9	57	21	54	34
Getting Credit (2004)											
Cost to create collateral (% of income per capita)	0.4	52.7	65.3	2.2	62.2	6.4	19.9	22.4	4.7	18.5	5.2
Public & Private credit coverage (borrowers per 1000 adults)	0	102	5	31	6	0	332	93	12	33.2	653.2
Protecting Investors (2004)											
Disclosure Index	2	2	3	1	4	1	2	6	---	2.6	5.6
Enforcing Contracts (2004)											
Number of procedures	49	55	43	39	17	48	22	14	37	38	19
Time (days)	407	410	342	721	240	672	330	27	360	437	229
Closing a Business (2004)											
Time (years)	3.5	4.2	4.3	4.3	1.8	4.1	2.9	1.3	3	3.9	1.7

Source: World Bank and IFC, 2005, <http://doingbusiness.org/Default.aspx> Note: Information unavailable for: Palestine; Iraq, Sudan. Higher values represent more rigid regulations

7.3 Country Context Information

Algeria

MSMEs are an important sector of a poorly diversified economy, accounting for 68% of total economic activity. There is currently a strong context for reform in Algeria, with the government committing to a transformation towards a market economy. Reform for the MSME sector has proceeded tentatively but it is likely to continue. While further areas for reform exist (there is need), the EU, World Bank and African Development Bank are presently involved in a large scale reform program. Addressing key areas for reform, such as simplification of business procedures, this raises questions as to the value added of a Canadian intervention for policy development. Donors also note that the government is financially and technically able to pursue reform without external support. However, one important gap identified was the failure of government to develop rigorous policy development processes – and specifically processes to ensure research-based evidence informs policy development. Finally, research capacity is estimated as relatively strong across the private and public sectors, therefore there is a lower demand for external support for research capacity building. In summary, there appears little value-added for research, training and networking support, but possible potential for a limited program (if demand exists) to help improve policy processes within government and the use of research in them.

Recommendation: Given the context, there appears no need for a Direct Policy Development (DPD) project. There may be scope for Indirect Policy Influence (IPI) projects on improving the use of research-based evidence in policy processes.

Iraq

We feel unable to provide satisfactory analysis at this point. The relevance of an MSME policy development program is there – with a need to move away from a controlled economy dominated by the oil sector. However, the ongoing conflict and highly politicized national and international context make rigorous recommendations beyond the scope of our work.

Jordan

In certain areas, Jordan possesses a context conducive to stimulating economic activity. However PSD and MSME development require significant further work. Key actors providing support are USAID, EU and the new PEP-MENA operation. However, whilst USAID have a program to provide general policy advice, there is no SME specific policy support program similar to SMEPOL and project work for MSMEs is focused on an implementation level. The relevance of and need for work in this area is therefore strong. The Jordan Authority for Enterprise Development (JEAD) was recently created, with the authority to provide policy advice to government and with limited authority for implementation. An organization with the mandate and authority is therefore present. There is also a context of reform with the accession of King Abdullah II – see for example the recent ‘Association Agreement’ with the EU. Political will was reported to be highly dependent on the individual minister, but the current Minister of Industry and Trade, Sharif Zu’bi, was identified as competent and interested in reform (a potential champion). Research capacity on MSME issues was also characterized as relatively weak.

Recommendation: Jordan presents a strong case for a DPD partnership project. The threshold criteria of Need, Context of Reform, Mandate and Champion all appear to be present (NB: care regarding political shifts). If this is not a viable option, there is a strong case for an IPI interventions to support research capacity and policy improvement.

Lebanon

Since 1992, Lebanon has pursued consistent and coherent policy reforms, prioritising a liberal framework for economic growth. A strong context for reform therefore exists. Government ministries are reportedly effective at coordinating efforts with the Ministry of Economy and Finance, the key actor for PSD / MSME development. The Council for Development and Reconstruction (CDR) works as a supra-ministry and could be responsible for coordinating policy interventions. However: Lebanon is the richest country in the region; liberal market structures are well developed, with effective institutions of economic governance; the components of a modern innovation system are apparent in strong systems of education and enterprise development; there is also a strong research capacity in both public and private sectors (although perhaps less strong specifically on MSME issues).

Recommendation: In summary, we do not think that there is much need for or value added in an MSME policy intervention (DPD or IPI) due to Lebanon's middle income status and existing economic policy framework and capacity.

Morocco

As with other Maghreb states, a strong context for reform exists. Since 1988, Morocco has progressively liberalized its economy, a process given strong political support by King Mohammed VI. There is also a correspondingly strong demand for reform from MSME sector associations, which reflects the reality that Morocco is the least centralized of all Maghreb states, with strong foundations for market competition. Structural reforms of the market economy are planned or already introduced and some progress has occurred towards economic diversification. Deficiencies still exist but the need for a policy development program seems weak. This is reflected by the presence of a government agency established for MSME development and a strong capacity for research in both the private sector, and public sector. With respect to country presence, IDRC have previously supported research programs and CIDA have had activities. Principal donors are the EU and World Bank.

Recommendation: No DPD intervention needed. There may be scope for Indirect Policy Influence (IPI) projects on specific MSME issues.

Sudan

Since 1999, Sudan has pursued a national economic reform program, and the government has implemented IMF-compliant and IMF-monitored measures to restructure the economy. During the 1990's this has included relatively successful moves towards a market-economy transformation. However, whilst the recent program has included strengthening private enterprise, and has improved the framework of the market system, the foundations of market competition are not complete and economic development increasingly dependent on the oil sector. There is need for policy development in the MSME sector. A potential partner in the MSME field, is the Central Bank, which has the legal mandate for addressing MSME development. There is also a moderate research capacity, unfortunately weakened by external migration of skilled labour. The main question remains about the nature of governance in Sudan with concern about state violence, rule of law, patronage and corruption. Issues of international politics may also be a consideration.

Recommendation: In many ways Sudan meets the threshold conditions for a PDP project – with need, a context of reform, an organization with a mandate. However, exactly whether and certainly how a PDP project should be initiated would depend on a fuller assessment of the political context. At this stage it may be prudent to start with IPI initiatives.

Syria

Traditionally Syria has been a command economy with a dominant public sector. Hafiz al-Asad, implemented a degree of economic 'opening' ('infitah'), public sector reforms, and increasing reliance on the domestic private sector. Economic reforms however stalled and have only been partly revived under the new leadership of Bashar al-Asad. Whilst the share of the private sector in production exceeds that of the public sector, private sector growth has occurred largely according to the logics of crony-capitalism and the economy remains minimally diversified, with exports dependent almost exclusively on oil, gas and other minerals. The need for a policy intervention is strong. But donor experience suggests that such projects are also risky. Nevertheless, country experts and donors suggest that there is some flexibility and political support with regard to SME policy reform. The context has become increasingly politicized in recent months and this will need to be considered. While Syria is under great external pressure to open up, some believe the state response may be one of tightening its grip.

Recommendation: Given our assessment, a DPD intervention would be unwise. It might be a calculated risk to include IPI initiatives in Syria as part of a regional programme on MSME issues. This would ensure Canadian stakeholders are well placed if a window for serious reform does open.

Turkey

Turkey has been pursuing a deregulation and privatization program since 1979. Moves towards EU membership have consolidated this liberalizing and reform agenda (the context of reform is therefore strong). MSMEs are important comprising 99% of enterprises in Turkey (95% are small and micro). Policy interventions however focus upon medium over micro. The Ministry of Commerce and Ministry of Industry have a role but ministerial coordination is poor. General research capacity is strong, but research capacity with regard to MSME development is poor. IDRC have supported research programs before. However, Turkey is a middle income country and policy processes / support regarding MSMEs are dominated by the EU.

Recommendation: While there does appear need for improving MSME policy, many of the other threshold conditions are not in place. We can see little value added for Canadian interventions (DPD or IPI) given the wealth of the country and dominance of EU processes.

Tunisia

Since the 1970's, Tunisia has committed to a market-economy transformation, further spurred by financial crisis and a SAP around 1987-1991. There is a strong context of economic reform. Tunisia is in advance of all other MENA counties in its reform program leading to a relatively competitive business environment. The relevance of or need for a PDP initiative is therefore weak (although there are some policy shortcomings in relation to rule of law, administrative processes and the banking-sector). The institutional framework for policymaking is well developed. SERST⁴⁰, under the authority of the Prime Minister, provides an inter-ministerial role formulating research policy at national level. There is little need for research support with a strong domestic research capacity.

Recommendation: Tunisia seems to be progressing well with little clear value added in DPD or IPI interventions.

⁴⁰ Secrétariat d'Etat à la Recherche Scientifique et à la Technologie

West Bank and Gaza (WBG)

The Palestinian Authority have pursued a reform program, specifically in the area of finance. Demand for reform exists. Donors are already heavily involved, with over half of projects containing a policy component and many achievements in formal legislation and regulatory institutions. This implies lower need / relevance. However improvements can be made in coordination and a specific comprehensive policy is lacking. The Ministry of National Economy and Ministry of Planning are informally mandated. No agency has a formal mandate. Canada has a presence with CIDA a significant donor. Other key donors are EU; USAID, WB and IFC. There is also a relatively strong research capacity in public universities and private contractors. A concern, however, remains about the nature of governance in WBG, especially regarding issues of rule of law and government effectiveness. The recent election, won by Hamas, has brought new uncertainty to the political situation.

Recommendation: It does seem that WBG would benefit from an overarching policy framework for MSME policy and clearly defined mandate between existing Ministries. However, the threshold conditions are not in place for a DPD intervention at present – also issues of corruption and political uncertainty. There does seem scope for IPI initiatives towards improving the MSME policy context.

Yemen

A liberal economic and competitive market economy have been encouraged since a mid-1990s structural adjustment program initiated by the IMF and World Bank. The Government of Yemen (GoY) appears cautiously supportive of reform and has made progress (including modernization of the tax system). However, many structural shortcomings exist, especially in the financial sector and Yemen remains a very poor country. Although no specific mandate exists for MSME policy, the Social Fund for Development (SFD) has a strong informal mandate to act. There is a strong local research capacity in universities and with local consultants. So in some ways, the scope for MSME support appears strong. However, the GoY has recently responded to an approach of the G8 offering assistance for a national small and micro-enterprises development strategy. The GOY has responded with a national SME development strategy, and 5-year action plan. The main donors in MSME field include IFC, GTZ and KfW; IDRC and CIDA have had a very limited presence. And governance in Yemen remains poor. All this suggests little value added for a Canadian intervention.

Recommendation: While there seems little need for a DPD intervention, there does seem scope for IPI initiatives to complement GoY and other donor initiatives.

7.4 Discussion and Preliminary Recommendations

This brief analysis raises a number of issues for the broader applicability of SME development projects. First, the data and our analysis suggest that there are similarities and that Egypt is not a unique state in the sense that would prevent its experience from being adapted. There is of course variety of contexts but broader issues of applicability are relevant. Second, the actual need for MSME policy development varies considerably. While there may not actually be much need for MSME policy development in some countries (eg Tunisia) – or at least for donor support – in others there is much greater need. Third, we have evidence that economic reform is on the agenda in many of the countries in the MENA region. This

provides a positive context for considering MSME policy work. Fourth, however, there remain broader questions about governance in some of the countries (Yemen and Sudan) that would question whether an MSME intervention is really the key issue – and would significantly affect how any intervention should be carried out.

Finally and critically, our analysis above highlights it is important to focus on the country context since country assessments vary according to the specific issue. For example, Tunisia has the context that would indicate an intervention might work, but doesn't seem to need donor help. Others seem to have the need (Syria, Sudan and Yemen), but appear weak on some of the key governance context issues. This highlights the need for interventions which fit country context (and for donors to carefully assess context prior to intervention). Finally, it is also noticeable that for some countries there would be little comparative advantage in Canadian interventions given their limited presence and existence of other major players (Turkey is the most obvious example here).

Our initial analysis suggests that the countries could be divided into the following categories regarding the need for and value of direct SME policy development interventions (or more indirect interventions) or not. Our recommendations are therefore that IDRC/CIDA should:

- Consider direct SME policy development interventions in: Jordan and perhaps Sudan – although in Sudan in particular further detailed assessment would be needed and the partnership model should be different due to wider governance concerns. Our preliminary scoping suggests that the threshold conditions are not in place for replication elsewhere, at this point.
- Consider an indirect approach to policy influence through undertaking research and influencing activities as appropriate: Algeria, Morocco, Syria, West Bank & Gaza, and Yemen. (Sudan should also be included here if detailed assessments indicate a direct approach is not appropriate.) While the specific focus in each country would vary, activities could be managed as part of a regional policy influence programme.
- Refrain from policy development activities at this point:
 - Turkey and Iraq (since little comparative advantage or value added for Canadian interventions).
 - Lebanon and Tunisia (since no clear need – though it might be worth learning and promoting the experiences of Tunisia across the MENA region).

The bottom line is that we are suggesting direct policy intervention projects only where we think there is actually a problem with overall MSME policy, the contextual factors appear to be in place and there would be value added in a Canadian intervention.

7.5 Generic Project Structures for Policy Interventions

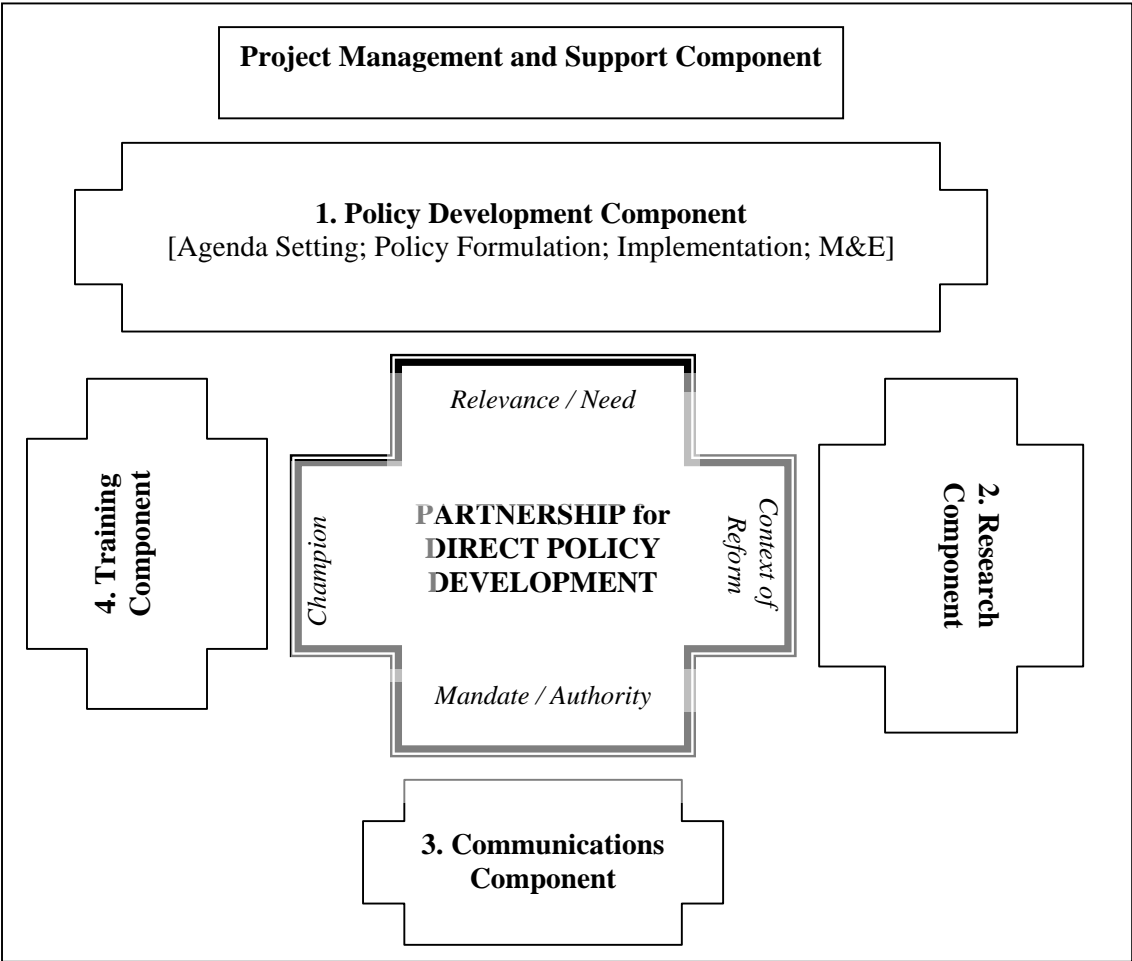
Having identified the different contexts which may exist, we need to think about a package of relevant policy options. We distinguish between two broad sets of choices. First, we identify the types of context where more direct SME policy development projects might be implemented – Jordan and perhaps Sudan in our analysis. Second we highlight what might be done in contexts that do not have the threshold conditions to consider such a project (Algeria, Morocco, Syria, WBG and Yemen).

Direct Policy Development

Where the key foundational characteristics are present i) context of reform, ii) need for policy development, iii) organizations with a mandate and authority and iv) champions, then policy development projects similar to SMEPOL could be explored. We believe that these four factors are the critical and necessary conditions needed to ensure basic opportunities for a partnership model for direct policy development (Figure 7), similar to SMEPOL. If one or more of these four factors is not present, a realistic approach would be to move towards a more limited ‘indirect policy influence’ approach (Figure 8) since a partnership model for direct policy development is unlikely to be successful.

Based on SMEPOL and other policy development projects we have outlined, we put forward below a simple generic outline of the main work components for such projects. This is shown in Figure 7. The core threshold conditions are outlined in the centre. The specific work components are outlined in the four boxes around the side. There would also need to be a project management component that would include the relevant project management highlighted above. We propose that Jordan (and perhaps Sudan) have the threshold conditions that would make such an intervention likely to be successful.

Figure 7: A Partnership Model for Direct Policy Development⁴¹



Italics = The four critical threshold conditions for a partnership model for DPD

⁴¹ Many thanks to Enrique Mendizabal at ODI for an initial outline of how such a model might look.

There are a number of important considerations. The exact approach would need to fit the specific context, asking where the key ‘gaps’ are. The balance of project components should reflect the nature of the needs in the specific context (research, communications, training and policy development). As with SMEPOL, the emphasis would be on the policy development component, with other components supporting this overall objective.

We would highlight the need to reflect domestic context, especially with relevance to the area of research capacity. In particular, in countries with a weak domestic research capacity, this section of the program would need to be emphasised (without losing the demand driven nature of the project).

We also highlight here the need to consider all relevant aspects of the policy process. There could be a basic structure with add-in components (communications, policy change, and training), and a menu of resources and tools from which new policy change projects will be able to pick and choose those that are more relevant for their context. Any project could then draw on the project specific lessons outlined above (policy focus, risk management, etc) and in the literature. A key factor to recognise is that the partner need not be a government body – and this may be preferable in contexts. Partnership can be explored with semi-governmental institutions (possibly even civil society, when government is responsive to such bodies). The contrast between SMEPOL and TIPS in South Africa highlights there are different approaches. But, there is the trade-off discussed above that both influence and risk are likely to diminish with distance from the centre of power.

How should donors orient their initiatives to best address these challenges? For SME policy, our view is that the key policymakers will be national and local. Therefore a country-level intervention will be most appropriate. Our view is that presence on the ground in a country and a good reputation are usually critical components – needed to generate the degree of partnership necessary and to manage risks. It is then much more straightforward to work on assessing the specific problems and context, conducting research, consulting stakeholders and influencing key policymakers. Interventions will almost certainly be part of broader donor programmes on issues or for regions. But, impact is likely to be maximized when for direct policy interventions on SME issues when donors have a country presence (or trusted partners) and have their interventions are oriented towards specific policy arenas at the national level. Risk can be managed by the degree of embeddedness and the appropriate project structures.

Indirect Policy Influence

In certain countries, the context for direct policy development interventions does not exist. For example, even where need is high, there may be no context of reform, the lack of an agency with the mandate or authority or a lack of champions. Where one or more of these key foundational characteristics i) context of reform, ii) need for policy development, iii) organizations with a mandate and authority and iv) champions, are not present then policy development projects similar to SMEPOL are unlikely to be successful. Alternative strategies can however be developed and there is still strong potential role for Canadian value added. In particular, a realistic approach would be to move towards a more limited ‘indirect policy influence’ model (Figure 8).

This situation requires an approach more oriented around efforts to influence policy rather than directly change it. Here it is helpful to refer to our previous discussion of policy change

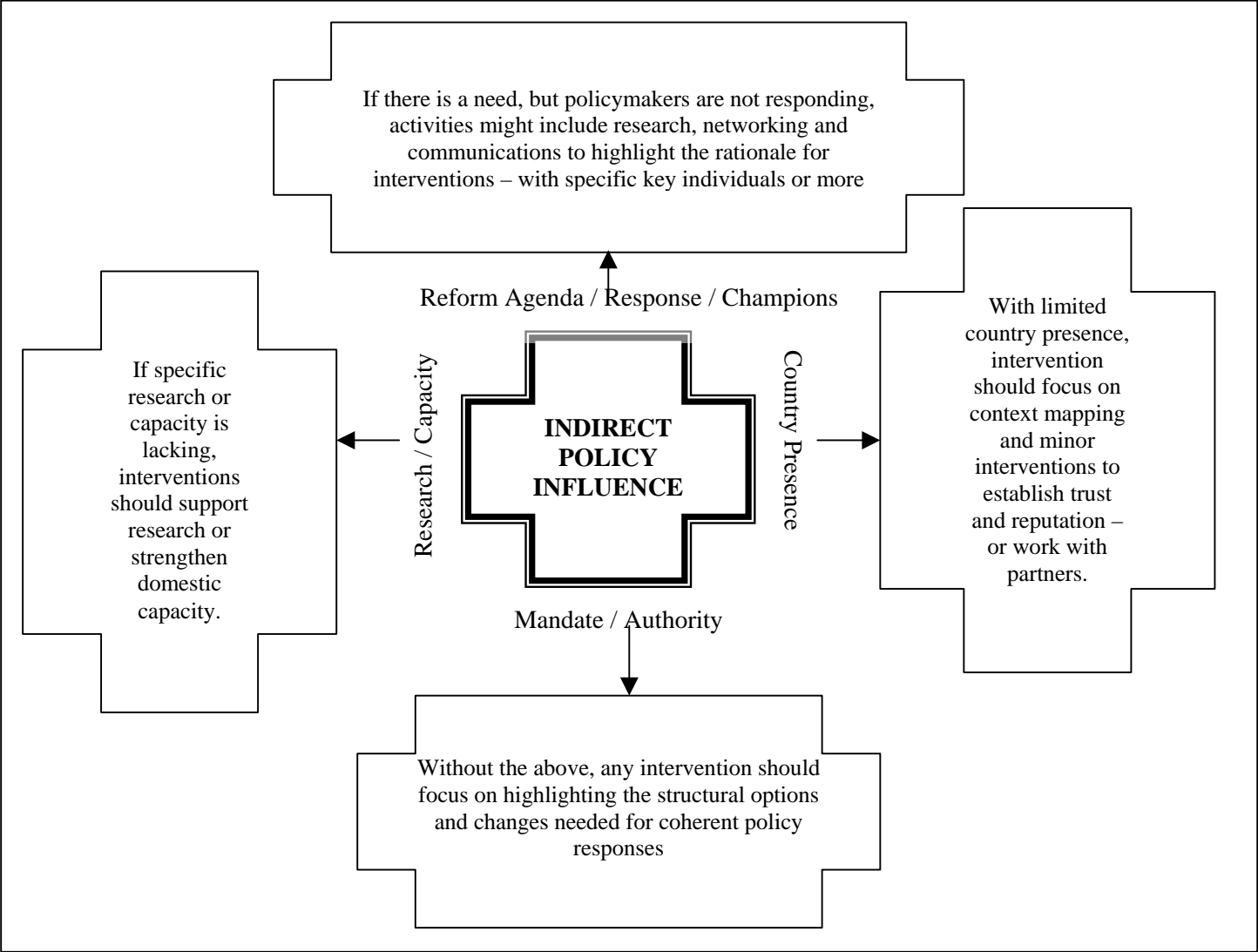
and in particular the framework generated from the work of the RAPID programme (Court et al, 2005). This emphasized that to spur uptake of ideas into policy, four sets of issues mattered – Context, Evidence, Links and External Influences. Through a comprehensive analysis of each set of issues, a donor can generate a strong contextually relevant model for indirect policy influence. To highlight this approach, we generate a generic set of questions donors should ask prior to any intervention at the policy level. A summary of these questions is outlined in Table 8.

Table 8: How to Influence Policy and Practice

What donors need to know	What donors need to do	How to do it
<p>Political Context:</p> <ul style="list-style-type: none"> ▪ Who has the authority? ▪ Is there policymaker demand for new ideas? ▪ What are the sources / strengths of resistance? ▪ What is the policymaking process? ▪ What are the opportunities and timing for input into formal processes? 	<ul style="list-style-type: none"> ▪ Get to know the policymakers, their agendas and their constraints. ▪ Build legitimacy. ▪ Identify potential supporters and opponents. ▪ Keep an eye on the horizon and prepare for opportunities in regular policy processes. ▪ Look out for – and react to – unexpected policy windows. 	<ul style="list-style-type: none"> ▪ Work with the policymakers. ▪ Line up research programmes with high-profile policy events. ▪ Reserve resources to be able to move quickly to respond to policy windows. ▪ Allow sufficient time & resources
<p>Evidence:</p> <ul style="list-style-type: none"> ▪ What is the current theory? ▪ What are the prevailing narratives? ▪ What sort of evidence will convince policymakers? 	<ul style="list-style-type: none"> ▪ Establish credibility over the long term. ▪ Provide practical solutions to problems. ▪ Build a convincing case and present clear policy options. ▪ Package new ideas in familiar theory or narratives. ▪ Communicate effectively. 	<ul style="list-style-type: none"> ▪ Build up programmes of high-quality work. ▪ Action-research and Pilot projects to demonstrate benefits of new approaches. ▪ Use participatory approaches to help with legitimacy and implementation. ▪ Clear strategy from the start. ▪ Face-to-face communication.
<p>Links:</p> <ul style="list-style-type: none"> ▪ Who are the key stakeholders? ▪ What links and networks exist between them? ▪ Who are the intermediaries, and do they have influence? ▪ Whose side are they on? 	<ul style="list-style-type: none"> ▪ Get to know the other stakeholders. ▪ Establish a presence in existing networks. ▪ Build coalitions with like-minded stakeholders. ▪ Build new policy networks. 	<ul style="list-style-type: none"> ▪ Partnerships between researchers, policymakers and policy end-users. ▪ Identify key networkers and salesmen. ▪ Use informal contacts.
<p>External Influences:</p> <ul style="list-style-type: none"> ▪ Who are main international actors in the policy process? ▪ What influence do they have? ▪ What are their aid priorities? 	<ul style="list-style-type: none"> ▪ Get to know the other donors, their priorities and constraints. ▪ Identify potential supporters, key individuals and networks. ▪ Establish credibility. 	<ul style="list-style-type: none"> ▪ Orient communications to suit donor priorities and language. ▪ Cooperate with other donors. ▪ Contact (regularly) key individuals.

It is clear from this framework that specific projects can and do matter, but, crucially, that they are only a (often small) part of the process of policy formulation and implementation. Prior to any intervention, the framework outlines the types of questions that would be part of a full analysis to establish where the gaps are apparent. The matrix (columns 2 and 3) also outlines the menu of options and approaches that might be useful (depending on the needs and context). Below we outline exactly a model for how donors might intervene towards more indirect policy influence.

Figure 8: A Model for Interventions Towards Indirect Policy Influence



Note: This diagrammatic representation is a very preliminary conceptual structure for policy influencing – specific interventions will need to draw on an assessment of the numerous factors outlined in the RAPID framework above.

To briefly explain the diagram and the approaches implied: Around the core, the diagram outlines the kinds of context issues that we argued need to be in place for sustainable direct policy development interventions (reform context, need, mandate, champions, etc). These are where the “problems” would exist. Surrounding these then are components that would include specific interventions to address the challenges. The exact package of interventions would need to be oriented to address the main challenges.

The diagram provides a generic overview, while the table provides a checklist of questions to help assess the context and a generic menu of options for what might be considered. Again, the interventions should be context sensitive, with a basic structure and add-in components (research, networking, communications, influencing, etc), that a policy influencing project would be able to choose from.

How should IDRC and CIDA (or other donors) orient their efforts regarding more indirect influencing initiatives? Again if the focus is on policy influence (rather than supporting research), a key consideration is that policymakers will be national and local. Work to assess contexts rigorously and respond adequately is likely to require a significant national presence for an initiative. As with direct policy development, the bottom line is that “proximity is

destiny” – many policy influencing activities cannot be done effectively at a distance. Our analysis suggests that country level initiatives are going to be the most effective.

We do think, however, that there is scope for an IDRC regional programme for *managing* a Policy Influence program – a stream of work on private sector issues with an MSME focus. The aim would be to have a fund to help “catalyze” MSME policy reform (basically a Policy Development Facility for Private Sector Policy Development). This should focus on the poorer countries in the region where the needs for MSME policy development are the greatest. Our policy analysis suggests that the facility should focus on Algeria, Morocco, Syria, West Bank & Gaza and Yemen. The specific country activities should be different, but basically oriented towards improving the operating environment for MSMEs. Specific country activities could be assessed according to the framework we have identified. This will mean addressing gaps in some of the key threshold conditions identified in our analysis (improving the broader context for economic reform, clarifying mandates, fostering champions, building networks and coalitions, and strengthening research capacity). Funding and resources would depend upon the scope of countries and activities which are selected. Such a regionally managed programme makes sense because there would be benefits and since the needs for intensive interaction and the risks of policy influencing projects (research, pilot projects, and networks) are lower. The North Africa component of a regional programme could also form part of Canada’s contribution to the new Investment Climate Facility for Africa (ICF).⁴²

In scoping a regional programme, care should be taken to look at the synergy with the Private Enterprise Partnership - Middle East and North Africa (PEP-MENA) initiative recently launched by the IFC.⁴³ PEP-MENA is also a regional technical assistance programme managed from Cairo with the explicit aim of providing support to MSMEs and improving the business environment. However, our preliminary discussions clearly indicate that there is real value for IDRC/CIDA to also be involved here due to the limits of where and how IFC can get involved.

⁴² See: <http://www.investmentclimatefacility.org/>

⁴³ See: <http://www.ifc.org/ifcext/mena.nsf/Content/PEPMENA>

Section 8: Conclusions and Recommendations

We know a lot about why SMEs are important and the types of policies that can help foster their development. We know much less about how donors can actually catalyze policy reform in developing countries. Reform of the MSME sector is often particularly complicated given the range and type of issues that matter. Comprehensive reform is almost always going to be challenging politically – and we should not overemphasize the ability of external agencies to drive changes. The Small and Medium Enterprise Policy Development (SMEPOL) project in Egypt is an important case because it has been a successful project and one where the lessons have a broader resonance and applicability.

This report has aimed to cover four main sets of issues. First, it has provided an assessment of the SMEPOL project – what happened, what worked and why. Second, it has highlighted some lessons for replicability – setting the findings of the SMEPOL project within the context of the literature and donor experience in this area. Third, we have made recommendations regarding how Canadian stakeholders might continue to work on policy development on MSME issues in Egypt. Fourth, we outline options for replicating direct SME policy development type interventions in other parts of the Middle East – based on an analysis of where the context conditions are favourable – and the types of activities that donors might support in different contexts. This final section of the report draws together the main conclusions and recommendations outlined in detail in the body of the report.

Assessing the SMEPOL Project

The SMEPOL project has made a valuable contribution to MSME policy development in Egypt. The project has helped put MSME issues much higher on the policy agenda, generate a range of policy-relevant research, enhance capacity in key ministries, improve policy development processes and develop a cohesive Competitiveness Strategy for Egypt. This is no small achievement given the widely acknowledged difficulty of policy influence projects and low rates of projects achieving substantial success. It is particularly notable given the challenging and unpredictable context and the “shocks” the project faced over its duration.

The project was well designed to address the need for a coherent MSME policy – and in an area that is important to the development of Egypt. Implementation was challenging given the political shifts, but the project achieved its primary objectives policy development as well as the supporting objectives regarding policy relevant research, training and consultation. The project was particularly notable for its partnership approach, embedded project structure (within the Minister’s office), flexibility and strategy of following the Ministerial champions. It was particularly impressive from a strategic and tactical perspective – characterized by a “strategic opportunism” – and particular credit here goes to the project director. These, combined with sound risk management structures, accounted for the extent of project effectiveness.

It is however important to highlight a number of limitations. Policy influence was achieved mostly at the ministerial level rather than across the government. While not a specific objective, we do believe the project should have given greater consideration to issues of policy implementation – an area where progress has been slow. There has been little change in the actual operating environment for SMEs in the last few years. The sustainability of some

impacts remains uncertain given the limited mandate in the MoF for coordinating MSME policy development. The broader legacy of SMEPOL is uncertain and depends on acceptance of the Competitiveness Strategy across the GoE – and its implementation.

Maximizing Chances of Policy Impact: What are the lessons?

SMEPOL is one of a small set of IDRC policy development projects characterized by an explicit, direct and primary focus on policy change, large project size and with external (usually CIDA) funding. SMEPOL was distinct in the extent to which it was embedded within a Ministry. Given the success of SMEPOL, there is interest to learn what the lessons are and how they might be applicable more broadly. We have identified some of the key lessons from the project and set them within the context of the literature and practical experience in this area. Our findings about SMEPOL resonate well with what we know about policy change and how donor efforts can maximize their chances of success (though this area remains under-explored).

Put crudely, chances of policy impact seem to be maximized when projects do the right kinds of things in the right kinds of places. First, therefore, we have outlined the key context lessons. The most important are:

- *Need* – in terms of development need, but more specifically for policy development;
- *Context of reform* – there is broader demand to improve policy;
- *Mandate / authority* – there exists a policymaking organization with the mandate and authority to develop policy; and
- *Champions* – there are key individuals willing to take the reform forward.

We also note that domestic research capacity matters and that donor country presence and a good reputation are important for donors to be able to manage such policy change projects effectively.

Second, we have outlined a set of project specific lessons. We argue that policy impact is maximized if the following key issues are addressed:

- *Explicit policy focus* – is more likely to result in policy change. In policy influence projects, it is always important to consider implementation issues and ultimate impact.
- *Partnership approach* – working together to develop and implement the project. The greater the proximity to power, the greater the potential for policy impact. But the risks are also greater.
- *Risk management* – structures must be developed to ensure that the project remains “on track”.
- *Strategic opportunism* – an approach that builds towards long term goals, while being ready to respond nimbly if opportunities arise.

We have also highlighted the importance of having adequate resources, taking a consultative approach, being flexible and ensuring research quality. The SMEPOL project addressed these exceptionally well on the whole, thus enabling the project to achieve its objectives.

We have identified some of the key factors that helped SMEPOL have the impact it had (and some that may have limited its impact). Based on experience elsewhere (particularly our own plus the recent IDRC Strategic Evaluation on Public Policy Influence), it seems that projects with these general characteristics and within a favorable contextual environment are quite likely to succeed (though they may have to do it differently).

MSME Policy Development in Egypt: Suggestions for Next Steps

Egypt still has some way to go before it has even an adequate operating environment for MSMEs. The legal and regulatory environment remains complex, access to finance is limited and the costs of informality (and barriers to formalization) remain high. The problems – and many of the solutions – are well known. Many are outlined in the comprehensive policy document, ‘Enhancing Competitiveness of MSMEs in Egypt’ issued by the Ministry of Finance and developed as part of the SMEPOL project. However, the political and policy context remains uncertain – with a poor SME Law and the limited effectiveness of key government agencies (particularly SFD).

We have considered a wide range of options for Canada to continue research and policy development interventions in this area. We have assessed them according to a set of criteria including widespread impact, sustainability, technical feasibility, political feasibility and Canadian niche. Based on our assessment of the current context and the merit of different options we make three particular recommendations for possible future work in Egypt.

- *First*, in the short term, we think the priority is for SMEPOL staff (and IDRC and CIDA) to ensure SMEPOL findings and strategy are included in the National Strategy currently being developed.
- *Second*, in the longer term, it would be beneficial for IDRC and CIDA to support work on implementing areas of the Competitiveness Strategy which are the core responsibility of capable Ministries. In particular we would recommend continuing to work with the Ministry of Finance – most importantly on issues of legal and regulatory reform.
- *Third*, we recommend that IDRC might help develop and provide initial support for regular, credible, timely statistical data on key policy relevant issues facing the MSME sector (perhaps on an annual or bi-annual basis).

We believe these interventions would be beneficial to the MSME sector in Egypt and would enable IDRC and CIDA to pursue their niche and comparative advantage.

Replicating MSME Development Projects: Recommendations for the MENA Region

Both IDRC (and CIDA) highlight the issue of Private Sector Development as a priority and are considering how to develop further programming in this area. We hope our report is useful to help with planning processes underway. In the report, we provide a framework for assessing whether a country exhibits the need and threshold conditions for considering direct policy development interventions. We focus on the context criteria identified above (reform agenda, need, mandate / authority, etc) as well as considering indications of income per capita (development need), governance and Canadian niche. We provide a preliminary assessment for countries in the MENA region.

Our initial analysis suggests that the countries could be divided into the following categories regarding the need for and value of direct SME policy development interventions (or more indirect interventions) or lack of need or value of interventions. Our analysis suggests that IDRC/CIDA should:

- Consider direct SME policy development interventions in: Jordan and perhaps Sudan – although in Sudan in particular further detailed assessment would be needed and the partnership model should be different due to wider governance concerns.
- Consider an indirect approach to policy influence through undertaking research and influencing activities as appropriate: Algeria, Morocco, Syria, West Bank and Gaza,

and Yemen. While the specific focus in each country would vary, activities could be managed as part of a regional policy influence programme.

- Refrain from policy development activities at this point:
 - Turkey and Iraq (since little comparative advantage or value added for Canadian interventions).
 - Lebanon and Tunisia (since no clear need – though it might be worth learning and promoting the experiences of Tunisia across the MENA region).

The bottom line is that we are suggesting direct policy intervention projects only where we think there is actually a problem with overall MSME policy, the contextual factors appear to be in place and there would be value added in a Canadian intervention.

Our assessment suggests a number of conclusions regarding the broader applicability of the SMEPOL experience. First, that Egypt is not a unique state in a sense that would prevent its experience from being adapted elsewhere (in MENA and beyond). Where threshold conditions exist, it should be possible to carry out policy development projects similar to SMEPOL (although they will need to be adapted). Where threshold conditions do not exist, the key is for donors to assess the context and put in place relevant programmes – whether research, consulting stakeholders or influencing key policymakers – to help spur change. Second, country contexts vary considerably (in terms of specific needs and political contexts) and more effort to understand the political context and mechanisms or drivers of change would help maximize the chances of policy influence. Third, there remain broader issues about governance in some of the countries (Yemen and Sudan) that would question whether an MSME intervention is really the key issue – and would significantly affect how any intervention should be carried out.

Responding to different contexts we outline two generic policy development models.

- *Direct Policy Development (DPD) Projects*: Where the key foundational characteristics are present – that is i) context of reform; ii) need for policy development; iii) organizations with a mandate and authority; and iv) champions – then direct policy development projects similar to SMEPOL could be explored. We believe that these four factors are the critical and necessary conditions needed to ensure a direct policy development project has a reasonable chance of success. We suggest a model for a direct “partnership” policy development approach. Similar to SMEPOL or other experiences, the focus is on large policy development projects (with a supporting role for research, communications and training) and working with government closely. The exact approach and choice of components depends on the context.
- *Indirect Policy Influence (IPI) Projects*: Where one or more of these four key foundational characteristics are not present then a partnership model for direct policy change, similar to SMEPOL, is unlikely to be successful. Alternative strategies can however be developed and there is still strong potential for Canadian value added. In particular, a realistic approach would be to move towards a more limited “policy influence” model. The package of interventions here might include research, networking, communications and influencing activities – i.e. with the objective to help develop the threshold contexts for policy development. These would generally be significantly smaller than direct policy development projects.

How should IDRC structure their programmes to best address these challenges? If the primary focus is on direct policy development (and much IDRC work does not have such an explicit policy focus), our view is that a country-level intervention is most appropriate. Having a

country capacity makes it much more straightforward to work on assessing the specific problems and context, conducting research, consulting stakeholders and influencing key policymakers. A presence in a country and a good reputation are particularly important (often vital) for direct policy development projects – where the degree of partnership is higher and the need to manage risks more critical.

In many ways, the same structural considerations also broadly apply to policy influence projects. As with direct policy development, the bottom line is that “proximity is destiny” – many policy influencing activities cannot be done effectively at a distance. Any activities in each country will need to be focused on the context and needs in that country. This questions the rationale for regional programmes on specific issues. We do think, however, that there is scope for an IDRC regional programme for *managing* a stream of work on private sector issues with an MSME focus (a Policy Development Facility for Private Sector Policy Development). Our analysis suggests that the programme should focus on Algeria, Morocco, Syria, West Bank & Gaza and Yemen although the specific country activities should be different. A regional programme makes sense for a number of reasons. There would be some benefits in terms of learning. Furthermore, the need for constant interaction and risks of indirect policy influence projects (research, pilot projects, and networks) are lower than for direct policy work. The North Africa component could also form part of Canada’s contribution to the new Investment Climate Facility for Africa (ICF).

Annex 1: Budget Review

PROJECT OUTCOME 1	
<i>1.4 Overall M/SME policy framework strengthened.</i>	Total
1.1.1 Update the draft (1998) policy document.	224,750
1.1.2 Develop unified Operational Definition of MSME's, along with certification / verification mechanisms.	66,530
<i>1.2 M/SME policy development process at MOEFT regularised</i>	
1.2.1 Develop tentative Policy development agenda for project and update on bi-annual basis	-
1.2.2 Develop and implement guidelines and procedures for management of policy development process by MOEFT MSME staff	-
<i>1.3 Policy development Carried Out on Priority Issues</i>	
1.3.1 Develop proposals for reform of financial system to remove constraints to extension of financial services to M/SMEs	365,680
1.3.2 Develop proposals to the Ministry of Finance for procurement policy reforms to increase participation of M/SMEs	-
1.3.3 Propose reforms to legal and regulatory framework governing firm establishment, operation and growth	180,050
TOTAL COST OUTCOME 1	
	837,010

PROJECT OUTCOME 2	
<i>2.1 MOEFT staff have acquired the knowledge, skills and attitudes (KSA) necessary for policy development M/SME policy development process at MOEFT regularised</i>	Total
2.1.1 General Training programs	177,000
2.1.2 Specialised training programs	86,925
2.1.3 Long term training programs	56,900
2.1.4 study tours	103,708
<i>2.2 MOEFT has developed a base of in-house capability to transfer KSA's on M/SME issues on an ongoing basis</i>	
2.2.1 Training of trainers program	37,440
2.2.2 Training procurements / evaluations systems established	20,000
<i>2.3 Manuals of Standard Operating procedures developed and updated regularly</i>	
2.3.1 development of SOP manuals	15,000
2.3.2 Regular updating of SOP manuals	-
TOTAL COST OUTCOME 2	
	496,973

Note: This does not include staff costs.

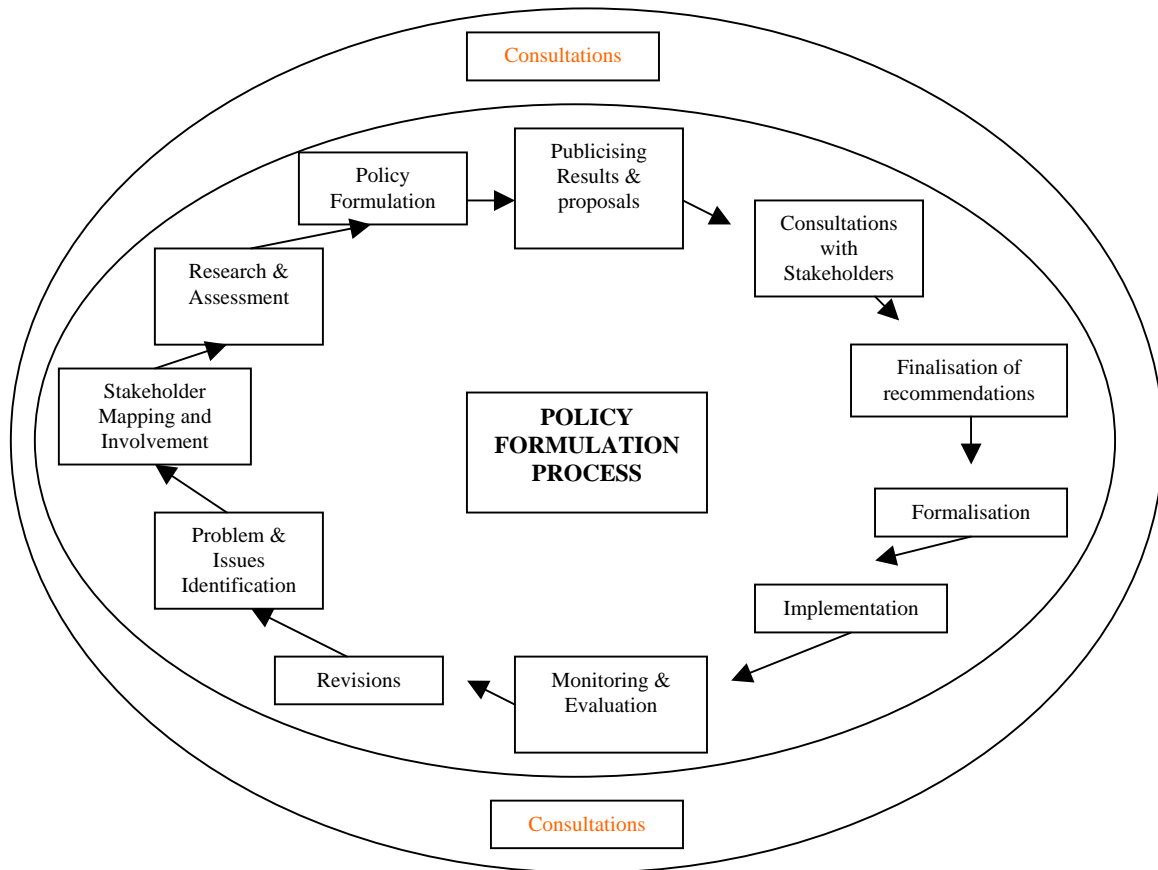
PROJECT OUTCOME 3	
3.1 Completed research and analysis on priority policy issues	Total
3.1.1 Develop and update research agenda on priority policy issues	10,000
3.1.2 Targeted Research Studies	50,000
3.1.3 Monitoring and Evaluation	10,000
3.2 Capacity of decision-support system at MOEFT strengthened to address M/SME policy issues	
3.2.1 Design, install and populate MSME database	155,850
3.2.2 Design and installation of website	78,650
3.2.3 Select, install and operate statistical analysis module	31,400
3.2.4 Purchase and install hardware and software	168,500
3.2.5 Establish resource centre	15,000
TOTAL COST OUTCOME 3	519,400

PROJECT OUTCOME 4	
4.1 Regular channels of consultation with stakeholder groups at local and national levels established	Total
4.1.1 National MEME conference	-
4.1.2 Focus Groups	-
4.1.3 Ad Hoc consultative groups	-
4.1.4 Formal inter-ministerial committees	15,000
4.1.5 Working Groups	15,000
4.2 Results of research and other information on MOEFT M/SME activities shared with stakeholder groups and the public	
4.2.1 Quarterly newsletters	14,000
4.2.2 Research reports	20,000
4.2.3 Utilising the internet for dissemination of publications and reports	-
4.2.4 Workshops / Seminars	-
4.3 Collaboration with international groups in the M/SME field enhanced	
4.3.1 Participation in international conferences / events	20,000
4.3.2 Memberships	2,000
4.3.3 E-mail discussion	-
4.4 Increased public awareness and support for M/SME development policies	
4.4.1 National public Awareness Campaign	208,864
TOTAL COST OUTCOME 4	294,846

Annex 2: List of People Interviewed

- Greg Goodwin, Senior SME Specialist, SMEPOL.
- Eglal Rached, Regional Director for MENA, IDRC
- Sarwat Salem, Regional Controller for MENA, IDRC
- Eman Omran, SME Program Team Leader, CIDA
- Amr Abu El Azm, Program Expert, KFW
- Farag el Saket , Undersecretary, MoFI
- Mohamed Samir, Economic Researcher
- Mohamed Abdel Aziz, SME Specialist, MoF
- Ahmed Abdel Razek, Economic Researcher
- Rasha Habashy, SME Specialist, MOF
- Moataz Yeken, Advisor to the Chairman, GAFI
- Alia El Mahdy, Economic Professor, Cairo University
- Nemat Guenena, Vice President Policy & Governance, EQI
- Randa Fahmy, Executive vice President, EQI
- Manal Hussein, Deputy Minister, Ministry of Finance
- Nabil Radwan, Special Advisor to the Minister of Finance
- Samir Radwan, Executive Director, ERF
- Ahmed Galal Executive Director, ECES
- Yehia El Agamy, Chairman, SEDO
- Yasser Abdel Wahab, Manager, Training Centres and Clusters (SEDO)
- Tamer El Meehy, Chairman, Entrust
- Sebastian Auer, Operations Officer, IFIC
- Fouad Sabet, Chairman, Federation of Economic Development Associations (FEDA)
- El Wathig Kameir, (former) Program Officer, IDRC, Cairo (now Sudan)
- Ahmed Salem, Chairman, Cooperative Society for Small Businesses
- Heba Handoussa, Professor of Economics & former Director ERF
- Ayman Mahmoud, Executive Manager, El Mobadra
- Abdel Karim Keberi, Senior Enterprises Management Specialist, ILO
- Magdy Khalil, SME Leader, USAID
- Salama Fahmy, Executive Director, BDSSP
- Brent Herbert-Copley, Director, Social and Economic Policy, IDRC
- Rohinton Medhora, Vice President for Programmes, IDRC
- Mary Lynch, Consultants International Inc.
- Thomas Richter, PhD Candidate (Independent Expert, Egypt)
- Bachir Hamdouch, Professor, University of Rabat (Independent Expert, Morocco)
- Kawthar Dara, UNDP/Ministry of Finance (Independent Expert, Lebanon)
- Saad Sabrah, Business Development Officer, IFC PEP-MENA (Independent Expert, Yemen)
- Johnny Zeidan, Private Sector Specialist, WBG/PEO (Independent Expert, WBG)
- Sems Ozar, Associate Professor, Bogazici University, Istanbul (Independent Expert, Turkey)
- Nadia Mahmud, Operations Officer, PEP-MENA, IFC (Independent Expert, Syria)
- Odoardo Como, Premier Secrétaire - Section Ajustement Structurel, Délégation de la Commission Européenne à Tunis (Independent Expert, Tunisia)
- Jamal Al-Jabiri, Deputy Director, Office of Economic Opportunities, USAID, Jordan (Independent Expert, Jordan)

Annex 3: SMEPOL Policy Formulation Process



Annex 4: SMEPOL Performance Assessment

Project Outcome 1		
The MOEFT has provided strategic vision for overall M/SME policy, and has developed specific policies, legislation and regulations that facilitate M/SME development (Provide training and technical assistance to upgrade and maintain the capabilities of the GDMA and DU staff, resulting in:)		
Project Outcome 1	Performance Indicator (Final)	Consultant Assessment
<i>Project Outcome 1 Partner ministries have contributed to the development of an overall M/SME strategy and specific policies and legislation that facilitate M/SME development.</i>	Level of satisfaction of key stakeholders with the overall MSME strategy and specific policies and legislation that facilitate MSME development.	General consensus (donor, research, MSME and GoE stakeholders) that national MSME strategy is of high quality and addresses a majority of areas of relevance to MSME development. Specific policies and legislation that facilitate MSME development: <ul style="list-style-type: none"> - 'Enhancing Competitiveness of SMEs in Egypt' - Procurement policy / Tender law - Taxation law - (SME law)
Output 1.1 Strengthened overall MSME policy framework through participatory approaches	Draft national policy updated (date, status of approval) Number and type of stakeholders participating in the development of MSME policy framework The level of satisfaction on the level of participation of MSME associations and MSME owners with the policy framework	Draft National policy updated and approved. Stakeholders: All stakeholders consulted: donor; MSME; GoE and civil society: however MSME stakeholder consultation weaker. Number of each unknown. Low level of satisfaction from MSME stakeholders regarding participation in development of MSME policy framework.
Output 1.2 Institutionalised policy formulation processes within partner ministries	Documentation of policy development process in place. Level of acceptance and use, by partner ministries, of the policy formulation process.	Policy development process documented and completed Acceptance by GDMA, and other project staff, that policy development process is followed. Some, limited acceptance of policy formulation process in other ministries, due to: movement of former staff; osmosis of practices: however no formal acceptance.
Output 1.3 Improved policies for identified priority issues.	Number and type of improved policies and legislation proposed by the project for approval. Level of stakeholder satisfaction with the improved policies	'Enhancing Competitiveness of SMEs in Egypt'; Policy support to MoF for taxation, customs and tariff reforms; Limited input into SME Law; Procurement policy established. High level of stakeholder satisfaction with document 'Enhancing Competitiveness of SMEs in Egypt' and procurement policy; Varied levels of satisfaction regarding taxation law.

Project Outcome 2

The MOEFT has provided strategic vision for overall M/SME policy, and has developed specific policies, legislation and regulations that facilitate M/SME development.
The human and institutional capabilities of the MOEFT to develop M/SME policies, legislation and regulations have been strengthened
(Create a decision support system, equipped with an appropriate and effective information system to enable MoFT to ensure smooth development and implementation of policies for the SME sector, resulting in:)

Project Outcome 2	Performance Indicator	Consultant Assessment
<i>Project Outcome 2 Strengthened human and institutional capacity of partner ministries necessary for policy development</i>	Level of satisfaction, with the quality of tasks carried out independently by SME units, within partner ministries (research, policy formulation, planning, report writing, interaction with stakeholders)	Recognition of increased level of participation and interaction by GDMA staff and improvements in number and quality of tasks.
Output 2.1 Enhanced knowledge, skills and abilities of staff of partner ministries necessary for policy development.	Level of satisfaction of supervisors with the enhanced staff involvement in project tasks. Level of participation of women and men across project activities.	Reported high levels of satisfaction from senior SMEPOL staff (and external stakeholders). Unable to answer
Output 2.2 Enhanced capabilities and commitment of partner ministries to develop a base of in-house capability to transfer knowledge on M/SME issues on ongoing basis.	An internal training plan is in place / degree of implementation Level of satisfaction with the training plan and courses	Internal training plan (Including; General training; Specialised training in support of different employment functions within the GDMA; Study tours; mentoring; TOT system) is in place (and updated every 6 months, or prior to initiation of each phase of training): Phase 2 of training continuing, phase 3 completed. Medium to low level satisfaction from SMEPOL staff: regarding lack of technical training, theoretical / practical division in training and lack of training regarding CCTs.
Output 2.3 Manuals of Standard Operating procedures for training institutionalised	Manual of SOP for training in place Level of acceptance and use of the standard operating procedures	Manual of SOP for training completed Strong support / level of acceptance for Sop, with regards to policy formulation process.

Project Outcome 3

The knowledge and information base available to MOEFT, on M/SME development issues has been improved.

Project Outcome 3	Performance Indicator	Consultant Assessment
<i>Project Outcome 3 Improved knowledge and information available to partner ministries on MSME, development issues</i>	Extent of partner ministries use of and satisfaction with the information produced by the project.	Partner ministries have used project input for; Procurement policy; SME law; however in general policy document not strongly influenced other ministries.
Output 3.1 Improved research and policy analysis on priority issues.	<p>Number and type of studies completed (English / Arabic – insert footnote about number of research papers against number of policy areas)</p> <p>Quality and usefulness of research and policy analysis as judged by stakeholders and project management, including attention to cross cutting themes.</p>	<p>Research agenda developed, with procedures for approval and monitoring. 51 reports prepared - 22 published for public consumption, 29 for internal MoFT use / or in process</p> <p>Research and policy analysis highly regarded by both stakeholders and project management, however , whilst research did account for CCTs, general output in this field was viewed as disjointed.</p>
Output 3.2 Strengthened capacity of the information systems of partner ministries to support the decision-support process in a timely manner	Degree of usage and satisfaction with MSME information within partner ministries	Whilst MSME information base had increased (links and consultation), a lack of information / data, regarding the sector was reported - A specific problem which was strengthened through a lack of a productive partnership with CAPMAS.

Project Outcome 4

The knowledge and information base available to MOEFT, on M/SME development issues has been improved.
Collaborative relationships between MOEFT and other stakeholders have been enhanced to support policy development and implementation

Project Outcome 4	Performance Indicator	Consultant Assessment
<p><i>Project Outcome 4</i> <i>Established collaborative relationships amongst partner ministries and with other stakeholders to address MSME development issues</i></p>	<p>Number of stakeholders involved in the collaboration process</p> <p>Functioning of ministerial and sub-ministerial committees amongst partner ministries.</p> <p>Level of satisfaction with the collaboration process amongst partner ministries and with other stakeholders.</p>	<p>Over 400 in core database</p> <p>Inter-ministerial committee for procurement is operating effectively; Inter-ministerial committee for implementation of 'Enhancing Competitiveness of SMEs in Egypt', is focused on the 'economic group' of ministries and has limited reach; Bi-lateral partnership with SFD.</p> <p>High level of satisfaction with regard to donors; limited with regard to MSME stakeholders and all GoE entities.</p>
<p>Output 4.1 Established consultation mechanisms with stakeholder groups at local and national levels.</p>	<p>Number, type and frequency of consultations</p> <p>Level of satisfaction of stakeholders with consultation mechanism, including reach of mechanism.</p> <p>Degree and nature of sharing of results of research and other MoF activities with stakeholder groups and the public.</p>	<p>2 National conferences, 22 workshops and 24 focus groups sessions and feedback solicited from 65-500 participants. Frequent informal contacts. SME sub-donor group formed under leadership of CIDA.</p> <p>Level of satisfaction high, with exception of MSME sector, where level of satisfaction was low.</p> <p>Research disseminated: 44% (Of 51 research reports, 22 published for public consumption and 29 for internal use as of March 31, 2005) of research shared with the public and stakeholders (distributed through workshops and direct mail outs); the remainder for MoF/MoFT internal use – predominantly policy specific papers. Other: Website to disseminate information; Database not created. 13 newsletters distributed, website launched and enhanced</p>
<p>Output 4.2 Enhance collaboration with international groups in the M/SME field enhanced.</p>	<p>Number and type of linkages</p> <p>Degree of usefulness to staff of partner ministries</p>	<p>International protocols signed between MoFT and Greece, the Czech republic and GTZ. Attendance at International SME conference in Johannesburg and Warsaw</p>
<p>Output 4.3 Increased public awareness of M/SME development policies.</p>	<p>Level of awareness against baseline study</p>	<p>Unable to answer.</p>

SMEPOL PERFORMANCE MEASUREMENT – Cross Cutting Themes

Output	Activity	Results
5.1 Gender Equality	5.1.1 Gender and SMEs training	Training Completed Gender Equality Strategy Created and Updated 02/03
	5.1.2 Establishment of gender equality committee	Gender equality committee established
5.2 Environment	5.2.1 Literature Review	Literature Review Complete
	5.2.2 SMEs and Environemnt training	Training Completed Strategy Created and Updated 02/03
5.3 Children and Work	5.3.1 Public Awareness	Public Awareness Campaign launched
5.4 Institutional Capacity Building	5.4.1 See outcome 2	See outcome 2

Annex 5: Bibliography of all Documents Reviewed

- Alesina, A. and Drazen, A., 1991, 'Why are Stabilizations Delayed?' *American Economic Review*, 81(5), p 1170-88.
- Brinkerhoff, D. and Crosby, B., 2002, *Managing Policy Reform: Concepts and Tools for Decision-makers in Developing and Transition Countries*, Bloomfield, CT: Kumarian Press.
- Bullock, J, Mountford, J, and Stanley, R (2001) *Better Policy-Making*, Centre for Management and Policy Studies: http://www.cmps.gov.uk/publications/downloads/better_policy_making.pdf
- CIDA, 'Contribution Agreement – Egypt M/SME Policy Development Project', CIDA, 2000.
- Clay and Schaffer (1984) *Room for Manoeuvre: An Exploration of Public Policy in Agricultural and Rural Development*, Heinemann Educational Books, London, p.192.
- Clay, EJ & BB Schaffer (1984) *Room for Manoeuvre: An Exploration of Public Policy in Agricultural and Rural Development*, Heinemann Educational Books, London
- Court and Young (2004) 'Bridging Research and Policy in International Development: Context, Evidence and Links' in D. Stone and S. Maxwell, eds, *The Challenge of Transnational Knowledge Networks: Bridging Research and Policy in a Globalising World*, Routledge, forthcoming in 2004.
- Court, J., Hovland I. and Young, J. (2005) *Bridging Research and Policy in International Development: Evidence and the Change Process*, London: ITDG Publishing.
- Djefflat, Prof. Abdelkader, 'Knowledge Economy For The MENA Region, National Systems of Innovation in The MENA Region', World Bank, July 2002.
- Drazen, A. and Grilli, V., 1993, 'The Benefit of Crises for Economic Reforms', *The American Economic Review*, Vol 83, No 3, pp 598-607.
- ERF, 'Economic Trends in the MENA Region 2002' Economic Research Forum for the Arab Countries, Iran and Turkey. www.erf.org.eg.
- European Commission, Enterprise Directorate-General, 'Annual Policy Trends Report for MEDA countries: Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia', September 2003 – August 2004.
- European Union, *Annual Policy Trends and Appraisal Report for the MEDA countries, Country Report* (September 2003-August 2004)
http://trendchart.cordis.lu/tc_policy_information_fiche.cfm?id=738
- Fernandez, R. and Rodrik, D., 1991, 'Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty', *American Economic Review*, 18 (5) p 1146-55.
- Gladwell, M. (2000) *The Tipping Point: How Little Things Can Make a Big Difference*. Little, Brown & Co, London
- Government of Egypt, Decree of the Prime Minister, No. 1241, 2004, Issuing Executive Regulations on the Law on development of Small Enterprises, promulgated by the law No. 141 for 2004.
- Grindle and Thomas (1990) 'After the Decision: Implementing Policy Reforms in Developing Countries' *World Development* 18 (8).
- Grindle and Thomas (1991) 'Generalizing about Developing Country Policy Environments,' in *Public Choices and Policy Change – The Political Economy of Reform in Developing Countries*, The John Hopkins University Press, Baltimore and London, pp. 43-69.
- Grindle, M. S., (ed.) (1980) *Politics and Policy Implementation in the Third World*. Princeton: Princeton University Press.
- Haas, E.B. (1991) *When Knowledge is Power: Three Models of Change in International Organisations*, University of California Press
- Hill, M.J. (1997) *The Policy Process in the Modern State*, Prentice Hall, New York
- Hyden, G., Court, J. and Mease, K., (2004) *Making Sense of Governance: Empirical Evidence from 16 Transitional Societies* Boulder, Co: Lynne Rienner.

- IDRC, *Corporate Strategy and Program Framework, 2005–2010*, International Development Research Centre, Ottawa, Canada. 2005.
- IDRC, 'Request for Extension of Small & Medium Enterprise Policy Development Project, 2004.
- ILO, International Labour Conference, 1989: Recommendation No. 189
- Kaufmann, D and Mastruzzi, M (2005) 'Governance Matters IV: Governance Indicators for 1996-2004', Washington D.C.: World Bank).
- Kingdon, J.W. (1984) *Agendas, Alternatives, and Public Policies* Harpers Collins, New York
- Knack and Keefer (1995) 'Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures', *Economics and Politics*, 7: 207–227.
- Krueger, A., 1993, *Political Economy of Policy Reform in Developing Countries*, Cambridge, MA: MIT Press.
- Lagos, R. (1995) 'Formalizing the Informal Sector: Barriers and Costs', *Development and Change*, No 26
- Lasswell, H (1977) 'The Politics of Prevention' In *Psychopathology and Politics* (Chicago: University of Chicago Press).
- Lipsky, M (1980) *Street-level Bureaucracy: Dilemmas of the Individual in Public Services*, Russell Sage Foundation, New York.
- Lynch, M, 2004, Evaluation of the Small Medium and Micro Enterprise Policy Development Project, M.M.lynch Consultants International Inc, February 2004.
- Lynch.M, 'Overview of Donor Programs Supporting Private Sector Development', M.M.lynch Consultants International Inc.
- El-Mahdi, A., '*Profile of Micro and Small Enterprises in Egypt*', Economic Research Forum.
- Moe, T., 1984, 'The New Economics of Organizations', *American Journal of Political Science* 28: 739-77.
- O'Neil, M., (2005) 'What Determines the Influence That Research Has on Policy Making?' *Journal of International Development*, Special Issue: Bridging Research and Policy in International Development, Vol 17, Issue 6, August 2005.
- Ostrom, E. (1999) 'Institutional Rational Choice: An Assessment of the Institutional Analysis and Development Framework,' in Sabatier (ed.) *Theories of the Policy Process*, Westview Press, Colorado and Oxford, pp. 35-72. (p 38)
- Pross, P. (1986) *Group Politics and Public Policy*, Oxford University Press, Toronto.
- Rodrik, D., 1996, 'Understanding Economic Policy Reform', *Journal of Economic Literature*, Vol 24 p 9-41.
- Roe, E (1991) 'Development Narratives – Or Making the Best of Blueprint Development', *World Development*, vol. 19, no. 4, pp. 287-300.
- Rose-Ackerman, S., 1979, *Corruption: A Study in Political Economy*, New York: Academic Press.
- Sabatier, P. and HC Jenkins-Smith (1999) 'The Advocacy Coalition Framework: An Assessment', in P Sabatier (ed) *Theories of the Policy Process*. Westview Press, Boulder.
- Schaffer Bernard 'Towards Responsibility: Public Policy in Concept and Practice' in Ed Clay and Bernard Schaffer, 1984, *Room for Manoeuvre*.
- de Soto, H. (1989). *The Other Path*. New York: Harper and Row.
- Sutton, R. (1999) 'The Policy Process: An Overview', *ODI Working Paper* 118, Overseas Development Institute, London
- UNIDO 'Industrial Development Report 2002-2003', www.unido.org
- Weber, M. (1947) *The Theory of Social and Economic Organizations*, New York: Free Press.
- Weiss, Carol (1977) 'Research for Policy's Sake: The Enlightenment Function of Social Research' *Policy Analysis* 3(4): 531-45.
- Welch, D. (2004) *Introducing Regulatory Impact Assessment (RIA) in Developing Countries: The Case of Uganda*, Bannock consulting, London
- Williamson, J., (ed) 1994, *The Political Economy of Policy Reform*, Washington, D.C.: Institute for International Economics.

- Williamson, O., 1975, *Markets and Hierarchies: Analysis and Antitrust Implications*, New York: Free Press.
- World Bank, Business Environment Survey (WBES) 2000-2005, www.worldbank.org/data
- World Bank, Doing Business in 2006, MENA Regional profile, IBRD / WB, Washington.
- World Bank, Doing Business in 2006, Creating Jobs, IBRD / WB, Washington.
- World Economic Forum (2003) *The Arab World Competitiveness Report 2002-2003*, Oxford: Oxford University Press.
- World Economic Forum (2004) *The Global Competitiveness Report 2003-2004*, Oxford: Oxford University Press.
- Young, E. and Quinn, L., 2002, *Writing Effective Public Policy Papers: A Guide To Policy Advisers in Central and Eastern Europe*, Budapest: LGI.
- Zahariadis, N (1999) 'Ambiguity, Time, and Multiple Streams,' in *Theories of the Policy Process*, P. A. Sabatier, ed., Westview Press, Colorado and Oxford, p.75

List of SMEPOL Documents Reviewed

- MoF, '*Enhancing Competitiveness for SMEs in Egypt –General Framework and Action Plan*', 2004.
- SMEPOL, '*Memorandum of Understanding Between The Government of Canada and The Government of the Arab Republic of Egypt, Concerning – M/SME Policy Development Project*'
- SMEPOL, *Project Implementation Plan – SMEPOL, Small, Medium and Micro Enterprise Policy Development Project*, IDRC & MEFT, February, 2001.
- SMEPOL, *Small, Medium and Micro Enterprise Policy Development Project, Annual Workplans*; 2002; 2003; 2004; 2005; IDRC & MEFT.
- SMEPOL, *Small, Medium and Micro Enterprise Policy Development Project, Annual Reports*; 2002; 2003; 2004; 2005; IDRC.
- SMEPOL, *Small, Medium and Micro Enterprise Policy Development Project, Semi-Annual Reports*; 2001; 2003; 2004; IDRC.
- SMEPOL, *Project / Initiative Progress Report*, August, 2005, MOF, CIDA, IDRC.
- SMEPOL, '*Procedures and Guidelines for the Policy Development Process. A policy Formulation Manual*', MOF, CIDA, IDRC.
- 'Memorandum of Understanding between the Government of Canada and the Government of the Arab Republic of Egypt, Concerning M/SME Policy Development Project'
- Official Communications between Project Partners

Annex 6: Country Information

	Income category⁴⁴ (2003)	Population (Millions) (2003)⁴⁵	GDP (\$ Millions) (2003)	Informal Economy (% GDP)⁴⁶ (2003)	Manufacturing (% GDP)⁴⁷	Industry / Services (% GDP)⁴⁸
Tunisia	LMI	9.9	25,037	38.4%	18%	28 / 60%
Algeria	LMI	31.81	66,530	33.4%	7%	55 / 35%
Iraq	---	---		---	---	---
Jordan	LMI	5.31	9,860	19.4%	16%	26% / 72%
Yemen	LI	19.17	10,831	27.4%	9%	40 / 45%
Morocco	LMI	30.11	43,727	36.4%	17%	30 / 54%
Sudan	---	33.5	17,793	---	9%	18 / 43%
Syria	LMI	17.42	21,499	19.3%	25%	29 / 48 ⁴⁹ %
Lebanon	UMI	4.5	19,000	34.1%	9%	20 / 68%
Turkey	LMI	70.71	240,376	32.1%	13%	22 / 65%
Egypt	LMI	67.56	82,400	35.1%	19%	34 / 50%
WBG	---	3.4	3,500	---	10%	12 / 82%
MENA Av	---	20.8	--	27.4%	---	---
OECD Av	---	41.5	--	16.8%	---	---

⁴⁴ LMI = Lower Middle Income, LI = Low Income, UMI = Upper Middle Income

⁴⁵ World Bank / IFC, <http://www.doingbusiness.org/Default.aspx>

⁴⁶ World Bank / IFC, <http://www.doingbusiness.org/Default.aspx>

⁴⁷ World Development Index, Structure of Output.

⁴⁸ World Development Index, Structure of Output.

⁴⁹ World Development Index, Structure of Output.

Annex 7: List of Acronyms

CAPMAS	Central Agency for Public Mobilization and Statistics
CIDA	Canadian International Development Agency
DU	Development Unit (for Micro, Small and Medium Enterprise)
GDMA	General Department for Micro, Small and Medium Enterprise Affairs
GoE	Government of Egypt
ICF	Investment Climate Facility for Africa
IDRC	International Development Research Centre
KSA	Knowledge, Skills and Attitudes
LFA	Logical framework Analysis
MENA	Middle East and North Africa
MoEFT	Ministry of Economy and Foreign Trade
MoF	Ministry of Finance
MoFT	Ministry of Foreign Trade
MoFTI	Ministry of Foreign Trade and Industry
MoI	Ministry of Investment
MSME	Micro, Small and Medium Enterprise
NGO	Non Governmental Organization
ODI	Overseas Development Institute
OSS	One Stop Shop
PIP	Project Implementation Plan
PMC	Project management Committee
PMF	Performance Measurement Framework
PSC	Project Steering Committee
PSD	Private Sector Development
RAPID	Research and Policy in Development Programme
SAP	Structural Adjustment Program
SFD	Social Fund for Development
SMEPOL	Small and Medium Enterprise Policy Development

Annex 8: Terms of Reference for the Evaluation

In order to be useful, the consultant shall ensure that the study will focus on the two key areas: replication and scoping in the region. In particular, the questions to be answered by the study are:

Impact and Lessons for Replicability:

- Document the extent to which SMEPOL has in fact had an influence on formal policy documents and on practice of government ministries. This will be good input to the final project reports (particularly if it looks not just at formal policy docs, but at ways in which practices are changing); it would demand a round of interviews with key stakeholders (as well as file reviews)
- Based on the SMEPOL experience, what strategies could be successfully implemented in other contexts and which were specific to Egypt at the time isolate a set of success factors -- what worked in the case of SMEPOL ? Why?
- Based on the SMEPOL experience, validate, deepen, and expand the list of lessons learned for supporting replication. (i.e., What are the key factors, contexts, and lessons that can be drawn from SMEPOL?)
- Provide an assessment of the options to exact replication (e.g. Regional policy advisory facility) given the inherent and high risks associated with SMEPOL.

Approach and Method:

The following activities should enable the assessment to generate credible conclusions about SMEPOL impact and lessons for replicability:

- a) Document Review (refer to Annex A)
- b) Interviews with project leaders and participants
- c) Interviews with those said to have been influenced (In addition to those listed in TOR Annex B, we would also propose to interview representatives of those involved in policy implementation and some SME associations – in order to assess the impact of the project on practice as well as contextual issues.)
- d) Interviews with IDRC, CIDA and MOF staff
- e) Analysis (In addition, we believe it would be helpful to (briefly) put the specific SMEPOL assessment and lessons in the context of broader experience and literature)

The in-depth interviews will be carried out in Egypt (1 week) and via email or telephone during the following week (also, for example, for IDRC staff in Canada) to give the consultant the chance to cross-check some of the findings and even revisit certain conversations.

Scoping for Replicability:

- In what other Middle Eastern and North African countries could IDRC/CIDA successfully support a similar type of SME policy reform effort?
- Building on the 12 lessons for replicability outlined above in the background section, what factors make each country and context conducive to a SMEPOL replication

- Confirm the optimum country specific conditions which must exist for a successful intervention at the policy level to enhance the enabling environment for private sector development in other developing countries in the Middle East and North Africa Region. (discuss whether the Egyptian case (as highlighted above) is exceptional compared to situations in other developing countries or to the contrary, more or less typical?)
- Provide a critical reflection on ways in which this experience could be replicated and/or built on in the future, either in Egypt or in other countries.

Approach and Method:

The following activities should enable the assessment to generate credible conclusions about replicability of the SMEPOL model in other parts of the Middle East:

- Desk Review – This could include a preliminary assessment of the broad SME context in the 12 countries in the region (drawing on data, academic literature and grey sources) as well as existing donor interventions. As possible, the aim is to get an initial ‘take’ on the key context issues that seemed important to the SMEPOL project.
- Additional Questions in SMEPOL-related Interviews – if appropriate, include questions on replicability in other MENA countries with SMEPOL staff, Egyptian stakeholders and IDRC and CIDA staff.
- Interviews & Expert Opinion – seeking the views of regional experts (face-to-face, phone or email) regarding SME context, SME interventions and replicability of SMEPOL type projects in the MENA region.
- Analysis

This scoping stage will include the development of a simple matrix depicting the key context characteristics important for replicability for each of the 12 countries in the MENA region. During this process we hope to identify gaps in the scoping that might need to be considered by IDRC or CIDA country teams before launching their interventions.

	Context Lesson 1 (eg Demand)	Context Lesson 2 (eg Champion)	Etc	Strategy Lesson 1 (eg Embed)	Strategy Lesson 1 (eg Team Capacity)	etc
Country 1	Very High			Possible		
Country 2	High					
Country 3	Medium					
...						
Country 12	Low					

A key question in the analysis is: How could a SMEPOL-type intervention be replicated elsewhere in the future? We believe the lessons and the matrix results will allow us to develop the building blocks for a SMEPOL-type model that could be replicated in different contexts in the MENA region. This would be based on the SMEPOL case and all our other lessons/experience about policy processes. This could help IDRC and CIDA:

- decide whether or not any sort of SMEPOL-type project is likely to have any impact (ie if there is no demand, don't bother; if there is some demand but also contestation, it may be worth a go but likely to be slow and expensive; if there is demand and existing or potential for good evidence it should be straightforward, etc) and

- make recommendations about the necessary programme components in each context (research, pilot projects, networking, advocacy etc), and the sort of tools that might be useful.

1.1 Overall Methodology

The methodology to be followed will include: (1) A review of documents including project design documents, monitoring documents (inter alia, technical reports, trip reports, correspondence) and project reports many outputs are available at www.sme.gov.eg (Annex A); (2) Interviews with project leaders and project participants (Annex B); (3) Interviews with those said to have been influenced (Annex B); (4) Interviews with relevant IDRC, CIDA, and MoF staff (Annex B); (5) an analysis of preliminary findings by the key stakeholders

The analysis of preliminary findings will be facilitated by the consultant. Key stakeholders who were interviewed as part of the data collection process should be invited to participate and it should create an opportunity to further analyze the data with a view to isolating the key factors that could help in replication of SMEPOL elsewhere. The list of participants will be suggested by the consultant based on the data collection.

The consultant will work with the Centre to identify and locate the appropriate individuals to be interviewed. The consultant may also have to search out individuals who are no longer known to the Centre but who have a valuable perspective that needs to be captured. Based on the TORs and reading the project file, the consultant will develop interview guides for interviews.

Given that IDRC and CIDA are each undertaking assessment processes that will involve SMEPOL (CIDA is conducting an evaluation of its SME Program in Egypt), the consultant should take care to not overburden project leaders and participants with requests for interviews, documentation, etc. As much as possible, this should be minimized by strategies such as thoroughly reviewing existing documentation, keeping interviews short and timely, respecting participants' schedules, etc.

1.2 Reporting Requirements

1- The consultant will provide a draft report to the Centre for its comment by 30 September 2005. Based on feedback, the consultant will revise the report. The assessment report should not exceed -25 pages not including appendices. The report should include an Executive Summary. The report should be formatted following the guideline available at: <http://web.idrc.ca/uploads/user-S/108549988813guideline-web.pdf>

As with all evaluation reports at IDRC, the quality of the final report will be assessed by IDRC's Evaluation Unit according to the international recognized standards of utility, feasibility, accuracy, and propriety. You can read more about this quality assessment at: http://web.idrc.ca/en/ev-44703-201-1-DO_TOPIC.html

2- The consultant shall submit to the Centre a detailed and satisfactory final report of the work accomplished by 14 October 2005. Section A9 sets out the Centre's expectations and will form the basis of its determination whether or not the detailed report is satisfactory.

3- The consultant shall travel to Cairo, Egypt during the period Nov. 28, 2005 to Dec. 1, 2005 to present the results of this work at the conference that is being organized the Committee of Donor Agencies for Small Enterprise Development (www.sedonors.org/cairo).

Annex 9: Biography of the Evaluators

Julius Court is a Research Fellow in the Research and Policy in Development (RAPID) programme at the Overseas Development Institute (ODI). He is currently involved in research, advisory work and training on issues of civil society and policy influence; bridging research and policy; and governance and development. He has done advisory and consultancy work for DFID, DANIDA, the European Commission, IDRC, JICA, SDC, UNDP, WHO and the Global Development Network, and is currently on the Council of the UK Development Studies Association. He formerly worked as a researcher and in the Executive Office of the Rector at the United Nations University in Tokyo, Japan. Recent books and reports include: *Bridging Research & Policy in International Development: Evidence & the Change Process* (2005); *Making Sense of Governance: Empirical Evidence from 16 Developing Countries* (2004); *Asia and Africa in the Global Economy* (2003); *Human Development & the Environment: Challenges for the United Nations in the New Millennium* (2002).

Email Contact: j.court@odi.org.uk

David Osborne is a Project Officer attached to the Research and Policy in Development Programme, at the Overseas Development Institute (ODI). He is currently involved in research on economic policy in Egypt and issues of evidence use and civil society participation in policy processes. Previously he has worked on expanding the provision of microfinance and education programs for UNHCR Regional Office, Cairo. He will be shortly starting work at DFID as a Governance Adviser.

Email Contact: d.osborne@odi.org.uk