



*An evaluation of Donors' Assistance for M/SMEs in  
Egypt*

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**Abstract:**

This study aims to evaluate the financial and non-financial aid provided by donors to medium, small and micro enterprises in Egypt. This study provides a summary of the most important programs implemented by donors to support micro, small and medium enterprises.

In general, we concluded that there is a clear lack of donor coordination.

We also found that the evaluation process may be unbiased and non-neutral as it is usually performed by contracted donor agencies.

Finally, we recommend increasing coordination between donors, as well as improving the legal environment for micro, small and medium enterprises.

**Keywords:** M/SMEs, foreign assistance, donor agencies , finance gap ,

**JEL Classification:** F35, F63

## 1- Introduction:

Medium, Small and Micro Enterprises (M / SMEs) play an important role in the Egyptian economy, as micro enterprises constitute about 91% of the total companies operating in Egypt, on the other hand, small and medium enterprises constitute about 8% of the total companies (Rym a & Emanuel). (2017: 24).

We note that small and medium-sized companies contribute about 80% of the GDP in general as well as about 75% of total employment in the private sector in particular, which increases to about 99% in some non-agricultural sectors (Rym a & Emanuel, 2017: 25) ).

Despite this important role, small and medium-sized enterprises still suffer from many problems, and financing is at the forefront of all. (Hala Al-Saeed 2013). For example, only 6.1% of small and medium-sized businesses and 2.8% of medium-sized firms have access to bank financing. For example, the Economic Map study reveals that only 6.1% of small businesses and 2.8% of mid-sized businesses have access to bank finance (World Bank Enterprise Survey: 2013). In Egypt, like in other countries, the lack of bank financing to small enterprises is considered as one of the reasons for income distribution problems and poor economic performance in general. Previous studies have also shown that successfully accessing financial services helps in creating more new

companies, which are generally characterized by vitality, creativity and openness, which is reflected in the economic performance as a whole (**Demirgüç-Kunt, Beck and Honohan 2008**).

Previous research has shown the importance of development in the banking field, which should include relations with banking institutions as the most important priority for the development required in order to provide the necessary support for small enterprises and companies, and to make the best use of it. There are two basic approaches to bank lending. The first is Transaction Lending, which is A loan extended by a bank for a specific purpose. Lines of credit and revolving credit agreements involve by contrast loans that can be used for various purposes. and are mostly used by private commercial banks, which rely mainly on quantitative data to examine loan applications submitted to them, as this data must include information on financial status, guarantees. Credit history, etc. Data required to complete the examination. The other approach is cross-relationship lending, and it refers to a common practice in credit finance where the company has close relationships with a financial institution. This type of lending is mostly based on qualitative data collected about clients during the period of their relationship with loan officers within the organization rather than quantitative data. This approach is used for clients who may not have sufficient quantitative information, such as credit history or financial data, to be approved for loans in contrast to the type described above (**Berger and Udell 2004**). Note that the main disadvantage of this situation is that knowledge and information about clients are more difficult to transmit than that found in lending transactions. While there are many ways in which banks engage in small business, small and micro-enterprise lending, through previous operations the strategies that banks typically use to enter the microfinance market have been classified into two main categories: Direct and indirect. The direct approach is for banks to establish internal units within the banks themselves in order to provide services to small and medium companies and deal with this credit market. The indirect approach is when commercial banks enter the small and medium-sized companies sector by working with the already existing microfinance institutions to play the role of mediator between The Parties (**Isern and Porteous 2005; Sinswat and Subhanij 2010; Bounouala and Rihane 2014**).

In the aforementioned direct approach, the newly created unit or institution may be independent or stand alone or use the existing infrastructure of the bank (Figure 1).

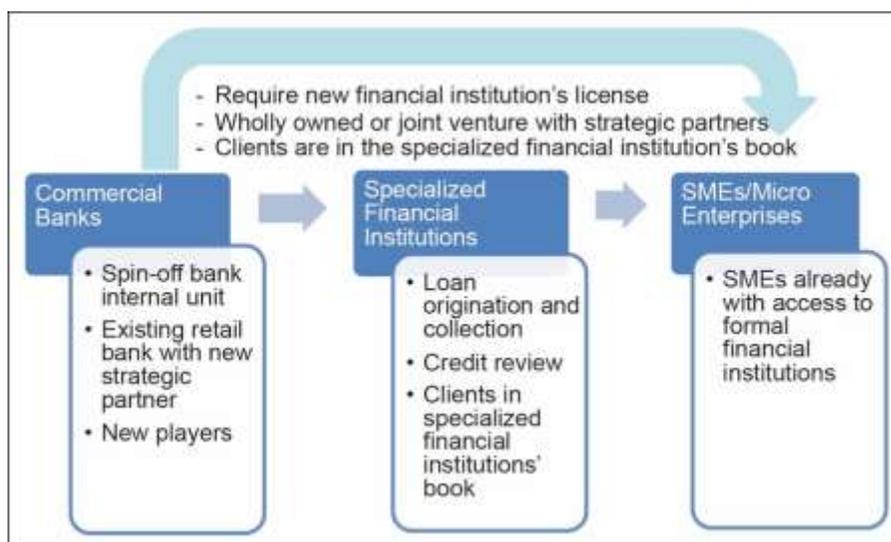


Figure 1: Commercial Banks Set Up Specialized Financial Institutions

This preparation overcomes some of the main hurdles of the internal unit model, which is the direct approach previously explained as it is able to have a separate staff, management and governance structure, allowing for the independence of microfinance operations in contrast to the indirect approach.

The summary of each bank business model and key success factors are summarized in Table 1.

**Table 1: Bank Business Models and Key Success Factors**

Bank/MFI	Country	Model	Key Success Factors
Agricultural Bank	Mongolia	Internal microfinance • unit direct approach •	Extensive rural branch network Tailored products
Sogebank/ SOGESOL	Haiti	Microfinance service • company •	Extensive branch network Reduced operating costs • Focus on credit methodology
Jammal Trust Bank/AMEEN	Lebanon	Outsourcing retail • operation •	Nationwide branch network Hands-on loan officer • MFI access to low funding cost
ICICI Bank/ Spandana	India	Outsourcing retail • operation •	MFI training and mentoring Reduced operating cost • MFI steady access to funding

Garanti Bank/ Maya Enterprise	Turkey	Internal microfinance • unit/Providing • infrastructure •	Tailored products Quick loan decision time Reduced operating cost • Increased fee
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MFI = microfinance institution.

## Commercial banks and their role in financing small and medium enterprises.

In the coming lines, we will discuss some innovative and differentiated transaction models that banks have used to provide access to financial services for small enterprises. Since there may not be a single best way to engage in the microfinance business, we will discuss those strategies pursued by commercial banks in five very diverse countries: Mongolia, Haiti, Lebanon, India, and Turkey.

Despite the existence of different and varied initiatives and strategies, the funding gap and the inefficiency of methods of obtaining it opened the way for donors to try to cover and reduce them to achieve the desired goal, and then increased interest on the part of those donors to provide financing and technical support to small and medium-sized companies, whether from During government agencies or NGOs.

This study is an attempt to assess the financial and non-financial assistance provided by donors to small and medium enterprises in the Arab Republic of Egypt. We will notice that the existing study was divided into several sections. In the second section we will look at donors' motivations to support small and medium-sized enterprises. The mechanism through which donors support small and medium-sized enterprises is presented in Section 3. While in Section 4, we will review the most important programs implemented by these donors, in addition to the most important notes on these programs as a comment. Then we present our experimental results, recommendations, summary and conclusion.

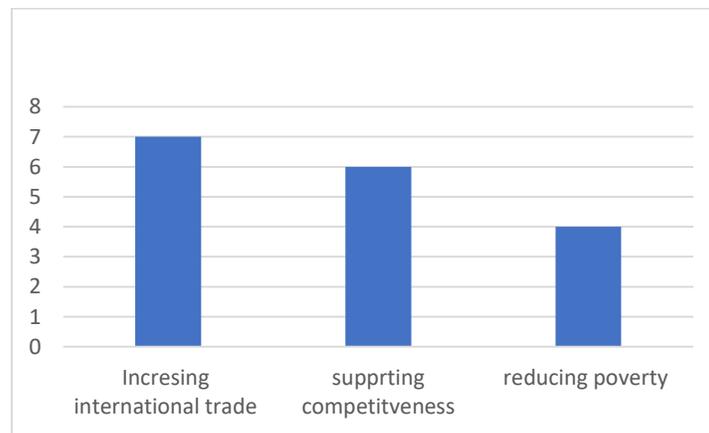
## 2- Donors' motives to support small and medium enterprises

Donors support small and medium businesses by providing the financing they need to do what they plan to do, as well as through the non-financing services they provide. We find that the intervention of international donor organizations during the seventies and eighties was limited to providing training

and technological services only, as there was no need to sustain this intervention as a top priority in the donors' agenda, and they did not pay much attention to some related issues such as the impact, efficiency, effectiveness and limits of this intervention. In the 1990s, however, the rules governing the provision of these services became more accurate and sophisticated, which was reflected in the efficiency and diversity of the provision of these services significantly.

Donor motives for supporting small and medium enterprises differ from one side to the other, as each donor intervenes from a different political and strategic agenda that is consistent with his vision, but remains - in the end - the main motivation for donors is their interest in increasing international trade, especially from donor countries to recipient countries where they are based. Small and medium-sized companies to which the paid grants devolve as participation in the international trade movement. On the other hand, some donors have set other goals such as reducing poverty and increasing employment rates by providing financial and non-financial services to these small and medium enterprises. (M / SME Donor Subgroup in Egypt 2005: 3-6).

**The following figure shows motives for donors to intervene in M/SMEs environment**



**Figure (2) donor goals to support M/SME's in Egypt**

Source: M/SME Donors Subgroup, Donors Business Environment Reform Intervention in Egypt, 2005

The previous figure shows that the purpose of increasing international trade is what dominates the donors' thinking as a primary interest when intervening in the SME environment. Seven of seventeen donors indicated that this goal, which was previously explained, is their motivation when supporting SMEs, on the

other hand, six donors believe that enhancing competitiveness is an important objective of the intervention that must be taken into account. Finally, the intervention with the aim of reducing poverty rates came last, which only four donors considered the basis for their intervention..

### 3- Donor intervention areas:

Most donors focus their intervention on removing barriers that SMEs face at all levels, such as administrative and legal reform, and developing regulatory frameworks in the financial sector. These aspects consume about half of the financial support provided by donors, which is of course a large sum to be directed towards the regulatory and administrative environment only. On the other hand, we find that there is little interest from donors to intervene towards removing marketing obstacles, despite the importance of these aspects in developing small and medium-sized enterprises. (M / SME Donor Subgroup in Egypt 2005: 6-10)

It is clear that the donors take several methods in providing support to small and medium enterprises, and the most important of these methods are:

Dialogue between the government and donors on the best way to provide support to small and medium enterprises.

Direct support for new policies and regulations.

- Building the institutional capacity of the microfinance environment.

Conditional support, which means providing support to small and medium-sized companies, provided that some indicators of improvement are achieved before providing more support.

Donors include the following types:

1- Multilateral agencies: It includes international development agencies that include a large number of government agencies, such as the United Nations Children's Fund (UNICEF), the World Bank, the United Nations Development Program, and the United Nations Industrial Development Organization. (UNIDO).

2- Bilateral agencies: It includes government development agencies in countries, such as the Canadian International Development Agency and the United States Agency for International Development.

3- Non-governmental organizations: They are private, non-profit organizations, such as Relief Everywhere (CARE), and Catholic Relief. (M / SME Donor Subgroup in Egypt 2005: 10-12) (American Chamber of Commerce in Egypt 2006: 6)

Usually, the assistance provided by international donors to small and medium-sized enterprises takes the form of direct intervention, by providing non-financing services as an alternative to granting funding to these companies, as donors provide these services in the form of consultations, training, building business networks and raising the efficiency of the recipient of support.

#### 4- Donors and programs implemented

There are many programs implemented by donors in Egypt. The following are the most important programs :

##### 4-1 Programs implemented by USAID

The USAID is the largest participant in microfinance operations in Egypt, providing nearly 70% of external financing for this sector. (Heba Nassar 2006: 23-24)

The USAID started financing M/SME's in 1988, to face the inability of M/SME's to access official sources of financing. Therefore, with the assistance of International Environmental Quality Company, a microfinance project was established to help poor groups in rural and urban areas in Egypt access necessary funding sources. This portal was established to build and develop capabilities of some micro finance institutions to provide loans to M/SME's on a commercial basis. After more than thirty years \$ 500 million are provided through eleven non-governmental organizations to about 400,000 beneficiaries. (USAID- Egypt, The Small and Micro Enterprises Development Project)

The following table shows the most important programs implemented by the USAID:

Table 2 Programs implemented by USAID

Program	Time	Value (US Million dollars)
Providing technical support for political reform projects	2011-2014	86.6
Training public banks to provide services for M/SMEs	2012-2013	
Developing an integrated training program for the	2011-2013	86

Social Fund for Development to train M/SME's owners		
Development of the integrated Egyptian program	2011-2013	
Provide technical support for the issuance of a law on microfinance	2012-2013	
Providing credit for M/SMEs	2006	35
Credit guarantee fund	2007	
M/SME's financing through NGOs	2007	150

Source: ACCELERATE CONSULTING AND DEVELOPMENT 2014: ٦٦

The USAID had three models to provide credit to M/SMEs: The Foundation Model, banking model and bank guarantee model. (USAID, Egypt Small and Micro Enterprises Support Program)

### **- The Foundation Model:**

Where \$ 44 million has been allocated for this model. The United States Agency for International Development has created non-profit organizations run by business associations. These institutions aim to play as a financial intermediary to provide credit opportunities to the target communities. This model was designed by the United States Agency for International Development as a model for being able to meet the credit needs of low-income groups on a cost-recovery basis.

In the beginning, two institutions were established according to this model, the Small Enterprise Development Corporation in Cairo, under the name "The Cairo Foundation", and the Alexandria Businessmen Association in 1983. The two institutions achieved good results in reaching large numbers of borrowers from the owners of M. / small companies. And medium. This reflects the success of the two institutions in achieving the assigned goals. Later, the project was expanded to include other areas in Egypt, either by establishing new branches of the already existing institutions, or by increasing the number of NGOs participating in the program. In 1998, four new associations were added to the project:

- Small Business Development Association in Port Said
- Businessmen Association in Assiut Governorate
- Businessmen Association in Sharkia Governorate

- Businessmen Association in Dakahlia Governorate

In addition to joining a new association, the LEAD Foundation, which joined in 2003.

According to official USAID data, these seven associations (previously described) provided loans and non-financial services to encourage the expansion of small businesses, as well as help poor women start income-generating activities to reduce their poverty.

According to the announced figures, the seven associations provided nearly \$ 600 million to about 500,000 borrowers, including about \$ 577 million for small and micro enterprises, and about \$ 29 million for 240,000 poor women.

### **- The Bank Model:**

This model - of which \$ 35 million has been allocated for funding - aims to increase financing opportunities for small and medium-sized enterprises. By helping them obtain bank loans. The project was started in 1991 in the governorates of Cairo, Giza and Qalyubia by the National Development Bank. The model contributed to providing financing through 13 banking branches in addition to the head office to cover all regions of the Arab Republic of Egypt.

In 2001 an agreement was signed between Banque du Caire and the United States Agency for International Development. In accordance with the agreement, USAID - through technical assistance from the International Environmental Quality Corporation - provided the necessary technical support to direct the funds available to banks to lend to SMEs.

Banque du Caire then launched its micro-credit initiative in 2001. Within six months, 25 of the bank's branches had introduced microfinance for their banking operations in a new initiative.

Until 2004, about 98 branches out of the bank's 120 branches - a rather large number - provided about one billion and 844 million pounds, which were provided to about two hundred thousand borrowers in 25 governorates across the republic. The bank was profitable at that time, which was reflected in the economic climate in general. (Banque du Caire, the bank's database, 2007)

### **- The Banking Credit Guarantee Model:**

In 1999, the United States Agency for International Development signed an agreement with the Credit Guarantee Corporation (CGC). In order to provide bank credit guarantee for loans directed to small and medium-sized enterprises. Under this agreement, an amount of US \$ 8 million was provided to the bank credit risk guarantee company in the form of a deposit. The company uses them to guarantee credit lines for associations that provide financing services to small and medium-sized enterprises.

The aim of this project was to establish a group of financial intermediaries to provide financial services to small and medium enterprises.

By the end of 2004 - the end of the technical support contract - the Credit Guarantee Corporation was established, where it guaranteed 12 service units managed by NGOs:

- Eight units run by the Assiut Businessmen Association, five of them in Minya governorate, and three in Fayoum.
- Two units in Al-Arish run by a businessmen association in North Sinai Governorate.
- Two units in Sohag governorate run by the Sohag Businessmen Association.

Together, these units provided about \$ 13.5 million to nearly 8,000 male and female borrowers, and provided loans of \$ 1 million to nearly 22,000 poor women.

In addition to the financial services that associations provide to small and medium-sized enterprises, they also offer a range of non-financial services designed to meet the needs of these institutions, which vary from one NGO to another. These services generally include:

- Training activities required by M / SMEs,
- Marketing support

According to figures announced by the United States Agency for International Development, these institutions contributed to the provision of about 621 thousand loans amounting to about 3.5 billion pounds, of which 253 thousand small projects and helped create about 170 thousand new job opportunities. (USAID, Small and Micro Enterprises Support Program in Egypt)

With regard to job opportunities posted by USAID programs. A number of observations can be clarified, which we list as follows:

- Many job opportunities have been realized - especially in the banking form - which USAID attributes as the accomplishments of its programs, although it provides technical support to banks only where the money was from bank money, but USAID usually does not clarify the cost of technical support provided to banks. . For example, when signing an agreement with Banque du Caire, the bank only provided a list of the employees to be trained without any details about the cost of such training. The United States Agency for International Development rejected the bank's attempt to figure out these costs. (Personal interview with the head of the Microfinance Project at Banque du Caire)
- USAID deals with NGOs on the basis of the principle of cost recovery paid only, without regard to the development events to be achieved and the effects thereof. For example, the grant is awarded to associations that reach a break-even point (i.e. the term of the final repayment of the loan) within two or three years from its inception as this leads to urging and encouraging NGOs to work in all possible ways to reach the break-even point to obtain the grant. On the other hand, it turns a blind eye to the projects for which loans are provided, their objectives and types. (Personal interview with the former head of the bank's credit risk guarantee company and the company's advisor)
- USAID programs are often evaluated by the USAID institutions themselves. In many cases, the evaluation focuses on the financial recovery of the project, and not on the developmental impacts caused by the project that in no way achieve its development purpose.

#### **4-2 Programs implemented by Canadian International Development Agency (CIDA)**

The total budget of the Canadian International Development Agency to support small and medium-sized enterprises is approximately CAD 107.2 million, as shown in Table 2 (Canadian International Development Agency 2006: 8--11). The initial project began in the 1970s with an emphasis on trying to deal with non-financial service models and supporting internal policies for small and medium-

sized enterprises. With the start of the new project, and as part of the CDPF: "Canadian Development Program Framework 2001-2011", the Canadian International Development Agency focused on the continuation of these two models, albeit with a different approach, as they shifted from creating new organizations to trying to support existing organizations and institutions. As a result, current programs have focused on non-financial services and policy support.

The Canadian International Development Agency works to implement its projects within four main axes:

- gender equality.
- Ecological balance.
- Building institutions that deal with small and medium enterprises.
- Protect children.

The following table shows the most important projects implemented by CIDA:

Table 3 Programs implemented by CIDA

The project	Time	Value (in millions of CA dollars)
Women's Support Fund	First stage (1991-1995) second stage (1996-2000)(	8.5
M/SME's Support Project	1996-2003	15.8
Supporting small and medium enterprises in Upper Egypt	1996-2006	11.9
Environmental Support and Protection Fund in Egypt	1997-2004	14.6
SME's Industries Policy Development Project	2000-2006	4.3
Promote and protect the interests Child labor	2002-2007	2.5
Egyptian labor market services reform project	2002-2006	4.9
Supporting climate change	2003-2006	5
Environmental Participation Project	2004-2008	5

Non-financing services support project	2004-2010	20
Participation in Development Program	2003-2008	14.7

Source: ACCELERATE CONSULTING AND DEVELOPMENT 2014: ٦٧ ،

CIDA, Small and Medium Enterprise, Program Review, Cairo 200٨, : 5.

The following is a review of the projects implemented by the Canadian International Development Agency: (Canadian International Development Agency through the Country Development Programming Framework: 2001-2011: 1-3)

- Women Support Fund Project (1991-2000): The goal was to reach low-income women and their families. The project resulted in creating 250 small projects with about 1,000 job opportunities, most of which were concentrated in the traditional activities of women, such as weaving , food manufacturing, bakeries. The project also developed the Egyptian Society for Support and Development of Communities.
- M/SME's Support Project in Southern Egypt (1996-2006): This project tried to reach marginalized communities by developing three regional centers for the development of M/SME's. the projects resulted in about 2000 small enterprises with about 8000 jobs opportunities.
- Small and Medium Enterprises Support Project (1996-2003): This project established an industrial partnership unit that includes the aluminum industry and a self-training unit. The project also developed the Institute for Professional Development, which provides training to various ministries. The project also established a Business Technical Support unit and established an OSS Store, with the goal of bringing all steps of establishing the organization into one place. Through this project, about 5,000 permits were granted. The project also organized about 15 awareness-raising workshops on support policies for SMEs..
- Small and Medium Enterprises Policy Development Project: (2000-2006): This project aims to support the development of small and medium-sized companies' policies, and capacity-building for developing

policies for small and medium-sized enterprises in a number of ministries. The project also contributed to the development of the general framework and action plan of the Ministry of Finance. This project also contributed to activating small and medium enterprises units in the Ministry of Finance. The project also provided the necessary training for workers in the Ministry of Trade and Industry to acquire the necessary skills to develop policies. The project also developed a database for small and medium enterprises. (Julius Kurt & David Opsorn 2005: 15-20)

- Non-Financial Services Support Project (2004-2010): This project is distinguished from the rest of the projects provided by "CIDA" in that instead of delivering these services directly to small and medium enterprises , or to the providers of these services providers, it dealt with facilitators to raise the efficiency of non-financing service providers. The facilitators include the institutions that CIDA supported through its previous projects, which have proven efficient in dealing with small enterprises, like Alexandria Businessmen Association "ABA" , Egyptian Businessmen Association , Egyptian Exporters Association, Social Fund for Development, Ministry of Trade and Industry, Ministry Finance, some research centers, and the universities of Cairo and Ain Shams. The project focused on two main governorates, Minya, Alexandria. (Abla Al-Khawaja 2007: 23-24)

We noted that CIDA programs focused in its long-term results on trying to reduce the poverty rate and increase the number of jobs created by the programs through achieving several intermediate goals, including:

The most important contribution of CIDA projects was to clarify the importance of non-financing services for M/SMEs through the development of number of institutions.

In general, the following indicators can be provided for projects implemented by CIDA:

- Providing support for the creation of new enterprises (including training, technical assistance, and the provision of micro-credit); CIDA programs have created about 9050 jobs through the creation of about 2250 projects.
- Five new institutions were created in five governorates. These institutions have provided a wide range of services for M/SMEs.

- Support was provided to several existing associations; banks were provided with the necessary technical assistance to direct their financial resources towards lending to M/SMEs.
- Linking training with actual need to make training more effective.
- Creating One-Stop Shop (OSS) project with the participation of seven ministries to facilitate procedures for M/SMEs.

After this presentation of the projects implemented by the Canadian International Development Agency, it is noticeable that the focus is always on achievements. This may indicate that most bulletins and evaluation reports are issued by the agency itself, even the attempt by the Ministry of International Cooperation, in cooperation with the Canadian International Development Agency as well. Which made it lose impartiality and credibility.

An independent evaluation of CIDA programs shows: (**Julius Court and David Osborne 2005: 20-50**)

- Some of the Canadian International Development Agency projects did not work efficiently, we mention, for example, the initiative taken by the Canadian International Development Agency to establish a sub-group for coordination between donors, a project that took about three years to implement without achieving tangible results on the ground.
- With regard to the four goals set by the Canadian International Development Agency through supporting small and medium-sized companies, namely, gender equality, environmental stability, institutional building, and child protection, there is only one goal from all of those reasons that the agency considers to have been achieved, which is gender equality. , Without any indications of this achievement. The link linking these four goals with SMEs has also not been clarified.
- Most of the projects implemented by the Canadian International Development Agency did not have a clear structure of the objectives to be achieved. In order to compare the results achieved with these goals. The Canadian International Development Agency relied on presenting results only, which really made it missing.
- For job opportunities created by projects, it is noted that there is a fixed rate of jobs for each small enterprise, which is four jobs for every small and medium-sized company, without indicating the loan amount for each enterprise, or the cost of the job opportunity.

- Despite the positive effects expected from open source software; Few small and medium enterprises have benefited from it.
- The impact of the project for developing a policy for small and medium enterprises on the environment in which the small and medium-sized companies operated, unfortunately, was limited. The project only made some recommendations during the preparation of the relevant law, despite the efforts made by the project in developing policies for small enterprises.

#### **4-3 Projects implemented by German Cooperation and the German Development Bank:**

The German Technical Cooperation Agency (GTZ) provided support to M/SME's through several projects, the most important of which are:

**First project:** M/SME's Promotion Program in Egypt (2003: 2008) : This project aimed to provide M/SMEs with non-financing services in order to increase their competitiveness and create more job opportunities. The project was in partnership with the Ministry of Foreign Trade and Industry with a budget 3.5 million euros.

**Second project:** Foreign Trade Program(2005 : 2008): With a budget of 0.5 million euros in partnership with the Ministry of Trade, this project aimed to increase the volume of trade of M/SMEs by providing commercial services, changing the institutional framework and supporting foreign investment.

**Third project:** The Vocational Education and Training Program, (1993-2004) With a budget of 20 million euros, in partnership with the Ministry of Education and the associations of investors in various regions, the program established the vocational education and training system in Egypt. The program was implemented in 24 governorates. The total number of trainees reached 16,000, by 1,600 centers.

The programs implemented by the German Development Bank (KFW) Kreditanstalt für Wiederaufbau

-The Egyptian-German project for the best methods of microfinance (2005-2007): With a budget of 5 million euros, and in partnership with the Social Fund

for Development, this program aimed to finance the facilities provided to non-governmental organizations.

-Building a National Strategy for Microfinance in Egypt(2004-2005): This program was established In partnership with the Central Bank of Egypt to develop a national strategy for microfinance. (Abla Al-Khawaja 2007: 23-24)

By looking at the assistance of the German side we notice the following:

- It mainly focused on providing non-financing services, whether in the field of training or vocational education.
- The agencies did not provide any information about the job opportunities created. They stated that the program that holds the largest part of the funding (Mubarak Kohl) did not provide real job opportunities in the market for the graduates of this project.

#### **4-4 projects implemented by the Italian Cooperation Organization:**

The Italian Cooperation Organization has implemented a number of projects in Egypt to provide financing for small and medium enterprises (Cicada website [www.secadaegypt.org](http://www.secadaegypt.org)), including:

- Integrated support project for small and medium enterprises (1998-2004).

With technical support from the United Nations Industrial Development Organization, this project provides \$ 17 million to finance technical assistance to small and medium-sized, small and medium-sized enterprises by:

- Preparing the industrial work plan.
- Supporting industrial projects and identifying potential Italian partners.
- Conducting technical and financial feasibility studies and identifying possible sources of financing.

Technical assistance is provided through a line of credit provided by the Italian government and administered by the Egyptian banking system to purchase Italian equipment for industrial production.

- Financial support project for the Social Fund for Development (2002-2004).

With the directing of 13 million euros to the Social Fund for Development to develop small enterprises and transform the informal economy sectors into the formal economy. The project consists of a line of credit aimed at small businesses importing Italian goods and services.

- Community support project through supporting small and medium enterprises (2002-2004)

In cooperation with the Ministry of Social Affairs, this project allocated 1.5 million euros to improve the microcredit system provided by the poverty reduction program in Giza Governorate. The project established four service centers in the community development associations

- Poverty Reduction Program: (1998-2003).

This project had a funding of 7 million euros and aims to reduce poverty.

**Looking at the Italian cooperation programs we can note the following:**

- All programs are conditional on the purchase of Italian goods and equipment - despite the relatively large funds for some programs, which amount to 17 million euros. This casts doubt on the development goals of the Italian Cooperation Agency. These programs may be seen as a mere sale of Italian goods and equipment, more than an attempt to finance small and medium-sized enterprises and achieve the required development.
- The Italian Cooperation Authority did not explain any development impact of its loans, in terms of the number of opportunities provided by each project, the size of the loans, or the number of institutions that received loans, despite the termination of all its projects.

**4-5. Projects implemented by the European Union**

The European Union supports M/SME's in Egypt through a number of programs: (M / SME Donors subgroup 2005: 30-32) (European Investment Bank 2016)

- The Industrial Modernization Program in Egypt:(2001-2006)

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With 250 million euros in partnership with the Ministry of Trade and Industry to support small and medium enterprises. Through the Industrial Modernization Program, the Industrial Modernization Center was established as an implementing unit of the program

- Agricultural Credit Program:(2004-2006)

With 18 million euros, in partnership with the Ministry of Agriculture to provide credit for agricultural projects.

- The Social Fund for Development Support Program:(1998-2005)

With 172 million euros to Provide micro credit and to support the provision of non-financing services.

- Small Business Support Program:

The project ended in 2014 with an amount of 120 million USD.

By looking at the European Union programs we can notice the following:

- Despite the huge sums offered by the European Union, the main program (Industrial Modernization Program) shifted over time from supporting M/SME's to supporting large projects

- Most projects take place with government agencies, either ministries or the Social Fund for Development; This greatly increases the costs of managing implemented projects.

- It is difficult to judge the developmental impacts of this financing, whether in terms of the job opportunities it created, or the number of enterprises. Funds have mainly been directed to the Social Fund with other sources of financing.

#### **4-6 Projects implemented by the Japan International Cooperation Agency**

The Japanese International Cooperation Agency (JICA) carried out a number of projects to support M/SME's including:

- Foreign Trade Training Centers Project:(2002-2008)

With a fund of 2.9 US \$ millions in partnership with the Ministry of Trade and Industry to provide technical assistance in establishing and developing a training center for exporters.

- Preparing a survey for M/SME's(2003-2005):

The project aimed to conduct a comprehensive survey of M/SMEs in the governorates of Qena, Gharbia and Damietta, and providing technical advice based on the results of this survey.

- Small Enterprise Development Project (2002-2008)

This project was implemented in cooperation with the Social Fund for Development, with a budget of 250 million Egyptian pounds. (M / SME Donors subgroup 2005: 32-34 (, Accelerate Consulting and Development 2014: 68).

#### **4-7 Projects implemented by the United Nations Development Program**

The United Nations Development Program is one of the most important multilateral organizations that implemented a number of projects to support M/SME's including : ([www.undp.org](http://www.undp.org))

- Supporting the Social Fund for Development (2001-2007)

With a fund of 3.7 US \$ million to provide technical support for M/SME's.

- Training and Economic Management Project(20000-2005)

In partnership with the Ministry of Trade and Industry, with a fund of \$ 4.2 million to create an enabling environment for foreign and national investors.

#### **4-8 Projects implemented by the United Nations Industrial Development Organization: such as ( Accelerate Consulting and Development 2014: 14)).**

- Small Enterprise Development Project (2012-2014)

€ 140 million has been allocated for this program with the aim of developing small and medium enterprises.

#### **4-9 Projects implemented by the World Bank and the International Finance Corporation including : ( Accelerate Consulting and Development 2014: 14).**

The World Bank provided \$ 300 million to support M/SMEs receiving the needed finance on a commercial basis through banks and NGOs. The World Bank has another project that works to build the capacities of existing institutions to finance M/SME's with a fund of 30 million USD.

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**4-10 Projects implemented by the French Aid Agency: (<https://www.afd.fr/en>)**

The French Aid Agency has two projects for developing M/SME's with a budget of 15 million euros.

- The first one carried out in cooperation with the National Bank of Egypt to support micro-enterprise financing activities.
- The other project with Social Fund for Development to support the development of M/SME's.

**4-11 Projects implemented by the Arab Fund for Economic and Social Development:**

With a budget of US \$ 77 million to provide credit to M/SME's ( **Accelerate Consulting and Development 2014: 16**).

**4-12. Projects implemented by the Kuwait Fund:**

The Kuwait Fund implemented a project with a budget of \$ 85 million to provide credit to M/SMEs ( **Accelerate Consulting and Development 2014: 16**).

**4-13 Projects implemented by the Khalifa Fund**

Khalifa Fund implemented a project to stimulate the establishment and development of M/SME's in Egypt in 2014 with a budget of 200 million USD. ( **Accelerate Consulting and Development 2014: 16**).

**5- Conclusion**

After this presentation of the projects and programs implemented by the donors in Egypt, the following observations can be highlighted about the factors that can limit the expected developmental role of these programs:

- 1- Donors mainly lack coordination among the programs and projects. Although there is some dialogue between donors, the formal arrangements for coordination between the projects implemented are largely weak. Despite the annual meeting of donors through the sub-group to support M/SMEs of the Development Support Group (DAG), most donors consider this annual meeting only as a meeting to exchange general information about the projects implemented without taking any actual procedures to coordinate between these projects. Some donors even emphasized that the existence of such a sub-group is ineffective, due

to the different priorities of each donor. The strange thing about this sub group is that some donors affirmed that the attendance of the Egyptian parties at these annual meetings makes donors reticent in giving information about their future plans; the matter that raises the questions of how these projects are implemented, as it is supposed to be done in partnership with the Egyptian authorities. (M / SME Donors subgroup 2005: 18-19).

To show the lack of coordination and its negative effects on the support provided to M/SMEs, two clear examples are provided as follows:

A - In a study conducted by the Center for Project Evaluation and National Economy Analysis, two poverty reduction projects funded by two different members from the European Union were assessed , the two projects made a contribution to microfinance targeting poor women in the same region. One of the two projects have somewhat less stringent conditions in providing financing compared to the other project. Once this was realized, some potential customers who defaulted on their payment went to the other project to obtain financing as an optimal way to solve the default problem they faced. If there was some coordination between these two donors in the project design phase they could have agreed to avoid working in the same area, thus avoiding the problem from the beginning. (Talaat Abdel Malek 2005: 20-30)

B - Another example indicating the lack of coordination among donors is the project of developing a national strategy for microfinance. It is noted that the Canadian Small Business Aid Development Project (CIDA - SMEPOL) is developing a national strategy for financing small and medium enterprises, as well as the USAID, the German Development Bank and the United Nations program, all are developing a national strategy for microfinance in partnership with the Banking Institute, in coordination with the Social Fund for Development. Social Fund for Development is developing a national strategy for financing small and medium enterprises in cooperation with the Canadian Aid. Perhaps this example is the most obvious evidence of lack of coordination as it is noticed that there is one donor- CIDA- involved in two projects for the same purpose, as CIDA developed the strategy once through its project in partnership with the Ministry of Finance, and again through its project with the Social Fund for Development. The problem becomes more apparent when we notice that there is one government agency- the Social Fund for Development- was involved in

two projects to develop a national microfinance policy with different donors. A UNDP expert in New York commented on the involvement of the Social Fund in working to prepare a national strategy with two donors and may obtain technical assistance that may be competing and contradicting at the same time "This means too much inefficiency and wastage of public funds cannot be accepted anymore "(Julius Court and David Osborne 2005: 38)

- 2- Donor funded programs tend to focus on areas where there are currently no services; This encourages the creation of local monopolies, and these monopolies have no incentive to diversify their financial products. Accordingly, they become an obstacle rather than an engine for innovation that would respond to the needs of the poor. (Julius Court and David Osborne 2005: 40)
- 3- The support provided by donors, makes the mature institutions remain dependent on external assistance to perform the main tasks of their work, e.g. training employees and developing products. That greatly distorts the decision-making process, as the institution that does not consider paying the full costs of training of their workers do not fully take into account the true costs of the turnover rate or the benefits of retaining that employment. (Julius Court and David Osborne 2005: 42)
- 4- Most donors focused in their evaluation view of the implemented projects on the process of recovering the costs incurred by the implementing local partner without paying attention to the developmental impacts achieved by these projects such as job opportunities or export benefits. This made the associations that considered that the development impacts of the achieved loans more important than the loan recovery process to be unsuccessful associations, regardless of the development impacts they achieved. Most of the reports issued by donors to evaluate their projects focus mostly on loan recovery rates as a key indicator of the success of the program.
- 5- Most of the efforts made by donors' implemented programs were focusing more on institutional development, rather than developing the infrastructure needed for a self-sustaining and sustainable industry.
- 6- The government agencies involved in implementing the programs do not have a great deal of flexibility or commitment when implementing the program, instead they benefit from the lack of coordination that exists between donors.

- 7- The project and program evaluation process is carried out by the agencies that contract with them in most cases the donors, so that the cost of this evaluation is often included in the cost of the project itself. This may make evaluation results biased and not covered by the necessary evaluative neutrality. In addition, there is a dearth of Egyptian agencies that carry out evaluation, so that the only agency that evaluated some projects, such as the Project Evaluation Center of the Ministry of International Cooperation, carried out the evaluation in cooperation with the donor itself. With the Canadian International Development Agency.

**Finally, we can consider the following recommendations to make donors' efforts more impactful:**

1- Increasing coordination between donors in the early stages of planning and designing the project before implementation. Although this initial coordination may be costly in view of time lost in the process of compatibility of the various donors and the government, the benefit that will accrue from this coordination will greatly exceed its costs. This coordination will give more focus to the monitoring process, evaluation process.

2- Through benefiting from strong and mature microfinance institutions, and commercial banks entering the microfinance market; donors should focus on two areas:

A- Promoting and encouraging environment that enables the creation of a market-based microfinance sector, where competition is the main driver for modernizing services.

B. Supporting the development of new products and providing services to new groups of clients currently deprived of these services. Such support will show how - using appropriate mechanisms - can provide services to these clients in a beneficial manner.

3- It must be recognized that whatever the amount of funding provided through a specific large program, this does not necessarily mean that this program is effective and successful. Perhaps the Italian program is the best proof of this, as the amounts of funding were large, but most of them required the import of Italian equipment and goods, or a partnership with Italian institutions; This greatly reduces the impact of financing

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- 4- It must be recognized that a successful and effective way to support institutions is to enable these institutions to transform into a self-reliance institution instead of relying on donor support
  - 5- There should be decentralization in distributing donors' programs, since this decentralization will increase coordination and working through networks. This will increase the effectiveness of the implemented projects.
  - 6- Donors should work away from supporting the operating costs of mature institutions, especially if these programs aim to provide similar products in new regions.
  - 7- It is necessary to work to improve the regulatory and legal environment in which M/SMEs operate. Donors should work to support the Medium, Small and Micro Enterprises Development Agency to become a facilitator, rather than to intervene directly in providing financial and non-financial services.
  - 8- Donors should focus on providing technical support with full disclosure of its cost.

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