

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

By Julius Court and David Osborne, March 2006

## Overview

The Small and Medium Enterprise Policy Development (SMEPOL) Project ran from April 2000 to December 2005 with support from the Canadian International Development Agency (CIDA), the International Development Research Centre (IDRC), and the Government of Egypt. An evaluation of the project, commissioned by IDRC and conducted by the Overseas Development Institute between August 2005 to March 2006, covered four main issues: assessment; lessons for replication; further work on micro-, small-, and medium-enterprise (MSME) policy in Egypt; and options for replicating SME policy interventions in other parts of the Middle East. This brief highlights SMEPOL's aims, the evaluation methodology, findings, and issues for consideration.

After the evaluation was concluded, CIDA, IDRC and the Government of Egypt have concluded negotiations which will extend the project duration to January 31, 2008 with an additional CAD\$1,050,000. Building on the evaluation findings, the planned outcomes are to focus on implementation of three key policy areas (legal and regulatory reform, SME access to financing and SME access to government procurement) with continued research and capacity building as complimentary components.

## 1) Project Aims

In Egypt, MSMEs 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. At the start of the project, these enterprises operated within a confusing policy context.

SMEPOL's overall goal 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 MSME development.*" Its purpose was to help the Ministry of Economy and Foreign Trade (the host Ministry changed over time) to develop policies, legislation, regulations, and procedures that would support MSME development. To achieve this goal and purpose, the project focused on policy development with complementary support for training, research, and networking.

## 2) Evaluation Methodology

To understand the project's impact, as well as its potential for replication, evaluators reviewed project documents; analyzed available data; reviewed literature; interviewed project staff and Egyptian stakeholders; consulted with independent experts; visited the

project in Egypt; and discussed preliminary findings with staff of IDRC, SMEPOL and the Government of Egypt, as well with participants at a conference in Cairo.

### **3) Review Findings**

The study focused on four areas:

- *Relevance* (Has SMEPOL done the right things?)
- *Implementation* (Has SMEPOL done things in the best way?)
- *Impact* (positive and negative, direct and indirect, intended and unintended)
- *Sustainability*

SMEPOL made a valuable contribution to MSME policy development in Egypt. The project 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. These are no small achievements given the traditionally low rates of success for policy influence projects, and the challenging and unpredictable political context.

The project achieved its primary objectives related to policy development, as well as supporting objectives related to policy-relevant research, training, and consultation. It was particularly notable for its partnership approach, embedded project structure (within the Minister's office), flexibility, and strategy of staying with champions as they changed ministries. Its tactical approach of "strategic opportunism" was particularly impressive. These qualities, combined with sound risk management structures, accounted for its effectiveness.

### **4) Issues for Consideration**

SMEPOL was a successful project with valuable lessons for similar projects in Egypt, as well as elsewhere in the Middle East (and other parts of the developing world). Still, the project influenced policy primarily at the ministerial level rather than across government. With the Ministry of Finance's limited mandate to coordinate MSME policy, the project's sustainability is uncertain. Much depends on the government's willingness to implement the Competitiveness Strategy.

The evaluation looked at conditions and issues that future projects should address to maximize policy impact, as well as possible next steps for policy development for Egypt, the MENA region and more generally.

#### **Necessary Conditions**

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

## Key Project-related Issues

- *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 the project remains “on track.”
- *Strategic opportunism* – an approach that builds towards long-term goals, while remaining open to opportunities.

## Other important factors

- adequate resources;
- a consultative approach;
- flexibility; and
- research quality.

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

The legal and regulatory environment for MSME 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. However, the political and policy context remains uncertain. Based on this context, the study recommended three interventions critical for any future work in Egypt:

- **Short term:** SMEPOL staff (and IDRC and CIDA) should ensure SMEPOL findings and strategy are included in the National Strategy for Micro and Small Enterprise Development being developed by the Social Fund for Development.
- **Longer term:** IDRC and CIDA should help implement areas in the Competitiveness Strategy that are the core responsibility of capable Ministries, particularly the Ministry of Finance’s work on legal and regulatory reform.
- **Data:** IDRC should help develop and provide initial support for regular, credible, and timely statistical data on key policy relevant issues facing the MSME sector (perhaps on an annual or bi-annual basis).

## Replicating MSME Development Projects in the Middle East and North Africa

The study provides an initial assessment of whether MENA countries exhibit the need and conditions for direct or indirect policy development interventions. It recommends the following actions to IDRC and CIDA:

- Consider direct SME policy interventions in Jordan and perhaps Sudan.
- Consider an indirect approach to policy influence through undertaking research and influencing activities as appropriate in Algeria, Morocco, Syria, West Bank and Gaza, and Yemen. While the specific focus in each country would vary, activities could be part of a regional policy program.

- Refrain from policy development activities in Turkey and Iraq (since little comparative advantage or value added exist for Canadian interventions), and Lebanon and Tunisia (since no clear need currently exists).

### **Direct Policy Development (DPD) Projects**

The four critical and necessary conditions must be present to ensure direct policy development (DPD) projects have a reasonable chance of success: a context of reform; a need for policy development; organizations with a mandate and authority; and champions. Given these conditions, a direct “partnership” policy development approach could be adopted. Similar to SMEPOL or other experiences, the focus would be on large policy development projects (with a supporting role for research, communications and training) and close collaboration with government.

### **Indirect Policy Influence (IPI) Projects**

Where one or more of the four conditions are missing, alternative strategies should be adopted. Rather than a partnership model for direct policy change, stakeholders could adopt a more limited “policy influence” model. The package of interventions might include research, networking, communications, and influencing activities (to help develop the threshold contexts for policy development). These interventions would generally be much smaller than direct policy development projects.

### **Country-level approach versus Regional program**

A presence in a country and a good reputation are particularly important (often vital) for direct policy development projects since the degree of partnership is higher and the need to manage risks more critical. Similarly, many policy-influencing activities are more effective from within a country. The study, however, did argue that IDRC could still *manage* a regional program (Algeria, Morocco, Syria, West Bank and Gaza, and Yemen) on private sector issues with an MSME focus. Such a program, focused on indirect policy influence, would provide opportunities for learning without the demands and risks of direct policy influence projects.

This is an executive summary of the report “*Independent Evaluation of the SMEPOL Project: Impact, Lessons and Options for Replication*” By Julius Court and David Osborne, March 2006. The full report is available from IDRC’s Evaluation Unit.