

**2019**

**REVIEW OF THE SOCIAL FUND  
FOR DEVELOPMENT PHASE IV  
PROJECT  
FINAL REPORT**

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# I. INTRODUCTION

## A. BACKGROUND & PURPOSE

The current Phase IV of cooperation between UNDP and SFD started in 2008 and was designed to a) further develop and enhance the technical and institutional capacities of SFD to become amongst the first tier of national development agencies operating in middle-income countries; and b) support SFD efforts aiming at taking all necessary exit measures to allow for it to become a sustainable organization that contribute in poverty reduction and job creation in Egypt, and to be able to finance its various activities from its own resources, with a board headed by the prime minister.

The project aims at strengthening the capacities of the Social Fund for Development (SFD) in order to become an effective agent for inclusive development in Egypt through:

- Enhanced institutional and operational efficiency;
- Improved planning, monitoring and evaluation for development results;
- Increased access to improved financial and non-financial services for Small, Medium Enterprises (SMEs);
- Improved methodologies and business processes targeting human and community development interventions to become more sustainable and aligned with the local environment.

In April 2017, Prime Ministers' decree no. 947 for year 2017 was issued thereby establishing the new entity "Micro, Small and Medium Enterprise Development Agency". The said decree was later on amended in November 2018; bringing MSMEDA under the umbrella of the Prime Minister. By virtue of those decrees, MSMEDA became a fund that is also concerned with the small, medium and micro enterprises as well as entrepreneurship.

With the SFD project coming to an end and given the change in mandate of MSMEDA, the UNDP contracted the consultant to conduct an evaluation of the SFD Project as well as to provide advice on the future directions the cooperation between the UNDP and MSMEDA could take.

## B. EVOLUTION OF THE PROJECT

The SFD Phase IV project went through several phases, with the initial agreement covering the period from 2007 to 2011. The agreement was later extended and amended to cover the period from 2012 to 2014. The Final amendment was signed in 2016 and covered the period till 2018.

The Agreement between SFD and UNDP signed in 2007 stipulated three main outputs for the period ending in 2011:

1. Operational support to SFD provided.
2. Small enterprises access to financial services increased.
3. Microenterprises and income generating activities promoted

The following table includes the Results Framework of the project/agreement:

<b>Output</b>	<b>Indicators</b>	<b>Targets</b>
1. Operational support to SFD provided.		1.1. Management capacity of the SFD's technical secretariat strengthened.
2. Small enterprises access to financial services increased.	- Number of training programs designed and implemented.	2.1. 8 training programs designed and workshops for 300 trainees conducted by SEDO.

	- Number of integrated financial centers established in 6 selected governorates.	2.2. Direct lending model evaluated and decisions concerning its expansion finalized. 2.3. 6 integrated financial centers established and operational in six selected governorates.
4. Microenterprises and income generating activities promoted		3.1. New financial products developed and tested. 3.2. Loans disbursed to 450 end borrowers through microfinance facilities. 3.3. Employment secured for 500 previously unemployed youth/new entrants to the labour market.

Based on an independent evaluation conducted in 2011, an agreement extending the project till 2014 was signed in early 2013. The agreement postulated the following outputs:

1. Enhanced institutional and operational efficiency;
2. Improved planning, monitoring and evaluation for development results;
3. Increased access to improved financial and non-financial services for Small, Medium Enterprises (SMEs);
4. Improved methodologies and business processes targeting human and community development interventions to become more sustainable and aligned with the local environment.

This amendment in addition included a more elaborate results framework:

<b>Output 1: Enhanced SFD's institutional and operational efficiency</b>		
<b>Indicators</b>	<b>Baseline</b>	<b>Target</b>
Effective HR system in place (including recruitment process and planning, SFD salary scale and package of benefits and performance based staff appraisal system).	Existing HR system needs to be updated	HR system developed, tested, approved and applied.
# of trainings conducted to SFD staff on development related subjects and RBM (disaggregated by gender and location).	Limited RBM and other development trainings conducted to SFD	750 SFD employees/year are trained on development related subjects and RBM according to SFD training annual plan
Existence of an enterprise wide information system.	No automated enterprise wide information system in place	Automated enterprise wide information system set up and functional
Existence of UNDP Exit Strategy	No UNDP Exit Strategy in place	UNDP Exit Strategy developed
Manual for internal operational and project implementation procedures updated	Existing manual for internal operational and project implementation procedures needs to be reviewed.	Manual for internal operational and project implementation procedures updated and used by staff.

Change management recommendations of the SFD evaluation implemented.	Limited number of change management recommendations are implemented.	Key recommendations have been considered, translated into management actions and implemented.
RBM readiness assessment conducted.	No RBM readiness assessment previously conducted.	RBM readiness assessment conducted and analytical report on RBM readiness produced.

### Output 2: Improved Planning, Monitoring and Evaluating for Development Results

Indicators	Baseline	Target
Amount of new resources mobilized in US\$	\$20 million new resources mobilized	\$810 million new resources have been mobilized.
Number of international partnerships signed	3 international partnership agreements signed	10 international partnership agreements signed.
Existence of RBM and evaluation systems and evidence of its use by SFD staff	No RBM System in place	RBM System has been developed, tested, approved by top management and implemented.
Donors Satisfaction with SFD reporting system	No measurements for donors satisfaction with SFD's reporting system	Annual survey on donors satisfaction has been produced and disseminated to different donors for reflection

### Output 3: Increased access to improved financial and non-financial services for MSEs

Indicators	Baseline	Target
Amount disbursed to small enterprises by gender	L.E. 1279 million (L.E. 273 million for women led enterprises)	L.E. 1500 million per year, with 30% for female entrepreneurs.
Amount disbursed to microenterprises by gender	L.E. 472 million (L.E. 193 million for women)	L.E. 630 million per year, with 40% for female entrepreneurs.
Number of small enterprises financed (disaggregated by gender)	18,112 small enterprises (4,685 women owned)	30,000 small enterprises per year (10,000 women owned)
Number of microenterprises financed (disaggregated by gender)	127,000 microenterprises funded (65,000 women owned)	125,000 microenterprises funded per year (50,000 women owned)
Number of beneficiaries receiving non-financial services	47,249 beneficiaries	46,000 beneficiaries per year
Number of entrepreneurship training programs designed and delivered.	27 entrepreneurship training programs designed and delivered.	720 entrepreneurship training programs designed and delivered per year.

Number of potential entrepreneurs who benefited from SFD entrepreneurship training program.	1,643 potential entrepreneurs benefited	35,000 potential entrepreneurs per year
Number of new non-financial products developed and adopted.	9 new nonfinancial products developed and adopted.	10 new nonfinancial products developed and adopted per year
Number of national exhibitions conducted/sponsored by SFD	45	45
Credit risk management study conducted.	No credit risk management study in place	Credit risk management study developed and adopted

**Output 4: Methodology and Business Processes of Human and Community Development interventions improved, and became more sustainable and aligned with the local environment**

<b>Indicators</b>	<b>Baseline</b>	<b>Target</b>
Comprehensive assessment of local economy of target governorate (Fayoum) conducted.	No assessment of local economy of Fayoum previously conducted	Comprehensive assessment of local economy of target governorate (Fayoum) finalized.
Number of LED Forums conducted in target governorates	No LED forums previously conducted in any of the target governorates	One LED forum conducted in one governorate
Number of attendees of LED forums	No LED forums previously conducted	LED forum conducted and attended by minimum 1 representative from NGOs, private sector, local authorities
Community development project identification process aligned with governorates planning process and local economic context.	Community development project identification process currently not aligned with governorates planning process and local economic context.	Community development project identification process aligned with governorates planning process.
Number of jobs created in community development projects (disaggregated by gender)	310 jobs created in community development projects	15% of total jobs created are for women.
Number of new community projects provided in targeted deprived areas.	15 new community projects provided in targeted deprived areas.	60 new community projects provided per year in targeted deprived areas.
Number of new infrastructure projects provided in targeted deprived areas.	28 new infrastructure projects provided.	40 new infrastructure projects provided per year in targeted deprived areas.
Number of infrastructure projects maintained.	144 infrastructure projects maintained.	110 infrastructure projects maintained.

In 2016 another budget revision was signed which extended the project till 2018. The last amendment largely maintained the above results framework, while adding certain areas of focus under the various components, as follows:

1. Enhanced institutional and operational efficiency;
  - 1.1. Economic and social empowerment of women.
  - 1.2. Results-based staff performance appraisal
  - 1.3. Capacity building
    - 1.3.1. Developing an effective internal training mechanism within SFD, including TOT, curriculum development and piloting.
    - 1.3.2. Review the existing staff selection process to prepare second line management.
  - 1.4. SFD Strategic Evaluation to provide analysis of the SFD preparedness to meet the demands of the post 2015 development environment.
2. Improved planning, monitoring and evaluation for development results;
  - 2.1. Resource mobilization
  - 2.2. Results-based monitoring.
  - 2.3. Improving customer service.
  - 2.4. Development and implementation of SFD's Communication Strategy and improving SFD's public image.
3. Increased access to improved financial and non-financial services for Small, Medium Enterprises (SMEs);
  - 3.1. Better non-financial services for MSMEs.
  - 3.2. Improve non-financial services processes and responsibilities.
  - 3.3. Improve services of the One-Stop-Shop
  - 3.4. Expand SFD's partnership with the private sector and introduce innovative financing for essential services and utilities.
  - 3.5. Increasing access to finance for small and micro enterprises.
  - 3.6. Capacity building for the registered NGOs as per law no. 84 of 2002 and its amendments.
  - 3.7. Increase the participation of SFD in the national and international conferences related to the development of MSMEs.
4. Improved methodologies and business processes targeting human and community development interventions to become more sustainable and aligned with the local environment.
  - 4.1. Continue to support SFD's public works and community development program.

**It should be highlighted that no results framework, baselines, targets or indicators were included in the above amendment.**

## C. METHODOLOGY

Based on consultation with the UNDP and MSMEDA it is advisable to refocus the assignment along the following lines:

- Conducting a review, rather than a full-scale evaluation, of the SFD Phase IV project, with a focus on the lessons learned.
- Developing concrete recommendations on future cooperation between MSMEDA and UNDP.



- Upon consultation with the partners, provide a blue print for a new cooperation framework.

Given that the latest amendment includes no results framework against which to gauge progress, it is recommended to utilize primarily the results framework of the amendment signed in 2013 as a frame of reference against which progress is to be gauged. The consultant will attempt to explore the activities of the later amendment of 2016, but given the absence of a frame of reference it will be difficult to gauge progress towards the achievement of results.

The questions that the review of the past SFD Phase IV project seeks to answer are:

1. Were stated outputs achieved? If not, what progress toward the outputs has been made?
2. What factors have contributed to achieving (or not achieving) intended results?
3. To what extent the project has the project been able to build the institutional capacity of the SFD (now MSMEDA)?
4. To what extent the MSMEDA's operational and institutional structures (project management systems) is strengthened to effectively implement activities?
5. To what extent has the project been able to build and promote its partnership with other relevant stakeholders for greater results?
6. Has the project partnership strategy been appropriate and effective?
7. A brief on the sustainability of the various components.

The recommendations for future cooperation seek to answer the following questions:

1. What are the strategic areas of cooperation that can be identified between the partners that will capitalize on their competitive edges and create value on the national level in future cooperation initiatives?
2. What kind of interventions can be considered for the future cooperation between MSMEDA and UNDP?
3. What can be done for strengthening the impact/achievements of future cooperation?
4. How can cooperation be improved for its next phase?
5. How to maximize cooperation in a future set up (format, design...)?

These questions are answered based on:

- 1- Knowledge acquired from the previous phase (review of SFD Phase IV),
- 2- Literature review on MSMEDA, its mandate, plans, organizational structure...etc.
- 3- More focused deliberations with the UNDP, SFD/MSMEDA Management, and key donors.

## II. REVIEW OF PHASE IV FINDINGS

## A. OUTPUT 1: ENHANCED SFD'S INSTITUTIONAL & OPERATIONAL CAPACITY

Indicators	Baseline	Target	Accomplishments/Variance
Effective HR system in place (including recruitment process and planning, SFD salary scale and package of benefits and performance based staff appraisal system).	Existing HR system needs to be updated	HR system developed, tested, approved and applied.	- Developing KPIs - Developing, updating, and accrediting of HR policies and regulation, including promotion system and compensation and benefits. - Conducting Job evaluation. - Conducting salary survey, and developing salary scale.
# of trainings conducted to SFD staff on development related subjects and RBM (disaggregated by gender and location).	Limited RBM and other development trainings conducted to SFD	750 SFD employees/year are trained on development related subjects and RBM according to SFD training annual plan	Total No of trainees (2013 – 2018) 4951. HQ R. offices Male: 1445 2223 Female: 823 460 No of RBM : 98 trainees

Existence of an enterprise wide information system.	No automated enterprise wide information system in place	Automated enterprise wide information system set up and functional	No automated system in place
Existence of UNDP Exit Strategy	No UNDP Exit Strategy in place	UNDP Exit Strategy developed	Both the UNDP and MSMEDA has agreed to continue cooperation
Manual for internal operational and project implementation procedures updated	Existing manual for internal operational and project implementation procedures needs to be reviewed.	Manual for internal operational and project implementation procedures updated and used by staff.	17 manuals have been updated and are in place. These can be categorized into: 1. Manuals for microfinance operations (2 updates) 2. Manuals for direct lending operations (4). 3. Manual for OSS operations (1) 4. Manual for bank lending operations (1) 5. Manuals for non-financial services operations (2) 6. General operational manuals (6) 7. Manual for engineering and construction works (1).

Change management recommendations of the SFD evaluation implemented.	Limited number of change management recommendations are implemented.	Key recommendations have been considered, translated into management actions and implemented.	See Annex I
RBM readiness assessment conducted.	No RBM readiness assessment previously conducted.	RBM readiness assessment conducted and analytical report on RBM readiness produced.	Assessment conducted by a UNDP consultant. Developed KPIs for all positions. Reflected the bylaws in the KPIs of individual positions. Updated the bylaws of HR accordingly.

## 1. HUMAN RESOURCES

MSMEDA attempted early in the projects life to develop adequate HR systems. However due to the continuous change in management, coupled with the shifting mandate of the organization, delays were frequently encountered.

Starting 2013, the HR system has been consolidated, the organizational structure streamlined, manuals have been put in place, the objectives of each organizational unit clarified, job descriptions delineated, KPIs for the various positions have been adopted reflecting RBM, and an automated system of personnel performance evaluation has been utilized.

Above all, a salary survey for the various positions in MSMEDA has been conducted with the help of Hey Korn-Fery and a new salary scale that actually reflects an evaluation of each position, compared to its market counterpart, is ready for adoption.

RBM training was provided to the senior and middle management only. Lower levels at the FOs did not take it, but those at the Head Quarter attended the awareness sessions and orientation.

1. A **Capacity Development Plan was developed** in Results-Based Management for the institution, based on previously conducted needs assessment by UNDP.
2. **Several** workshops/trainings conducted for different levels in the institution
3. **Final Strategic Framework and Performance Measurement Framework for the institution were designed** – with Impact, Outcome and Output levels including indicators and targets for all three levels
4. **Final Sectoral SRF and PMF were developed and approved by head of the central sectors**
5. **Final Sectoral workplans was updated**– including at least sectoral outputs, indicators, targets ,implementation timeframe and cost

## 2. GOVERNANCE

In general terms, it is believed that internally (i.e, down from the level of the executive director) there are reasonably sound governance mechanisms governing the implementation of key MSMEDA activities. There is however room for improvement especially when it comes to the actual role of its board. For example, the Board is supposed to have two important committees; a Governance Committee, and a Risks and Auditing Committee. The Governance Committee was supposedly formed of several ministers and despite scheduling four meeting for the committee it did not convene a single time. The Risks and Auditing Committee was not actually formed, and the SFD relied instead on an internal committee, consisting of employees of the SFD.

This left the SFD vulnerable to political pressures that affected its decisions and subsequent performance. For example, following the outbreak of the avian flu, banks declined loan applications made by poultry farms. The SFD took the decision to offer loans up to L.E. 25 million with loan terms up to 3 years to owners of slaughterhouses of chicken and poultry farms. This naturally resulted in higher default rates. Shortly afterwards during the political turmoil following the January revolution of 2011, the default rates increased again partially due to the security situation on the one hand and relaxed documentation requirements for direct lending on the other. With the resultant deteriorating portfolio quality, donors were reluctant to furnish the SFD with more loan funds. As a result, in 2012 the SFD adopted a more strict policy, reduced its targets and focused more on improving the repayment rate. By 2013 the portfolio quality started improving.

Currently MSMEDA has a new Board chaired by the Prime Minister and consisting of:

- The Minister of Social Solidarity
- The Minister of Investment and International Cooperation
- The Minister of Planning, Monitoring and Administrative Reform
- The Minister of Finance
- The Minister of Local Development
- The Minister of Trade & Industry
- The Minister of Youth and Sports
- Deputy Governor of the Central Bank for Fiscal Stability
- Executive Director of MSMEDA, as a member and secretary of the board.

Moreover, the following "Experienced members" are also included:

- Mr. Hesham Ragab, Legal Advisor to the Minister of Trade and Industry
- Dr. Ismail Farag, President of the Arab Academy of Science, Technology and Maritime Transport
- Dr. Laila El-Khawaga, Professor of Economics.
- Mr. Mounir El Zahed, Ex-Chairman and Executive Director of Banque Du Caire
- Mr. Basel El-Heeny, Chairman of the Holding Company for Insurance.

While the composition of the board may be influenced by a variety of factors, ideally from a technical standpoint, the board members would have the time to be actively involved in the governance of MSMEDA by:

- Regularly attending the board meetings
- Actively participating in the committees to be formed by the board

Moreover MSMEDA would benefit from the involvement of members with more relevant experience in the following areas:

- MSME development policies
- Gender and development
- Microfinance
- Venture capital
- Leasing
- Business Development Services
- Cluster Development
- Credit guarantee

Accordingly, the GOE and MSMEDA may consider introducing several changes:

- Ensuring that the Ministers can be represented on the board and in the committees by senior staff from their respective ministries.
- Consider including members with proven practical experience in the areas identified above, or including them as non-voting members in an advisory committee to benefit from their experience.

## B. OUTPUT 2: IMPROVED PLANNING, MONITORING AND EVALUATING FOR DEVELOPMENT RESULTS

Indicators	Baseline	Target	Accomplishments/Variance
Amount of new resources mobilized in US\$	\$20 million new resources mobilized	\$810 million new resources have been mobilized.	Approximately \$1.4 billion have been mobilized. \$306 million in grants, and the rest in loans.
Number of international partnerships signed	3 international partnership agreements signed	10 international partnership agreements signed.	21 Project agreements have been signed with international partners, in addition to 11 MOUs and protocols.
Existence of RBM and evaluation systems and evidence of its use by SFD staff.	No RBM System in place	RBM System has been developed, tested, approved by top management and implemented.	Adoption of the RBM system is progressing, but not yet fully institutionalized.
Donors Satisfaction with SFD reporting system	No measurements for donors satisfaction with SFD's reporting system.	Annual survey on donors satisfaction has been produced and disseminated to different donors for reflection	No annual survey on donors' satisfaction has been conducted and/or disseminated to donors for reflection.

### 1. PARTNERSHIP AGREEMENTS

When it comes to mobilizing resources and fund raising, SFD/MSMEDA's performance is impressive. It was able to exceed its target by nearly 73%, and signed more than double the number of agreements projected.

### 2. DONORS' SATISFACTION

According to MSMEDA, the MIS system was built to reflect MSMEDA's developmental KPIs. During the due diligence stage, any donor undertakes an assessment for all MSMEDA's capabilities and readiness to implement any cooperation with the donor whether a credit line or a grant line. One of the most important capabilities that the donors assess is MSMEDA's reporting system. MSMEDA further maintains that all donors that cooperate with MSMEDA expressed their satisfaction with its MIS and reporting system which is privileged with a flexibility to adapt with any donor's reporting requirements and development KPIs. Monthly, quarterly and annually progress reports are generated from the MIS system and submitted to every donor satisfying its unique reporting requirements.

However, MSMEDA still did not attempt to conduct an annual survey on donor' satisfaction. This does not mean that donors are dissatisfied with MSMEDA's reporting system. Both the EU and the World Bank; both among the largest donors to MSMEDA, were generally satisfied with their reporting. The EU generally obtained its reports from the contractors entrusted with implementation and reporting and as such had no issues with the SFD.

The World Bank while generally satisfied with MSMEDA's reporting in terms of format, had serious reservations on the number of jobs reportedly created by the loans MSMEDA extended. According to the World Bank Group, MSMEDA used an outdated equation to calculate (or estimate) the number of jobs created. This equation does not have all the variables required for estimation of the number of jobs created. In addition, the values accorded to some the variables used (e.g. inflation) were outdated and did not reflect reality. As a result the World Bank Group requested that MSMEDA moves to the reporting of the actual number of jobs created through phone interviews with clients.

### 3. RESULTS BASED MANAGEMENT

MSMEDA took important steps towards the adoption of an RBM system. However, what is needed according to the HR department is to automate the link between the personnel performance evaluation HR system and RBM.

There is a need to connect human resource management to RBM through:

- Reviewing/revising individual job descriptions to ensure the application of RBM principles by staff members
- Revise recruitment qualifications – to ensure that posts for development positions at least include understanding of and experience in RBM
- Include RBM in orientation training to all new staff
- Develop an RBM capacity development plan for the upcoming period – see above under Capacity Development Plan
- Develop/offer an RBM learning package for new staff
- Discuss/define RBM certification standards – will staff be RBM certified in the future
- Link RBM to performance appraisal – linkage between individual KPIs and organization level strategic framework

### C. OUTPUT 3: INCREASED ACCESS TO IMPROVED FINANCIAL AND NON-FINANCIAL SERVICES FOR SMES

Indicators	Baseline	Target	Accomplishments from 1/1/2013-31/12/2018 Dated 20/1/2019
Amount disbursed to small enterprises by gender	L.E. 1,279 million (L.E. 273 million for women led enterprises)	L.E. 1,500 million per year, with 30% for female entrepreneurs. Totaling L.E. 9 billion Including 2.7 billion for women	L.E. <b>14.1billion</b> (L.E. <b>3 billion</b> for women)  21%
Amount disbursed to microenterprises by gender	L.E. 472 million (L.E. 193 million for women)	L.E. 630 million per year, with 40% for female entrepreneurs. Total: L.E. 3.78 billion L.E. 1.5 billion for women	L.E. <b>10.1billion</b> (L.E. <b>4 billion</b> for women) 268% of targeted microenterprises 267% of targeted women clients 40% of total reaching women
Number of small enterprises financed (disaggregated by gender)	18,112 small enterprises (4,685 women owned)	30,000 small enterprises per year (10,000 women owned). Total: 180,000 small enterprises (including 60,000 women owned)	<b>97,700</b> small enterprises ( <b>25,308</b> women owned) 54% of small enterprises targeted. 42.18% of women targeted
Number of microenterprises financed (disaggregated by gender)	127,000 microenterprises funded (65,000 women owned)	125,000 microenterprises funded per year (50,000 women owned) Total: 750,000 clients including 300,000 female clients.	<b>1,180,628</b> microenterprises ( <b>561,791</b> women owned).  158% of target 187% female owned

#### 1. MSMEDA'S LENDING ACTIVITIES

MSMEDA undertakes lending through three departments:

##### BANK LENDING

Loans provided through banks are currently being provided at 13% (up from 10% in 2013 and 11.5% in 2018). Loans range in size between L.E. 10,000 to L.E. 2 million, except in the case of manufacturing activities and renewable energy (5 million).

##### DIRECT LENDING

Accounting for 15% of MSMEDA's portfolio, they can lend to anybody (including through NGOs or leasing companies), although they sometimes give priority to certain sectors or segments (e.g., start-ups, which reportedly constitute 25% of their portfolio). Currently they provide loans through 3 NGOs and 2 Cooperatives for a total of L.E. 21.6 million. All in all, NGOs and Cooperatives account for 1.6% of their portfolio. The upper threshold for their loans was L.E. 1 million in 2007, and was later increased to L.E. 2 million. During 2018, the upper threshold of loans to industrial enterprises was increased to L.E. 5 million and L.E. 3 million for commercial enterprises. For microenterprises they can provide loans up to L.E. 70,000.



The Direct Lending Department is also involved in non-credit financial services. For example, they currently have 10 contracts with leasing companies with an average value of L.E. 20 million per contract. Their leasing portfolio reached 21,930 clients with an average of L.E. 420,000 per lease.

#### MICROFINANCE

Microlending activities are undertaken through NGOs, followed by banks and microfinance companies. The upper threshold for loans was L.E. 10,000 until 2013. Thereafter it was increased to 25,000. In the case of lending through companies and banks it is L.E. 35,000. Nearly 85% of MSMEDA's portfolio is targeting the L.E. 10,000 – L.E. 25,000 market segment. MSMEDA is primarily targeting category "C" NGOs to transform them into Category "B" MFIs.

- Category "C" NGOs are those NGOs whose portfolio does not exceed L.E. 10 million. There are currently 884 NGOs in this category in Egypt.
- Category "B" NGOs are those NGOs whose portfolio ranges from L.E. 10 million to less than L.E. 50 million. Currently there are 19 NGOs in this category.
- Category "A" NGOs are those NGOs whose portfolio exceeds L.E. 50 million. There are 13 NGOs in this category.
- In addition there are 8 private companies that are currently active in microfinance in Egypt.
- 

#### A. OUTREACH

The small enterprise lending component has faced difficulties in reaching the targeted number of borrowers. To date MSMEDA was able only to reach 54% of this number. This may indicate a problem with the breadth of outreach, as well as with its depth. The average loan size anticipated (L.E. 50,000) was surpassed right from the first year of implementation, where the combined average loan size for bank lending and direct lending was L.E. 120,340.

However, to be fair, it should also be noted that the targets anticipated in the agreement may not have been realistic to start with. In addition, with the radical economic developments that Egypt experienced since the ratification of the agreement, it would have made sense to revise these targets and projections to better reflect reality.

Given that the targets of the agreement have not changed, it may seem that both the banks and MSMEDA are more concerned with the total amounts disbursed, than with the number of borrowers. While such a preoccupation can be understood in the case of banks, there still needs to be some effort in the case of the Direct Lending component. Interestingly, the average loan size under the Direct Lending component has been significantly higher than that under Bank Lending over the last two years. In 2017, the average loan size under Direct Lending increased by 48% over the previous year, reportedly due to the introduction of Ard El Kheir program. In 2018, the average loan size registered nearly a 13% increase, reportedly due to the decision to raise the upper threshold to L.E. 5 million for industrial enterprises and L.E. 3 million for commercial enterprises.

	Total				Banks Lending				Direct Lending			
	Amount Disbursed (L.E.)	No. of Clients	Av. Loan Size (L.E.)	Change in Av. Loan Size (%)	Amount Disbursed (L.E.)	No. of Clients	Av. Loan Size (L.E.)	Change in Av. Loan Size (%)	Amount Disbursed (L.E.)	No. of Clients	Av. Loan Size (L.E.)	Change in Av. Loan Size (%)
2013	1,512,193,819	12,566	120,340		1,379,202,962	10,376	132,922		132,990,857	2,190	60,726	
2014	2,111,094,417	16,046	131,565	28.4	1,887,968,206	13,519	139,653	4.8	223,126,211	2,527	88,297	31.2
2015	3,071,207,966	19,336	158,834	31.3	2,740,992,343	15,817	173,294	19.4	330,215,623	3,519	93,838	6
2016	2,227,157,104	17,050	130,625	-38	1,690,673,460	12,313	137,308	-26.2	536,483,644	4,737	113,254	17.1
2017	2,813,950,585	16,157	174,163	21	2,053,456,798	12,665	162,136	15.3	760,493,787	3,492	217,782	48
2018	2,350,978,038	16,549	142,062	-19.7	1,347,138,102	12,524	107,565	-50.7	1,003,839,936	4,025	249,401	12.7
<b>Total</b>	<b>14,086,581,929</b>	<b>97,704</b>	<b>144,176</b>		<b>11,099,431,871</b>	<b>77,214</b>	<b>143,749</b>		<b>2,987,150,058</b>	<b>20,490</b>	<b>145,786</b>	

In contrast, the microenterprise lending component has significantly surpassed its targets. It has successfully reached 268% of targeted lending to microenterprises, 267% of targeted lending to women clients, while ensuring that it met the target of having 40% of the portfolio reaching women. In addition it has surpassed the targeted number of clients (158%), as well as the targeted number of female clients (187%).

#### B. NUMBER OF FEMALE CLIENTS

Results to date as shown above suggest that the Small Enterprise lending component faced difficulties in reaching the total targeted number of female clients (only 42% of the targeted number was reached).

Reasons cited for underperformance of the Small Enterprise Lending facility in terms of reaching women borrowers include:

- Banks' and MSMEDA's need of technical assistance in order to equip them with the tools to target women borrowers.
- Women's demand is generally for smaller loan sizes than those provided by banks.
- Banks object to the inclusion of gender conditionality in the agreements with MSMEDA on the grounds that they offer a demand driven service.

Aside from the credibility of the above reasons, this situation is about to change. Donors that are financing SME lending through the MSMEDA are starting to emphasize the gender component (AFD and the World Bank Group). These donors, in addition have a TA grant component in the agreements with MSMEDA that can be used to build the requisite capacities in both MSMEDA and the banks to enhance their efficiency and effectiveness in targeting women.

Direct Lending by Gender 2013 - 2018						
	Total Amount Disbursed	Total No. of Loans	Amount Disbursed to Females	No. of loans made to Females	% of female loans	% of Portfolio disbursement to females
<b>Ard El Kheir</b>	814,837,500	1,743	492,562,500	1,060	60.8	60.4
<b>Total</b>	<b>2,987,048,008</b>	<b>20,490</b>	<b>890,717,596</b>	<b>5,621</b>	<b>27.4</b>	<b>29.8</b>
<b>Total excl. Ard El Kheir</b>	<b>2,172,210,508</b>	<b>18,747</b>	<b>398,155,096</b>	<b>4,561</b>	<b>24.3</b>	<b>18.3</b>

Direct Lending accounts for about 15% of MSMEDA's SME lending portfolio. However, activities reported under Direct Lending, are not necessarily direct lending per se whereby MSMEDA gives a loan to the client without the involvement of intermediaries (e.g. NGOs). Rather, an estimated 15-20% of the Direct Lending portfolio is undertaken through agricultural NGOs. The reason is that lacking official documentation to verify their ownership of agricultural land, most peasants cannot directly access MSMEDA funds. Accordingly, MSMEDA chose to channel its lending to peasants through agricultural cooperatives.

Moreover one of the programs managed through the Direct Lending department is Ard El Kheir; an animal husbandry incubation program managed by Misr El-Kheir foundation in four governorates (Giza, South Sinai, Assiut and New Valley). Ard El Kheir seems particularly focused on females who came to account for more than 60% of portfolio and loans given under the program. In fact without Ard El-Kheir, the percentage of the portfolio targeting female clients would significantly fall from almost 30% to a little above 18%.

**The Microfinance sector appears to have done a better job in targeting women. During the period covered in the evaluation 1,180,628 microenterprises were reached, including 561,791 women owned (47.8%).** However if taken against the overall performance of the microfinance industry in Egypt, this percentage appears less than average. Female clients in 2018 came to constitute 67.8% of the total number of clients reached by the microfinance industry in Egypt.

### C. SECTOR TARGETING

Sector	Direct Lending			Bank Lending			Total		
	No. of Enterprises	Total Amount Disbursed (L.E.)	Av. Loan Size (L.E.)	No. of Enterprises	Total Amount Disbursed (L.E.)	Av. Loan Size (L.E.)	No. of Enterprises	Total Amount Disbursed (L.E.)	Av. Loan Size (L.E.)
Commercial	12,412	1,248,434,554	100,583	33,429	5,958,566,029	178,245	45,841	7,207,000,583	157,217
Services	4,797	548,277,985	114,296	23,901	1,664,697,140	69,650	28,698	2,212,975,125	77,113
Industrial	1,503	358,256,319	238,361	4,569	1,833,543,329	401,301	6,072	2,191,799,648	360,968
Husbandry	1,766	826,411,202	467,957	14,799	1,425,739,568	96,340	16,565	2,252,150,770	135,958
Others	13	5,769,998	443,846	516	216,885,805	420,321	529	222,655,803	420,899
<b>Total</b>	<b>20,491</b>	<b>2,987,150,058</b>	<b>145,779</b>	<b>77,214</b>	<b>11,099,431,871</b>	<b>143,749</b>	<b>97,705</b>	<b>14,086,581,929</b>	<b>144,175</b>

Sector	Direct Lending		Banks		Total	
	% of Clients	% of portfolio	% of Clients	% of Portfolio	% of Clients	% of Portfolio
Commercial	60.6	41.8	43.3	53.7	46.9	51.2
Services	23.4	18.4	31.0	15.0	29.4	15.7
Industrial	7.3	12.0	5.9	16.5	6.2	15.6
Husbandry	8.6	27.7	19.2	12.8	17.0	16.0
Others	0.1	0.2	0.7	2.0	0.5	1.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100</b>	<b>100</b>

Generally speaking the share of Industrial clients of bank loans in Egypt shows a drastically different and opposite pattern to that of MSMEDA's lending activities as the next table calculated from the monthly statistical bulletin of the Central Bank of Egypt shows:

Credit to the Private Sector in Egypt as of 31 January 2019

	L.E. million	%
Agriculture	17,805	2.3
Industry	350,244	46.2
Commerce	127,795	16.9
Services	262,419	34.6
Total	758,263	100

While it is true that mainstream private sector lending is relatively more focused on larger enterprises, the difference between the ratios in the above table and the MSMEDA lending activities is still large enough (46.2% vs. 15.6%) to suggest that there is room for improvement.

The same can be said of the microfinance department. Clients active in the manufacturing sector are less than 4% of the total number of clients, and account for 4.3% of the portfolio.

<b>Sector</b>	<b>% of clients</b>	<b>% of portfolio</b>
Commercial	63.0	69.3
Services	11.9	12.8
Industrial	3.8	4.3
Husbandry	20.3	12.1
Others	1.0	1.4
Total	100	100

However, it should be noted that MSMEDA's microfinance portfolio largely reflects (though slightly lagging behind) the performance of the microfinance industry in Egypt in this regard. As per the 2018 industry report, productive activities accounted for 7.4% of the total microfinance portfolio and 6.8% of the total number of microfinance clients.

	<b>Industry</b>	<b>Agriculture</b>	<b>Services</b>	<b>Trade</b>	<b>Total</b>
Portfolio (L.E.)	856,300,000	1,600,000,000	2,000,000,000	7,070,000,000	11,526,300,000
No. of Clients	191,000	373,000	384,000	1,800,000	2,748,000
Av. Loan Size (L.E.)	4,483	4,290	5,208	3,928	4,194
% of Portfolio	7.4	13.9	17.4	61.3	100
% of Clients	7.0	13.6	14.0	65.5	100

Again, this suggests that there is room for improvement in targeting manufacturing activities.

It should be noted that MSMEDA seems to be aware of this situation. The microfinance sector shall introduce changes to its credit policies to introduce new tools (e.g. micro-leasing, Islamic finance), and target green projects, as well as access investment funds. The Direct Lending department and the Bank Lending similarly maintain that they will target the industrial sector more aggressively.

## D. NEEDS

From the perspective of the departments involved in MSME lending, they need the following:

### SME BANK LENDING:

- Assistance in investing in a credit guarantee fund.
- Intensive TA in setting up and managing a credit guarantee
- Benefit from best practices from other countries in setting up and managing credit guarantee funds.
- They need an IT system that enjoys sufficient flexibility to manage their operations and the sudden changes they may introduce. For example, under the CBE SME initiative (5%), the CBE decided to exclude trade enterprises from the initiative. According to the head of Bank Lending to SMEs he could not introduce a higher interest rate for Trade enterprises, mainly because of the IT and the Administration sectors in MSMEDA who claimed that the system does not allow them to have more than one interest rate per agreement.
- The same thing can be said about Islamic Finance.

### DIRECT LENDING:

- MIS for venture capital
- Need an OST to similar countries (Morocco)
- They need to work on improving the LRF for Venture Capital
- They need more staff that is qualified in financial services for MSMEs (they currently only have 4 staff members).
- They need assistance in designing financial products for women
- They need support in supply chain finance.

### MICROFINANCE:

- Assistance in introducing microleasing.
- Assistance in establishing a microfinance investment fund.
- MIS for microfinance

## 2. MSMEDA'S NON-FINANCIAL SERVICES

Indicators	Baseline	Target	Accomplishments from 1/1/2013-31/12/2018 Dated 20/1/2019
Number of beneficiaries receiving non-financial services	47,249 beneficiaries	46,000 beneficiaries per year	Approximately 161,425 Nearly 58.5%
Number of entrepreneurship training programs designed and delivered.	27 entrepreneurship training programs designed and delivered.	720 entrepreneurship training programs designed and delivered per year.	3 training programs/bundles were designed in 2014 with Shell Livewire, the British Council, ILO and DFATD, UNIDO. 663 courses were delivered (does not include 2013 and 2016)

Number of potential entrepreneurs who benefited from SFD entrepreneurship training program.	1,643 potential entrepreneurs benefited	35,000 potential entrepreneurs per year	17,979 trainees
Number of new non-financial products developed and adopted.	9 new nonfinancial products developed and adopted.	10 new nonfinancial products developed and adopted per year.	<p><b>OSS Services:</b></p> <ul style="list-style-type: none"> <li>- Final Licenses:</li> <li>- Temporary Licenses:</li> <li>- Enterprise ID</li> <li>- Commercial Register</li> <li>- Tax Card</li> <li>- Social Insurance Registry.</li> </ul> <p><b>Entrepreneurship &amp; Incubation</b></p> <ol style="list-style-type: none"> <li>1. Entrepreneurship training</li> <li>2. Incubators.</li> <li>3. Mentoring.</li> <li>4. Entrepreneurship championship.</li> </ol> <p><b>Assistance to Industrial Projects</b></p> <ol style="list-style-type: none"> <li>5. Feasibility Studies.</li> <li>6. Information Services (equipment, inputs, training).</li> <li>7. Barcode registration.</li> <li>8. Counseling</li> <li>9. Specialized TA</li> </ol> <p><b>Assistance to Services Projects</b></p> <ol style="list-style-type: none"> <li>10. Conversion of vehicles to Natural Gas</li> <li>11. Mobile Outlets</li> </ol> <p><b>Marketing Services</b></p> <ol style="list-style-type: none"> <li>12. B2B Facilitation</li> <li>13. Linkages to Commercial Chains</li> <li>14. Registration in GOE vendors database</li> <li>15. Training for Exports</li> <li>16. E-Catalog</li> </ol>
Number of national exhibitions conducted/sponsored by SFD	45	45	164 in Cairo 484 in other governorates 7 overseas
Credit risk management study conducted.	No credit risk management study in place	Credit risk management study developed and adopted	

a. NON-FINANCIAL SERVICES SECTOR

In reviewing progress against the above targets and indicators, one should take into consideration that the targets and indicators leave a lot to be desired. The Indicators fall short of capturing the nature of work in the design and delivery of non-financial services. For example, the Results Framework targets the design and delivery of 720 entrepreneurship training courses to 35,000 potential entrepreneurs per year. For one thing the Results Framework seems to disregard the following:

- The design of the course which is usually done once.
- The customization/refinement of the course which is done prior to its delivery to different target groups.
- The delivery of the course (i.e. the number of training events or the number of times the course is given).
- The Training of Trainers for the course

Anticipating the delivery of 720 courses is far more excessive than can happen in a single year. It presupposes that on each and any day of the year 2 courses shall be running simultaneously. Moreover, it presupposes that each course shall be attended by an average of 49 trainees; at least 2.5-3 times more than the optimal number of trainees in such courses.

Naturally, such targets cannot be met. MSMEDA actually delivered an estimated total of 809 courses (number of courses in 2013 and 2016 to be confirmed) for a total of 17,979 trainees; with a high average of 22.2 trainees attending each course.

It should be noted that in delivering such courses however, the SFD/MSMEDA experimented with a variety of courses; depending on the donor/partner they worked with. One such course was the one provided by Intilaqa; a Shell entrepreneurship initiative. Another one was provided by UNIDO, and a third one was provided by the ILO. MSMEDA reportedly is currently working with the ILO bundle; Start and Improve your Business (SIYB) and the women focused Get Ahead program.

Entrepreneurship Training by MSMEDA 2013-2018							
	2013	2014	2015	2016	2017	2018	Total
Trainees	479	1485	3154	4141	4050	4670	17,979
Courses	22	64	125	188	179	231	809
Av. No. of Trainees/Course	21.8	23.2	25.2	22.0	22.6	20.2	22.2

Note: Boxes shaded in yellow are estimates calculated by the consultant.

Another indicator and target that fall short of capturing the nature of work on non-financial services is the “Number of new non-financial products developed and adopted”, which had the target of 10 new non-financial products developed and adopted per year. Not only does it fail to reflect the amount of work involved in launching a new non-financial product (in terms of desk research, market research and needs assessment, design, piloting, monitoring and evaluation, impact assessment, refinement, and then coming up with the delivery mechanisms to launch the product and scale it up...etc.), it actually presses MSMEDA into investing time and resources in products and launching them without being adequately tested.

MSMEDA actually undertook a number of BDS services that are summarized in the table below:

	2013	2014	2015	2016	2017	2018	total
MSMEs registered as GOE Suppliers w/ GAGS	2175	2187	2511	2292	2341	2252	13,758
B2B Value Chain	124	134	153	166	178	186	941

Integration							
Nominated for Export Opportunities	84	152	125	125	118	222	<b>826</b>
Enterprises Linked to Retail Chains Outlets	128	146	160	171	180	151	<b>936</b>
Enterprises Added to the E-Catalog(*)	59	18	25	140	186	187	<b>615</b>

(\*) Since 2014 these are new projects whose products appear not to have been photographed for uploading to the E-Catalog. Apparently MSMEDA has not yet contracted a photographer for the job.

In addition the Non-Financial Service Sector is also in charge of the 33 One Stop Shops undertaking licensing and registration for MSMEs all over Egypt:

One Stop Shop Services (2013-2018)							
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Total</b>
Final License	13282	16123	19927	18358	15102	12663	<b>95,455</b>
Temporary license	14852	17461	23081	19282	16208	13582	<b>104,466</b>
Enterprise ID	18223	20425	23362	21338	16109	13788	<b>113,245</b>
Commercial Register	5049	3880	4322	5196	2793	1717	<b>22,957</b>
Tax Card	8532	7691	9446	9653	8596	7477	<b>51,395</b>
Social Insurance	N/A	N/A	4089	6426	4321	3926	<b>18,762</b>

Other services include:

- Issuing barcodes for clients' products.
- Specialized Technological Information services
- Model feasibility studies for industrial and agricultural projects (appeared to have stopped post 2014)
- Orientation seminars and workshops to present the activities of MSMEDA
- Mentoring (in cooperation with Lafarge; a French Cement production company)
- Training and capitalization of women
- Speed mentoring of 460 clients by 55 mentors
- Preliminary database of BDS providers
- Business Advisory Services Project with EBRD targeting 41 female clients
- One Village One Product Project with UNWOMEN working with milk production clusters in Minya and Beni Suef to supply Danone, and an artichoke cluster in Beheira.
- SRILW Project to support women entrepreneurs with UNWOMEN consisting of a credit line worth L.E. 2.5 million and a grant worth L.E. 1.5 million to provide BDS to them.

#### b. EXHIBITIONS & FAIRS DEPARTMENT

In addition to the services and products provided by the Non-Financial Services Sector, the Exhibitions and Fairs Department, under the Finance and Administration Sector, performs what appears to be the most valuable service to MSMEDA's clients.

The fairs and exhibitions in which MSMEDA participated during the reporting period are summarized below:



Fairs and exhibitions held from 1/1/2013 to 28/2/2019

Type of Exhibition	Number of Exhibitions	Sales	Contracts	Total Sales & Contracts (L.E.)	Number of Exhibitors	Average Sales per Exhibitor (L.E.)	Average Exhibitors per Exhibition
Central (in Cairo)	164	92,334,093	49,045,000	141,379,093	5,779	24,464	35
Governorates	484	83,352,466	5,808,000	89,160,466	7,259	12,283	15
Overseas	7	3,592,260	714,400	4,306,660	87	49,502	12
Total	655	179,278,819	55,567,400	234,846,219	13,125	17,893	20

Approximately 22 exhibitions are held every year in the Exhibitions building MSMEDA has. In any Exhibition an agreement is made with the organizer to include some of MSMEDA's clients.

Exhibitions generally fall into three types:

- Cultural handicrafts (e.g. Diyarna that is organized in partnership with the Ministry of Social Solidarity)
- Industrial fairs (MSMEDA participates in these fairs with the Federation of Egyptian Industries)
- Foodstuff (before or during Ramadan with the Holding Company for Food Industries).

Some exhibitions are held for B2B purposes; e.g. an Exhibition for Children Clothes which was held 4 times this year. Another is held with the Scientific Research Academy called Innovations. In addition, another is held with the Akhbar El Yom; the Higher Education Exhibition.

In addition to the exhibitions held in Cairo, MSMEDA also takes part in organizing exhibitions and fairs in governorates. For example Damietta has 4 exhibitions organized per year, including the Industrial Development and Factories' Services fair.

Overseas exhibitions include China (B2B) – Bahrein – Italy and they receive invitations.

- In Italy for example there were 11 SMEs invited by MSMEDA to participate
- The total cost for participation in the Exhibition was L.E. 800,000 (around L.E. 80,000 per exhibitor).
- MSMEDA covered 50% of the cost and the remaining 50% was furnished as a loan.

Through participation in overseas exhibitions they were able to identify certain training needs for MSMEs. These include the topics that equip them to participate in such fairs; e.g; pricing, branding, packaging, and marketing.

The Exhibitions and Fairs Department enjoys significant demand on its services and is actually generate revenues for MSMEDA. Nevertheless with the increasing costs of maintaining the building they found themselves in need of generating more revenues to finance their activities. One possible way they are suggesting is to increase the price of rental to cover the above costs. However with the construction of competing venues that are currently attracting exhibitors, they are in need of a concerted marketing effort to increase the occupancy level of the facility.

Another area where funding is needed is the advertisement campaigns for the local exhibitions, which is extremely expensive. However part of these costs can be covered by sponsors.

They also need technical assistance in identifying the products that fit the different overseas exhibitions, as well as the types of assistance required for the exhibitors to optimally benefit from their participation in these exhibitions. Moreover, assistance would also be needed in the choice of the space in these exhibitions, the design of the layout, as well as the design of the booths.

From the perspective of the Fairs and Exhibitions Department, they need the following:

- With the rising cost of operation and maintenance they need to increase the rent in order to enable them to participate in overseas exhibitions.
- There is a need to train participants on pricing, branding, marketing and packaging
- MSMEDA needs to market the Exhibitions Hall they have, especially with rising competition from other government owned facilities.
- MSMEDA needs to have a marketing consultant to identify the products that have potential and target different overseas exhibitions accordingly
- They need more staff
- Budget for the advertisement of Exhibitions (very costly).
- They need to be moved from under the Finance and Administration Sector.

**D. OUTPUT 4: METHODOLOGY AND BUSINESS PROCESS OF HUMAN AND COMMUNITY DEVELOPMENT INTERVENTIONS IMPROVED AND BECAME MORE SUSTAINABLE AND ALIGNED WITH THE LOCAL ENVIRONMENT.**

<b>Indicators</b>	<b>Baseline</b>	<b>Target</b>	<b>Accomplishments/Variance</b>
Comprehensive assessment of local economy of target governorate (Fayoum) conducted.	No assessment of local economy of Fayoum previously conducted	Comprehensive assessment of local economy of target governorate (Fayoum) finalized.	No assessment was done by SFD as it was not part of its scope.  The assessment was finalized by a unit established within the Ministry of local development. Another assessment was also finalized by the same unit for Sohag Governorate.
Number of LED Forums conducted in target governorates	No LED forums previously conducted in any of the target governorates	One LED forum conducted in one governorate	The LED forums were not conducted by SFD as it was not part of its scope.  The LED forum was conducted by a unit within the Ministry of local development another forum was also conducted in Sohag Governorate.
Number of attendees of LED forums	No LED forums previously conducted	LED forum conducted and attended by minimum 1 representative from NGOs, private sector, local authorities	The LED forums were not conducted by SFD as it was not part of its scope.  The LED forums conducted were attended by several NGOs, private sector representatives, all concerned local authorities in both Governorates Fayoum and Sohag.
Community development project identification process aligned with governorates planning process and local economic context.	Community development project identification process currently not aligned with governorates planning process and local economic context.	Community development project identification process aligned with governorates planning process.	The assessment of the local economy in Fayoum and Sohag were done in alignment with both governorates planning processes. This resulted in several community infrastructure and community development projects that were representing the priorities and community needs.
Number of jobs created in community development projects (disaggregated by gender)	310 jobs created in community development projects	15% of total jobs created are for women.	24.5 million Labor/ day were created for about 70,150 beneficiaries. It is estimated that 69% of the total jobs created during the period from 2013 – 2018 were for women.

Number of new community projects provided in targeted deprived areas.	15 new community projects provided in targeted deprived areas.	60 new community projects provided per year in targeted deprived areas. Target: 360 projects	715 new community development projects were implemented during the period from 2013 - 2018, according to the geographical targeting mechanism (poverty Map).  208%
Number of new infrastructure projects provided in targeted deprived areas.	28 new infrastructure projects provided.	40 new infrastructure projects provided per year in targeted deprived areas. Target: 240	184 new infrastructure projects were implemented during the period from 2013 – 2018, according to the geographical targeting mechanism (poverty Map).
Number of infrastructure projects maintained.	144 infrastructure projects maintained.	110 infrastructure projects maintained.	483 infrastructure sub-project maintained during the period from 2013 - 2018.

Overall, MSMEDA’s performance under this component is impressive. MSMEDA was able to surpass the target of 360 community projects and was able to implement 750 community projects during the reporting period, with a rate of 208%. When it comes to infrastructure projects implemented by MSMEDA, they achieved 76% of the number of projects targeted, mainly because the average size of the projects was increased; owing to the devaluation of the local currency and the accompanying price hikes.

The LED forums were not included in MSMEDA’s scope, but were the responsibility of the Ministry of Local Development. As a result, the local economic assessment was conducted in Fayoum and Sohag by a unit established within the Ministry of Local Development.

One important lesson for similar initiatives is that the selection criteria of the projects can be used to distribute benefits. The selection criteria for eligible community development projects focused on labor intensive projects that are more suitable and attractive for women. Hence MSMEDA was able to allocate a larger portion (69%) of the jobs created for women.

It should be noted that the early success of the Emergency Labor Intensive Investment project “ELIIP”, funded by the World Bank attracted more funding from other donors for example the EU that funded the Emergency Employment Investment project “EEIP”.

From the perspective of the Community and Human Development Department, the department needs the following:

- To tie infrastructure with SME development.
- Improve their program of Training for Employment. Possibly expanding the program through involving business associations.
- IT to have a monitoring system to all of the above.

## E. OTHER SUPPORT SECTORS/DEPARTMENTS

### 1. REGIONAL OFFICES CENTRAL SECTOR

The Regional Offices Central Sector is probably the largest sector in MSMEDA. It houses all the staff of the Regional Offices, who while entrusted with the daily implementation of MSMEDA's activities are administratively reporting to the Regional Offices Sector. Field Offices are distributed among 6 regions as follows:

<b>Regional Office</b>	<b>Regions</b>
Greater Cairo	Cairo – Giza - Qalubiya
Suez Canal & Sinai	Ismailia – Suez – Port Said – North Sinai – South Sinai
Daqahliya	Daqahliya – Sharkiya – Gharbiya – Menoufiya – Damietta – 10 <sup>th</sup> of Ramadan
Western Delta	Alexandria – Beheira – Karf El-Sheikh – Matrouh – Borg El Arab
Minya	Minya – Assiout – Beni Suef
Luxor	Luxor – Aswan – Qena – Sohag – Red Sea

According to the Regional Offices Sector management, the FOs are executing entities; not design entities like the line sectors, and as such do not require the same talents required by the Head Office. Targets are received by them from the Line Sectors and are then allocated to the FOs. Each staff member is consequently appointed certain targets. Monthly, quarterly and annual performance reports are prepared. Each staff member presents a report with his/her accomplishments at the end of the year. A ranking of ROs is periodically conducted according to criteria that are agreed upon with the HR Department.

When asked how the quality of HR can be improved in the Field Offices, the management responded that the best way is through recruiting good fresh graduates in the entry level positions at the field. Meanwhile, he maintained that Field Office managers need to be promoted from within MSMEDA's Field Offices in order to vacate the lower positions.

The Central Sector for ROs expressed the following needs:

- Training for 560 employees in the ROs on their functions under the new mandate of MSMEDA
- Adequate capacity building in the functions of MSMEDA.
  - Improved capacity in implementation
  - Improved capacity to coordinate between service providers
  - Behavioral change and customer orientation
  - Assessing the needs of clients
- The OSS need the following:
  - Better infrastructure
  - Better internal systems
  - Satellite offices

### 2. THE CUSTOMER SERVICE DEPARTMENT

The current institutional setup creates a situation that requires optimal flow and sharing of information across the entire organization of MSMEDA. As is the case with most large organizations there are instances of failure of information flow that need to be addressed.

For example, the Customer Services Department has noted several complaints reporting the bank's refusal to lend to clients. Upon investigation, they realized that the credit line was depleted, without the Field Offices knowing about it. Accordingly, they communicated with the Regional Offices Sector and requested them not to refer any further clients to the agricultural bank. In a perfect world the pertinent line sector in charge of the agreement, would have been alerted early on to the near depletion of funding, and would have communicated this to the ROs. The source of failure could be the lack of an online information system that alerts the pertinent sector in a timely manner, or the lack of a mechanism in the agreement with the bank to alert MSMEDA in a timely manner, or the absence of follow-up on the part of the line sector on the credit line, or any combination of the above.

The majority of complaints received from clients pertain to: credit (excessive paperwork and guarantees required from the client), and licensing and registration of enterprises (delays in issuing licenses by OSSs).

The Customer Services Department suffers from the following constraints:

- The absence of staff at the Field Offices following the Customer Service Department.
- The lack of an IT system to collect and consolidate complaints from the field.
- The Customer Service Department's lack of access to the "complaints boxes", reportedly situated in the Field Offices.

Currently the Customer Service Department only processes complaints that it gets through the Hotline and the Facebook page that it came to manage. According to the Department Manager, the limited number and nature of these channels limits their capacity and he estimates that they only process a fraction of the actual complaints.

It would be interesting to see how this setup will be conducive to the effective implementation of MSMEDA's new mandate; particularly when it comes to the coordination of MSME development activities, programs and policies across the nation. The adequate performance of this role presupposes open lines of communication permeating the organization, and more crucially between the organization and the public.

### 3. COMMUNICATION DEPARTMENT

Normally, the Communication Department should play a vital role in policy making entities such as MSMEDA. One would expect Communication to play a vital role under MSMEDA, given its importance to policy making and to facilitating MSMEDA's work, especially in coordination of efforts on a national scale.

However, according to the Department Manager, they are treated as an added-on department that is often called upon after the fact. There needs to be a better integration of communication with the rest of the departments and a better understanding of the role of communication in project implementation and policy making.

The needs of the Communication Department are:

- TA in social media
- Social Media is currently under the "Customer Service Department". This means that, rather than being used to communicate and discuss MSMEDA's plans and programs, focus is made on responding to complaints of clients.

- PowerPoint presentations
- Technical orientation and introductory courses to the work of MSMEDA's various sectors (microfinance, SME lending, Non-financial services)
- Funding of certain activities:
  - o Field visits for journalists and media
  - o Orientation Workshops on MSMEDA's work
  - o Infographs
  - o Mini-campaigns
  - o Awareness raising campaigns
  - o Information workshops to partners

The role of communication in policy-making should not be underestimated. It involves inter alia:

- Mapping of stakeholders and developing messages for each group.
- Orienting the public to the proposed objectives and contents of policies.
- Initiating and playing a key role in public dialogues leading to policy formulation.
- Raising awareness of the contents of policies after they are issued and adopted.

As it currently stands the Communication Department is a wasted resource that can be better utilized and staffed, and better integrated in MSMEDA's activities.

#### 4. INFORMATION TECHNOLOGY SECTOR

In an organization as varied in its activities as MSMEDA, the IT sector performs a vital role in supporting all the line sectors. With the considerable expansion of the role of MSMEDA, the role of the IT sector becomes even more vital to its success. In fact having a strong IT sector is a sine qua non for effective coordination across the government, as well as for the effective delivery and expansion of the various financial and non-financial services it provides. Conversely, having an IT sector that is lagging in performance threatens to stifle the organization's performance of its duties.

Nearly all the sectors interviewed believed they need IT systems that better serve their operations. This was expressed by the Microfinance Department, the SME Bank Lending Department, the Direct Lending Department and the Community Projects Department. Even support departments like the Complaints Department and the Human Resources Department maintained that the current systems they have need improvement. In addition, the Regional Offices Sector maintained that the expansion of MSMEDA's mandate requires corresponding changes in the IT system, specifically to cater for the coordination aspect of its work.

As per the IT Department Manager, the Sector's role under the new mandate of MSMEDA is:

- Playing a key role in coordination of SME Development effort through the SME Platform.
- Developing and maintaining an Information Center on SMEs.
- The SME platform.
- Vitalizing the demand and supply on technology by SMEs, possibly through a special department for "technological enterprises".

From the perspective of the IT Sector, MSMEDA needs the following:

- Improving the portfolio through
  - o Digitized monitoring (tablets to monitoring employees)
  - o System development
  - o To be outsourced
- A feasibility study for the establishment of a private company owned by MSMEDA to manage the information center and the platform.

The needs for digitization, system development, a platform for MSME development efforts, an adequately functioning information center that houses data and information on MSMEs in Egypt, online information system, customer service, an IT system that caters to the needs of the operations of all the departments, etc. were expressed by MSMEDA. However, as mentioned above, an IT assessment is beyond the scope of this assignment. Hence it is recommended to conduct an in-depth assessment of the IT needs of MSMEDA's various sectors and departments, as well as those needs required to fulfill MSMEDA's new mandate, and the best ways to address those needs (in house, off-the-shelf or, external assistance...etc.).

## 5. THE GENDER UNIT

Established in 2014 the Gender Unit was established with the aim of mainstreaming gender concerns within MSMEDA, as well as improving the interventions targeting women. Since then the GU accomplished several important achievements:

- MSMEDA's Gender Strategy was launched in 2016.
- A Gender Focal Team was formed and tasked with mainstreaming gender concerns and increasing women share in the programs and services provided by all the sectors of MSMEDA. The Team participated in all MSMEDA initiatives and interventions.
- Gender training was conducted for the senior and middle management of MSMEDA to build their capacity and awareness to address gender concerns.
- The Gender Focal Team and the Gender Specialist were accredited as trainers for:
  - o Get Ahead
  - o We Grow
- All in all ten trainers were accredited for Get Ahead, and six were accredited for We Grow.

In addition MSMEDA as whole made significant strides in addressing gender concerns. Chief among them was the award of the Gender Seal Certification to MSMEDA. In addition, the percentage of women staff members increased from 22.8% in 2013 to 28.6% of the total staff. Women currently make up 19.6% of MSMEDA's middle management, and 30.3% of the Senior Management.

When it comes to non-financial services offered by MSMEDA, the women clients increased as follows:

- Women receiving entrepreneurship training increased from 47% in 2013 to 81% in 2018.
- Two modules of the entrepreneurship training were specifically designed for female entrepreneurs:
  - o "Get Ahead" for women-owned start-ups
  - o "We Grow" offering an advanced level.
- Twenty-five female participants in the "Get Ahead" courses requested to enlarge their funding portfolio and accordingly participated in the "We Grow" courses.
- Participation in exhibition increased from 30% in 2013 to 43% in 2018



- A series of events entitled “Women Entrepreneurs Day” was held Minya, Daqahliya, Luxor, Cairo, Aswan, Qena and Beni Suef, among other governorates. Each event hosted a one-day exhibition of the products of women entrepreneurs.
- A series of vocational trainings were conducted in several governorates including Aswan, North Sinai, Fayoum, Red Sea and Kafr El Sheikh. These were mainly focused on handicrafts with some of them including women with disabilities. All in all, 555 women were trained in these events.
- The marketing opportunities did not witness any increase in terms of the proportion of female clients (38%).
- Services offered by the OSSs witnessed a marginal increase from 28% in 2013 to 29% in 2018.

Notwithstanding the above activities and accomplishments, upon interviewing the Manager of the Gender Unit, she maintained that the Unit managed to accomplish the above despite having no targets, indicators or baseline to gauge progress against.

The Gender Unit needs more staff and resources to fuel its expansion. In addition this expansion needs to be accompanied by concerted technical assistance efforts that extend to cover all of MSMEDA’s operations. With such a support the Gender Unit would need to graduate from being a “unit” to become a larger entity with expanded outreach covering all Field Offices. This would enable MSMEDA to truly and effectively incorporate gender concerns in all MSMEDA’s operations from the field to the head office.

### III. CONCLUDING REMARKS

#### A. EVALUATION QUESTIONS

##### 1. WERE STATED OUTPUTS ACHIEVED? IF NOT, WHAT PROGRESS TOWARD THE OUTPUTS HAS BEEN MADE?

MSMEDA has made notable progress towards the achievement of most of the outputs originally envisioned. In several instances its achievements surpassed the targets originally envisioned. However in several others it did fall short of achieving its intended targets. There are multiple reasons for this situation.

In several cases the targets were too ambitious to begin with, or the indicators used in the PMF left room for improvement. Often this ambition masked an inadequate appreciation of the work involved, or the lack of technical knowledge/input to the design of the performance management framework. The example of the PMF of the non-financial services is a case in point.

In other cases, MSMEDA's institutional arrangements were not conducive to optimal implementation. This was apparent in the case of MSME lending and how the mandates of the different departments left room for improvement with regards to optimal market coverage. It was also apparent in the case of the non-financial services; which were split between the Central Sector for Non-Financial Services and the Finance and Administration Sector (in the case of the Fairs and Exhibitions Department). Some outputs were never followed through right from the start (e.g. measurement of donors' satisfaction with SFD's reporting system).

The SME lending Sector (both Bank Lending and Direct Lending) needs to balance its effort in disbursing the loan funds with a parallel effort in reaching the targeted number and gender of clients. While MSMEDA achieved an impressive 156% of the amounts to be disbursed, it only achieved 54% of the number of clients envisioned, and around 42% of the targeted number of women clients. The Microfinance sector's performance by contrast was impressive on both fronts with 268% of the targeted portfolio reaching the intended clients, with 158% coverage (187% coverage of targeted female clients).

Above all, it's important to place MSMEDA's performance during the reporting period against the overall context it operates in. The years 2013 – 2018 are critical years in Egyptian history as well as in MSMEDA's own history. The year 2013 witnessed significant political turmoil until the current regime was instituted. In addition, during this period the regime set out to introduce several key economic, political and institutional changes that took some time to materialize. These changes naturally affected the SFD which later on became MSMEDA with a new mandate and organization that only recently became stabilized. Moreover, during this period MSMEDA witnessed successive changes in its leadership and board. These factors combined created a less than optimal work conditions for MSMEDA that were bound to affect its orientation as well as its performance.

##### 2. WHAT FACTORS HAVE CONTRIBUTED TO ACHIEVING (OR NOT ACHIEVING) INTENDED RESULTS?

On MSMEDA's side, it may seem that at times MSMEDA lost sight of the targets, mainly because of the radical institutional and political changes witnessed. On the UNDP's side, there is a notable lack of follow-up on these targets. While the progress reports clearly showed that MSMEDA is not progressing as originally planned, yet this did not raise any flags. It is true that there were a multitude of external factors that were bound to cause certain delays in achieving the targets. These include the change of mandate from the SFD to MSMEDA, the change of Secretary Generals of MSMEDA, political

pressures and demands from the political leadership...etc. Nevertheless, no efforts were undertaken to redirect MSMEDA's course or reconsider these targets against institutional, political and economic realities.

There is a need for a more dynamic and involved management of the agreement, that keeps a close eye on progress, identifies potential bottlenecks, as well as opportunities, and discusses the needed actions with MSMEDA's management and the UNDP.

### 3. TO WHAT EXTENT HAS THE PROJECT BEEN ABLE TO BUILD THE INSTITUTIONAL CAPACITY OF THE SFD (NOW MSMEDA)?

The project was successful to some extent in building the capacity of MSMEDA. Starting 2013, the HR system has been consolidated, the organizational structure streamlined, manuals have been put in place, the objectives of each organizational unit clarified, job descriptions delineated, KPIs for the various positions have been adopted reflecting RBM, and an automated system of personnel performance evaluation has been utilized.

Above all, a salary survey for the various positions in MSMEDA has been conducted with the help of Hey Korn-Fery and a new salary scale that actually reflects an evaluation of each position, compared to its market counterpart, is ready for adoption.

An RBM needs assessment was conducted and trainings were offered accordingly. Nevertheless despite some progress in introducing RBM systems, these were not fully institutionalized. MSMEDA still needs to automate the link between the HR system and the RBM system.

The changes the SFD and later MSMEDA experienced naturally led to certain delays in implementing and fully institutionalizing these changes. It is hoped that now that MSMEDA has a new leadership in place, a new board and a stable and well-defined mandate, that the institutional capacity building efforts will proceed at a much higher pace.

### 4. TO WHAT EXTENT THE MSMEDA'S OPERATIONAL AND INSTITUTIONAL STRUCTURES (PROJECT MANAGEMENT UNIT AND SYSTEMS) IS STRENGTHENED TO EFFECTIVELY IMPLEMENT ACTIVITIES?

While there is no Project Management Unit per se, the function of project management was overall satisfactorily performed in overseeing the project activities. However there are certain signs of weakness in that should be observed. In particular the lopsided achievement of targets under Component 3 (access to financial and non-financial services) should have alerted MSMEDA and the UNDP early on in project life to a) the need to focus on the outreach of lending activities in terms of the total number of clients and the number of female clients, and b) the inadequacy of the targets and indicators under the non-financial services component. Similarly the lack of any progress in certain activities (e.g. measuring donors' satisfaction) should have been noticed early in the project life. The above issues could have been averted if there was a Project Management Unit that is empowered and has the capacity to manage the agreement, or if the progress reports were observed with an analytical eye.

The organizational structure of the SFD that was inherited by MSMEDA should have an in-depth assessment that the scope of the current assignment did not allow for. The ROs are at the forefront of MSMEDA and the main window through which services are delivered to the public. These services are essentially planned, designed and monitored by central departments. However, these central (technical) departments do not directly supervise the staff of the ROs. Rather, ROs fall under the RO

Sector. As a result services in the field receive minimal technical supervision. This could result in potentially incoherent and inconsistent service delivery. For example, a line of credit with the Agricultural Bank was already depleted, while the Field Offices continued to refer clients to the Bank, until they were alerted by the Customer Service Department, which happened to receive a complaint from one of the clients. This could also suggest that the line sector was not aware in a timely manner that this credit line was depleted; in which case an IT solution that links the banks to the SME Lending Department and that links the latter to the pertinent Field Offices is called for.

Unless there is a seamlessly smooth and highly efficient communication and collaboration between line departments and ROs, the quality and coherence of service delivery is bound to suffer. In an ideal world, Field Office staff involved in the delivery of services at the local level should be technical staff members in the full sense of the word. Similarly, they should be adequately supported by the line departments in order to ensure that the services are adequately performed. However, given the complex nature of MSMEDA's work, continuous supervision of field staff's daily routine by Field Office Managers is called for. With the institutional changes undertaken, the services' KPIs are reflected in their work plans and targets. In addition, pertinent line departments take part in the evaluation of the field office staff. This is definitely a step in the right direction towards a more balanced supervision. This situation should be closely monitored by MSMEDA's senior management to ensure that a seamless and balanced relationship between the line sectors and the ROs is consistently retained.

#### 5. TO WHAT EXTENT HAS THE PROJECT BEEN ABLE TO BUILD AND PROMOTE ITS PARTNERSHIP WITH OTHER RELEVANT STAKEHOLDERS FOR GREATER RESULTS?

When it comes to mobilizing resources and fund raising, SFD/MSMEDA's performance is impressive. It was able to exceed its target by nearly 73%, and signed more than double the number of agreements projected. This was reflected in its ability to reach additional clients and to deliver benefits to an ever expanding client base.

#### 6. HAS THE PROJECT PARTNERSHIP STRATEGY BEEN APPROPRIATE AND EFFECTIVE?

Overall the partnership strategy between UNDP and MSMEDA is in need of further strengthening. The UNDP is ideally situated to play a more active role in:

- Providing on-going technical assistance in project management and various policy and operational issues.
- Close project monitoring and suggesting remedial action or technical support when and where necessary.
- Technically supporting the transition of MSMEDA by providing policy support and presenting policy options to MSMEDA's leadership based on the global experience of the UNDP.
- Acting as a technical resource to MSMEDA's various sectors in order to assist them in the performance of their new duties.

#### 7. A BRIEF ON THE SUSTAINABILITY OF THE VARIOUS COMPONENTS.

See B.2., below

## B. CONCLUDING REMARKS

### 1. MSMEDA'S ABILITY TO FULFILL ITS MANDATE

MSMEDA was granted a challenging responsibility that requires a major change in the way it conducts business. This is specially the case when it comes to the part of its mandate related with coordination across the government. This will depend to a large extent on the new MSME law currently being processed. The consultant did not have a chance to review the draft of this law. Nevertheless, it is important to remember that one of the main lessons learned from Law 141 for the year 2004 is that the law is not sufficient for the agency to fulfill its mandate. MSMEDA is aware that it should also demonstrate the value it brings to the processes of MSME development and how it complements rather than replace existing efforts and actors.

### 2. SUSTAINABILITY

One major difference between the Prime Minister's Decree No. 947 for 2017 and the Decree No. 2370 for 2018 is revealed in reading Articles 1 and 13 in both decrees. While in the 2017 decree Article 1 referred to MSMEDA as an "agency", the 2018 decree referred to it as a "fund" established in the Cabinet of Ministers that is "called the Medium, Small and Micro Enterprise Development Agency". According to MSMEDA the change in Article 1 was meant to accord the Agency the flexibility it needed, and accordingly MSMEDA does not fall under the General Authority for Organization and Administration and similar GOE entities. Moreover, Article 13 in the 2017 decree stipulated that the financial resources of MSMEDA include "allocations made by the state in the general budget", in addition to grants and loans received by MSMEDA, fees mandated by the pertinent laws, and the fees charged for services delivered by MSMEDA. This article was amended to remove the reference to "allocations made by the state in the general budget", thus making such allocations not binding, and freeing MSMEDA from governmental financial supervision.

In this context it is clear that the financial sustainability of MSMEDA is of paramount importance. Given the importance accorded by donors to financial sustainability it is imperative to consider the sustainability potential of the various services MSMEDA offers. It is equally important for MSMEDA to consider reducing its overheads and to consider conducting a concerted streamlining effort targeting inefficiencies and redundancies. Similarly it should opt to maximize the revenues it generates.

The most likely component to continue being financially sustainable is financial services to MSMEs. When it comes to lending nearly all departments have demonstrated they can generate significant revenue to MSMEDA. The role that the Direct Lending department in piloting with a variety of financial services is indispensable and should be nurtured and supported. Nevertheless it is the opinion of this review that direct lending activities should be rationalized to focus more on the non-traditional lending activities that cannot be performed otherwise by other MSMEDA sectors and departments (e.g. leasing, venture capital, factoring...etc.).

One aspect of streamlining that this review revealed is that of the MSME lending structure. Currently the microfinance sector is only able to target "informal enterprises", with "formal enterprises" falling under the mandate of the "Direct Lending" department. As noted above, the distinction is essentially

fictitious. What passes as informal enterprises are essentially clients who were not asked to submit proof of formality by the MFI. This does not necessarily mean they are actually “informal” enterprises, it merely means that they did not submit the paperwork confirming their formality.

Moreover, the huge performance gap between the Microfinance Sector and the Direct Lending sector is also very telling of the relatively weak coverage of the latter. During the reporting period, the Direct Lending sector reached a total of 20,490 clients, including those clients of Ard El Kheir, a tiny fraction of the total number of clients reached by the Microfinance Sector (1,180,628). Furthermore the current lending setup of MSMEDA leaves a considerable chunk of the market outside the service coverage. EFSA mandates a loan size up to L.E. 100,000. Meanwhile the Microfinance Sector covers an upper threshold of loans of L.E. 35,000, with the Direct Lending portfolio covering the rest. Given the limited coverage of the Direct Lending sector, it follows that the market segment between L.E. 35,000 and L.E. 100,000 in the microfinance market is poorly served. It should be noted that this means that there is a sizeable forsaken revenue that this market segment can generate for MSMEDA.

It is highly unlikely that non-financial services will be 100 percent sustainable. However some degree of cost recovery can be pursued and attained. Nevertheless, some level of subsidization will always have to take place, particularly with services targeting the small and micro enterprises. Nevertheless certain services are more capable of generating revenues than others. These include the services that have relatively more ‘instant gratification’ effects. These include fairs and exhibitions, as well as other marketing-related services (e.g. supply chain integration, linkages to commercial chains...etc.).

The Community and Human Development component is the least sustainable of the three, unless it receives funding for the projects it implements. This is particularly owed to the nature of the projects it undertakes (infrastructural projects, community construction projects...etc.). Nevertheless, it should play an indispensable role in the implementation of the Strategy for the Development of Organic Clusters.

### 3. THE ROLE OF INFORMATION TECHNOLOGY

It is important for MSMEDA’s various sectors and departments to have user-friendly IT systems at their disposal. Moreover, having robust and highly responsive IT systems are essential for MSMEDA’s success in fulfilling its mandate. The needs for digitization, system development, a platform for MSME development efforts, an adequately functioning information center that houses data and information on MSMEs in Egypt, online information system, customer service, an IT system that caters to the needs of the operations of all the departments, etc. were expressed by MSMEDA. However, as mentioned above, an IT assessment is beyond the scope of this assignment. Hence it is recommended to conduct an in-depth assessment of the IT needs of MSMEDA’s various sectors and departments, as well as those needs required to fulfill MSMEDA’s new mandate, and the best ways to address those needs (in house, off-the-shelf or, external assistance...etc.).

### 4. CUSTOMER SERVICE

With MSMEDA’s new mandate comes a need for robust customer service mechanisms. These mechanisms should start with a customer-oriented institutional culture that permeates the entire organizational setup, through the empowerment of the Customer Service Department to assume a larger role. Section II.E.2, above includes details on ways to empower the Customer Service Department.

### 5. COMMUNICATION

The fulfillment of MSMEDA’s new mandate is contingent upon having a strong communications function. Article 11 of Decree No. 2370 issued in 2018 stipulates that MSMEDA should lay down

awareness programs and plans and to open lines of communication with the target groups. Furthermore communication is indispensable when it comes to coordination of national efforts, and an integral part of policy making and implementation. The Communication Department as it currently stands needs significant institutional strengthening and empowerment to perform this role adequately.

#### 6. BUSINESS DEVELOPMENT SERVICES

With the evolution of MSMEDA's mandate to be responsible for the coordination of BDS delivery all over Egypt, MSMEDA is moving more towards the coordination of delivery of BDSs and less towards the actual delivery of these services. This means that:

- The delivery of BDSs by MSMEDA should be streamlined and consolidated.
- MSMEDA should focus on building the capacity of and coordinating BDS providers
- MSMEDA should also emphasize the creation of a favorable environment for the growth of high quality services.
- MSMEMDA should likewise vitalize the demand on BDS

#### 7. THE GENDER UNIT

The Gender Unit needs more staff and resources to fuel its expansion. In addition this expansion needs to be accompanied by concerted technical assistance efforts that extend to cover all of MSMEDA's operations. In addition, the Gender Unit needs to develop a set of indicators on the output, outcome and impact levels, together with a baseline to gauge their progress. With such a support the Gender Unit would need to graduate from being a "unit" to become a larger entity with expanded outreach covering all Field Offices. This would enable MSMEDA to truly and effectively incorporate gender concerns in all MSMEDA's operations from the field to the head office.

#### 8. FIELD SUPERVISION

The staff in the Field Offices, while entrusted with the daily implementation of MSMEDA's activities, is administratively reporting to the Regional Offices Sector. While it is true that continuous supervision of field staff's daily routine should continue to be undertaken by the Field Office managers, yet technical line sectors should also have a larger degree of direct supervision over the field staff.

## IV. BLUEPRINT FOR FUTURE PROGRAMMING

### A. FINANCIAL SERVICES

Access to finance remains an important obstacle facing SMEs and start-ups in Egypt, (1) the range of financial products and services in the market is relatively limited, (2) banks and financial institutions still rely on guarantees, rather than cash flow lending, (3) limited number and activity of guarantee funds to expand lending to the more risky sectors/clients, (4) Intermediaries need capacity development to expand their outreach and better serve SMEs, (5) the sector of “medium enterprises” was not served earlier by MSMEDA as this is a new target clientele for the Agency in Egypt.

The Central Sector for Small Enterprise Finance aims to foster sustainable economic growth through SME Financing

1. Facilitate the elaboration of policies and design of targeted programmes at national and local levels
2. Enhancing the capacity of intermediaries to better serve SMEs and start-ups and expand the range of financial products and services offered
3. Direct provision of loans to SMEs & start-ups to enhance their competitiveness and productivity

#### 1. COMPONENT 1: KNOWLEDGE PRODUCTION AND DISSEMINATION FOR POLICY MAKING AND PROGRAMME TARGETING

##### a. CONSIDER INVESTING IN A CREDIT GUARANTEE FUND

The SME Bank Lending department has rightfully requested assistance in investing in a credit guarantee fund. It is the opinion of this report that in terms of effectiveness in achieving coverage investing in a credit guarantee fund is superior to investing in loan funds. This is due to several reasons including:

Advantages of CGSs include:

- Building linkages between small borrowers and formal financial institutions.
- Mobilization of bank financing in downscaling, especially where banks are over-liquid.
- Reduce information asymmetry.
- Opening financial markets.
- Diversifying financial instruments and sources for microfinance institutions by facilitating their access to local bank loans.
- Reducing risk for international lenders thus facilitating access of MFIs to a large pool of international commercial capital.
- Leveraging scarce resources hence maximizing outreach and impact<sup>1</sup>.

The conditions required for the introduction of credit guarantee schemes exist in Egypt; including:

- An increasingly competitive banking sector.
- Sufficient liquidity.
- Stable interest rates.
- An expanding MSME sector.

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<sup>1</sup> CGAP Focus Note, Guaranteed Loans to Microfinance Institutions: How do they add Value? No. 40 January 2007



- A relatively well coordinated policy environment.
- The existence of a credit bureau.

An in-depth study should be undertaken to assess the feasibility of incrementally investing in a new credit guarantee scheme. Once a decision is made to move forward, MSMEDA would need an intensive TA in setting up and managing this guarantee scheme benefitting from the experiences of other countries.

#### b. RESEARCH TO IMPROVE TARGETING

It is clear that research is needed to achieve better targeting, especially for women, industrial enterprises and medium enterprises. This research should not only improve product design, but also improve delivery methods to make them fit the needs of the target groups. This research should consist of:

- A market assessment to identify the needs of the various target groups.
- An impact assessment to gauge the impact of the existing financing products.

#### c. INTERNATIONAL BENCHMARKING

Research would be needed to document international best practices and to benchmark MSMEDA's performance against its international and regional comparators. This research could be complimented by an annual SME Finance symposium or conference to exchange experiences with other countries in the field of SME Finance, regionally and internationally

#### d. INITIATING AND LEADING THE DIALOGUE BETWEEN STAKEHOLDERS, INCLUDING DONORS, ON SME FINANCING NEEDS

A local dialogue between stakeholders should continuously take place between the various stakeholders. This could be informed by an annual report on the Status of SME Finance in Egypt, which outlines the various achievements, challenges and plans to be undertaken.

In particular a national conference should be held in light of the above exchange (1.c.). This will serve to discuss the highlights of the international event, and how to apply the lessons learned in the Egyptian context.

#### e. SUPPORTING THE INTEGRATION OF THE SME DIMENSION IN THE MSMEDA'S NEW FINANCIAL PRODUCTS STRATEGIES (E.G. VENTURE CAPITAL, LEASING, FACTORING...ETC.).

Egypt has made significant advances in the introduction of unconventional financing. However, the involvement of MSMEDA brings on board a needed MSME development dimension that needs to be codified and reflected in the MSMEDA's strategies of these financing products. This will serve to make sure that this dimension is always observed and balanced with market considerations, and that MSMEDA brings on board a significant value added when it comes to MSME development.

## 2. COMPONENT 2: ENHANCING OUTREACH AND ACCESSIBILITY TO FINANCE

#### a. MSMEDA'S MECHANISMS FOR MSME LENDING NEED TO BE REVISITED AND STREAMLINED TO ATTAIN OPTIMAL OUTREACH.

Currently the microfinance sector is only able to target "informal enterprises", with "formal enterprises" falling under the mandate of the "Direct Lending" department. As noted above the distinction is essentially fictitious. What passes as informal enterprises are essentially clients who

were not asked to submit proof of formality by the MFI. This does not necessarily mean they are actually “informal” enterprises, it merely means that they did not submit the paperwork confirming their formality.

Moreover, the huge performance gap between the Microfinance Sector and the Direct Lending sector is also very telling of the relatively weak coverage of the latter. During the reporting period, the Direct Lending sector reached a total of 20,490 clients, including those clients of Ard El Kheir, a tiny fraction of the total number of clients reached by the Microfinance Sector (1,180,628).

Furthermore the current lending setup of MSMEDA leaves a considerable chunk of the market outside the service coverage. EFSA mandates a loan size up to L.E. 100,000. Meanwhile the Microfinance Sector covers an upper threshold of L.E. 35,000, with the Direct Lending portfolio covering the rest. Given the limited coverage of the Direct Lending sector, it follows that the market segment between L.E. 35,000 and L.E. 100,000 in the microfinance market is poorly served. It should be noted that this means that there is a sizeable foregone revenue that this market segment can generate for MSMEDA.

#### b. INSTITUTIONAL CAPACITY BUILDING OF INTERMEDIARIES NEEDS STRENGTHENING

When it comes to building the capacities of MFIs, there is room for improvement. According to the Microfinance sector management, one of their aims is to assist with the graduation of Category “C” MFIs to Category “B”. According to the Industry Reports issued by EFSA for the years 2016, 2017 and 2018, the total number of Category B MFIs in Egypt has only increased from 18 to 19 between 2016 and 2018. The number of Category C MFIs on the other hand has increased from 721 to 884 at the end of the same period. The number of private companies has also increased from 3 to 8 companies during the same period, while the number of Category A MFIs has remained stable at 13 MFIs. These numbers it should be noted are nationwide figures, not MSMEDA figures.

A more concerted effort for building the capacity of MFIs has to be undertaken. Effort has to be exerted to diversify MSMEDA’s portfolio among the four categories of MFIs. In addition effort needs to be exerted to assist with the graduation of MFIs to higher categories.

#### c. COMPLEMENTING THE INSTITUTIONAL CAPACITY OF BANKS

The outreach of banks to SMEs can be improved through pairing them with MFIs and private sector companies. MFIs can facilitate the access of their larger clients for whom the limit of L.E. 100,000 is insufficient to bank finance. Likewise, experience has shown that private sector firms can play a successful role in brokering bank finance to SMEs. Often SMEs need coaching and assistance to submit adequate business plans and adequate documentation to banks. Private sector firms have demonstrated their ability to fulfill this role successfully in several Egyptian governorates under USAID’s Egypt Competitiveness Project. Similar mechanisms can be utilized to improve women’s access to Bank finance.

#### d. BETTER TARGETING OF WOMEN-OWNED ENTERPRISES

It is clear that both the Bank Lending and the Direct Lending need to improve their targeting of female clients. Both departments have requested assistance in developing products to this end. While it is true that better product design may result in improvement in targeting female clients, it is the opinion of this report that significant improvement is only feasible with the development of an outreach capacity to women. It is clear that the microfinance sector has done a substantially better job at reaching women entrepreneurs. This is owed at least in part to the outreach of the MFIs through which it operates.

Such a capacity could take various forms including MSMEDA’s direct outreach to potential clients to market these products to them, or working with intermediaries to perform this task. These intermediaries can either extend the loans themselves, or work with potential clients to finalize loan applications, or assist MSMEDA in its marketing efforts.

Given that Banks do not perform the outreach functions adequately, it is essential to complement their capacity with outside partnerships, or instill this outreach capacity within these banks.

**e. BETTER TARGETING OF INDUSTRIAL ENTERPRISES**

Unlike the case is with female entrepreneurs, the case with industrial enterprises appear to be more complicated. The performance of MSMEDA across the board leaves room for improvement with regards to the adequacy of their lending products to industrial enterprises.

Their share of the total number of clients (outreach) does not exceed 6.2%. MSMEDA’s Direct Lending (7.3%) does not fare significantly better in this regard than SME Lending through Banks (6%). Meanwhile bank lending to the private sector in Egypt shows a drastic different and opposite pattern as the next table calculated from the monthly statistical bulletin of the Central Bank of Egypt shows:

Credit to the Private Sector in Egypt as of 31 January 2019

	L.E. million	%
Agriculture	17,805	2.3
Industry	350,244	46.2
Commerce	127,795	16.9
Services	262,419	34.6
Total	758,263	100

Likewise, the performance of the entire microfinance industry suggests that there are similar issues with attempts to target this sector.

Given the importance of industrial MSMEs to economic growth, it is recommended to conduct a study to identify the reasons behind the failure to adequately reach industrial enterprises. This study should be geared towards the design of loan products and/or other financial services (e.g., leasing, factoring, supply chain finance...etc.) that meet the needs of industrial MSMEs in Egypt.

**3. COMPONENT 3: SUPPORTING NON CONVENTIONAL FINANCING & TAILORED INTERVENTIONS**

MSMEDA has successfully entered into non-conventional financial services. In specific the Direct Lending department has played a key role when it comes to the introduction of leasing and venture capital as services that MSMEDA is providing. This role is to be both commended and encouraged to involve the expansion of these services among MSME clients.

**a. LEASING FOR SMES**

MSMEDA can play a key role in the introduction and expansion of leasing for MSMEs in Egypt. The experiences that MSMEDA has had with leasing should be carefully documented and evaluated and the needed changes to the legal and regulatory framework should be identified and pursued.

**b. MICRO LEASING**

In addition efforts should proceed with the introduction of microleasing as a tool that enhances the productive capacities of MSEs. An MFI and a private company have recently applied for a micro

leasing license. MSMEDA is advised to work with them, monitor their operations, evaluate their experience and, subsequently, to involve others based on the lessons learned.

#### C. VENTURE CAPITAL

With the Ventura Capital Unit established with assistance from the World Bank, they need to expand their work. They currently have an aim for this year of L.E. 50 million to be invested in SMEs. Nevertheless, they acknowledge their need for capacity building, as well as the need to work on improving the legal and regulatory framework for venture capital in Egypt, if it is to be adequately expanded.

#### d. FACTORING

The Direct Lending department is similarly considering entering factoring. While factoring can be a powerful tool in helping SMEs to grow and target new markets, this step should be carefully assessed before a decision is made, particularly with regards to the legal and regulatory framework.

### B. NON-FINANCIAL SERVICES

According to MSMEDA Strategy, accessibility to BDS is still very low, and there is a limited number of qualified BDS providers, mostly concentrated in Cairo. BDS to SMEs is not sustainable with generally low cost recovery rates.

MSMEDA is mandated to enhance, expand and often sponsor the delivery of BDS to SMEs nationwide. To mobilize the BDS market, interventions have to address a) the supply side to increase the number of qualified BDS providers and b) demand side to raise the awareness about BDS.

1. Elaborate on policies to enhance the business environment for start-ups & SMEs
2. Facilitate the design of targeted BDS programmes at national and local levels
3. Strengthening BDS provision and expand its outreach nationwide
4. Improving the quality of demand for BDS

With the evolution of MSMEDA's mandate to be responsible for the coordination of BDS delivery all over Egypt, MSMEDA is moving more towards the coordination of delivery of BDSs and less towards the actual delivery of these services. This means that:

- The delivery of BDSs by MSMEDA should be streamlined and consolidated.
- MSMEDA should focus on building the capacity of and coordinating BDS providers
- MSMEDA should also emphasize the creation of a favorable environment for the growth of high quality services.
- MSMEMDA should likewise vitalize the demand on BDS

The recommendations for the delivery of Non-Financial Services are structured so as to follow the Strategy of MSMEDA. These recommendations as such fall under the following components:

- Component 1: Knowledge production and dissemination for policy making and programme targeting
- Component 2: Improving the enabling environment for BDS provision
- Component 3: Supporting innovation and MSME growth

## 1. COMPONENT 1: KNOWLEDGE PRODUCTION AND DISSEMINATION FOR POLICY MAKING AND PROGRAMME TARGETING.

### a. IMPACT ASSESSMENT & EVALUATION OF THE SERVICES DELIVERED BY MSMEDA

When it comes to the services that it provided, it might be worthwhile to conduct an impact assessment and a rigorous evaluation of these services. This will enable MSMEDA to assess the efficiency and effectiveness and impact of these services, to determine the best way to deal with these services; whether it is by keeping them for MSMEDA to deliver, facilitate their delivery by other parties, or by pulling out all together from these services.

### b. CONDUCT A NEEDS/DEMAND ASSESSMENT OF BDSs AMONG MSMEs

In parallel, MSMEDA needs to conduct a needs/demand assessment of BDSs among MSMEs. The assessment should be conducted on a representative sample of MSMEs and address the following:

- The needed services
- Preferred delivery mechanism

The study should also explore different cost recovery and cost-sharing scenarios for the various services to be covered by the assessment. In addition, the study should consult international experiences and outline the best practices in the delivery of these services.

This will enable MSMEDA to be strategic in its choice of the BDSs it chooses to provide or sponsor, as well as the delivery mechanism, and be realistic in its cost-recovery expectations of each service.

### c. MAPPING OF THE BDS MARKET (SUPPLY ASSESSMENT)

The BDS market should be mapped, its various actors and the roles they perform identified, together with any weaknesses or gaps to be filled. This will enable MSMEDA to be strategic in its choice of interventions to improve the enabling environment for BDS provision, together with the pertinent capacity building interventions.

### d. INTERNATIONAL AND REGIONAL BENCHMARKING AND EXCHANGE OF EXPERIENCE IN THE FIELD OF BDS.

A mechanism should be in place through which MSMEDA is exposed to the latest developments and best practices in the field of BDS delivery, and to benchmark its performance against international and regional comparators. Following an initial study, an annual regional conference could be held to this effect.

### e. INITIATING AND INFORMING DIALOGUE BETWEEN STAKEHOLDERS

A mechanism should be devised to initiate and maintain a dialogue between the main stakeholders in BDS. This dialogue would serve to ensure that all actors operate along the same wavelength and that MSMEDA is kept abreast of developments in the field in Egypt. Stakeholders may include donors, facilitators and providers, whether they include government agencies, non-government entities, or the private sector.

An annual report on the status of BDS in Egypt can also be prepared and disseminated. The report could cover the status of outreach and cost recovery of BDS, needed policy reforms, need assessment and programme targeting recommendations, among other pertinent issues.

## 2. COMPONENT 2: IMPROVING THE ENABLING ENVIRONMENT FOR BDS PROVISION

a. ENHANCING THE CAPACITY OF BDS PROVIDERS AND ROLLING OUT ACCREDITATION AND TRAINING OF TRAINERS' PROGRAMMES

The key to coordinating the BDS market is building the capacity of its actors and its organization. This will be easier to plan once the relevant knowledge (see above; especially 1.b, 1.c, and 1.d) is produced and disseminated. Based on the above MSMEDA can develop a master plan invigorating BDS delivery in Egypt. Meanwhile, in the immediate term, MSMEDA can invite all BDS providers to register on MSMEDA's platform. This can serve as an initial step towards the development of a database of service providers.

b. INCREASING AWARENESS ABOUT THE IMPORTANCE OF NON-FINANCIAL SERVICES

A public awareness campaign could be developed to this end. The campaign should highlight success stories of MSMEs who were positively impacted by BDS services, and how to access these services.

3. SUPPORTING INNOVATION AND MSME GROWTH

a. STREAMLINING MSMEDA'S DELIVERY OF BDS

As it currently stands BDS delivery is currently scattered between the Non-Financial Services Sector and the Fairs and Exhibitions Department under the Finance and Administration Sector. This has resulted in a less than optimal performance of the following:

- Technical oversight of the Fairs and Exhibition Department,
- Access of the Fairs and Exhibitions Department to MSMEDA's technical resources
- Integration of BDS offered by MSMEDA,
- Monitoring and follow-up on the clients of MSMEDA

On the other hand, Fairs and Exhibition can constitute an entry point for MSMEs to gain access to other products and services to be offered/facilitated by the Non-Financial Services Sector. Meanwhile, the Non-Financial Services Sector can similarly expand the client base of the Fairs and Exhibitions department. Based on the above, MSMEDA may want to reconsider the current position of the Fairs and Exhibitions Department, and place it where it got easily get a more coordinated support.

b. CONSOLIDATION OF BDS DELIVERY BY MSMEDA

MSMEDA should aim to reduce the range of BDSs it directly offers and rely on facilitating access to other service providers. This can be done in stages and in parallel to building the capacity of other BDS providers.

1. At the time being it seems that the organization of Fairs and Exhibitions is a service that enjoys high demand as well as reasonable cost recovery. In addition, MSMEDA seems to be ideally situated to play a key role in the delivery of this service through its ownership of the Fairs and Exhibitions facility on Salah Salem road. Furthermore, it can involve a multitude of actors and service providers in the delivery of the service.
2. MSMEDA can also play a key role in the delivery of entrepreneurship training, both as a provider, as well as a franchisor, and a facilitator.
3. Above all, MSMEDA will continue to be in charge of the OSS network of 33 offices in Egypt, while working to improve their performance, and enhance coordination with similar One Stop Shops networks in Egypt.

c. ENHANCE THE FOLLOW-UP MECHANISMS CURRENTLY IN PLACE

It is essential for BDS providers to conduct follow up on their clients. This will enable them to gain an understanding of the impact of their services, adjust their services for maximum impact, and track the progress and the evolving needs of their clients.

### C. COMMUNITY DEVELOPMENT

Community development and local infrastructure will be a high priority for the Agency as these two dimensions pave the way, in the most vulnerable territories, for MSME and Entrepreneurship driven sustainable growth. Conversely, when those two dimensions are not addressed, private sector development is impeded and has little chance to be sustainable, resulting in poverty pockets that are left dependent on national subsidies.

The Agency has a unique track-record for the implementation of such programmes linking social and economic development objectives, and is the only institution benefitting from a vast array of instruments allowing the implementation of integrated approaches to support resilience of communities to foster opportunities over the whole national territory.

The overall objective of the Community Development Sector is to foster private sector engagement in local community development projects, the aim being to install and expand local access to value and supply chains in order to spur local economic growth, improve the standard of living, and facilitate service provision in deprived regions.

#### 1. COMPONENT 1: KNOWLEDGE PRODUCTION AND DISSEMINATION FOR POLICY MAKING AND PROGRAMME TARGETING

Contributing to the improvement of the quality of data and information through activities such as:

- a. Further development of the poverty map
- b. Further development of the clusters map
- c. The development of a cluster development index that would enable policy makers and implementation partners to gauge the performance of clusters vis-à-vis one another. In addition, several cluster networks (World Bank, EU...etc.) house a cluster benchmarking facility for international comparisons. These would be of significant importance to policy makers.
- d. Building a database of service providers;

#### 2. ORCHESTRATE THE IMPLEMENTATION OF THE PILOT PHASE OF THE ORGANIC CLUSTERS DEVELOPMENT STRATEGY<sup>2</sup>

The implementation of the Organic Clusters Development Strategy presupposes a high degree of collaboration among the different sectors and departments within the agency. These include the Central Sector for Non-Financial Services, the Central Sector for Small Enterprise Finance, and the Community Development Sector.

In addition it requires a high level of cross government coordination with the pertinent GOE ministries and entities. These include the Scientific and Technological Institutions (STI) on both the local and central levels, Governors and local government agencies, Federation of Egyptian Industries, Banks and

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<sup>2</sup> For details please refer to the National Strategy for the Development of Organic Clusters, presented to MSMEDA in January 2018.

providers of Non-Banking financial services, Ministry of Education and Technical Education and TVET institutions, among several others.

a. PREPARATORY PHASE

Work in this phase involves laying down the institutional and informational foundations for strategy implementation. It should involve:

- Government and nation-wide dissemination of the strategy, leading to its full adoption by the various parties and stakeholders on the macro, meso and micro levels.
- Formalizing the institutional setup of the coordination/implementation mechanism on the macro and meso levels.
- Setting up the Challenge Fund

b. PILOT PHASE

This four to five years phase involves working with 4-5 clusters to test and refine the coordination/implementation mechanism of the strategy on the various levels. It is anticipated that work will proceed as follows:

- The identification of the pilot clusters in accordance with the criteria outlined in the strategy. These could include:
  - The Glazed Pottery Cluster in Tunis, Fayoum
  - The Furniture Cluster in Tahta, Sohag
  - The Furniture Cluster in Kotama, Gharbiya
  - One Artichoke Processing Cluster in Beheira
- Establishing the necessary institutional setup in each cluster. This includes:
  - A Cluster Development Committee
  - Cluster Development Association/Program
  - A Cluster Facilitator
  - Cluster Development Specialists

c. MONITORING & EVALUATION

The pilot phase should be closely monitored and carefully documented. A rigorous evaluation should be undertaken at the end of the pilot phase to identify lessons learned, pitfalls, and cost-effective solutions. Above all, it is based on this monitoring and evaluation effort that:

- The Strategy is to be revisited and refined.
- The scaling-up phase is to be planned.

**D. AN ENABLING ENVIRONMENT FOR MSME DEVELOPMENT**

The Prime Ministerial Decree no. 2370, in particular Article 9, no. 7 stipulates that MSMEDA is to provide its opinion on the draft laws and regulations pertaining to MSMEs and the areas of MSMEDA's activities. In addition, MSMEDA is also mandated to propose "the draft laws and regulations required to achieve its objectives pertaining to the development of medium, small and micro enterprises and entrepreneurship, and the opinion of MSMEDA should be solicited the pertinent draft laws and regulations." In order to enable MSMEDA to adequately perform this role it should develop the capacity to conduct impact assessments on MSMEs of these laws and regulations.



## 1. COMPONENT 1: KNOWLEDGE PRODUCTION AND DISSEMINATION FOR POLICY MAKING

### a. BUSINESS ENVIRONMENT ASSESSMENT

An assessment of the **current** legal and regulatory framework (LRF) affecting small business is to be conducted. The purpose of the LRF assessment is to identify and rank the most pressing impediments to small businesses in Egypt. The assessment should enjoy sensitivity along the following lines:

- Gender
- Size (micro, small, medium)
- Geographic location
- Sector.

This will enable MSMEDA to identify the current impediments to MSMEs in the legal and regulatory framework, as well as identify possible future regulatory or legislative changes to be introduced by MSMEDA or other proposed to other GOE actors. In addition it allows for the formulation of a **Legal and Regulatory Reform Agenda**.

### b. INTERNATIONAL AND REGIONAL BENCHMARKING OF LEGAL AND REGULATORY REFORM

A mechanism should be in place through which MSMEDA is exposed to the latest developments and best practices in the field of legal and regulatory reform for small business, and to benchmark its performance against international and regional comparators. Following an initial study, an annual regional conference could be held to this effect.

### c. INITIATING AND INFORMING DIALOGUE BETWEEN STAKEHOLDERS

A mechanism should be devised to initiate and maintain a dialogue between the main stakeholders in legal and regulatory reform. This dialogue would serve to ensure that all actors operate along the same wavelength. Stakeholders may include government agencies, non-government entities, MSMEs, as well as donors. The results of these dialogues shall serve to refine the Legal and Regulatory Reform Agenda

## 2. REGULATORY IMPACT ASSESSMENT ON MSMEs

A comprehensive RIA could be well beyond the scope and mandate of MSMEDA. However MSMEDA can play a pioneering role among the rest of the GOE agencies by examining the current and future impact of laws and regulations on MSMEs. In order to perform this role MSMEDA should be able to conduct both Ex-Ante and Ex-Post RIAs on MSMEs to identify more MSME-friendly policy options.

Given the significance and scope of this task it is recommended to:

- Establish an RIA Department to be placed under the Sector to be in charge of coordination with other GOE entities.
- Staff and build the capacity of the above department to enable it to conduct Ex-Ante and Ex-Post impact assessments.
- Develop standard operating procedures for conducting Ex-Ante and Ex-Post RIAs for MSMEs.
- Develop a work plan to tackle:
  - o New draft laws and regulations
  - o Reforms of the most pressing existing laws and regulations.

## E. CAPACITY BUILDING OF MSMEDA

The performance of the functions associated with the new mandate of MSMEDA is contingent upon its possession of the adequate institutional capacities. In addition to the capacity building elements identified above, the following are of utmost importance:

### 1. ESTABLISHING AND SUPPORTING A PROJECT MANAGEMENT UNIT

Given that MSMEDA has a new mandate to undertake, it is essential that the activities proposed in this report be closely monitored and synchronized.

### 2. ESTABLISHMENT OF A NEW SECTOR FOR STRATEGY DEVELOPMENT AND COORDINATION

Given the fact that most economic development strategies have a MSME component, and that MSME development strategies involve significant coordination with other GOE entities, the effective coordination of the formulation and implementation of these strategies is sine qua non of their success. In addition, the success of MSMEDA in fulfilling its mandate when it comes to legal and regulatory reform likewise requires significant coordination with a multitude of actors.

For this reason it is recommended to establish a new Sector that would be entrusted with:

- Coordination of policies and strategies with the various stakeholders involved in the formulation/implementation of these initiatives (e.g. the Organic Clusters Development, the MSME Development Strategies).
- Identifying in close cooperation with the various sectors within MSMEDA the needed policy or legal and regulatory changes for the successful delivery of the various MSME development services.
- Undertaking the required RIAs and developing the Legal and Regulatory Reform Agenda
- Coordinating the development of new laws and regulations.

### 3. INFORMATION SYSTEMS

The needs for digitization, system development, a platform for MSME development efforts, an adequately functioning information center that houses data and information on MSMEs in Egypt, online information system, customer service, an IT system that caters to the needs of the operations of all the departments, etc. were expressed by MSMEDA. However, as mentioned above, an IT assessment is beyond the scope of this assignment. Hence it is recommended to conduct an in-depth assessment of the IT needs of MSMEDA's various sectors and departments, as well as those needs required to fulfill MSMEDA's new mandate, and the best ways to address those needs (in house, off-the-shelf or, external assistance...etc.).

### 4. CUSTOMER SERVICE

With MSMEDA's new mandate comes a need for robust customer service mechanisms and a customer service plan. These mechanisms should start with a customer-oriented institutional culture that permeates the entire organizational setup, through the empowerment of the Customer Service

Department to assume a larger role. Section II.E.2, above includes details on ways to empower the Customer Service Department.

## 5. COMMUNICATION

The fulfillment of MSMEDA's new mandate is contingent upon having a strong communications function. Article 11 of Decree No. 2370 issued in 2018 stipulates that MSMEDA should lay down awareness programs and plans and to open lines of communication with the target groups. Furthermore communication is indispensable when it comes to coordination of national efforts, and an integral part of policy making and implementation. The Communication Department as it currently stands needs significant institutional strengthening and empowerment to perform this role adequately.

## F. SUPPORT IN DEVELOPING THE ORGANIZATIONAL STRUCTURE OF MSMEDA

Currently an inherited organizational structure primarily geared to service delivery, together with a mandate that well extends beyond the capacities of this structure. For the time being MSMEDA is stretching to meet the demands of this mandate. However assistance is needed in reengineering MSMEDA along the lines of its mandate to allow it to perform its responsibilities with ease. MSMEDA has requested assistance from UNDP in this regard.

Ideally, such assistance would take into consideration the following variables:

1. The mandate of MSMEDA.
2. MSMEDA's vision of its role.
3. The MSME landscape in Egypt.
4. Institutional realities and overall GOE orientation.
5. Best practices and experiences of comparable countries.
6. Pertinent recommendations in this, as well as other, reports.

## ANNEX: KEY RECOMMENDATIONS FROM THE MID-TERM REVIEW

This section lists the recommendations of the Mid-Term Evaluation, together with the Management Response received from the Project. The consultant provided his comments after each recommendation and response in italics.

### 1. Recommendation: Relevance and Strategic Positioning of SFD

**Management Response:** [Added: 2012/06/25] [Last Updated: 2012/06/25]

Project accepts the recommendation. SFD has already changed the composition of its board. The new board has a much broader composition of only 4 ministers, representatives from the central bank, the trade union, economic expert, civil society expert. An activity will be added to the ongoing UNDP-SFD extension to conduct a study to identify non-financial services required by MSMEs and build internal capacities to deliver them.

Key Action	Responsible	Due Date	Status	Comments
1.1. De-Politicization of SFD a. The composition and role of the Board of SFD should continue to broaden its base b. SFD reasserts its independence from political pressures. c. appointment of the new Board should be widely publicized in the press <i>[Added: 2012/06/25]</i>	SFD	<i>No due date</i>	No deadline established	Due date: December 2014
1.2 Reclaiming the Full Scope of SFD's Mandate a. SFD should reassert its position as an Apex Institution b. conduct a study to identify key non-financial services that are required by MSMEs and build internal capacity to deliver them. c. direct lending be retained as a modality to innovate and pilot loans to new sub-sectors and categories of borrowers d. HCD sector should devise a strategy to promoting the public/private partnerships <i>[Added: 2012/06/25]</i>	SFD	<i>No due date</i>	No deadline established	Due Date: December 2014

1. *While the SFD did initially change the composition of its board, MSMEDA's board later on changed and is currently composed of 7 ministers and the deputy chairman of the Central Bank, in addition to 5 "experienced" members; none of which appears to have a relevant experience.*
2. *No study to identify the key Non-Financial Services needed by MSMEs was conducted.*
3. *The Direct Lending department was retained; BUT not just to pilot to new sub-sectors and categories of borrowers (see below)*
4. *No strategy to promote public-private partnerships was developed by the HCD sector.*

Agree with recommendation and it will be implemented. The extension of the ongoing UNDP-SFD partnership will support in conducting an institutional capacity assessment to review the current structure, identifying gaps and develop a capacity development plan accordingly.

Key Action	Responsible	Due Date	Status	Comments
2.1. SFD to appoint a Reform Team and a reform team leader under the Managing Director (this will be done based on the capacity assessment exercise and plan identified) [Added: 2012/06/25]	SFD	No due date	No deadline established	Due Date: December 2013

*No Reform Team and no reform Team Leader have been assigned.*

### 3. Recommendation: Management Capacity

**Management Response:** [Added: 2012/06/25] [Last Updated: 2012/06/25]

Agree and will work on recommendation implementation in alignment with the capacity development exercise that will be conducted. An extension to the ongoing phase for the UNDP-SFD partnership is being discussed which will cover many aspects of change management and capacity development based on an assessment exercise taking into consideration the evaluation findings

#### Key Actions:

Key Action	Responsible	Due Date	Status	Comments
3.1 Policy Development and Substantive Coordination Capacity a. SFD needs to strengthen its strategic planning and policy development capacity b. distinction needs to be made between operational planning and target setting, and long-term strategic planning for the sector [Added: 2012/06/25]	SFD	No due date	No deadline established	December 2014
3.2 Field Officers and Loan Monitoring a. Enough Field Officers should be hired to ensure that all borrowers are visited once a year b. Some female FOs should be hired in addition to the existing team to ensure access to the many female borrowers especially among beneficiaries of micro credit	SFD	No due date	No deadline established	Due Date: December 2014

[Added: 2012/06/25]

3.3 Career Development and Decentralization a. The SFD No No Due Date:  
 capacity of staff at the RO level needs to be brought into due deadline December  
 line with that at SFD headquarters, Career development date established 2014  
 incentives and incentive schedules should be revised with  
 a view to providing greater incentive for staff to serve in  
 the ROs.

[Added: 2012/06/25]

1. No additional Loan Officers were hired.
2. According to the RO Sector Deputy Manager, there is no need to bring the capacity of the RO staff into line with that at the headquarters since those who work at the ROs are primarily implementers. Nevertheless, he agrees that there is a need to train the RO staff on MSME needs assessment and customer orientation.

**4. Recommendation: Effectiveness: development of a clear set of screening criteria to provide added depth to the factors considered in the selection of potential borrowers**

**Management Response:** [Added: 2012/06/25] [Last Updated: 2012/06/25]

The SFD management is in agreement with the recommendation, an activity to enhance the finance services to SMEs has been added under the extension of the UNDP SFD extension. A strategic activity has been added to the SFD extension, focusing on Local Economic Development to ensure identified projects are in line with the national context and ensure sustainability. An activity to enhance financial services for MSEs has been added under the UNDP SFD extension.

**1. Key Actions:**

Key Action	Responsible	Due Date	Status	Comments
4.1 A new initiative was signed under the Community and Human Development sector to integrate LED platforms methodologies and processes in the implementation of the local area development activities and engage relevant stakeholders and community members in the project identification phase. This will further enhance the governance aspect in project implementation and should have better impact on the sustainability to development activities introduced. . This is in coordination with activities and support provided to MOLD on that sector.	SFD	No due date	No deadline established	Due Date: March 2013

[Added: 2012/06/25]

4.2 Tracking Results for Management Purposes a. Monitoring and evaluation systems to support the management of programs b. Monitoring systems to identify key dimensions of performance at the program level based on the broad mandate of SFD  
 [Added: 2012/06/25]

SFD No No Due  
*due* deadline Date:  
*date* establish Decemb  
 ed er 2014

*LED platforms were established in Sohag and Fayoum governorates and were operational. However these were not established by the SFD and were not included in its scope.*

**5. Recommendation: Efficiency**

**Management Response:** [Added: 2012/06/25] [Last Updated: 2012/06/25]

The SFD management is in agreement with the recommendation. Recommendations will be taken into consideration in the design of the SFD - UNDP extension to support SFD in conducting this shift in their internal procedures and processes  
 [Added: 2012/06/25]

**Key Actions:**

Key Action	Responsible	Due Date	Status	Comments
<ul style="list-style-type: none"> <li>- The frequency of internal audits be reduced and that key management decisions such as the approval of contracts not be made contingent on their advice.</li> <li>- Considerations be given to conducting internal management audits with a view to assessing the efficiency and effectiveness of workflows and processes, analyzing and assessing systems and recommending management reforms on a biennial basis (once every two years).</li> <li>- Decentralization to the RO level of more project activities should also result in increased efficiency, cutting out delays in processing at Headquarters.</li> <li>- The time-monitoring system designed by SFD' Headquarters for tracking bottlenecks in loan disbursement under Direct Lending ought to be implemented and institutionalized.</li> <li>- CDP should also minimize its assistance to public programs owned and designed by ministries and public agencies, and increase assistance and support to NGO-led community development interventions</li> <li>- More capacity building efforts are needed for the local NGOs and CDAs.</li> <li>- CDP should develop a participatory, sustainable and innovative strategy focusing more on the SFD's comparative advantages as incubator, facilitator, advocate, and disseminator of models and best practices for wider application.</li> <li>- CDP should pilot the privatization of some social infrastructure projects at the village level in connection with partial government</li> </ul>	SFD	No <i>due</i> <i>date</i>	No deadline established	Due date: December 2014

subsidies, particularly for projects of social value enabling private individuals, local NGOs/ CDA or CSOs to build and operate essential social infrastructure.

*UNDP-SFD extension did not show signs of the above in its performance framework. However, there are signs of decentralization to the RO level when it comes to the approval of loans by the Direct Lending department.*

## 6. Recommendation: Sustainability

**Management Response:** [Added: 2012/06/25] [Last Updated: 2012/06/25]

The SFD management is in agreement with the recommendation. SFD already started identifying activities to ensure the institution’s sustainability. An activity under the SFD UNDP extension has been added where UNDP will support SFD in the development of an exit strategy to enable SFD be independent entity with its own salary scale and benefits.

### Key Actions:

Key Action	Responsible	Due Date	Status	Comments
6.1 Piloting a. test or pilot products that at least initially may not recover their costs in order to revert to the full scope of its mandate. b. SFD should seek external funding for their development and piloting [Added: 2012/06/25]	SFD	No due date	No deadline established	Due date: December 2014
6.2 Credit Risk Management a. SFD to better understand the effectiveness of its loans in establishing successful MSMEs b. complex situation of the current level of credit risk needs to be analyzed in depth [Added: 2012/06/25]	SFD	No due date	No deadline established	Due date: December 2014
6.3 Sustainability of Human and Community Development a. HCD Sector should develop a sustainability strategy for each of its programs [Added: 2012/06/25]	SFD	No due date	No deadline established	Due date: March 2013

*No Exist Strategy was developed. Both the UNDP and MSMEDA agreed to continue their cooperation.*

## 7. Recommendation: Communications: The Media Department of SFD should be very much at the core of its effort to rebrand itself as a quasi-governmental agency



**Management Response:** [Added: 2012/06/25]

SFD is in agreement with the recommendation, and is currently working with UNDP to implement it. An activity has been added to the SFD extension where UNDP will support SFD in the development of its communication strategy.

**Key Actions:**

Key Action	Responsible	DueDate	Status	Comments
7.1 SFD communications shows independence from political influence [Added: 2012/06/25]	SFD	No due date	No deadline established	Due date: December 2014
7.2 SFD communication on SFD role in facilitating the growth of the private sector [Added: 2012/06/25]	SFD	No due date	No deadline established	Due Date: December 2014
7.3 SFD promotes participatory development at the municipal and rural levels [Added: 2012/06/25]	SFD	No due date	No deadline established	Due Date: December 2014
The Media Department in SFD should spearhead the effort to cast a clear image in SFD along the above lines in the eyes of the Egyptian Public [Added: 2012/06/25]	SFD	No due date	No deadline established	Due Date: December 2014

*With the change in the role and mandate of MSMEDA, there is a need to reconsider this recommendation.*