Models to Support Small and Medium Size Enterprises in Developing Countries

- The Case of Syria -

(Focus on Government Special Projects, Leasing and Private Equity)

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ABSTRACT

The fundamental role of small and mid-size enterprises (SMEs) the economic development is manifested by their ability in creating jobs, filling the market's gaps in more efficiently than large businesses, and contributing to GDP growth. Thus, every government needs to rely upon SMEs in order to boost growth in their economies. The validity of the SMEs' economic contribution is not the exclusivity of the US, Europe and other advanced economies. Rather, their significance is much more apparent for the developing countries, where SMEs could be the key to rebuild the economy. Especially, in Syria where the present war has already driven the country to economic despair, it is crucial to understand that the support of SMEs, as well as the application of appropriate funding mechanisms, could be the means to reform the broken economic systems and relieve the markets after the war.

In light of these considerations, this paper will focus on the three potential forms of SME financing in Syria as a crucial step of the revival of its economy. The first form includes various government-sponsored special projects that include financial support as well. The second possible source of financing is exploitation of asset-based financing, where the two most readily available financing forms are: title finance (focusing on leasing) and receivable. The third possible source of financing is provided by private equity firms. This paper will start with illustrating the differences of the SMEs' definitions between Syria and the World Bank, the European Commission and the Organization for Economic Co-operation and Development (OECD), highlighting the obstacles that are arising from these differences in front of SMEs to access financing programs.

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LIST OF ABBREVIATIONS

SMEs	Small and Medium-Sized Enterprises
GDP	Gross Domestic Product
OECD	The Organization for Economic Co-operation and Development
EU	European Union
MENA	Middle East and North Africa
ROT	Retention of Title
EIB	European Investment Bank
MSME	Micro, Small, and Medium Enterprise
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FUM	Fund Management Unit
EIF	European Investment Fund
HFs	Holding Funds
MFIs	Microfinance Institutions
MFC	Microfinance Center
DG REGIO	Directorate-General for Regional and Urban Policy
UNECE	The United Nations Economic Commission for Europe
SICDP	Small Industries Cluster Development Program
IMP1	the first Industrial Master Plan
IMP2	the Second Industrial Master Plan
SMIDEC	Small and Medium Industries Development Corporation
GFCF	Gross Fixed Capital Formation
PE	Private Equity
CEO	Chief Executive Officer

INTRODUCTION

i. An Overview of the Economic Roles and the Obstacles of SMEs

The economic importance of small and medium-sized enterprises (SMEs) should not be questioned today as they are the engines of economic growth in all types of economies, from developed to emerging markets. They play a significant role in promoting economic growth and boosting the gross domestic product (GDP) of countries, achieving added value to any economy in modern society and ensuring that there is an appropriate flow of capital across the economy. Indeed, SMEs are the backbone of the economy, accounting for about 99 percent of all firms in The Organization for Economic Co-operation and Development (OECD)[1] area, on average, generating around 60 percent of added value. In emerging economies, SMEs contribute 33 percent of GDP.[2]

The importance of SMEs in achieving a balanced development is highlighted by their ability to generate employment for the labor force in all countries. For example, in Japan, small and medium-sized enterprises account more than 58 percent of the labor force[3] and about 23 million people in the EU work for small and medium-sized enterprises, which contribute up to 76 percent of the workforce[4]. Furthermore, the flexibility of SMEs makes them adaptable to changing economic conditions and potential crises through their ability to alter their business processes and reduce their losses faster and in a more effective way than larger businesses. In other words, while large businesses are required to adhere to strict and complex processes, small businesses possess far more freedom when it comes to handling changed circumstances.

[1] 'OECD.Org - OECD' <http://www.oecd.org/> accessed 1 April 2018.
[2] Organisation for Economic Co-operation and Development, *Entrepreneurship at a Glance 2017*. (2017) <http://dx.doi.org/10.1787/entrepreneur_aag-2017-en> accessed 1 April 2018.
[3] '2017 White Paper on Small and Medium Enterprises in Japan and 2017 White Paper on Small Enterprises in Japan Released(METI)' <http://www.meti.go.jp/english/press/2017/0421_003.html> accessed 1 April 2018.
[4] Patrice Muller and others, 'Annual Report on European SMEs 2015/2016–SME Recovery Continues' [2016] Contract number: EASME/COSME/2015/012]. European Union 5.

Thus, they have the ability to meet changing market demands more quickly, thereby reducing their losses. In addition to the above-mentioned ease of adaptability, SMEs also have another significant advantage over large businesses. Basically, this is reflected in the fact that they are able to fulfill two essential roles: although SMEs form a considerable segment of the customers of large businesses, at the same time, they are also the ones that supply the necessary products and services that enable continuity to be maintained in the operation of large businesses. This seems obvious when we see that in Japan, small and medium-sized industrial enterprises supply around 72 percent of the needs of the machinery industries and 79 percent of the needs of the electrical appliances industry.[5]

Based on all of the above features of SMEs, it can be concluded that SMEs are considered the cornerstones of the economy, especially in developing countries where they are striving to catch up to global economic standards, all the while also aiming to alleviate poverty. Indeed, some developing countries have begun to cope better when it comes to economic development progress that was made possible through supporting SMEs. However, there are still many countries, especially those in the Middle East and North Africa (MENA)[6], where recent wars and the ensuing political instability have made it much harder for any progress to be made.

In terms of the latter, Syria is an especially apt example because its economy was destroyed at the infrastructural level,[7] meaning that in such a severe case, the country has to start rebuilding itself before economic development can begin. There is no doubt that the first step to economic development has to include legal improvements to the financial infrastructure but the decisive

[5] مجدي عبد الله شرارة, *آفاق اقتصادية*, 21 (2001) 47–104
Majdi Sharara Abdullah, The Importance of Integration of Small and Medium Size Enterprises with Large Industries, *Economic Prospects*, Volume 21, Issue 85, Year 2001.
[6] Sahar Nasr and Douglas Pearce, 'SMEs for Job Creation in the Arab World'.
[7] 'The Toll of War: The Economic and Social Consequences of the Conflict in Syria' (*World Bank*) <http://www.worldbank.org/en/country/syria/publication/the-toll-of-war-the-economic-and-social-consequences-of-the-conflict-in-syria> accessed 1 April 2018.

step will be supporting SMEs and reducing barriers that prevent them from starting their businesses in that region.

Despite the important role that SMEs play in the economy, they are confronted with key obstacles that have constrained their development and hindered their potential to create private-sector jobs and entrepreneurial opportunities. Among the challenges faced by the SME sector, and in developing countries in general, is the malfunctioning of the judicial and legal systems and the absence of regulatory laws that limit the potential for development by creating barriers between the private sector and the necessary access to financial resources.[8] In developed countries, the aforementioned resources are much more readily accessible in the forms of special government projects aimed at supporting SMEs by providing asset-based financing methods (ownership, retained title ownership (ROT), factoring etc.) and financial provisions made available by private equity firms and other mechanisms.[9]

This paper will focus on the three important forms of financing for SMEs that could play key roles in helping to establish economic stability in Syria and in developing countries as well. The effectiveness of the implementation of the aforementioned financial forms will be exemplified by past practices that demonstrate how developing countries have dealt with them and also how they have been able to use some of the initiatives that international financial institutions have provided.

ii. Methodology

The thesis will partly rely on the author's knowledge and experiences gained through his studies in Syria and work in a Syrian SME up until 2014. Due to the lack of academic sources

[8] Sahar Nasr & Ahmed Rostom, *SME contributions to employment, job creation, and growth in the Arab world*, 5 (2013).
[9] Nasr and Pearce (n 6) 16.

in English, the author may use some Arabic sources when it is necessary, basically Syrian sources such as a government decrees, official statistics, articles and so on. These sources are translated to support the research. The issue in Syrian sources is the difficulty to find neutral academic sources that can criticize the government measures. However, the author will ensure the preservation of academic integrity in this paper.

iii. Roadmap to the Thesis

The first chapter of this paper will present several definitions and quantitative criteria for SMEs that are provided by OECD[10], the European Commission[11], the World Bank[12] and by the Syrian government[13]. However, when it comes to the global comparative analysis of the SMEs, the task will be changed slightly due to the fact that the economic definitions and identifications are primarily numerically based and that such numbers can vary between countries or even between statistical agencies.[14] Moreover, the absence of a global definition often creates obstacles for SMEs, especially in developing countries, when seeking credit from foreign financial institutions. Thus, this problem arises when a foreign financial institution applies standards and requirements that differ from the standards applied by the government of the country in which the SMEs are based, which leads to the inability of SMEs to obtain support from these institutions. For these reasons and because of the lack of a universal definition, osmosis is crucial in order to illustrate the differences between the definitions and mechanisms

[10] OECD Publishing, Organisation for Economic Co-operation and Development Staff, *OECD SME and Entrepreneurship Outlook, 2005 Edition* (Organisation for Economic Co-operation and Development 2005) 17.
[11] 'What Is an SME? - Growth - European Commission' (*Growth*) <http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en> accessed 1 April 2018.
[12] Khrystyna Kushnir, 'A Universal Definition of Small Enterprise: A Procrustean Bed for SMEs?' (*Private Sector Development*, 11 August 2010) <http://blogs.worldbank.org/psd/a-universal-definition-of-small-enterprise-a-procrustean-bed-for-smes> accessed 1 April 2018.
[13] المرسوم التشريعي 39 لعام 2006 إحداث الهيئة العامة للتشغيل وتنمية المشروعات
Parliament of the Syrian Arab Republic, Legislative Decree 39 of 2006, *Creation of the General Unit for Employment and Enterprise Development*, <http://parliament.gov.sy/arabic/index.php?node=201&nid=5007&> accessed 1 April 2018.
[14] Gentrit Berisha and Justina Shiroka Pula, 'Defining Small and Medium Enterprises: A Critical Review'.

by which SMEs are classified. This is especially important as certain definitions consider some businesses to be SMEs, while others view the same businesses as large enterprises.

The second chapter considers the first form of financing for SMEs**,** a special governmental project that includes financial support. Such government-sponsored projects are crucial in addressing market failures that stem from the fact that SMEs, especially startups, typically do not have adequate assets to offer as collateral to obtain credit. As a rule, they are also unable to tap into the capital markets. Therefore, it should be of interest to governments to launch such projects and to provide funding because a strong SME sector is a sign of economic development. This paper will, therefore, inspect the experience of foreign financial institutions in supporting SMEs in Syria, most notably, the European Investment Bank (EIB).[15]

Also, it will analyze the EU's JEREMY[16] and JASMIN[17] initiatives, which aim to support micro- small and medium-sized enterprises by means of loans, guarantees and equity. These programs can be considered as a reference for similar programs that could be implemented in Syria after the war, and avoid the problems that can be occurred during the implementation of such a program. The chapter also includes a general examination of the efforts of governments in developing countries that seek to support companies and considers their practical effectiveness; in particular, the success stories in India[18] and Malaysia[19] and the lessons that can be learned from these experiences.

[15] 'FEMIP Technical Assistance to Syria for Private Sector Support' <http://www.eib.org/infocentre/press/releases/all/2004/2004-063-femip-technical-assistance-to-syria-for-private-sector-support-.htm> accessed 1 April 2018.
[16] 'JEREMIE: Joint European Resources for Micro to Medium Enterprises' <http://ec.europa.eu/regional_policy/en/funding/special-support-instruments/jeremie/#3> accessed 1 April 2018.
[17] 'JASMINE: Joint Action to Support Micro-Finance Institutions in Europe' <http://ec.europa.eu/regional_policy/EN/funding/special-support-instruments/jasmine/> accessed 1 April 2018.
[18] 'Creating Business Linkages: A Policy Perspective' 57–79 <http://unctad.org/SearchCenter/Pages/Results.aspx?k=Creating%20Business%20Linkages:%20A%20Policy%20Perspective> accessed 1 April 2018.
[19] ibid 79–98.

A second possible source of financing, which is discussed in **chapter three** of this paper, is the exploitation of asset-based financing. The focus is on one of the most readily available form of SME financing that deals with title finance (focusing on leasing)[20], which is a method of raising finance that relies on retention of title ownership (ROT) as security, something that is essential to be able to lease important business equipment on favorable terms and conditions. Its unquestionable advantage lies in the fact that SMEs can immediately use the acquired equipment in the production process, thus, helping to generate the income from which the leasing can be repaid.

The non-existence of financial leasing in Syria makes it relevant in this paper to focus on the leasing industry that available in MENA region, which Syria is a part of it, in order to demonstrate the defects and recommendations that proposed to improve the leasing industry in the region.[21]

The final chapter will indicate the possible sources of financing provided by private equity firms. These private financiers play an increasingly important role in financing SMEs because they are more willing than traditional banks to appear and to invest in emerging markets. They tend to employ a wider spectrum of financing methods than those of the commercial banks.[22] For instance, they not only provide venture capitalists but they also finance family firms that employ alternative investment methods, leveraged buyouts[23] and other advanced types of financing, which often run parallel with assistance in the management and governance of SMEs. More importantly, investors manage these companies and restructure

[20] Gunita Mazūre, 'Leasing Development and Dynamics in the World and Europe.', *Economic Science for Rural Development Conference Proceedings* (2009) 78–87.
[21] Matthew Fletcher and others, 'Leasing in Development: Lessons from Emerging Economies'.
[22] Josh Lerner and Antoinette Schoar, 'Private Equity in the Developing World: The Determinants of Transaction Structures' [2003] Unpublished working paper, MIT 1.
[23] Steven N Kaplan and Per Stromberg, 'Leveraged Buyouts and Private Equity' (2009) 23 Journal of Economic Perspectives 121.

them using their own accountant and management expertise and/or external experts in order to improve the company's performance and expand its business scope. It is important for SMEs that an investor exchanges financial support for a percentage ownership of the business. The strategy of private equity is that the investor offers capital to promote an SME's operation, while in return, the investor acquires equity ownership and control over the management of the company.[24] The benefit of this process for the SME is that it will be able to sell low-value securities to an investor for the purpose of raising the necessary capital to start the business. an empirical study is included in this paper to demonstrate the efficiency and usefulness of this type of funding in helping SMEs to start businesses in developing countries. The case is the Express Life Insurance Company Ltd. in Ghana.[25]

Finally, the chapter includes an analysis of some unregulated alternative methods that can be found in Syria, such as an investment method that is derived from Islamic finance in particular from *Modaraba*[26], in order to create reasonable capital to make it possible for SMEs to operate and develop their businesses in the market, such as the reliance on trust and the good reputation of an SME owner to obtain some liquidity and credit from private investors (people). Rather than relying on bank loans that are burdensome in terms of costs and the difficulty of obtaining them, this method has created an alternative solution for SMEs. However, it may lead to many problems due to the absence of regulation and the lack of adequate knowledge about this type of transaction.

[24] ibid.
[25] 'Impact Case Study: Express Life Insurance Company Ltd.' (*EMPEA*) <https://www.empea.org/research/impact-case-study-express-life-insurance-company-ltd/> accessed 1 April 2018.
[26] Imtiaz A. Pervez, *Islamic finance*, ARAB LAW Q. 268–273 (1990).

CHAPTER 1: Definitions and Criteria of SMEs

The importance of introducing definitions and criteria that measure the size of businesses from different perspectives stems from the absence of a universal definition. Further, these perspectives can illustrate the obstacles that SMEs face when they seek credit from foreign financial institutions. Consequently, this issue arises when a foreign financial institution applies criteria and requirements that are different from the rules of the country where the SMEs are based. For example, in developed countries such as the US, the SME category includes all enterprises that employ fewer than 500 people and there is an annual revenue threshold of less than US$7 million.[27] These requirements would cover a substantial number of large businesses in most of developing countries. For instance, in Egypt, the Ministry of Foreign Trade's definition of an SME is a business with 50 to 100 employees and a registered capital of between US$900 thousand to US$1.8 million.[28] Therefore, it is appropriate to find a different definition of SMEs because of the different approach adopted by different countries.

1.1 The European Commission's Definition and Criteria

The Commission's definition is that the category of "small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR50 million, and/or an annual balance sheet total not exceeding EUR43 million".[29] The main purpose of this definition is to unify the concept of SMEs at the EU level (moving away from the different definitions of member states at the national level) and, thus, to provide a unified mechanism for the targeting of the Union's policy

[27] US International Trade Commission, 'Small and Medium-Sized Enterprises: Overview of Participation in US Exports' (2010) 91 Investigation No332-508 2–4.
[28] 'Small & Medium Enterprises In Egypt Definition, Landscape and Stakeholders May 2016 - Google Search' <http://firstequity-partners.com/wp-content/uploads/2017/06/SMEs-in-Egypt.pdf.> accessed 1 April 2018.
[29] 'Commission Recommendation of 6 May 2003 Concerning the Definition of Micro, Small and Medium-Sized Enterprises (Text with EEA Relevance) (Notified under Document Number C(2003) 1422)' (2003) 32003H0361 <http://data.europa.eu/eli/reco/2003/361/oj/eng> accessed 1 April 2018.

to enable SMEs to benefit from the support programs they provided.[30] The purpose of the unified definition of the EU is to establish specific criteria and requirements to avoid difficulties arising from inconsistencies or incomplete information, which act as barriers for SMEs seeking funding to overcome the consequences of market failure.[31]

The European Commission uses three criteria to identify the categories of SMEs.[32] It is a prerequisite and mandatory for businesses to meet the criterion of the number of employees if they want to enter the SME category in the EU[33] and have access to EU supporting programs, such as the JEREMY initiative that is presented in the next chapter. While the number of employees in a small enterprise should be more than 10 and less than 50, the number of employees in a medium-sized enterprise must exceed 50 and be no greater than 250. The second criterion is the annual turnover and the third is the annual balance sheet total. According to the Commission's definition, the enterprise has the freedom to fulfill either the second or the third criteria. Thus, a small enterprise must have an annual turnover or balance sheet total that is equal to or greater than EUR10 million, while a medium-sized enterprise must have an annual turnover of EUR50 million and an annual balance sheet total of at least EUR43 million.

1.2 OECD Requirements

The definition of an SME from the standpoint of the OECD is

> Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ fewer than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is

[30] 'DocsRoom - European Commission' Final Report - Executive Summary. Evaluation of the SME Definition, <http://ec.europa.eu/DocsRoom/documents/10035/attachments/1/translations> accessed 1 April 2018.
[31] 'Commission Recommendation of 6 May 2003 Concerning the Definition of Micro, Small and Medium-Sized Enterprises (Text with EEA Relevance) (Notified under Document Number C(2003) 1422)' (n 29).
[32] ibid 3.
[33] Berisha and Shiroka Pula (n 14) 18.

250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees.[34]

The OECD has acknowledged that there is no universally agreed standard definition for SMEs and several definitions are applied among its countries. However, the criterion of the number of employees is not the sole definition and the OECD agreed with EU criteria in terms of using financial assets to define SMEs. In order to achieve a degree of international comparison and for survey purposes, the OECD and the Center for Entrepreneurship have relied on the collection of SMEs' data to determine regional or local definitions rather than the definition adopted by the OECD.[35] Therefore, this confirms that there are imbalances in the definitions and the criteria that international financial institutions apply the measure to SMEs in developing countries.

1.3 The World Bank's Three Quantitative Criteria

The World Bank has adopted three quantitative criteria to identify SMEs: the number of employees, the annual sales and the total assets in US dollars.[36] The requirement of the first criterion (number of employees) with respect to small size enterprises is that they should employ more than 10 and up to 50 people. In the case of medium-sized enterprises, the number has to be above 50 and no more than 300 employees.[37] The criterion of the total annual sales in US dollars requires small enterprises to earn between US$100 thousand and US$3 million and this should be between US$3 million and US$15 million for medium-sized enterprises.[38]

[34] Publishing, Co-operation and Staff (n 10) 17.
[35] ibid.
[36] Denis T Carpio, World Bank and International Finance Corporation (eds), *Financing Micro, Small, and Medium Enterprises: An Independent Evaluation of IFC's Experience with Financial Intermediaries in Frontier Countries* (International Finance Corporation, World Bank Group 2008) 4.
[37] Berisha and Shiroka Pula (n 14) 19.
[38] ibid.

The final criterion, the total assets in US dollars, demands the same requirements as the annual sales criterion.[39] Nevertheless, in order to be measured as an SME, the enterprise must meet the requirement of the number of the employees and comply with either the total annual sales or the total assets criteria.[40]

1.3.1 A Comparison Between the Definitions of the World Bank and the European Commission

A comparison of the two definitions (the European Union and the World Bank) shows differences in the quantitative criteria for the number of employees: the World Bank has raised the threshold for medium-sized firms to 300, whereas in the EU it is 250 employees. However, the differences in the financial criteria are clear (regardless of the differences in the type of currency used in the definitions), where the World Bank uses total asset standards and total annual sales while the European Union uses the criteria of annual turnover and total balance sheet. Considering the significant distinctions between these definitions, it follows that there is an absence of a unified global definition of SMEs. Although the definition of the European Union is used in the majority of SME studies, it is still far from being adopted by member states and decision-makers. Despite the EU recommendations, this definition is only mandatory for institutions and companies seeking funding from the EU.[41]

Moreover, a study carried out by the World Bank, known as micro, small, and medium enterprises (MSME) Country Indicators, revealed that only 46 of the 132 countries surveyed identified SMEs as businesses with fewer than 250 employees.[42] Hence, each country has the

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[39] ibid.
[40] Kushnir (n 12) 19.
[41] Edited by Sara Carter and Dylan Jones-Evans, 'Enterprise and Small Business: Principles, Practice and Policy' (2009) 25 Strategic Direction.
[42] Khrystyna Kushnir, Melina Laura Mirmulstein and Rita Ramalho, 'Micro, Small, and Medium Enterprises around the World: How Many Are There, and What Affects the Count' [2010] Washington: World Bank/IFC MSME Country Indicators Analysis Note 1.

freedom to define SMEs and to apply criteria, which leads to the existence of a large number of definitions around the world. Which forming a barrier for SMEs to benefit of financing programs that are offered by international finance institutions due to inconsistencies in the SMEs' definitions and the applicable quantitative criteria.

1.4 Definition of SME in Syria Before the Crisis

In general, developing countries regulate SMEs based on the size and the capacity of the local economy, regardless of the views of the international institutions. In 2006, the Syrian government introduced Legislative Decree, Number 39[43] as part of the government pledge to reform and provide a clear economic plan in order to obtain money from the SME Fund projects[44] provided by the European Investment Bank, a decree that put into effect in 2007. The decree contained a definition of SMEs that was based on two mandatory criteria, the first of which refers to the number of employees, which it states must be between six and 16 in a small enterprise and higher than 16 in a medium-sized enterprise.[45]

With regard to the value of capital, it is stipulated that a small enterprise should have more than SYP1.5 million and less than SYP5 million, which, in 2006, was the equivalent of US$27–90 thousand[46]. The value of a medium-sized enterprise should be more than SYP5 million and less than SYP15 million, i.e., US$90–275 thousand.[47]

The above definition show that there was a huge gap between the SMEs requirements in the global concept and Syria. This reflected the small size of SMEs' role in promoting economic growth in Syria, and assumed the ineffectiveness of the government attempts to support SMEs.

[43] 'المرسوم التشريعي 39 لعام 2006 إحداث الهيئة العامة للتشغيل وتنمية المشروعات' (n 13).
[44] 'FEMIP Technical Assistance to Syria for Private Sector Support' (n 15).
[45] 'المرسوم التشريعي 39 لعام 2006 إحداث الهيئة العامة للتشغيل وتنمية المشروعات' (n 13).
[46] In 2006 the exchange rate was that each 1 U.S. dollar equal to 55 Syrian bounds.
[47] 'المرسوم التشريعي 39 لعام 2006 إحداث الهيئة العامة للتشغيل وتنمية المشروعات' (n 13).

1.4.1 The Impact of the Different Definitions in Developing Countries (Syria)

The dilemma of the diversity of definitions of SMEs clearly appears when an international institution such as the World Bank or the European Investment Bank launches programs to support and finance SMEs in developing countries, most of which apply standards that are inconsistent with the standards of these institutions. This adversely affects the SMEs in these countries.

For example, in 2006, the EIB estimated that of the 280 Syrian loan applications only 27 were approved by the EIB and the total value of the loans was no more than EUR30 million.[48] The impact of the differences in the SMEs' requirements applied by the EIB and those of the government seems clear in light of this report of the small number of beneficiaries of EIB bank loans. This failure to acquire funding was due to the inability of Syrian SMEs to meet the demands of the EIB and, therefore, most of the beneficiaries of EIB financial support were, according to the Syrian definition, large companies.

In this regard, international financial institutions must consider the size and needs of the economy in a particular region and set appropriate criteria to support SMEs in order to achieve the aim of these institutions in promoting economic growth.

[48] Publications Office of the European Union, 'FEMIP Financing Operations in Syria.' (3 October 2007) <https://publications.europa.eu/en/publication-detail/-/publication/44a72716-59e4-4205-8017-2541543e54c9> accessed 2 April 2018. FEMIP is the key player in the economic and financial partnership between Europe and the Mediterranean, providing almost EUR 6 billion of financing between October 2002 and December 2006. EIB financing in Syria is spread amongst the key sectors of energy, transport, telecommunications, environment, health and support for small and medium-sized enterprises (SMEs).

CHAPTER 2: Governmental Related Projects: The Experiences of Syria, EU, India and Malaysia

The importance of government projects that provide financial support for SMEs is reflected in the SMEs' need for a foundation to be able to start and to develop their businesses. This is especially important in developing countries given the reluctance of international financial institutions to operate in regions where there are uncertainty and instability. These programs must be efficient in order to achieve their objectives of supporting the economy through SMEs, programs that are absent in most developing countries, especially in Syria. Therefore, the adoption, with the necessary adaptations**,** of projects that appear to be successful in other countries, such as the JEREMIE[49] and JASMINE[50] initiatives in the European Union and other actions in developing countries, such as India and Malaysia[51], is one of the solutions to forming an efficient government program. However, this chapter firstly will analyze EIB's project in Syria, namely the SME Fund[52], in order to understanding of the role that EIB have played in Syria to support SMEs and identify the problems of that project.

2.1 European Investment Bank Programs in Syria: the SME FUND

In 2003, an agreement was signed between Syria, represented by the Ministry of Economy, and the European Union, known as SME Fund, which was represented by the European Investment Bank and was launched in early 2004 and intended to run until 2008.[53] The agreement included long-term financing in foreign currency to SMEs in the private sector in

49 'JEREMIE: Joint European Resources for Micro to Medium Enterprises' (n 16).
50 'JASMINE: Joint Action to Support Micro-Finance Institutions in Europe' (n 17).
51 'Creating Business Linkages: A Policy Perspective' (n 18).
52 'FEMIP Technical Assistance to Syria for Private Sector Support' (n 15).
53 ibid.

Syria, with a soft loan of EUR40 million and an interest rate that ranged from 6.5 to 7.5 percent per year.[54]

The project is accompanied by EUR2 million technical assistance grant from the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) Support Fund for the establishment of a Fund Management Unit (FMU)[55]. The FMU implements the day-to-day operations of the SME Fund, including project identification, preparation, evaluation and follow-up. The FMU helps to strengthen local capacity in that in the final phase it transfers best industry practices in project appraisal and lending techniques for SMEs to local intermediaries and members.[56]

The SME Fund proved to be successful with 280 loan applications received by December 2006. However, only twenty-six applications worth EUR30 million were approved by the EIB. An additional 29 applications with a potential value of EUR29 million were possibilities for reaching the loan stage. The growth of small and medium enterprises can already be seen in the implementation of the 10 projects for which the money was paid. The implementation of these projects resulted in the creation of 485 new jobs, most of which had the potential for export and brought new machines that used the latest technology into their respective sectors.[57]

Due to the positive evaluation of the loan experience by the EIB and the Ministry of Finance of Syria, the agreement was renewed with a second agreement of EUR80 million, known as SME Fund II, which was put into effect early in 2009.[58]

According to the FUM, SME Fund II work was developed by reducing the minimum grant from EUR200 thousand to EUR75 thousand to widen the range of beneficiaries of the loan.

[54] ibid.
[55] ibid.
[56] Union (n 48).
[57] ibid.
[58] 'SME Fund II | European Investment Bank' <http://www.eib.org/projects/pipelines/pipeline/20070329> accessed 2 April 2018.

The grace period was increased from two to four years and the repayment period of the loan was increased from eight to 12 years; the maximum amount of the loan rose to EUR12.5 million. In addition to the period of grace, a further feature of the demand for these loans was the interest rate, which it is ranging from 5.5 to 7.5 percent were the cheapest rates of interest when compared with all the banks in Syria.[59] However, because of the sanctions imposed on the Syrian government, the EIB decided to halt the project in 2011.[60]

There were many flaws in these programs, including the slow process of granting loans, which the FMU confirmed was due to the EIB's slow response to loan transactions and agreements to grant the required amounts.[61] Although the loan covers only 50 percent of the investment cost of the project, the SME Fund requirements are difficult to implement and very expensive for SMEs in Syria because the applicant must provide a guarantee that is equivalent to 120 percent of the amount of the loan,[62] which is one of the most difficult hurdles that companies must overcome in order to obtain financial support. It is also necessary for the potential funded project to produce precise specifications and to provide a feasibility study that is accurate, distinctive and convincing.[63]

In addition, based on the experience of some SMEs in Syria, the applicant must submit several official reports that include the requirement for unattainable information, which leads the applicant to obtain the information illegally (through bribery or forgery) and usually at great cost. Further, the absence of transparency, the inequitable treatment of applicants by the FMU

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59 'بنك الاستثمار الأوروبي يطلق المرحلة الثانية من تمويل المشاريع الصغيرة في سورية | العروبة' EIB launches second phase of SME FUND in Syria, <http://ouruba.alwehda.gov.sy/node/212785> accessed 2 April 2018.
60 EIB suspends all existing loans with Syria, http://www.eib.org/infocentre/press/news/all/eib-suspends-loans-with-syria.htm (last visited Apr 2, 2018).
61 'مدير وحدة تمويل المشاريع الصغيرة والمتوسطة : الاتفاقية مع بنك الاستثمار الأوربي مستمرة .. و الأموال في طريقها للوصول | عكس السير دوت كوم' Director of Fund Management Unit in Syria the agreement with the European Investment Bank is ongoing, <https://www.aksalser.com/?page=view_news&id=b87424ce5a82c8a3dd4e7b100b098609> accessed 2 April 2018.
62 ibid.
63 'بنك الاستثمار الأوروبي يطلق المرحلة الثانية من تمويل المشروعات الصغيرة والمتوسطة في سورية | الفرات' EIB launches second phase of SME FUND in Syria, <http://furat.alwehda.gov.sy/node/132803> accessed 2 April 2018.

and EIB's weak supervision of the FMU performance have led to the spread of corruption and favoritism in the FMU. This has added additional and illegal burdens on small businesses. It seems clear that the types of companies that benefit from the loans are either large successful companies in the Syrian market or are supported by political figures in the government.[64]

Finally, the reasons noted above have pushed SMEs to prefer borrowing funds from private banks because they are faster and cheaper than the projects of the European Investment Bank.

2.2 JEREMIE: Joint European Resources for Micro to Medium Enterprises

In 2006, the European Union enacted a Council Regulation[65] that introduced the JEREMIE initiative, which refers to the "Joint European Resources for Micro to Medium Enterprises".[66] JEREMIE was developed by the European Commission and the European Investment Fund (EIF)[67]. It aimed to evolve access to finance for SMEs by using financial instruments such as Structural Funds interventions. Although the JEREMIE program has run out in 2013, it is still important to elucidate its functions, how it worked and its advantages and disadvantages. Which may influence the Syrian government to structure any similar potential program in Syria effectively, considering the way in which JEREMIE tackled the obstacles encountered and also to avoid mistakes made during the implementation of it.

[64] There are no academic or reliable sources because of the government's control over all aspects of life in Syria and the fear of arbitrary actions against any criticism. Therefore, the author relies on his work in a Syrian SME until 2014, which sought to obtain a loan from EIB under SME FUND program to expand its work in 2009. then, because of the reasons mentioned in this paper the company decided to resort to borrowing from private banks. There are also similar experiences for other companies.
'EUR-Lex - 32006R1083 - EN - EUR-Lex' 46–49 <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32006R1083> accessed 3 April 2018.
[66] 'JEREMIE: Joint European Resources for Micro to Medium Enterprises' (n 16). See, What is JEREMIE?
[67] 'Eif.Org - European Investment Fund' a specialist provider of risk finance to benefit small and medium-sized enterprises (SME) across Europe. It is a part of the EIB Group. It is shareholders are the European Investment Bank (EIB), the European Union, represented by the European Commission, and a wide range of public and private banks and financial institutions , <http://www.eif.org/> accessed 3 April 2018.

Further, as a program that supported SMEs in developed countries, with positive outcomes for companies, it is an efficient example that may influence developing countries such as Syria by taking it into consideration and applying it, even partially, to support SMEs in these countries.

2.2.1 How JEREMIE Worked

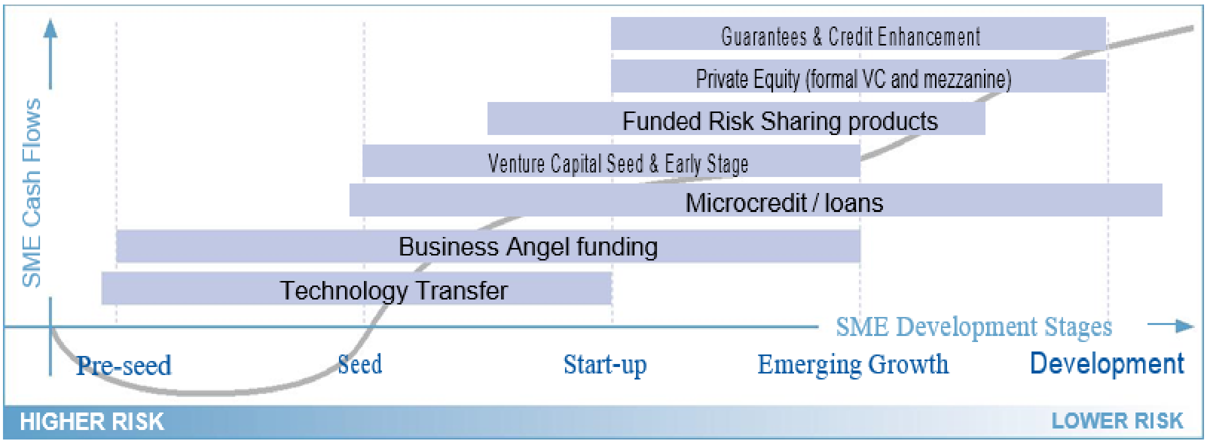
The JEREMIE initiative supported SMEs in an indirect way by targeting Financial Intermediaries[68], thus, Holding Funds (HFs)[69] provided SMEs with financial instruments that included guarantees, co-guarantees and counter-guarantees, equity guarantees, (micro) loans, securitization, venture capital, Business Angel Matching Funds and investments in Technology Transfer funds to the Financial Intermediaries. Hence, the final beneficiaries of this program, the SMEs, obtained loans and equity participation provided by the Financial Intermediaries. Indeed, JEREMIE did not provide any grants directly to SMEs.[70]

In other words, the process began when the Holding Fund initiates an Investment Strategy and the national/regional government of the EU member state has singed a JEREMIE Funding Agreement with the EIF. The national/regional government then launched a call for expressions of interest, after which the Investment Board made a decision.[71] Finally, as an umbrella fund, the Holding Fund would cooperate with the local Financial Intermediaries in order to finance the creation and development of SMEs using the JEREMIE fund.[72]

[68] 'JEREMIE - A New Way of Using EU Structural Funds to Promote SME Access to Finance' 2 <http://www.eif.org/news_centre/publications/jeremie-leaflet.htm> accessed 3 April 2018.
[69] 'EUR-Lex - 02006R1828-20111201 - EN - EUR-Lex' EU Member States implement the JEREMIE initiative by establishing a Holding Fund funded through their Structural Funds. The Holding Fund can be managed either by the EIF or by other financial institutions, according to the EU Structural Funds legislation applicable <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R1828-20111201> accessed 3 April 2018.
[70] 'JEREMIE - A New Way of Using EU Structural Funds to Promote SME Access to Finance' (n 68).
[71] ibid 2.
[72] ibid.

The products that JEREMIE offered to SMEs ranged from technology transfer to guarantees and credit enhancement depending on the SME's development stage. The following figure shows these products and their relationship with the SMEs' stage of development.

Figure 1: Potential EIF products for JEREMIE



Source: European Investment Fund[73]

Figure 1 shows that in order to use the EU Structural Fund to support SMEs with products suitable to help them to overcome the obstacles to accessing finance, the EIF offered several products and distributed these products between the different developmental stages of the SMEs according to their needs.

2.2.2 Evaluation of the JEREMIE Initiative

There were several benefits of using the JEREMIE initiative. One of which was entailed in giving the managing authorities greater flexibility in allocating the advance payment that the Holding Fund was eligible for from the European Regional Development Fund and the European Social Fund. The benefits of a portfolio approach are that umbrella funding made it possible to reallocate resources based on the actual demand, regarding less the risks and

[73] ibid.

expected returns.[74] A further advantage was sustainability.[75] The JEREMIE initiative could be more sustainable than the traditional assistance provided by pure grants because the Holding Funds receive repayments from the Financial Intermediaries that generate a return; money that could then be used to fund more SMEs. The final benefit to note is that of expertise. JEREMIE enhanced the effectiveness of the investment by offering the expertise of the banking and private sectors to the managing authorities of the Structural Fund.[76]

The success of the JEREMIE initiative is reflected in the outcome statistics reported by the EIF at the end of 2015. Thirteen JEREMIE Holding Funds were managed by the EIF for a total of EUR1.1 billion, covering 50 Financial Intermediaries and resulting in 84 transactions.[77] Moreover, according to a Bulgarian survey of 2016, it is estimated that 7,990 SMEs were supported by JEREMIE for a total EUR349.5 million and that this resulted in 158,287 job opportunities in Bulgaria.[78] Considering the outcome of the JEREMIE initiative, especially in Bulgaria, which has an emerging market compared to Western European countries, it may be helpful for Syria to consider JEREMIE as a reference from which to establish support programs that will meet the needs of SMEs in order to beat the market variables. For example, in Syria, it is crucial to consider the range of products that the EIF offered through JEREMIE and the way in which these were distributed to the SMEs at different stages. SMEs in Syria are offered only few instruments by the government, such as the conventional loan. However, it is difficult to meet the requirements for these loans, especially for SMEs in the early stages and, thus,

[74] ibid 3.
[75] 'JEREMIE: Joint European Resources for Micro to Medium Enterprises' (n 16). See, what are advantages of using JEREMIE?
[76] ibid.
[77] 'JEREMIE - Joint European Resources for Micro to Medium Enterprises' <http://www.eif.org/what_we_do/resources/jeremie/index.htm?lang=-en> accessed 3 April 2018.
[78] 'Joint European Resources for Micro to Medium Enterprises' <http://jeremie.bg/> accessed 3 April 2018.

these loans are only available for a small number of SMEs, most of which do not need this support.

A further consideration could be the sustainability function of JEREMIE, which is a major problem for the government projects in Syria, which are for only one round. In other words, when the government initiates any projects or possibility for SMEs to obtain funds, it plans them without including any thought for recycling the repayments of these projects into the funding process again to ensure the continuity of these projects, in order to make it possible for other SMEs to benefit from these projects after the first round is finished.

Although JEREMIE has several effective features and successful experiences in supporting SMEs, there are still issues that should be highlighted. An independent study in Hungary[79], written by an expert and a professor at the Corvinus University of Budapest[80], shows that there are several problems with EU Structural Funds, including JEREMIE. According to the study, which included 1,275 SMEs that had benefited from JEREMIE, the most difficult issue for the SMEs was the preparation of the project progress reports because they required great effort in terms of administrative work, in addition to the costs and time consumed. The study also claimed that it was difficult to acquire the collateral (bank guarantee) needed for the EU-money. There were also problems with inflexibility, excessive bureaucracy, slow management and lengthy delays for the Financial Intermediaries and non-compliance with deadlines, which cost the SMEs time and money. Furthermore, the study indicated that because of the proviso problem, around 30 percent of the SMEs that won the grants could not implement the original timetable and budget for their project.[81]

[79] Christopher Maroshegyi and Sándor Gyula Nagy, 'Out of Credit: Evaluating the Impact of the EU Structural Funds on Hungarian Small Business Growth and Access to Finance' (2010) 5 Köz-gazdaság 113, 113–127.
[80] 'Out of Credit: Evaluating the Impact of the EU Structural Funds on Hungarian Small Business Growth and Access to Finance - Corvinus Research Archive' <http://unipub.lib.uni-corvinus.hu/264/> accessed 3 April 2018.
[81] Maroshegyi and Nagy (n 79).

However, although the problems mentioned in the study reflect the unsuccessful elements of JEREMIE, these problems can be avoided when a developing country such as Syria decides to enact SMEs-supporting projects by considering and learning from the gaps that have been found in JEREMIE.

2.3 JASMINE: Joint Action to Support Micro-Finance Institutions in Europe

JASMINE is a joint initiative of the European Commission, the EIB and the EIF. This action is being developed within the framework of JEREMIE and the communication on microcredit adopted by the Commission on November 17, 2007.[82] Although the original period of JASMINE was from 2007 to 2013, with EUR6 million as a budget to cover this period, this has been extended within the framework of the 2014–2020 programming period.[83]

JASMINE aims to support microfinance institutions (MFIs) in Europe by providing both technical assistance and financial support to non-bank microcredit[84] providers to help them improve the quality, scalability and sustainability of their operations. JASMINE also seeks to promote good microcredit practices and to draft good codes of conduct for microcredit institutions.[85]

[82] 'EUR-Lex - 52007DC0708 - EN - EUR-Lex' This action in the field of microcredit is being developed in the framework of JEREMIE and the Communication on microcredit adopted by the Commission on 17 November 2007, <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1522784418020&uri=CELEX:52007DC0708> accessed 3 April 2018.

[83] 'JASMINE' Joint Action to Support Microfinance Institutions, Microcredit is defined by the EC as loans up to EUR 25,000, tailored to micro enterprises (those with up to nine employees) and people who would like to become self-employed but are facing difficulties in accessing the traditional banking services. Throughout the EU, micro enterprises represent 91% of all European businesses. Moreover, 99% of all start-ups in Europe are micro or small enterprises and one third of those were launched by unemployed people. <http://www.eif.org/what_we_do/microfinance/JASMINE/index.htm?lang=-en> accessed 3 April 2018.

[84] 'EIF Working Paper 2009/1 - Microfinance in Europe - A Market Overview' <http://www.eif.org/news_centre/publications/EIF_Working_Paper_2009_001.htm> accessed 3 April 2018.

[85] 'JASMINE: Joint Action to Support Micro-Finance Institutions in Europe' <http://ec.europa.eu/regional_policy/index.cfm/en/funding/special-support-instruments/jasmine/#3> accessed 3 April 2018.

2.3.1 Services Provided by JASMINE

JASMINE provides two types of services: technical assistance to the program's beneficiaries and business development tools, In Addition to services for the entire microcredit sector.

Within the **technical assistance service**, JASMINE beneficiaries can choose either an institutional assessment or a rating exercise based on their needs and stage of development.[86] The institutional assessment provides the emerging institutions with a strong structure that enhances their social impact and attracts donor funding. This can be achieved by identifying their strengths and weaknesses in order to improve their institutional strength.

In addition to providing a detailed analysis of the institution's internal policies and procedures, this assessment compares them with internationally recognized best practices in the field of microfinance, focusing less on financial performance and risk management and more on operational and organizational aspects. Therefore, a specific objective is to assess the level of development of the microcredit provider and to identify key internal weaknesses and external threats in combination with the opportunities available to the institution.[87]

The rating exercise targets the mature microcredit providers who wish to obtain new financing. It provides a comprehensive assessment of their risk profile and social impact and enhances their international visibility. In accordance with internationally recognized standards, the scope of this service provides a detailed and complete assessment of the financial and operational performance and risk areas of importance to the beneficiaries of JASMINE. Finally, the

[86] Publications Office of the European Union, 'Evaluation of the Jasmine Technical Assistance Pilot Phase : Final Report.' (3 April 2014) 25–58 <https://publications.europa.eu/en/publication-detail/-/publication/5996f562-44fc-4d57-a5f5-38d39755de6d> accessed 3 April 2018.
[87] ibid 59–71.

outcome of the taxonomy report indicates the final assessment and an assessment of the institution's ability to absorb new funds.[88]

Moreover, JASMINE offers a tailored training service for beneficiaries who are entitled to training of between 5 and 12 days that is geared to their specific needs. The Microfinance Center (MFC) provides training.[89] Furthermore, the technical assistance services mentioned above are provided free of charge to the beneficiary institutions, which are organized by EIF and selected according to a specific process based on an annual invitation to express interest.[90]

In addition to the technical assistance provided to selected beneficiaries, JASMINE provides **Business Development Tools and Services** that are available to the entire microcredit sector of the EU. The first is the European Code of Good Conduct for Microcredit Provision[91]. In order to provide microcredit widely, the Commission identified the design of a European code of good voluntary conduct, assuming this to be an important element in promoting best practices in microcredit under particular circumstances, namely, the European microfinance market a young and growing sector with considerable potential. However, this market is still largely uneven due to the disparity between the legal and institutional frameworks of member states and the diversity of microcredit providers. This results in different microcredit lending practices that depend on the type of institution providing the microcredit, the legal preparation, the environment in which they operate and their ability to implement solid and effective management procedures.[92]

[88] ibid 72–76.
[89] ibid 2.
[90] ibid 79.
[91] 'JASMINE - European Code of Good Conduct for Microcredit Provision' <http://ec.europa.eu/regional_policy/en/funding/special-support-instruments/jasmine/cgc/> accessed 3 April 2018.
[92] ibid.

The Code of Good Conduct is primarily aimed at non-bank microfinance providers who provide small entrepreneurs with loans of up to EUR25 thousand. It also targets customers, investors, financiers, owners, regulators and partner organizations.

Other services include the JASMINE Helpdesk, specialized microcredit workshops and JASMINE OnLine. Basically, these services have been operated to assist all individuals and institutions seeking specific information on the EU microcredit sector and to provide microcredit workshops for the dissemination of good practices in the area of microcredit in the EU.[93]

2.3.2 Evaluation of JASMINE Joint Action

An online survey, documentary and data review, which were collected by the Directorate-General for Regional and Urban Policy (DG REGIO) in April 2013 in order to evaluate the performance of JASMINE[94], indicated that the 48 JASMINE beneficiaries represented a mix of young and established companies that represented a wide range of institutional forms, including associations, foundations, cooperatives, credit unions, etc. However, about half of the beneficiaries were non-bank financial institutions. Also, the majority of beneficiaries focused on micro-lending, which is in line with the characteristics of the European microcredit sector that is dominated by specialized institutions. Furthermore, more than 60 percent of the beneficiaries focused on microenterprise loans, about 25 percent were providing loans for social inclusion and around 13 percent provided both microenterprise loans and social inclusion loans.[95]

[93] 'JASMINE: Joint Action to Support Micro-Finance Institutions in Europe' (n 17).
[94] 'Regional and Urban Policy' (*European Commission - European Commission*) <https://ec.europa.eu/info/departments/regional-and-urban-policy_en> accessed 3 April 2018.
[95] Union (n 86) 25.

The overarching conclusion of this evaluation was that JASMINE Technical Assistance had successfully met its objective to contribute to the development of the European microcredit sector by (1) improving the productivity and efficiency of beneficiary institutions and sharpening their professional level, (2) enhancing good governance within the sector and (3) improving transparency and promoting industry standards such as the European Code of Conduct.[96]

The conclusions of the evaluation were based on several pieces of evidence, including the increasing demand for JASMINE technical assistance, where the number of requests for technical assistance increased from 21 in 2010 to 42 in 2012.[97] In their feedback, the vast majority of beneficiaries rated the quality of technical assistance as high, found it to be practical and beneficial and reported that it had a positive outcome. Most of the beneficiaries had not been familiar with the concept of an institutional assessment/rating exercise prior to their experience with JASMINE but they had found it relevant and useful once they engaged with the program. In addition, most of the beneficiaries confirmed that without JASMINE they would have been unable to undertake the training or that their training would have been on a smaller scale.[98]

Although JASMINE was presented by the European Union as a successful program there are some problems and the evaluation provided recommendations aimed at improving the management and implementation of the JASMINE arrangements. The most prominent of these recommendations were to provide a more flexible implementation schedule and evaluation/institutional evaluation, and that training should be provided as an optional product rather than a mandatory package, thus avoiding the waste of time and money if the beneficiary

[96] ibid 72–76.
[97] ibid 77.
[98] ibid.

did not need these products. In addition, the EIF must provide a detailed explanation of the reasons for rejecting applications in order to address these reasons in case they wished to apply to JASMINE again or to develop their performance. Finally, a database of accredited experts should be established to allow for a better match between experts/trainers and the needs of beneficiaries.[99]

Finally, a program like JASMINE can have a distinct impact on the economy of a country like Syria. This is especially the case because most businesses in Syria are Micro, Small and Medium-sized Enterprises (MSMEs) and the entrepreneurs who run these businesses either inherited them from their families or run them on the basis of personal experience. Consequently, entrepreneurs manage their businesses randomly without using any standards, which leads to ignorance in how to structure these businesses and correctly evaluate them and to the absence of awareness of any of the possibilities of developing and supporting these businesses by using funding sources that differ from traditional methods (bank loans). In order to avoid these issues, a program such as JASMINE can provide training and workshops for these entrepreneurs to help them to build well-structured businesses that are based on unified standards, enabling them to obtain technical services and financial products from local and international institutions that seek to support MSMEs. Moreover, the JASMINE program can improve the ability of entrepreneurs to more accurately evaluate their situation, reducing the proportion of failed businesses, if possible, by correcting failures in the early stages.

2.3 Governmental Initiatives in Developing Countries

The United Nations Economic Commission for Europe (UNECE)[100] stated that government policies to support small and medium enterprises are a cornerstone around the world. However,

[99] Union (n 86).
[100] 'UNECE Homepage' <https://www.unece.org/info/ece-homepage.html> accessed 5 April 2018.

they face many problems. This is especially the case in developing countries since government support policies for small and medium-sized enterprises may lack the capacity or experience to implement effective SME policies. Support mechanisms are often concentrated in the capital and major cities, ignoring the need for development and support at the local or regional level. Many countries also lack an appropriate database, such as sector-specific competitiveness, which helps to promote effective SME policies. Finally, in addition to the problem of government corruption, a constant risk for SME policies is that they often only exist on paper and are not fully or effectively implemented. [101]

The purpose of these examples is to show how the government in developing countries can play a key role in supporting SMEs. In the case of India, the study shows that governments in developing countries can regulate policy that supports SMEs, even at a regional level, in order to exploit the advantages that available in a certain region, such as natural resources or human resources and so on, in supporting local and national SMEs. While the Malaysian case shows how the Malaysian government has succeeded in adopting and implementing a long-term economic strategy that has shown remarkable success in the SMEs sector.

It can be assumed that both the Indian and Malaysian experiences it can be applied in Syria after the war. If the government, which will start reviving the economy, can realize the importance of the advantages and the resources of some regions in Syria. Thus, the government should regulate a policy for development and support regional and national SMEs in order to operate there. This policy could include tax exemptions, facilities to obtain credit and developing the infrastructure, as in the case of the Indian experience.

[101] 'UNECE, Review of the International Best Practice in SME State Support - Google Search' 15 <www.unece.org/fileadmin/DAM/ceci/icp/ Review/Studies/2.pdf> accessed 4 April 2018.

Moreover, the government must also have a long-term economic strategy to support SMEs sector, this strategy should be clear and achievable as in the Malaysian case. Finally, in order to achieve these policies, in Syria after the war, to be accompanied by a government free of corruption and giving priority to the public interests over personal or political interests.

2.3.1 The Case of Promoting the Auto Component Industry in India

Among the liberalization policies adopted by the government in the early 1990s, the revocation of licensing and approvals on all imported manufacturing components had a strong positive impact on the growth of the Indian automobile industry. This was especially the case for small local suppliers as the government realized that the key to competitiveness was product specialization and capacity enhancement to allow local suppliers to become larger suppliers. Indian experience shows that this strategy can ideally be achieved when vehicle component companies are established very close to industrial clusters, allowing small and medium-sized enterprises to gain the benefits of aggregate economies while simultaneously reducing infrastructure, communication and distribution costs.[102]

Chennai has benefited from substantial government support, consisting of financial incentives and capital subsidies, tariff concessions, the waiver of sales tax and the establishment of industrial zones. In 2000, Chennai participated in the Small Industries Cluster Development Program (SICDP).[103] This program has been very effective in improving the competitiveness of the SICDP by upgrading the first tier local suppliers[104] that serve the original equipment manufacturers in terms of quality and efficiency, linking SMEs directly to the domestic market and the export market using the export union, facilitating technology and raising the quality of

[102] 'Creating Business Linkages: A Policy Perspective' (n 18) 66.
[103] NS SIDDHARTHAN, 'Industrial Clusters in India: Evidence from Automobile Clusters in Chennai and the National Capital Region' 30–33.
[104] 'Creating Business Linkages: A Policy Perspective' (n 18) 69.

second and third tier suppliers, building the capacity of local associations and strengthening public and private partnerships to promote mutual learning and to capture the effects on local businesses.[105]

Finally, in 2002–2003 the state government devised a strategic plan focused on quality improvement, waste minimization and the rationalization of their supply chains, which set the ambitious objective of 20 percent annual growth with 30 percent growth in exports in five years in order to become a global source for auto component supplies. Since that time, Chennai has popularly become known as the "Detroit of India".[106]

Overall, the case of the automotive industry shows that the Indian government, at the federal and state/regional levels, has played a key role in shaping the overall direction of the country's industrial development through the formulation and implementation of a coherent process that began as a consequence of realizing the importance of this industrial sector for economic growth. This prompted the government to establish a policy framework that enhanced the infrastructure and provided financial support to SMEs in order to gradually dominate this industry, not only locally but also globally. This proves that government support for SMEs in developing countries can be highly successful if the government exploits the advantages that it has in terms of resources and strategic location and by investing them effectively to improve its economy.

2.3.2 Malaysia's Measures to Support SMEs

Government support for SMEs in Malaysia can be traced back to the rural industrial development strategies of the 1950s when SME development was a key component of

[105] ibid.
[106] ibid 68–69.

government industrialization policies.[107] With the launch of the first Industrial Master Plan (IMP1)[108] in 1986, the first attempts to coordinate SME promotion activities at the national level began. This plan developed policies and programs to integrate SMEs into international supply chains through technological deepening and clustering. As part of the IMP1, in the early 1990s, the Small and Medium Industries Development Corporation (SMIDEC)[109] was established, which specialized in coordinating SME activities at the national level.[110]

The SMIDEC Plan was launched in 2000 under the second Industrial Master Plan (IMP2)[111]. This guaranteed a 100 percent income tax exemption for SMEs incorporated in Malaysia, where at least Malaysia's share should be 60 percent of the company shares and shareholders' funds should be up to US$ 500 thousand. Further, the company must be active in the promotion sector and meet one of the following criteria: "(1) the added value must be at least 15 percent or (2) the project must contribute to the social sphere. Economic development of the rural population"[112].

The Malaysian government launched a number of measures to increase the export competitiveness of local SMEs, which, at that time, had reached around 26 percent of all the SMEs that has been exporting their products. Among these measures was the market development grant program that supports SMEs to participate in international trade fairs or trade missions and to display their products in Malaysian trade centers abroad. However, the most generic form of financial assistance to SMEs was the provision of government-subsidized credit, provided by financial institutions and commercial banks. For example, Bank Nigara

[107] ibid 85.
[108] R Rasiah and others, 'Development of SMEs in Malaysia' [2005] Background paper prepared for the Third Industrial Master Plan of Malaysia, Ministry of International Trade and Industry, Kuala Lumpur.
[109] 'About SME Corp. Malaysia' <http://www.smecorp.gov.my/index.php/en/about/2015-12-21-08-49-11/about-sme-corp-malaysia> accessed 4 April 2018.
[110] 'Creating Business Linkages: A Policy Perspective' (n 18) 85.
[111] ibid.
[112] ibid.

Malaysia[113] played a key role in regulating financial assistance to SMEs by offering lower lending rates than those offered in the market. Furthermore, most financial institutions in Malaysia have established small and medium-sized units to meet the financial needs of SMEs. In addition, the Credit Guarantee Company provides a guarantee to commercial banks that provide loans to SMEs for viable projects.[114]

In the 1990s, the government provided funds for venture capital by creating government-owned venture capital institutions, such as the Malaysian Technology Development Corporation[115]. A SMIDEC survey in 2005 revealed that SMEs in Malaysia often relied on traditional sources of finance, i.e., private funds or retained earnings and commercial banks in general. It was also noted that the interest rates in Malaysia did not exceed five percent between 1998 and 2005, which emphasized a favorable financial environment for corporate growth requirements. Further, the central government also ensured that commercial banks provided a large portion of their funds to SMEs in order to make it possible for SMEs to obtain adequate funds to improve their businesses.[116]

Finally, the Government developed several industrial sites to meet the needs of SMEs, providing strategic locations and infrastructure. The program included the establishment of common facilities for waste disposal, storage, and staff accommodation and for the construction of affordable factories for small and medium-sized enterprises. The location of the industrial sites was chosen according to proximity to transnational corporations. In 2005 it

113 'Bank Negara Malaysia | Central Bank of Malaysia' <http://www.bnm.gov.my/index.php> accessed 4 April 2018.
114 'Creating Business Linkages: A Policy Perspective' (n 18) 85.
115 'Business Funding – Malaysian Technology Development Corporation' <https://www.mtdc.com.my/business-funding/> accessed 4 April 2018.
116 'Creating Business Linkages: A Policy Perspective' (n 18) 85–86.

was estimated that there were 1,271 small and medium-sized enterprises in eight major industrial zones, with a total occupancy rate of 69 percent.[117]

The lesson from the Malaysian case shows that it is possible for developing countries to design and adopt realistic and achievable long-term strategies to promote their economies. In fact, it is this that is lacking in Syria's strategic plans, which are often impossible to achieve. Moreover, Malaysian experience demonstrates the government's ability to be flexible in providing financial support to SMEs using the instruments of the capital markets, for instance, venture capital, which provides alternative financial support rather than traditional methods such as bank loans.

[117] ibid 87.

CHAPTER 3: The Leasing Method to Finance SMEs

SMEs in emerging economies face many challenges, the main one being access to market financing products. A banking system may only provide a limited range of products to its potential customers and SMEs that do not have sufficient collateral or appropriate credit history are unable to access traditional bank financing. This calls for the development of the leasing sector, especially in emerging economies such as Syria where leasing is not considered to be a separate financial product der by the law, which does not distinguish between leasing and bank loans. In terms of that this mechanism could provide financing that contributes to increases in local production and job creation, thus, promoting economic growth. Because financial leasing arrangements increase the range of financial products in the market. They provide a way for SMEs to acquire equipment such as machines, tools, installations, motor vehicles and so on, which are necessary for starting and growing their business more easily and at less cost than traditional loans.[118]

3.1 What is Leasing Finance

The definition of leasing finance found in Black's Law Dictionary with regard to UCC § 2A-103(1)(g), is:

> A fixed-term lease used by a business to finance capital equipment. The lessor's service is usually limited to financing the asset, and the lessee pays maintenance costs and taxes and has the option of purchasing the asset at lease-end for a nominal price. Finance leases strongly resemble security agreements and are written almost exclusively by financial institutions as a way to help a commercial

[118] Fletcher and others (n 21).

customer obtain an expensive capital item that the customer might not otherwise be able to afford.[119]

Leasing is a tool to finance small and medium enterprises. A medium-term financial instrument aimed at obtaining machinery, equipment, vehicles and / or real estate. Provides financial leasing of assets, such as equipment and vehicles, rather than direct financing. Leasing institutions, such as banks, leasing companies, insurance companies, equipment producers, suppliers and non-bank financial institutions, often purchase the equipment normally chosen by the tenant and provide the equipment to the lessee for a limited period of time. time. Thus, the tenant pays regular payments to the lessor at an agreed interest rate throughout the term of the lease. Thus, at the end of the lease period, the parties have three options: the equipment is transferred to the tenant's ownership, returned to the lessor or sold to a third party in accordance with the terms of the lease between the parties.[120]

In addition, a finance lease is a contract that allows the assignor to transfer all the risks and rewards of ownership to the lessee while the lessor retains ownership of the asset. Despite the legal form of the transaction as a lease contract, the economic content of the lease transaction requires financing of the purchase, not just the lease. A finance lease is also a full lease for payments since payments made during the lease period are accounted for as part of the cost of purchasing the asset from the lessor. Payments also include finance costs for the lessor and they provide a profit.[121]

The idea behind the lease is that profits are also earned through the use of assets rather than only through asset ownership. The rationale for the lease contract is based on the ability of the

[119] 'Black's Law 8th Edition | Solutions4theInnocent' 2603 <https://solutions4theinnocent.wordpress.com/library/blacks-law-8th-edition/> accessed 4 April 2018.
[120] Fletcher and others (n 21).
[121] ibid 2.

lessee to generate a cash flow from the business operations of the leased assets that will service the lease payments rather than relying on the balance sheet or credit loans. Therefore, leasing has a special benefit for emerging SMEs that do not have the ability to acquire long-term credit or do not have an important asset base for collateral.[122]

3.2 The Similarities and Differences between Financial Leasing and Loans

To demonstrate the importance of financial leasing as a highly efficient mechanism to finance small businesses, it is important to consider the similarities and differences between loans and financial leasing as securities. This also helps draw the attention of governments in developing countries, particularly in Syria, to the importance of the distinction between these two securities and the need to enact independent financial leasing regulation, which opens the door for companies to benefit from a wider scope of financing products.[123]

Similarities are manifested in several aspects, including the option to retain the ownership of assets in term of the outcome, because a country such as Syria does not consider the differences between the process of bank loans and leasing. The lessee is entitled, as is the borrower, to retain the asset once payment has been completed and the terms of the lease fulfilled.[124] Interest and capital (the cost of equipment) are paid during the period of the loan and the lease. In a case where there is any default on the loan or lease payments, as long as the loan is secured, both the lender and the lessor have legal rights to recover the assets. Under a loan or financial lease, the risks and costs of ownership, including maintenance and obsolescence, are transferred to the borrower and the lessee. However, the lender and the lessor do not benefit in the event of an increase in the value of the assets. Further, neither the lease nor the loan agreements can be canceled until the lessor or the lender have recovered their expenses. It is

122 ibid.
123 ibid 4–5.
124 ibid 4.

possible for both the borrower and the lessee to settle the agreement in the case of the lease or to repay the loan early.[125]

The main difference between loans and finance leases is that the leasing companies frequently rely on the nature of the lessee's work, which is often industrial business. Accordingly, unlike banks and other lenders who consider the balance sheet value of the lessee and the collateral he owns, in the case of leasing, the lessee is not required to provide any collateral to obtain the assets, the lessor relies on the value and examination of the lessee's request, which is based on the asset's ability to contribute a cash flow to the production process and its ability to cover the lease costs. In other words, in the case of leasing, the lessee is not required to provide any collateral to obtain the assets.[126]

In addition, leasing suppliers are more sales-oriented and services, and use their specialized knowledge to bridge the gap between suppliers and buyers. Specialized knowledge of leasing companies may give them an advantage in disposing of the leased assets owed. Tenant suppliers are usually not specialized in financing or acquiring equipment, while suppliers are not specialized in financial or credit decisions; leasing companies specialize in finance and credit, equipment acquisition and disposal (dealing in equipment). In fact, both the supplier and the tenant outsource certain parts of their business to the service provider who also has the ability to borrow and lend money.[127]

3.3 Advantages of Using Leasing

Leasing provides a way to increase domestic investments within economies. Through the development of financial instruments, such as leasing, this allows countries to provide new

[125] ibid.
[126] ibid.
[127] ibid.

financing products to finance small and medium enterprises in order to deep the activities of their financial sector. The key benefit of leasing is that it enables SMEs to obtain financing and capital to develop their business in an inexpensive manner and to acquire assets through finance leasing.[128] These small businesses are part of companies that do not have other assets that can serve as collateral for loans or other types of secured lending within countries where unsecured lending is not an option. Through the development of leasing, SMEs can become more economically active because they are able to access finance and, thus, have access to income-generating assets that enable them to meet their obligations and even to make a profit. Leasing also provides an important advantage in countries with weak commercial environments as the lessor retains the title until the lessee has made all the payments. This is particularly important for those with weak creditor rights, for example, in countries with laws and regulations that, in the case of default, do not give priority to secured lenders.[129]

In addition, leasing is a tool that allows participants to manage or allocate risk by reducing risks to the underlying assets of financial leasing. The main advantage of leasing is that, where possible, participants are often allowed to identify certain risks, for example, residual value risks, to the most vulnerable.[130]

3.4 Leasing in the Middle East and the North Africa (MENA) Region

As Syria has no experience in the field of financial leasing, it is appropriate to focus on MENA region, considering that Syria is part of it and the similarities of the structure and the economic

[128] Bilal Al-Sugheyer and Murat Sultanov, 'Leasing in the Middle East and Northern Africa (MENA) Region: A Preliminary Assessment' [2010] MENA Financial Sector Flagship Report, October, International Finance Corporation, World Bank, Washington, DC.
[129] ibid 3.
[130] ibid 8.

situation of many of them. Which may influence the Syrian government to consider the other countries' experiences.

In MENA region most countries, 13 out of 18,[131] have a leasing industry in both traditional and Islamic forms (*Ijarah*)[132]. In five countries (Iraq, Syria, Libya, Yemen, the West Bank and Gaza), leasing is still at a preliminary stage of development and it is not found at all in some countries, such as Syria.[133]

The leasing market in MENA is low in international comparison, regardless of whether the rate is determined by the size of the lease to the gross fixed capital formation (GFCF) or by the ratio of the volume of leasing to GDP. The average GFCF penetration rate in 2010 in MENA was about 3.6%, while the equivalent rate was about 12% in Central Europe, 6% in high-income countries and 5% in Latin America. The relative situation of MENA remains as one where the penetration ratio is defined in terms of GDP.[134]

Although it has been underestimated because of the lack of statistical data in some countries, Euromoney[135] (the main source of leasing data) reported that there are between three and five leasing markets in MENA. As, in most cases, there is often no change to the list of countries or the statistics, this does not cover all the important leasing markets in the region.[136]

3.4.1 Main Leasing Regulatory Issues in MENA and Recommendations

Key issues, such as appropriate financial leasing transactions and distinguishing between leasing and other sources of funding, remain unclear in the MENA. The lack of legislation

[131] ibid 5.
[132] Mohammed Obaidullah, 'Islamic Financial Services' 79–88.
[133] Al-Sugheyer and Sultanov (n 130) 5.
[134] ibid 9.
[135] 'Euromoney Data' <http://www.euromoneydata.com/> accessed 5 April 2018.
[136] Al-Sugheyer and Sultanov (n 130) 6.

governing these leases leads to ambiguous roles and responsibilities of the parties involved. In addition to the aforementioned issues, as the 2009 World Bank Doing Business[137] report has shown, MENA has made very limited progress in terms of legal enforcement to strengthen the contract environment.

Another predicament lies in the absence of a registration process through which the lessor could declare an interest in the leased asset while also protecting the ownership rights. Currently, lessors may find themselves unable to protect their interests in the assets leased against third parties.[138] This issue is clearly evident in the case of the bankruptcy of a lessee who has also underpaid the lease contract. Without proper registration, it is difficult in such cases for the lessor to prove his right over the assets of the lessee, particularly the movable assets, and to claim recovery. Even if the lessor succeeds in proving his right, it can still be difficult for the court to distinguish and confirm these rights or to achieve the return of assets to the lessor. It is evident that there is a lack of regulation regarding the relationships in the general rules of bankruptcy law in most of MENA's countries.[139]

Therefore, some jurisdictions may consider establishing a register of leased assets which could later be extended to other types of security interests or incorporated into a new record of movable assets. For example, Yemen has begun to develop a log based on notification of leased assets intended to design a new electronic security record. Once the secured lending legislation is in place, it can be used to incorporate other security interests as well.[140]

Recovery procedures are not available, and property through regular litigation by the court does not allow tenants to return the leased property without expensive and time-consuming

[137] 'Regional Reports - Doing Business - World Bank Group' <http://www.doingbusiness.org/reports/regional-reports> accessed 5 April 2018.
[138] Al-Sugheyer and Sultanov (n 130) 13.
[139] ibid 15.
[140] ibid 13.

procedures or restrictive bureaucratic requirements. With the exception of Jordan and Yemen prior to the war, where judicial re-appropriation takes place, there are no other jurisdictions with special recourse procedures, and therefore property owners need to use normal litigation procedures. The recovery of assets leased through the regular court system remains a cumbersome process. Libya and Syria Prior to the war, the West Bank introduced laws calling for urgent issues derived from judges' judgment similar to those in Jordan and Yemen.[141]

Furthermore, the tax rules in most MENA countries are ambiguous and have generally created a bias against the leasing industry. This ambiguity has led lessors to increase their prices in order to compensate for the uncertainties in the tax treatment of the leasing transaction. This situation results in leasing being costlier and less attractive for both parties of the transaction, lessors and lessees.[142]

Accordingly, tax policies should reward rent versus other forms of financing, and should avoid special treatment for either, thereby avoiding market distortions that could have a negative impact on the financial sector in general. For example, the income tax treatment for leasing and loans should be similar where there is a slight difference between leasing and loan financing. Similarly, sales tax and VAT rules should clarify that the leasing process is a financial service and not a sale of goods. Even in the jurisprudence where leasing is treated as an exempt financial service, the legislation does not clarify any part of the amount of the exempted rent, i.e. whether the total value of the lease (value of assets and financial return) or financing only the component of return.[143]

To improve the leasing environment in the Middle East and North Africa, it is important first to strengthen the legislative framework governing leasing operations. Lease legislation should

[141] ibid.
[142] ibid 14.
[143] ibid 15.

be strengthened to provide a more effective and unambiguous legal framework. This can best be achieved through the specialized leasing law, together with appropriate changes in the relevant basic legislation. Among other things, it is necessary to clarify the definition of leasing and a more equitable balance between the rights and responsibilities of parties to the lease. It is also important to establish regulations for other forms and types of leasing, such as sale, re-leasing and sublease.[144]

Finally, rent, as an alternative source of finance, has great potential in the countries of the Middle East and North Africa. This is due to two main characteristics. First, leasing can supplement or even replace bank financing, especially for SMEs that often lack sufficient credit history and guarantees. Second, leasing is fully compatible with Islamic law. The absence of large-scale and diversified leasing operations beyond industry lines and serving all organizations, especially small and medium-sized enterprises, is due to several important factors. Unless these issues are dealt with in a comprehensive and effective manner, the leasing industry in the Middle East and North Africa region will not realize its real potential.[145]

[144144] Al-Sugheyer and Sultanov (n 130).
[145] ibid.

CHAPTER 4: The Role of Private Equity in Emerging Markets

Private equity (PE) firms have shown that they are able to create more jobs and growth than their peers. As a strong PE market is the cornerstone of the modern economy of commercial production and innovation through the support of SMEs.[146] Countries in emerging markets should seek to create an attractive environment for this type of financing in order to meet the urgent need for capital to finance all types of infrastructure, telecommunications and other business in emerging markets.[147] Where there is tremendous growth potential and earning benefits. This capital can be easily provided by financial institutions specializing in venture capital investments in SMEs.[148]

Financial economists generally believe that venture capital and private equity funds exist to address the large gaps in information between investors and entrepreneurs, especially those that are rapidly growing and restructuring companies.[149] By regulating the initial transactions and intensive monitoring of the company during and after the investment, they can avoid many of the problems that deter banks and other financiers from investing in these situations.[150]

The case study of Express Life Insurance Company Ltd. in Ghana[151]could be an appropriate example of the crucial roles that private equity plays in supporting SMEs in developing countries.

[146] Alexander Peter Groh and Douglas Cumming, 'Private Equity in Emerging Markets' [2009] Private Equity: Fund Types, Risks and Returns, and Regulation 419.
[147] Lerner and Schoar (n 22).
[148] Steven N Kaplan and Antoinette Schoar, 'Private Equity Performance: Returns, Persistence, and Capital Flows' (2005) 60 The Journal of Finance 1791.
[149] Lerner and Schoar (n 22).
[150] Kaplan and Schoar (n 149) 1816.
[151] 'Impact Case Study: Express Life Insurance Company Ltd.' (n 25).

4.1 Lessons from Express Life Insurance Company's Experience in Ghana

Express Life was established in 2009 by a Ghanaian entrepreneur to complement his savings and loans business focused on MSMEs, and a remittance service aimed at unbanked Ghanaians. The company posted rapid growth from its founding until the end of 2011. However, in 2011, Ghana's national insurance regulator announced more stringent capital requirements for domestic risk carriers, even while the business was not achieving bottom line growth to match its top line performance, leading Express Life to search for additional funding and expertise.[152]

LeapFrog[153] found that an investment in Express Life would not only allow the company to meet the enhanced minimum capital requirements but also it would add value through support from the board and operations levels. both parties saw opportunities to reinforce Express Life's managerial team and expand the company's scale by capitalizing on its favorable reputation in responding to claims. In the end, the founder of Express Life ceded significant control of his company to LeapForg in May 2012.[154]

Hence, LeapFrog sought to improve Express Life's financial performance using its experience and relations to restructure the company and hire external experts in a crucial position including CEO and the Heads of Distribution, Customer Service and IT. In the first year, the company introduced new products that were simpler, than the old ones, in order to make sure that the insurance buyers understood the company's products.[155] The result of this investment was notable considering the fact that in only over a year Express Life managed to improve its workforce by attracting new employees with increased salaries. It lunched five new branches

[152] ibid.
[153] 'Home' (*LeapFrog Investments*) <http://www.leapfroginvest.com/> accessed 6 April 2018.
[154] 'Impact Case Study: Express Life Insurance Company Ltd.' (n 25).
[155] ibid.

and two of its new sales offices opened within a year of the investment. Also, its monthly sales rose to five times the original amount during this one year period.[156]

The lesson that can be learned from this experience is that the functions of private equity investors do not only provide financing to SMEs, but also a turnaround for the company from the loss to profit stage. In order to achieve this, investors need to offer their own resources to help restructure and develop the company, as well as improve the quality of its performance. The aim, of course, is to raise the value of the company in order for the investors to make a profit when they resell the company to another investor. Furthermore, governments in developing countries, especially in Syria, should provide a friendlier environment for private equity to operate its businesses in the local market, in order to enable SMEs to obtain the necessary financing, which would help them develop their businesses. Along with private equity investments, modern methods of structuring and technologically managing companies would also aim in improving the quality of the market.

4.2. SMEs' Alternative Initiative to Raise Funds in Syria

Private equity in Syria is limited to private equity companies that provide special support to the agricultural sector. These companies aim to help families with agricultural businesses to cross the poverty line. One of these companies is Aga Khan Development Network Organization[157]. For SMEs, private equity services are either unavailable or very weak. This is one of the reasons why SMEs resort to alternative solutions, such as *Modaraba*[158], in order to gain the appropriate financing for starting or expanding and their businesses away from the difficulties that surround the process of obtaining bank loans.

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[156] ibid.

[157] 'Syria | Aga Khan Development Network' <http://www.akdn.org/where-we-work/middle-east/syria> accessed 6 April 2018. AKDN began operating a microfinance programme in 2003, and in 2008, under the new microfinance decree, it incorporated First MicroFinance Institution Syria (FMFI-S) as a microfinance company and obtained a deposit-taking license.

[158] Pervez (n 26) 270–273.

In most cases, owners of a SMEs or start-up depends on his reputation and his social relations in order to raise funds from investors, where the investors are usually family members and relatives, friends, neighbors and so on. Then, owners use the obtained funds in order to establish or expand their businesses. In return, owners need to pay back a certain percentage of profit to the investors. Profits are usually calculated based on the annual performance of the company, where profits are divided between the company and the investors on the basis of a certain percentage.[159] After the deduction of the expenses, usually, it is 40 percent for the investors and 60 percent for the owner. At the same time, investors have to bear the loss regardless of its reason, and the loss is calculated based on the percentage of the investors' share of the company capital. For example, if the loss is equivalent to US$10000, and the investor's share is 50 percent of the company's capital, then the investor bears a loss of US$5000 which is 50 percent of the total loss.

Although, this type of finance dose not regulated by law in Syria, the law that applied in Syria is Civil Code, it depends on the rules of Islamic Sharia and customs that are existed in the market long time ago.[160] Also, this type has its advantages as well as some risks. The advantages can be seen in many ways such as enabling SMEs to obtain adequate financing to start or expand their businesses without entering into the complexities of obtaining a bank loan. Also, this type is cheaper to obtain, since investors do not ask for any collateral in return for the funding and they can receive debt securities as well, in order to secure their rights. Another feature of this type of financing is that owners have the freedom to manage their businesses without any interference from the investors, which gives them the flexibility to make suitable

[159] 'شركة المضاربة' Mohammed Rateb Al-Nabulsi, Islamic Fiqh, Transactions, Modaraba, <http://nabulsi.com/blue/ar/art.php?art=4678&id=142&sid=1177&ssid=1187&sssid=1192> accessed 6 April 2018.

[160] Because of the lack of sources, All information related to *Modaraba* was obtained by the author experiance through his work in a Syrian SME that used *Modaraba* to obtain funds, and through real practices in the market.

decision in accordance with the market's demands without having to consult with the investors.[161]

Issues can arise from this type of funding due to the following reasons. For example, complications can occur from the absence of specific laws governing this type of transactions and the reliance on mutual trust between the owners and the investors. This can open the door to fraud, if company owners liquidate all their businesses, sell all their assets and leave the country without returning the investors’ money. In this case investors do not have any registered right on the assets of the company's owner. In Syria, even if the investor has debt securities and decides to file a claim in front of court, it is not possible for them to enforce the handover of the assets of the company's owner.[162]

On the other hand, in the event of any dispute between the parties, regardless of the reason, investors who hold a debt bond will be able to file a claim and execute the court decision on the owner's assets. This process was created on the basis that in this financial situation an investor is a more like a creditor, than an investor, meaning that the court case would constitute a burden on both parties and can result in a waste of time and expenses. Also, the lack of participation from investors in the company management as well as in the decision making is often unfair to investors, especially if the company suffered a heavy loss due to mismanagement or reckless behavior of the company owner. Also, investors may not agree to bear any loss caused by external reasons and can demand the full recovery of the original amount of their investment. [163]

The most problematic issue arises when the company owner declares bankruptcy and there are a number of investors who hold various securities on the company's assets such as mortgage,

[161] ibid.
[162] ibid.
[163] Ibid.

debt securities, trust securities, and so on. The becomes largely problematic when the court eventually initiates the bankruptcy proceedings and at the same time also has to determine the priority among creditors. This can result in some disagreements between the creditors due to the disparity between their classes, even though they are equal investors and subject to the same terms that are derived from *Modaraba*.[164] Although the government issued legislative Decree 8 of 1994[165] in order to prohibit this type of fund-raising to avoid the problems that mentioned previously, *Modaraba* is still widely used in the market because there are no suitable alternative ways for SMEs to obtain a necessary funds to start and extend their businesses. Also, *Modaraba* is welcomed by the investors (people) because its conformity with Islamic Sharia rules.

[164] ibid.
‘قانون جمع الاموال رقم 8 لعام 1994’, legislative Decree 8 of 1994, Law of raising-funds, <http://parliament.gov.sy/laws/Law/1974/penal_12.htm> accessed 6 April 2018.

CONCLUSION

The beginning of the Arab Spring in the region, especially in Syria, generated an appetite for reform among all strata of society, which can be considered as the beginning of a new Syria. It was crucial for the reform to achieve a comprehensive system by providing fair opportunities, equal access to markets and equal opportunities, while also creating new opportunities for SMEs to develop their businesses. However, for political reasons, the Syrian revolution turned into a crisis and a mob war, which led to the marginalization of most of the small and medium enterprises and even the economic situation in Syria reached its worst state in decades. Therefore, the conclusion of this paper will be some recommendations for the government as for how it should initiate reform in Syria with aim of ending the crisis.

The first step in a possible reform is to remove competition restrictions and market entry, which would allow a new generation of entrepreneurs to emerge and compete in global and local markets based on the performance of their companies, and not on privileges. Obviously, this would require the elimination of all existing discriminatory factors, such as favoritism and personal privileges, which stand in the way of creating a friendly and fair economic environment.

Furthermore, SMEs should be supported by specific government created programs. Also, the government should take into consideration the programs available in developed countries such as JEREMIE and JASMINE initiatives in the EU. These programs should be able to design and build a strong economic base for SMEs by providing educational, technical, and financial support in order to improve the delivery of financial services for them. They should also aim to help SMEs in structuring themselves in a uniform manner that is compatible with or close to global standards. There is also a need for training and advisory services for SMEs, whether they are banks, service companies or industry associations. At the same time, administrative and legal barriers with project registration, growth and innovation plans should be removed. In the creation of these aforementioned programs, small and medium-sized enterprise development agencies and SME associations, as well as the chambers of commerce could play a role.

The next step that the government can take is to seek to expand the range of financing products, along with the bank's traditional financing products as there is a considerable potential for growth in the leasing industry in the Middle East and North Africa in general. Taking into consideration the requirements of limited guarantees and perceived Islamic compliance that encourages some entrepreneurs who wish to apply Sharia, leasing is particularly beneficial to small and medium enterprises in the region. The lease can be extended in an operational and in a financial manner in order to include sales and leaseback. To achieve this, governments need to strengthen and clarify the legislative framework for the current lease options.

Finally, private equity services should be attracted to extend their branches in Syria, where they could become vital sources for market information, trade advice, and financing. This would be a very promising progress in the development of the creditworthiness and competitiveness of SMEs. In order to further enhance innovation, the government should provide a supportive investment for climate and business regulations that encourage easy exit, entry and fair competition. This would also encourage private equity to expand their activities which could include innovative financing, quality certification, counseling, custody, and an effective competition policy. This is how innovative SMEs can make a significant contribution to economic growth, job creation and restructuring

Hopefully, the Syrian government will take the high-growth countries into consideration were SMEs are able to rely on strong, rule-bound institutions to reduce discrimination and create dependable incentives for rapid private-led economic growth. The key to achieve such an ultimate goal lies in the strengthening of institutions in order to implement private sector policies that are equitable and consistent.

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