MPs Guide
To Improve climate of small and medium enterprises in Egypt
The Egyptian Center for Public Policy Studies (ECPPS) is a non-governmental, non-party and non-profit organization. Its mission is to propose public policies that aim at reforming the Egyptian legal and economic systems. ECPPS’s goal is to enhance the principles of free market, individual freedom and the rule of law.
The Egyptian state adopted lately a lot of initiatives which aim at the development of small and medium enterprises. These initiatives seek to support the sector through training, financing and guidance as well as legislation. In this context, a quality committee has formed for the first time in the House of Representative which is competent to the affairs of small and medium enterprises in addition to searching for what the sector need to start its vital role in providing work opportunities, raising living standard, increasing production, increasing exportation and maximize the use of the state’s resources whether it’s natural or human resources.

From this Standpoint, the Egyptian Center for Public Policies Studies put this index for the members of Representative’s House in general and for the members of medium and small enterprises in particular, to present an integration view about the condition of the sector, the most highlighted components and the challenges that face it. We hope that this index will help in formatting an actual vision for the vital sector’s future, then using the power of the House of Representative and the relevant committee to the small and medium enterprises to get out of obstacles and solving the problems which face the employees. By this way, all the benefit will return to wide sectors of citizens and entrepreneurs. In addition, it will manage a lot of income for the state and raise the rate of economic growth.
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Chapter one: What are the small and medium enterprises?

Setting a definition of the small and medium enterprises is necessary to put a practical basis to deal with enterprises which operate at this sector then putting effective and efficient policies. This definition helps fundamentally in carrying out the statistics and studies which concern these enterprises meaningfully to reflect the reality so the policies come up as it based on the index which achieve the development targets sustainably. The definition of economic enterprises in magnitude depends on 3 basic elements:

1. The amount of capital.
2. Annual sales volume.
3. The number of employees who work in the project.

The systems and curriculums of definition in Egypt:

when we look at the definitions which laws and regulations have put, we found that these definitions commit to these elements or some of them in the definition of medium, small and microenterprises’ identification. In Egypt, there are two approaches to define and survey the small and medium enterprises, they are:

First: the definition of law No 141 of 2004

In 2004, the Egyptian Parliament issued the law of small enterprises’ development which aims at encouraging and developing the investments at projects field for small-scale and microenterprises. This law has given for Social Fund for Development the ability to apply its rulings, put and carry out the development planes of this sector. The first chapter of the law includes 2 articles to define the enterprises which fall under this law. The definitions depended on 2 basic elements, they are:

capital and number of employees but this definition didn’t mention the volume of sales:

* Article (1): Small enterprise means that every company or project has an economical, productive, commercial or service activity:
  - Its paid up capital no less than 50 thousands pound and no more than 1 million pound.
  - Its employees number not exceeding 50 workers.

* Article (2): Microenterprises means that every individual project has an economical, productive, service, commercial activity, its paid up capital fewer than 50 thousands pound.
So we find here that the definition of small enterprise depends on two elements: the capital and a number of workers while the definition of microenterprise depends on the capital element only. So the law assumes implicitly that the enterprises which work under this law having a commercial index defines the volume of up- paid capital and type of activity as well as the owner of the project should be one person.

**Second: the definitions of The Central Bank of Egypt:**

The interest of the Central Bank kicked off via financing the medium and small enterprises from 2008. So the bank issued in its session on 16 December 2008 that the first decision in terms of stimulating the banks to give credit facilities to companies, medium and small enterprises. The bank continued in issuing a lot of decisions in regard to this matter which includes the initiative of 6 January session as it puts an minimum end it is estimated with 20 % for credit portfolio of banks to finance the medium and small projects. Carrying out the initiative and the guidelines of bank depend on definitions have the Central Bank approval by its session on 3 December 2015. This session has given a precise definitions for every micro, very small, small and medium enterprises which the bank depends on its definition such as capital, volume of sales and volume of employment.
The next schedule shows clearly the requirements of the Central Bank of Egypt to each category of the project:

<table>
<thead>
<tr>
<th>Fresh (newly established)</th>
<th>List</th>
<th>Companies</th>
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<tbody>
<tr>
<td>(Workers volume)</td>
<td>(Capital) paid</td>
<td>Employment volume</td>
</tr>
<tr>
<td>Less than 10 Persons</td>
<td>Less than 50 thousands person</td>
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<td>Less than 200 person</td>
<td>From 50 Thousand to 5 million pound for industrial projects and 3 million pound for non-industry projects.</td>
<td>Less than 200 person</td>
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<td>Form 5 million pound to 10 million pound for industrial projects and from 3 million to 5 million for non-industry projects.</td>
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<td>Micro small</td>
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<td>Small</td>
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<td></td>
<td>Medium</td>
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</tbody>
</table>
We have noticed the huge disparity between the lower enterprises in size and medium enterprises. It’s of course, will effect on the reality of applying the initiative. The greatest beneficiaries from the huge enterprises at the expense of small and finite enterprises, this may call for greater focus on supporting the capacities of small enterprises so that they can obtain funding that expands their productive capacities, competitiveness and job creation for the simple.

**Third: the definition of the ministry of commerce and industry ministry:**

The minister of commerce, Tarek Kabil issued a decision No.1081 of 2017 in regards to the definition of small and microenterprises according to a law No.15 of 2015 which stipulates that the facility of industrial licensing procedures. The new decision stipulates represented following definitions:

1. The medium industrial enterprises means that every company or enterprise starts an industrial activity, its paid annual turnover no less than 50 million pound and no more 200 million pound, and for new companies and enterprises which doesn’t have volume of work, their paid in capital no less than 5 million pond and no exceed 15 million pound.

2. The small industrial enterprises mean that every company or enterprise kicks off an industrial activity. Their annual volume of work no less than million pound and no more than 50 million. For the new companies and enterprises which doesn’t have volume of work, its paid up capital no less than 5 million pound and no more than 15 million pound.

3. For the industrial microenterprises, the decision stipulates than every enterprise or company which kicks off an industrial activity, the annual volume of work shouldn’t exceed million pounds. For the new company or enterprises which don’t have a volume of work, its paid up capital shouldn’t exceed 50 thousand pound.

we find here that the decision is more flexible than the law No.141 as the decision doesn’t limit the medium and small enterprises to be individual enterprises but it basically depends on the sales element to identify a category for actually every operating enterprise as well as it depends on the paid up capital element in case of newly enterprise.
Problems of raised definitions:

Great disparity appears between the law No. 141 definition and other definitions of the Central Bank of Egypt, which is put the urgent need to put union criteria to characterize and classify the economical medium, small and medium size enterprises. Putting into consideration privacy and natural every economic activity and what it needs from resources and product tools, example the cement factory needs to a few number of employees comparing with its annual volume of work and its need estimated with billion pounds. On the other hand, we can find some service activities which make work available for hundred people but the volume of needed capital to establish these activities is limited and its volume of work isn't large as well, such as, for example cleaning service, security, maintenance and so forth. In addition, definitions don't clarify whether it involves an agriculture activity or not. Is it involves tradesmen, manual labor, taxi drivers and public transportation like “Toktok”? These are economic activities without a doubt and it provides to employ a large section of workforce. These questions and other are necessary to put an actual and integrated imagination for the future of this sector as well as its need of support or guidance to rise up the volume of production, exportations and decrease from unemployment volume sustainably.

The Second Chapter: Information gabs of medium and small enterprises.

Availability of information is considered one of the main challenges which face researchers and learners at the section of small and medium enterprises. The availability of formal data doesn't give an accurate or clear or updated image of small economic volume and its impact at work market, national income, external commerce’s movement and so. Although the efforts of the Central agency for Public Mobilization and Statistics to count the enterprises, we find that the last statement of enterprises counting backs dating back to 2013 so we are waiting the newly economic census in upcoming months. Despite of the huge date which economic census’s schedules included but it doesn't meet the need of learners to evaluate the small economic situation comparing with large economical institutions’ volume. For example, the national income of small enterprises comes as total income of private sector enterprises which involves great enterprises with intensive capital therefore it gives an unclear imagination of small economic volume and its support in production and operation. Now, we will present the most important data which the economic ensues included for 2013.
The number of enterprises:

*Total number of economic enterprises in Egypt is 2.41 million enterprise. General and work Sector presents of the previous ratio about 824 enterprise with 0.03 % of the total enterprises but with contribution ratio in production reaches 15.2%

*The private sector presents 99.97 % of the total enterprises, with production ratio reaches 84.8 % of total enterprises.

*Individual enterprises, solidarity, Simple recommendation present 99 % of total enterprises what is equivalent 2.38 million enterprises. These enterprises may undergo since the legal form according to definitions of the law No.141 as well as definitions of the Central Bank in general. This is doesn’t negate that the contribution enterprises and limited responsibility may come within the definition of the Central Bank such as Capital or annual sales volume or number of workers but the availability data doesn’t present these details.

*What about the situation of agriculture lands which are more than 4 million reins? Are they undergo under these enterprises or not?

Data of census registers about 25 thousand enterprises only. Most of them are individual and works in an agriculture activity and crop production. It means that excluding a very large part of small economic sector from the private statistics related to small and medium enterprises.

*It may not come in the statistic of workers at road transport sector within all kinds whether it’s heavy, medium and taxi or taxi or public transportation likes “Toktok”. The number of counted enterprises at this activity reaches 1652 enterprise; most of them are individual while transportation exceeds hundreds of thousands of all vehicles so it is considered the largest sector of employment now.

Disruption of enterprises by the economic activity:

*Wholesale and retail trade accounts for the largest share of the total enterprises by about 57%. The number of individual enterprise is more than 87 % of the enterprises operating in this sector.
*The manufacturing sector, which is the most diversified sectors by activities, ranked second in the number of operating enterprises with 16 % of total enterprises or about 385 thousand enterprises. The individual enterprises reach about 84 % of total enterprises at this sector.

*The percentage of enterprises in the food and accommodation is about 6 % of total enterprises so it about 144 thousand enterprise. The individual enterprises are estimated with 83 % of the total enterprises at this sector.

*The rest of enterprises vary by the economic activities, but the vast majority of the employees of enterprises work at individual enterprises.

**Distribution of enterprises by paid up capital:**

*The percentage of enterprises with a capital less than 100 thousand pound was about 96 % of total enterprises, which are about 2.32 million enterprises.
*The percentage of the enterprises with a capital exceeds 100 thousand pound and less than million pounds is about 3 % of total enterprises.

*Data clear that there is a correlation between the type of legal entity for the enterprise and the capital volume, putting into consideration that the individual enterprises ratio reaches 99% of total enterprises.

**Number of employees in enterprises:**

*The total number of employees in the private sector is 8.3 million employed until 2012 (the census year). The percentage of males is 84 % and females 16 %. *There are about 2.66 million employers.

*The number of paid worker in private sector is 5 million worker with a total cash income L.E 1.05 trillion.

*The data don’t explain the details of workers in the enterprises according to the legal entity whether it is individual or recommendation or contribution.
Revenue and production of private enterprises:

*Total revenues of private enterprises from all types of revenues, whether total production, operating income, commissions, rents, etc. Reached about 1.49 trillion Egyptian pounds in 2012.

*The total production volume of all private sector enterprises amounted to L.E 1 trillion.
*Data don’t explain the share of small enterprises whether it’s individual or simple recommendation or solidarity of total production as well as total revenue.

Chapter 3: Financing small and medium enterprises.

The providers of financing small, medium and micro enterprises vary and forms, conditions, procedures of financing vary. The following is a list of providers of microfinance services.

First: Social Fund for Development:

About the Fund:

*The Social Fund for Development (SFD) was established by republican decree No.40 of 1991 as a social and economic safety net that contributes to combating unemployment and alleviating poverty, improving living standard and accelerating overall economic and social development.

*The SFD has been entrusted with supporting small and micro enterprises and providing an integrated of financial and non-financial services to them. In coordination with all parties involved in these projects with a view to adopting the policies and legislations which are necessary for their developments under the small enterprises law No.141 of 2004.

*The social Fund operates through 31 regional offices covering all governorates of the republic, which are attached to one – stop shop units, it allows applicants to quickly obtain loans, terminate the required papers, and obtain licensing services, commercial register and tax card.
*In April 2017, Prime Minister issued a resolution No.947 of 2017 to establish the Small, Medium and Micro Enterprises Development Agency. Under this resolution, the new agency replaced the Social Fund and assumed all its responsibilities in addition to the new competences included in the resolution.

**Fund’s Financial Performance:**

First: summary of the results of the Fund’s operations during the period from January 1992 to December 2016. Since its establishment the SFD has pumped a total of LE 34.6 billion pound to implement several projects till the end of December 2016, as detailed below:

*Loans to finance micro and small projects with about 28.6 billion pounds financed about 2.5 million projects, which provided about 4 million jobs.

*Grants to finance the infrastructure, community development and training. Estimated with 6 billion pound, provided 678 thousand jobs.

Second: Total actual disbursement during 2016:

The Social Fund has pumped loans to finance small and micro enterprises in 2016:

* the total actual disbursement of the final beneficiary amounted to LE 3.8 billion.

*About 204 thousand small and micro enterprises were founded.

*Total grants on infrastructure, community development and training amounted to LE 674 million pounds, providing more than 86 thousand job opportunities.

Third: Fund’s approach in financing:

*The Fund receives grants, assistances, loans which help it in financing the small enterprises form international and local bodies such as International Bank, the European Investment Bank and the International Development Funds.
The Fund provides loans through several mechanisms:

- Direct lending through the branches and offices of the Fund deployed in the provinces.
- Through civil society associations working in the field of community development.
- Through banks.

Second: Banking Sector:

Many Commercial banks are currently forming new sections in their credit services to finance the Small, Medium and Micro enterprises in accordance with the directives and policies of the Central Bank of Egypt, the latest of which was the initiative launched in January 2016.

The projects are subject to the definitions approved by the Central Bank of Egypt in its session held on 3 December 2015, which defines the beneficiary of the terms of the initiative, most importantly to obtain a loan with interest not exceeding 5%. Official data on the number of beneficiaries and volume of financing aren't available until this index is written.

Among the most important banks that have responded to the central Bank’s initiative and intensified interest in microfinance and medium-sized:

- National Bank of Egypt
- Misr Bank
- Bank of Alexandria
- Bank Ouda
- Arab International Banking Company
- United bank
- National Union Bank
- National Development Bank
- Cairo Bank
- Faisal Islamic Bank of Egypt
- Arab Investment Bank
Third: Private Finance Companies:

Some companies specialized in financing from outside the banking sector, which are subject to the rules and provisions of the General Authority of Financial Supervision. These companies provide financing services to the micro sector according to higher interest rates commensurate with the amount of risks related to the nature of the project and the size and chances of success and the results of these companies by the end of June 2017 as follows:

* The Finance portfolio is about 1.65 billion pound.
* Companies present 30% of total microfinance.
* The number of beneficiaries reached 410 thousand projects, representing 20 % of total beneficiaries.
* The number of companies operating in the field of microfinance is 3 companies only and has 239 branches throughout the Republic.

Fourth: Associations and NGOs “Non- Governmental Organization”

NGO which responsible to undertake community development activities are the main source of microfinance in Egypt. These associations are divided into three categories in term of portfolio size:

- Class “A” refers to the associations and its portfolio size exceeds 50 million pound.
  * The number of licensed associations to work within this category is 13 associations and has 351 branches.
  * The Financing portfolio of this category is about LE 3 billion.
  * 54 % is a ratio of total micro financing.
  * The number of beneficiaries is about 1.28 million projects or 63 % of the total beneficiaries.
- Category “B”, which has a portfolio of more than 10 million and less than 50 million pound.
* The number of these associations is 18, with 97 branches throughout the republic.
* The funding balances for this category are LE 470 million.
* This category represents 8.5% of total microfinance.
* The number of beneficiaries is 187 thousand projects, representing 9.3% of beneficiaries.

- Category C, which has a finance portfolio of less than LE 10 million
* The number of licensed associations is 753.
* The funds of this category amount to 431 million pound.
* This category represents 7.8% of total microfinance.
* The number of beneficiaries is 132 thousand projects, representing 6.5% of beneficiaries

**Fifth:** Financing of risk capital:

Risks of capital are usually in the form of a package of loans and capital stocks, for the purpose of providing an effective investment in a small or medium sized company. The need for capital arises when the company’s growth is rapid and it requires more capital pumping, but the company is not yet ready for the stock market. There are no official or estimated statistics or data on the extent of risk financing in Egypt. Some of the most important companies in this field are:

* Sawari Ventures
* Ideavelopers
* AlgebraVentures
* A15
* HOFCapital
* TIEC Technology Innovation & Entrepreneurship Center
* Metropolitan Egypt
* CEDAR Bridge Partners
* IT investments / Nile Capital
* Riyada Enterprise Development
* Wamda Capital
Sixth: Financial leasing

Leasing is one of the means of financing that plays a prominent role in financing investment, especially in the medium and small industries, to implement the purchase of equipment and machinery and so on in the requirements of the industrial activity with the financing of several years to reduce the investment cost to start the activity. Whereby the user (tenant) has the right to use a certain asset owned by the lessor under a contractual agreement between the parties, one of the grants has the right to use the asset owned by the other party against periodic payments for a specified period of time. This activity began for the first time in Egypt 21 years ago with the issuance of Law No. 95 of 1995.

Chapter 4: Technical Support for Small Enterprises.

Small, medium and micro enterprises differ from large enterprises in several aspects including:

*The financial aspect: the volume of financing and sales, SMEs have a limited business capital compared to large companies and institutions.

*Management: Small and medium-sized enterprises have small administrative structures and limited functional distribution.

*Technical and managerial expertise: Large companies possess human capabilities with accumulated experience, and usually have the ability to train and qualify new employees to perform their functions efficiently and effectively. This is not allowed by the possibilities of small and medium enterprises as well as micro enterprises.

For these fundamental differences, attention to the SME sector needs to focus on raising the capacity of the administrative structures and human expertise so that they are eligible to set up their projects on a successful and sustainable basis. This important goal is achieved through several mechanisms, including incubators and training centers. Despite the efforts exerted so far in Egypt, there is no integrated national strategy to support and increase these mechanisms and coordination between them and the total institutions of the state and economy to achieve an ambitious target for the growth and prosperity of the sector of small and medium enterprises.
First: Incubators

There are many definitions of these incubators, and we can conclude from them that business incubators feed the development of entrepreneurial companies and help them survive and grow during the start-up period, when they are in danger. These incubators provide programs and services to support entrepreneurs specifically designed for small businesses. The aim of these incubators is to create jobs, foster a climate of entrepreneurship in the local community, connect emerging companies in the same field, ensure the sustainability and growth of companies, accelerate growth in local industry and diversify local economies.

A history of the incubators of entrepreneurs

It founded in New York State in 1959, the number rose to 12 in 1980 and reached 1,250 incubators in October 2012, followed by many countries, especially the European Union, and was the first incubator in 1986, At the Arab level, Egypt was one of the first Arab countries to follow the experiment in 1998. The incubator belongs to the Ministry of Industry. There are about 7,000 incubators around the world, which have been developed to cope with diverse needs and sectors to increase employment opportunities in economically disadvantaged communities.

There are many forms of incubator programs, serving a variety of communities and markets and most of the business incubators in North America are about 93% non-profit organizations. About 7% of incubators in North America are profit entities, usually based on returns from shareholders' investments.

As for the number of incubators, 54% are multi-use or domains and are interested in helping companies at an early stage. 37% are interested in technology enterprises, 6% are service-based companies, 3% are industrialists, and 47% of incubators work in Urban areas, 28% in rural areas and 25% in the suburbs, demonstrating the ability of these incubators to reach entrepreneurs and achieve sustainable development in society.

Types of business incubators:

There is variety of types of incubators entrepreneurs, both in terms of service provided or ownership or economic activity, and provides incubators in various forms suitable climate to host small projects and we will explain the different types of them:

A- Classification of business incubators according to the services you provide

- Full Service Incubators: This type provides a complete package of financial and non-financial services and facilities and provides a place within the project. The project is selected according to the feasibility study.
- Metaphor incubator: This type continues to provide services for the projects that came out of it and provides services outside the incubator’s boundaries, meaning that there is no need for a building or a designated place.

- Incubator linked to large institutions: incubators affiliated to large institutions based mainly on the completion of research projects and productivity, modern, based on companies

As part of a partnership between the parties to develop goods or products of the first party

- Special Purpose Incubators: Incubators that are primarily dependent on the service of a specific group in society, for example, not limited to women or disabled persons, providing services to the target group only.

- International business incubators: a kind that was created to overcome international barriers between markets and allows local institutions to expand and work in foreign markets. Examples include “the Silicon Valley”, an incubator that originated between China and the United State

**B - Classification of incubators according to the building**

- Open business incubators: They provide services in small, flexible and cost-effective locations

- Closed business incubators: They are established in a specific place and offer their services through it

**C- Classification of business incubators according to types of projects.**

- General business incubators: They serve all sectors without a specific specialization, and are interested in innovative projects and their main objective is to achieve the comprehensive development of the region in which they are located.

- Specialized business incubators: They serve either a specific sector or category and are interested in the development of specific economic aspects in the region in which they are located.

- Technical Business Incubator: It is specialized in technology, training, consulting and other necessary services.

**Other Types:**

- Incubators which encourage small enterprises: We find them in poor and remote places and are mostly small institutions, and provide assistance for the volume of small projects.

- Incubators for students abroad: another type of service to students to encourage them to return, especially after completing their education to take advantage of innovative ideas.
### Incubators and accelerators of entrepreneurs in Egypt

<table>
<thead>
<tr>
<th>Activity</th>
<th>Financial service “Financing”</th>
<th>Place</th>
<th>Incubators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>Available</td>
<td>Cairo</td>
<td>AUC Venture Lab</td>
</tr>
<tr>
<td>Technology</td>
<td>--</td>
<td>Alex</td>
<td>Alex University incubator</td>
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<tr>
<td>Information technology and communications/Technology</td>
<td>Not Available</td>
<td>Cairo</td>
<td>Technology Innovation and Entrepreneurship Centre</td>
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<tr>
<td>Technology/Social activity</td>
<td>Not Available</td>
<td>Cairo</td>
<td>“Nahdet El Mahrous”</td>
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<td>Technology / Sustainable Environment</td>
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<td>Sustain incubator</td>
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<td>Technology/Social activity</td>
<td>Available</td>
<td>Cairo</td>
<td>GESR Incubator</td>
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<td>Information technology and communications/Technology</td>
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<td>Cairo</td>
<td>Flat6labs</td>
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<td>Information technology and communications/Software</td>
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<tr>
<td>Technology</td>
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<td>Information technology and communications/</td>
<td>Available</td>
<td>Cairo</td>
<td>Ideavelopers</td>
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Second: Training Institutions:

Many NGOs and some government institutions offer a range of training and rehabilitation activities for young people who wish to establish and manage small projects. However, these institutions operate according to their available financial resources through grants or donations, making it difficult for these institutions to graduate more qualified, capable and able to lead and follow up these trainees to provide more support according to the needs of their projects. Hence, emphasis should be placed on sustainable means and methods to finance training and rehabilitation activities in order to reach a greater target for the activity of the SME sector.

Examples of training and rehabilitation institutions:

- Small and Medium Enterprises Unit – related to the Egyptian Banking Institute
- “Mobadra” association.
- Sawiris Foundation for Social Development
- Injaz Egypt
- Alexandria Businessmen Association
- “Nahdet Al Mahrous” Association
- Center for Technological Innovation and Entrepreneurship
Chapter 5: Problems of Small Enterprises.

Small and medium enterprises in Egypt face many problems that limit the ability to develop them, including problems related to the investment environment, market, administrative, managerial and technical capabilities of the entrepreneurs as well as the problem of obtaining adequate funding in a timely manner.

First: Problems with government agencies

The sector suffers from the problem of multiple government agencies followed by the project such as the Ministry of Social Affairs, the Ministry of Local Development, the Ministry of Finance, the Ministry of Foreign Trade, the Association of Social Services, the Social Fund for Development and the various administrative, licensing and operating authorities such as health, social security, tax and customs services. This large number of competent authorities with complex procedures directly affects the effectiveness of projects and their ability to register and work legally. According to a study conducted by the Association of Economic Societies in 2013, the problems of small and medium enterprises with the state agencies are as follows:

1. Establishment and Commercial Registration

the complaints of the owners of the projects in this regard are as follows:

*The absence of sufficient branches of the Authority in all governorates and industrial areas, which is part of the general problem of centralization and the absence of one net outside the capital.

*The slow and long duration of the query about the investor and the foreign partner

*The fees for extracting the Commercial Register for the first time due to the association of fees with the capital of the establishment.

-The authorities responsible for this matter:

*Ministry of Investment - Egyptian General Investment Authority.
*Ministry of Industry and Trade - Industrial Development Authority.
*General Federation of Chambers of Commerce.

2. Industrial registry and operating license

Many entrepreneurs suffer from the extraction of the industrial registry because of the complexities and many problems they face in order to extract it:

*Excessive fees where fees are estimated depending on the land area.
*Routine, complex and slow procedures.
*Linking the operating license with the seriousness criterion.
*The operating license must be obtained before obtaining the industrial register.
*Complexities in the renewal of the register or the commercial attribute or change of activity upon the exit or entry of partners.
*The absence of authorized offices and qualified staff to meet the needs of investors in the governorates and industrial areas.
*Request a letter of guarantee from the project owner to ensure the seriousness of implementation, which represents a heavy burden on the investor at the beginning of the project and to make a large part of its self-financing.
*Poor qualification of environmental and civil defense officials impeding the extraction of the operating license.

- Those responsible:
*Ministry of Industry and Trade - Industrial Development Authority
*Ministry of Local Development
*Ministry of Local Development - Municipalities and Urban Equipment
*Ministry of Environment
*Ministry of Industry and Trade - Industrial Control Authority
*Ministry of Industry and Trade - Industrial Modernization Center
*Ministry of Housing and Utilities - New Urban Communities Authority
*Ministry of Interior - Civil Defense Authority
3. Tax handling

The study showed that the owners of projects suffer from multiple difficulties in dealing with the IRS. The problems were summarized as follows:

- Not counting the loss of raw materials as well as returns.
- Non-counting of performing loans from customers.
- Appreciation and exaggeration in the determination of profits.
- Non-activation of the provision of the law of taxation for small enterprises.
- Inequality between self-financed projects and projects funded by the Social Fund for Development.
- The speed of signing fines and additional taxes on projects when there is difference in the estimated items.
- Do not schedule the required amounts.
- Non-receipt of invoices for purchases and therefore not counted and wasting invoices.

**Responsible Authority: Egyptian Tax Authority - Ministry of Finance**

4. Social Insurance

The owners of projects deal with social insurance on two levels: the first as business owners and the second on the basis of employment. Many project owners find it difficult to deal with insurance, these difficulties are represented in:

- Employment instability and increased replacement rates so it made the enterprise enters into complex procedures for changing and changing insurance.
- Finding uninsured employment with fines and delay benefits.
- The high rate of insurance on the worker and the employer, which represents a large burden leads to total evasion and manipulation of wages.
- The weakness of the level of health insurance hospitals, which leads to the treatment of workers and employers at high cost outside the health insurance system, which represents a great burden.

**Responsible Authority: Social Insurance Authority - Ministry of Social Solidarity**
5: Allocation of land for the establishment of the project:

Some owners of projects find a number of obstacles in the procedure of allocation of land for the project, while 28% complained that prices are not suitable for the feasibility of the project and the problems related to the land as follows:

- Lack of space for industrial investment.
- Lack of small spaces (maximum 300 meters) in most industrial areas and places of industrial investment.
- Length and complexity of privatization procedures.
- Prices are continuing to rise.
- The installment of the price of the land at intervals is inconvenient.
- Accumulation of premiums due to the interruption or decline of activity.
- Benefits of delayed payment.
- Centralized decision must travel to Cairo.
- Banks do not accept mortgages because they are not owned by the project (the usufruct)

*Bodies Responsible:

*Ministry of Industry and Trade - Industrial Development Authority.
*Ministry of Housing and Utilities - Urban Communities Authority.
*Ministry of Local Development
*The Central Bank of Egypt

6. Utilities and public services

*Many project owners complain about difficulties in introducing facilities to their projects. As well as the high prices of the delivery of utilities, whether electricity, natural gas, water or sanitation.

*Many project owners complained about the absence of a number of public services in the industrial areas they work in. The transportation is at the top of the list. Most of the regions complain about the absence of economic means of transport that transport workers to and from the industrial zones. In addition, other services such as police stations, treatment units, firefighters, bakeries and banks are absent.
Agencies responsible for utilities and public services

*Ministry of Electricity.
*Ministry of petroleum.
*Ministry of Housing and Utilities
*Ministry of Local Development
*Ministry of Transportation
*Ministry of Health
*Ministry of Interior

7: Supervisory bodies

The owners of the projects said that the various inspection and inspection authorities have taken various measures against them ranging from closure and the signing of exaggerated fines, many of them mentioned a number of problems related to the supervision and inspection staff.

- The multiplicity of regulatory bodies for the same subject, which affects the regularity of work.
- The presence of a prison sentence when monitoring violations by the regulatory authorities.
- Lack of expertise of the inspectors with technical specifications and lack of sufficient flexibility in dealing with the reality of work.
- The desire to collect fines in every way to increase their incentives.
- Corruption and bribery among supervisory staff

The responsible authorities are the departments of the various ministries and are responsible for supervising the activities of economic institutions such as the Ministry of Environment, Ministry of Health, Civil Defense, Municipalities, Ministry of Commerce and Industry, etc.

Second: Funding problems

Despite the multiplicity of funding agencies such as the banking sector, the social fund, and private companies and institutions, the SME sector still lacks the capital to establish, operate and develop the project in a sustainable manner. Several factors contribute to the difficulty in accessing the required funding:
- Most of the entrepreneurs in these projects lack the experience of dealing with banks.
  - High risk of financing due to lack of sufficient guarantees to grant credit and the nature of the composition of these projects, which depend on one person or one family as well as the weakness of financial centers.
  - High cost of lending (interest and commission) for SME financing:
    o To increase the risks related to payment and adequate guarantees.
    o Also because of the high cost of evaluation and supervision.
    o Small loans do not fit the fixed costs borne by banks.
  *The length of loans required by SMEs is not suitable for banking operations. Projects often require long and medium term loans for construction purposes, while commercial banks prefer short-term loans.
  *Lack of regular financial records and documents required to deal with the banking system
  *Lack of clear and objective feasibility studies.

These factors have led to a clear weakness in the ability of these projects to attract bank financing and even deal with banks from the original. Some estimates indicate that 47% of SMEs deal with banks, while only 22% of these projects get bank facilities, According to a study of the Institute of Banking of the Central Bank.

Another study under the title of the forms of financing of small and medium enterprises in Egypt, provided by the Central Bank, based on information provided by seven banks financing small and medium enterprises that the lowest percentage of financing was 2% of the total volume of bank financing. However, the average funding ratios for projects previously mentioned were 34% of the volume of SMEs, which included both banking and non-banking financing.

The Union of Arab Banks said that the annual financing needs of Egyptian SMEs in the formal sector are about $1 billion a year, but that the funding does not meet more than 10% of these needs. Only about 5% of these projects deal with banks. The ratio of financing directed by banks to small and medium enterprises ranges from only 3% to 4% of total credit.

The CBE’s decision to supplement efforts to encourage banks to grant loans and credit facilities to small and medium-sized enterprises, the Board of Directors of the Central Bank of Egypt (CBE) held on 6 January 2016 to increase the portfolio of loans and credit facilities (both direct and indirect) In accordance with the definition issued by the decision of the Board of Directors of the Central Bank of Egypt in its session held on 3 December 2015 - to reach at least 20% of the total credit portfolio of the Bank and not to exceed the lending rate of those companies and For establishments with a rate of 5% (low yield) and within
four years from the date of issuing the instructions. However, until the issuance of this guide, there is no official data detailing the credit balances and credit provided by banks to SMEs in accordance with this initiative.

**Third:** Availability of information

One of the biggest challenges to dealing with these projects is the lack of adequate information and insufficient information. The governmental and non-governmental bodies lack information on the number, nature, type and needs of these projects and their owners, which directly affects the ability to help them and overcome the obstacles they face. On the other hand, the same projects lack legal and economic information, such as how to register and license, available investment opportunities, available resources, assistance and initiatives that entrepreneurs can take advantage of.

**Most of the problems of project owners are with regard to the availability of information in the following:**

- Lack of information on the market and similar factories.
- Internal decisions which organize the procedures are not known.
- The instructions of the regulatory bodies regarding the inspection procedures are unknown.
- Some employees hide information or give incorrect information
- Having to pay bribes for information.
- Not clarifying the required investor from the first visit.
- Lack of transparency in tenders and government auctions and lack of equal opportunities between large and small companies.

**Fourth:** Marketing problem

Studies and meetings with the owners of projects indicate that there is a real problem in many projects in the process of discharge and promotion of what they produce, which causes the work of less natural energy and the stagnation of production for a long time without selling, one of the main reasons for the failure of many of these projects. In addition, there is a lack of feasibility study and the lack of perception of the investor for different marketing methods and costs.
The difficulties and problems of marketing among the entrepreneurs in the following:

- Most SME owners do not have a clear marketing plan for their products.
- Many of them do not have a marketing team for their products, where most depend on their personal relationships in marketing.
- Difficult to manage marketing and distribution operations because of the high cost of these operations and the low affordability.

- The absence of seasonal commercial markets such as exhibitions, which operate on the basis of building a network, among small traders, manufacturers, wholesalers or large companies or the consumer to buy products of small projects, and also for the circulation of products between the different governorates of the Republic.
- Lack of experience of investors in the details and techniques of marketing and how to include them in the feasibility study, which most young investors lack the skill of design.

- Lack of relations and integration between small and medium enterprises and large companies, both domestic and foreign, which hinders their work and marketing of products.

- The technological level of many small business products is low. For example, there is no outlet for using e-marketing and social networking sites as a means of advertising. Weak use of modern marketing methods such as the Internet.

Fifth: Informal Sector

Definition of the meaning of the formal sector is one of the main challenges in monitoring this phenomenon and studying it accurately. Many small business owners prefer to exercise their economic activities far from being subject to any form of regulation or control, as well as fear of paying large amounts of their profits as a result of their commitment to subject to laws and control of state agencies. In order to develop a well-thought-out scientific conception to deal with this phenomenon, we must first set some criteria that define what informal activity is and what is the difference between it and official activity.
Criteria for distinction between formal and informal

- Registration of the establishment in the commercial register.
- Registration of productive activity or service at the competent authority.
- Subject to the supervision of the regulatory bodies concerned with the application of the regulations and laws governing the activity.
- Register with the IRS “The Internal Revenue Service” and keep regular invoices and tax bills.
- Contracting employees according to the Labor Law.
- Insurance of employees of the Social Insurance Fund.
- Financial handling through bank accounts.

Small and medium enterprises shall be classified according to their occurrence under one or all of the mentioned standards. This disparity in the definition of the amount of officialization results in a large discrepancy between the figures and statistics of the studies that attempted to monitor the phenomenon of the informal dropout of many economic activities in Egypt. Based on a study submitted by the Ministry of Finance and the Tax Authority, the volume of the parallel market has increased over the last four years, reaching about 2.2 trillion Egyptian pounds and the taxable value of this market is close to 330 billion Egyptian pounds.

Chapter 6: Organizations and associations that collect and support small enterprises.

1. University / organizational associations for small enterprises sector

* Union of Small Enterprise Associations
* Union of Economic Development Associations
* Egyptian Federation of Investors Associations
* Egyptian Federation of Industries
* General Federation of Associations and NGOs
2: Professional / commercial rooms
* Chamber of handicraft industry
* Chamber of Food Industries
* Chamber of grain industry and its products
* Chamber of Textile Industries
* Chamber of wood industry and furniture
* Chamber of Metal Industries
* Chamber of Information Technology Industry
* Chamber of Leather Industry
* Leather tanning room
* Chamber of Engineering Industries
* Council of Saudi Chambers
* General Secretariat of the Federation of GCC Chambers
* American Chamber of Commerce
* Arab American National Chamber of Commerce
* German Arabic Chamber of Industry and Commerce
* Arab British Chamber of Commerce
* Arab Chinese Chamber of Commerce
* Russian Chamber of Commerce
* French Business Room
* Arab - French Chamber of Commerce
* Arab Austrian Chamber of Commerce
* Arab Swiss Chamber of Commerce and Industry
* General Federation of Egyptian Chambers of Commerce
3. Quality unions
* FEDA - Gender Union for Economic Development and Family Income Development
* The Union of Development Societies in North Sinai
* Union of economic development and income development associations
* Union of community development bodies
* Union of associations working in the field of community development
* The Union of Youth Associations
* Union of Associations in the field of development
* The Union for the Development of Women
* Union of associations working in community development
* The Union of Investors Associations
* Union for Economic Development
* The Union of Associations working in the field of community development
* The Union of Associations working in the field of community development and small farmers for export
* The qualitative union of associations working in poverty reduction and job creation

4. Business associations
* Businessmen gather in Fayoum
* Businessmen Association of Badr City Investors
* Association of young investors and businessmen - Alexandria
* Alexandria Businessmen Association
* Association of businessmen in Damanhour
* Menia Businessmen Association
* Western Businessmen Association
* Association of businessmen for the development of society in East
* Egyptian Association of young investors and businessmen Sohag
* Businessmen Association
*Association of businessmen and investors for the development of the local community in Dakahlia
*Nubia Business Forum
*North Sinai Businessmen Association
*Baswan Businessmen Association
*Egyptian Association of Young Businessmen
*Egyptian Businessmen Association
*Musayad Association - Association of independent businessmen and industrialists
*Association of businessmen for production and agricultural processing
*Menia Business Women Association
*Alexandria Businesswomen Association
*Egyptian Business Women Association
*Egyptian Business Women Association
*Egyptian American Business Council
*the Egyptian-Canadian Business Council
*Arab - Russian Business Council
*Egyptian British Business Association
*Egyptian Lebanese Friendship Association for Businessmen
*Egyptian Swiss Businessmen Association

5. Other:
*Assiut Investors Association
*Sohag Investors Association
*Qeft-Qena Investors Association
*Nubaria Investors Association
*Collected investors of the free public area in Alexandria -
*Association of investors industrial area of Renaissance
*The of October City Investors Association
*Association of Sadat City Investors
*the 10th of Ramadan City Investors Association
*Al-Obour City Investors Association
*Borg Al Arab New Investors Association
*Association of investors and exporters of the city of Mahalla al-Kubra
*South Sinai Investors Association
*Egyptian Forum for Development and Investment
*Association of Small and Medium Enterprises Investors
*Sanabel - Microfinance Network in the Arab Countries
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