

Small and medium-sized enterprises (SMEs): a new Egyptian mechanism for achieving sustainable development



By/Hajar Adel

Edited by/ Mohamed Badawi

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Introduction:

Small and medium enterprises (SMEs) are one of the economic sectors that attract great attention by countries, international and regional organizations and bodies in light of global economic changes, due to their pivotal role in sustainable development, through improving productivity, generating and increasing income, employing semi-skilled and unskilled labor, encouraging innovation and technological progress, and increasing local added value. It is also characterized by the efficient use of capital, given the direct connection of project ownership to its management, and the owner's keenness on the success of his project and its management in the best way. Therefore, small projects represent the backbone of the economies of many countries, including Egypt, as a dynamic force to achieve economic development in particular, and sustainable development in general. It employs a large portion of the population.

Although small projects receive the attention and care of developed and developing countries, the basis of interest differs from developed countries from developing countries. Developed countries have realized the importance of these projects because of their role in feeding large and medium enterprises with intermediate products. In developing countries, their interest in these projects stems from economic reform measures, and to create increasing job opportunities for graduates. Egypt is increasingly aware of the importance of SMEs in terms of job creation and economic growth. However, these projects still face many challenges, including: the weak technical and administrative capabilities of project owners, the inability to prepare appropriate feasibility studies and a good administrative and organizational structure in order to obtain the necessary financing, the high cost of financial services provided to these projects, in addition to the reluctance of a number of banks to finance the small enterprise sector due to their poor creditworthiness.

Through this report, we review several points related to SMES, especially at the level of Egypt, as follows:

1. Definition of SMEs
2. Characteristics of SMEs
3. Types of SMEs
4. The importance of SMEs for sustainable development
5. Egyptian efforts in regards to SMEs
6. Recommendations

❖ First: Definition of SMEs:

According to the International Labor Organization (ILO), small enterprises have been defined as small-scale units that produce and distribute goods and services and consist of independent self-employed producers in urban areas of developing

countries. Some rely on family work while others may hire workers and craftsmen. Most operate with little or no fixed capital. It employs 50 workers at most, and its capital does not exceed \$ 100,000.

The United Nations Industrial Development Organization (UNIDO) defines small enterprises as those projects that are managed by a single owner, and assume full responsibility in their long-term dimensions "strategic" and short-term "tactical". The number of employees ranges from 10 to 50 workers.

The World Bank also defines small enterprises as projects in which less than 10 workers work in micro enterprises, or between 10 and 50 workers work in small enterprises. Those in which the number of workers increases to between 50 and 100 workers in medium enterprises.

Egypt has developed a special definition for SMEs, so that it can deal according to its indicators and content.

The Small Projects Law No. 141 of 2004 defines **small enterprises** as "all companies or facilities with productive, commercial or service-providing economic activities, with a minimum capital of LE 50,000, a maximum capital of LE 1 million and a maximum of 50 employees." With regard to **micro-enterprises**, the law has defined them as any company or individual establishment that practices a productive, commercial or service activity, and its capital is not less than 50 thousand pounds. **It is noted from these definitions**, that the Egyptian legislator used the criterion of the number of workers, and the size of the capital in the definition of small projects. However, the **Central Bank made an amendment to this definition**, in 2017, and the definition of **small enterprises** as those enterprises with business volumes starting from LE 1 million to LE 50 million. As for **micro-enterprises**, their annual turnover does not exceed one million pounds. Banks are allowed to finance micro and small enterprises with a maximum sales volume of 10 million pounds, and a maximum of two years from the grant date without obtaining approved financial statements, to facilitate informal sector projects joining the formal sector.

While the Law No. 152 of 2020 defines a clear definition of medium, small and micro enterprises, their definition according to the law is as follows:

- **Medium projects:** These are project whose turnover is not less than 50 million pounds per year and not more than 200 million pounds. Modern industrial projects are no less than 5 million and not more than 15 million. At the same time, non-industrial projects are not less than 3 million and not more than 5 million.
- **Small projects:** Any project whose turnover ranges from one million to 50 million pounds per year. As for modern industrial projects, it ranges from 50 thousand to 5 million pounds. At the same time, the business volume of non-industrial projects ranges from 50 thousand to 3 million pounds per year.

- **Micro projects:** These are all projects whose turnover is less than one million pounds per year. As for modern industrial projects, it is less than 50 thousand pounds.

❖ **Second: Characteristics of SMEs:**

- • **Concentration of management in the owner:** The owner of the facility is usually its manager. He handles the technical and administrative operations of the project, given that they are mostly family-run projects.
- **The decrease in the absolute size of the capital needed to establish small projects, and the ability to attract savings:** it relies heavily on the savings of its owners, which contributes to raising the levels of saving and investment as it is a good source of private savings.
- **Flexibility in production:** relying on primary local resources, which helps reduce the production cost of the project, compared to major factories, and thus, which helps to reduce the prices of projects' products and services, and then easily marketed.
- **Industries are considered complementary to the needs of major projects,** which contributes to the integration of the production process.
- **Connection to the local market:** these projects have the ability to spread geographically throughout the country, which helps to reduce migration from the countryside to cities and urban areas, and to develop remote rural areas.
- **Low wages in small projects,** and not being affected by institutional factors that lead to higher wages in large projects.
- **Small projects are considered as training centers for labor,** as the projects have an abundance of technical capabilities, making them an educational and training stage for refining and preparing workers, by providing them with skills, administrative and organizational expertise, and practice on patterns of dealing with various parties to production and marketing operations, and then supplying large projects with skilled labor.

❖ **Third: Types of SMEs:**

The types of projects are divided in terms of areas of work, into:

1. **Commercial fields:** It means wholesale and retail trade projects, export and import, and packaging of goods. This type of small project is based on reinvestment to achieve profit, i.e., the difference between the buying and selling price. It is mainly based on buying and selling, and distributing products and manufactured goods or several different and varied commodities.
2. **Service fields:** It includes banking services, tourism, repair, advertising, film industry, and communications services. This type of small project aims to perform a

service that the client would have done himself or could not do it himself, so the service projects would do it instead of him.

3. **Industrial fields:** It means production and transformational projects that work on converting raw materials into a usable final product, or a semi-finished product that completes its production with another factory, such as: the dairy industry, the clothing industry, and pottery.
4. **Agricultural fields:** It means agricultural, livestock and fisheries projects, such as: fruit and vegetable production, cattle and poultry breeding, and fish farms.

❖ **Fourth: The Importance of SMEs for Sustainable Development:**

The importance of SMEs stems from the fact that they are one of the basic building blocks of any country, to achieve some of the sustainable development goals on the ground, namely:

- **Goal 1:** Eradicate poverty in all its forms, by ensuring significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions. (1.A)
- **Goal 4:** Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all, which stipulates the importance of substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship by 2030. and that entrepreneurial skills must include those necessary to conduct basic commercial transactions, establish businesses, resolve business disputes (off- or online), assist businesses to compete in domestic and international markets and implement strategies for addressing financial distress and insolvency. (4.4)
- **Goal 8:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, which provided for promotions of development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services. (8.3)

Through these projects, the state can overcome some of the problems it faces, which are:

1. **Creating employment opportunities and eliminating unemployment:**

Small enterprises have the greatest impact in providing new job opportunities and reducing unemployment, especially among young people, due to the fact that they

are labor-intensive projects. Their diversity provides the opportunity for skilled and unskilled labor.

Developed countries have realized the importance of small-scale industries and worked to support them, for example, Japanese small industries absorb about 84% of Japanese labor and contribute about 52% of the total value of Japanese industrial production.

The cost of creating jobs in SMEs is also low, compared to its cost in large industries. Some global studies indicate that the cost of permanent job opportunities in large industries is \$ 15,000, while small enterprises range between \$ 900 to \$ 3,000.

2. **Geographical spread and serving the needs of large segments of consumers:**

These projects meet the needs of markets for specialized goods and services that are more related to the tastes and preferences of consumers than large enterprises, due to direct personal contact between their owners and customers. Moreover, due to their absorption of productive resources at the level of the economy, they spread in a wider geographical area than large projects, and enhance competition in the local market.

3. **Innovation:**

Development depends on creativity, not only by developing a new product or service for the markets, but also interest in simultaneous investment in securing new projects. Small projects are a source of renewal and innovation, as entrepreneurial projects are able to bridge the gap between knowledge and market needs, which is the standard point in the product development process to provide society with new creative products.

Thus, SMEs are a source of renewal and innovation. They contribute to the creation of administrative and technical cadres that can move to work in large projects, in addition to preserving handicraft works. They assist large projects in some marketing, distribution and maintenance activities, and also support major industries by consuming some of their products and converting them to another form needed by the citizen. They provide some strategic and military industries with small pieces of their products to include it in some of its advanced and complex products, which enables large projects to focus on the main activities, leading to a reduction in the cost of marketing.

4. **Directing activities to the targeted development areas:**

Countries can encourage the trend towards entrepreneurship in certain businesses, such as technological businesses, or towards certain regions, through some incentives for owners of small and entrepreneurial enterprises to establish their projects in those disciplines or areas.

SMEs have the ability to spread and distribute industry between regions, which helps them distribute income among them, thereby alleviating poverty in remote areas, reducing rural migration to cities, as well as reducing unemployment, and achieving optimal use of labor.

5. **Developing exports and maintaining the continuity of competition:**

Small enterprises can contribute to the development of exports by providing large organizations with the intermediate materials they need. Large projects can rely on them to produce part of their production, which leads to reducing production costs in large projects, and giving them the ability to continue to compete in global markets.

6. **Work to diversify the economic structure:**

These projects contribute to the diversification of the economic structure through their various activities, and help change the market structure by reducing the increase in the degree of competition between production and service units, as well as the development of secondary cities. This helps reduce the severity of urban concentration and excessive urbanization of the capitals of countries and their main cities.

7. **Maximizing the economic return:**

The productivity of the worker in large projects is higher than in small projects. This may be due to the dependence of small enterprises on unadvanced and labor-intensive production techniques. Nevertheless, we find that when linking and collecting the invested capital of the worker and the economic surplus, it will appear that small enterprises are the most efficient in terms of maximizing the economic surplus of the capital unit, and invested capital.

The projects contribute about 46% of the world's GDP, as well as a large percentage of the GDP of many countries, such as the United States, which contributes 51% of GDP, and England with 85%.

The trend towards investing in SMEs is also a factor of economic and social stability, especially during crises, and in periods of instability and recession that the economy witnesses from time to time.

8. **The possibility of exploiting agricultural and industrial waste,** which contributes to the non-pollution of the environment, as well as the production of environmentally friendly goods, in addition to the use of renewable resources to ensure continuity. Thus, it supports the principle of rational use of resources.

❖ **The Reality of SMEs:**

- **At the level of the number of projects,** Egypt is one of the largest Arab countries in terms of the number and density of SMEs operating in it. The number of these projects is about 2.45 million, with about 39,000 projects added annually, on average. According to 2019 statistics, about 85% of these projects are classified as micro enterprises, while 14% of them are small projects, and only about 2% are medium projects. However, in previous years, these percentages were different, as the percentage of micro-enterprises reached about 97% of the total operating enterprises, followed by small enterprises at 3%, with a sharp decline in medium-sized enterprises.
- **Legal structure:** SMEs rely mainly on sole proprietorship (which represents approximately 60% of the total number of enterprises), due to the ease of their establishment.
- **Geographical distribution:** SMEs tend to be concentrated in the three governorates: Sharqiyah, Cairo and Gharbia. The companies' choice of these governorates is explained by their urban development and the infrastructure available in them, represented by a network of roads and means of transportation that facilitate the smooth transport of goods. This in turn affects the productivity of institutions and their access to a larger number of customers, as well as the geographical distribution of project financing was 44% tribal, 38% marine, 13% urban, and 5% border.
- **Return on sales of small businesses:**

The highest projects in terms of return on sales are often classified as the largest projects, both in terms of the number of workers and the size of the capital, about 50.4% of these projects have a return on sales of up to half a million pounds annually. Micro, small and medium enterprises contribute about 80% of the GDP in Egypt. According to the Central Bank of Egypt, manufacturing industries are headed by the largest percentage of SMEs by 51% of them, followed by companies operating in the field of wholesale and retail trade by 40%. The rest of the SMEs are distributed in the tourism, construction, health, agriculture and other sectors, providing equivalent to 2.2 million new job opportunities.

Here are some examples of successful small businesses in Egypt:

- 1) **Electronic Devices Sale Project:** Instead of throwing used devices in garbage bins, they can be sold at simple prices after re-maintenance. This project is considered one of the most profitable projects.

- 2) **Paper Cup Production Project:** It is one of the successful simple small projects, especially with the rate of use of paper cups and the high demand for them, after the spread of the Coronavirus.
- 3) **Clothing trading project:** This type of project has spread recently. Many people have sold used and new clothes, through various Internet pages, and social networking sites next to stores.
- 4) **Candle manufacturing project:** and selling it, whether in a special store or online.
- 5) **Buying and renovating used furniture:** By buying used furniture and renewing it manually, the project does not require large capital, but requires creativity in renewing furniture pieces to become impressive in their final form.
- 6) **The project of opening a fast-food restaurant:** It is one of the most famous ideas of small businesses in Egypt. There are those who provide home meals, by preparing them from home, and providing a delivery service for those foods.
- 7) **My Association Project:** It is considered one of the latest small projects, which is mainly based on selling food commodities to consumer citizens, by exchanging bread points. Profit is achieved by obtaining a profit percentage by the supply merchant, on each ration card he cashes.
- 8) **Liquid Soap Project:** It is considered one of the small projects that are very popular in Egypt. It achieves a good financial profit, in exchange for simple and easy to implement materials, and can be implemented at home. It is as simple as bringing plastic tools and utensils to fill soap, and selling products at specialized outlets or to those around them.
- 9) **Accessories Project:** It is one of the most prominent small projects that are characterized by low costs of their materials, as their materials are available in the market, and can be easily obtained. You can have different designs, with some creative touches and then market them online to attract the largest number of customers.
- 10) **Feed Trade Project:** It is considered one of the most prominent and latest projects that have recently spread in Egypt. An agreement is reached with the major factories, and the feed is sold to them in bulk, in exchange for the factory obtaining a special price.

❖ Challenges facing SMEs:

- **Funding problem:**

Banks consider financing these small projects as high-risk and low-credit projects, especially in light of the fact that most of them do not have tax records or official papers registered for their projects.

According to the Central Bank of Egypt, 66% of SMEs have problems in dealing with banks, represented in the high interests, commissions and administrative

expenses. 61% are represented in the large number of required guarantees, 53% are in the length and difficulty of procedures and 37% are in the large number of required documents.

– **Product marketing problem (internally and externally):**

The difficulty of internal marketing lies in the small size of the market, or the inability to market properly.

As for foreign marketing, that is, exporting abroad, it is not an easy task. It requires a lot of capabilities and skills, as well as information about the tastes of consumers abroad, price levels, and the level of quality required for export. This is in addition to the low technological level of many products of small projects, and the inability to compete with imported products and those of large national projects.

- **The non-incentive tax and insurance system:** the tax rate rises even for low-income segments, as well as its accumulation for years without being collected. This makes it more difficult for small business owners to pay. Moreover, the subscription fees for social insurance are high.

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- **Lack of technical training and technological support:** The technology used in these projects is modest. The required technical specifications are not available in the products of these projects. There is a lack of information about market needs and consumer preferences.

- **Lack of trained labor:** this clearly affects the performance of small projects by virtue of being labor-intensive projects. The provision of this training within the projects is an additional cost to project owners.

❖ **Fifth: The Egyptian Efforts in regards to SMEs:**

Egypt realized that with the increase in the population, poverty and unemployment rates must increase, given the limited resources available. Therefore, this will constitute a great burden on its economy, which prompted it to strengthen and support the role of SMEs. It will reduce these negative rates, by employing labor, which is a double weapon, as it will contribute to the decline in unemployment rates, and increase development rates, which in turn eliminates poverty.

1. Efforts to enhance the role of SMEs:

The system for encouraging SMEs is based on a number of axes, namely:

- **The first axis: is the «care and guidance» of the owners of ideas for SMEs:** it stems from the existence of an «incubator for ideas for young people» that provides the entrepreneur with services, such as obtaining permits from all sides, providing him with information supporting his ideas, and helping him prepare feasibility studies, site selection, and everything that would help him until the project is established and production begins.
- **The second axis: related to motivating the owners of these projects:** Here comes the role of the state, as the state provides the entrepreneur with a "material incentive". Whoever creates the largest number of job opportunities, establishes his project in a planned area, or whose production is for export, will get the largest incentive value, and let this incentive be between 10% and 30% of the investment cost of each project. It is also the maximum value of material support that the state can provide to five thousand projects annually, with an average cost of 250 thousand pounds, which is 375 million pounds allocated annually in the state budget.
- **The third axis: related to the organizational and administrative aspects:** as the organization of SMEs requires that the state expand the establishment of «regular and distinctive industrial incubators» to accommodate the required projects in the governorates and cities that are characterized by high unemployment rates, outside the agricultural area. This will help reduce the cost of each new project because of the lack of need to obtain land or building permits, or to apply for electricity and water, but these things are not easy for many small businesses.
- **The fourth axis: related to the financing aspects, where** the problem lies in the provision of financing, and its cost, due to the high interest rates, and the shortage of foreign currency, as well as the problem of in-kind guarantees, which are required by the financing banking authorities, especially from young people. Therefore, the state is working to increase investments and strengthen partnership with the private sector to increase its financing contributions, while providing appropriate facilities, especially for unemployed youth.

Perhaps the most prominent measures implemented by the state are:

- **Establishment of the Micro, Small and Medium Enterprises Development Agency (MSMEDA):**
- It was established by the state on 24/4/2017, so that it is subordinate to the Minister of Industry and Foreign Trade. It is the authority concerned with the development of these projects, through the development of policies and strategies related to them. This is within the framework of the government's interest in developing a national program for the development of micro, small and medium

enterprises, and creating the necessary climate to encourage them. They want to spread and encourage the culture of entrepreneurship, research and innovation.

- The agency injected EGP 16.7 billion to finance this sector from 2014 to 2018, which is equivalent to about 50% of the total funding provided by the agency throughout its work, as well as pumping EGP 8.2 billion during the first half of 2019. It provided loans to finance small projects worth EGP 2.5 billion in 2018.
- In 2020, the agency nominated 84 projects to obtain export opportunities through the International Trade Point. It also contributed to the conclusion of integration deals between projects, amounting to 154 deals, at a value of 16.5 million pounds.
- **• The Agency launched the Small Projects Platform**, in cooperation with the Financial Institutions Operating Company, E-Finance, which is an interactive website on the Internet that provides all information, services and initiatives provided by government agencies, institutions, NGOs and the private sector to owners of small projects, entrepreneurs and startups. **The platform aims to support and develop this vital sector through the international information network and the services it provides, through the following:**
 - Provides all the necessary information to start or develop projects in a simplified manner.
 - Contains all the financing, training, technical and marketing services provided by various parties interested in the small and micro enterprises sector, as well as the needs of entrepreneurs in terms of information about service providers, guidance and direction in the field of entrepreneurship.
 - Provides services for preparing business plans, feasibility studies and appropriate financing tools.
 - Provides educational materials on "How to start, plan and grow your business", national programs, projects and initiatives related to micro, small and medium enterprises.

The results of the work of the Agency in the period from June 1, 2014, to September 30, 2020, showed that a total financing of EGP 31.1 billion was injected during this period out of the total financing of EGP 53.8 billion, including loans to finance small and micro projects with a total financing of EGP 28.8 billion, which represents 60% of the total financing of EGP 47.6 billion. It also financed 1,321,783 projects, and provided 1,963,103 job opportunities, as well as grants with a total funding of EGP 2.3 billion, which represents 37% of the total funding of EGP 6.2 billion for infrastructure, community development and training projects for those projects.

- From January to September 2021, the Enterprise Development Agency succeeded in financing more than 24,000 small and micro projects in various commercial, service and industrial sectors, totaling EGP 648.4 million in the

villages targeted by the initiative, providing thousands of job opportunities for citizens in the targeted villages and centers.

Over the past 7 years, i.e., from July 2014 to September 2021, the volume of funding of the Development Agency reached about EGP 35 billion, of which EGP 18.8 billion for small projects, and EGP 16.2 billion for microenterprises, according to official data issued by it.

In terms of the strategy to support Egyptian women, the agency is interested in women's projects, developing their capabilities, and implementing training programs to develop their skills. It has injected a total of EGP 10.4 billion to women's projects, through which 675,000 small and micro projects were financed in various governorates.

The number of beneficiaries of microfinance services reached about 3.3 million beneficiaries, with a financing portfolio of about 21.7 billion pounds, the share of women reached about 62%, and 2 million beneficiaries. The share of young people of both sexes and beneficiaries of activity services reached about 63%, by the end of May 2021.

Moreover, 51.9 thousand male and female trainees were trained, and about 1594 projects received marketing and export training. The agency organized 1019 exhibitions, with a total of 22.3 thousand exhibitors who achieved sales and contracts, at a value of 515.9 million pounds. 1697 complementary deals were concluded between projects, with a value of 133.4 million pounds, in addition to the registration of 19,000 clients from various governorates in the suppliers' register, with a bid value of about one billion pounds. 702 projects were nominated to obtain export opportunities through the International Trade Point, until the end of May 2022.

- **Participation of Egyptian ministries and authorities with the MSMEDA:**
- **General Authority for Investment and Free Zones (GAFI):** By enhancing the investment climate, facilitating the growth of SMEs through creating a single window that provides a wide range of services to startups.
The head of the authority, Mohamed Abdel Wahab, announced coordination with the state authorities to update Egypt's investment map, including small, medium and micro enterprises, which includes about 3,000 opportunities.
Also, according to the head of the authority, the establishment of three investment zones began during 2019, which were established in previous periods. The focus was on each zone to be specialized in one of the fields of medium, small and micro industries. The three zones are located in the city of Mit Ghamr in Dakahlia Governorate (aluminum industries and engineering industries), Al-Saff Center in Giza Governorate (pottery industries), and Banha city in Qalyubia Governorate

(food industries), with zones starting from 30 square meters, with great facilities and incentives.

Two cooperation protocols were signed to provide financing to investors from the MSMEDA and the National Bank of Egypt, in addition to facilitating the procedures for issuing approvals, licenses and training.

While the GAFI established the 'Your Idea, Your Company' Entrepreneurship Center, which provides integrated packages of support to small investors and entrepreneurs at all stages of establishing their projects, starting from the idea stage, passing through the planning stage of financial resources, reaching the stages of establishment, growth and expansion. It also provides support and financing mechanisms to enable them to transform their innovative ideas, which constitute real investment opportunities, to sophisticated startups.

- **Industrial Development Authority (IDA):** Through assistance and guidance regarding the incorporation procedures and registration schemes available to investors in the industrial SME sector.

The IDA has offered 1,000 industrial units, in 3 new complexes in the governorates of Assiut, Qena, and Aswan. It also offered units for the second phase of the Gharbia, Red Sea, Beni Suef, Minya, Sohag, and Luxor complexes, by reducing unit prices by 40% from their actual cost in the Upper Egypt governorates. This confirms the state's keenness to promote industrial development in southern Egypt.

Within the framework of the presidential initiative to support the small, medium and micro industries sector 'Your factory is ready with licenses', through the establishment of ready-made industrial units for the small investor. This is to encourage industrial investment, develop the local product, and provide job opportunities for young people. The Chairman of the IDA, Eng. Magdy Ghazi, and the President of the Export Development Bank of Egypt, Mervat Sultan, signed a cooperation protocol aimed at providing the necessary financing and credit facilities for small and medium industrial projects, by providing an easy payment system for the price of the industrial unit. This is in order to activate the strategy of the Ministry of Trade and Industry to facilitate privatization and licensing procedures for industrial units, and remove obstacles facing the investor, in addition to the common desire between the IDA and the Export Development Bank to develop industrial investment in Egypt, and support the small industries sector.

According to the protocol, the bank will provide financing services with a reduced return for the purpose of allocating industrial units to investors up to 100% of the total value of the unit price, with repayment periods of up to 10 years, with a decreasing interest rate that reaches 5%.

In a related context, the Margham 2 and Hurghada complexes were announced, in addition to 4 complexes that were previously put forward as a first stage, which are the Sadat City complex for food, pharmaceutical and engineering industries, the Badr complex for textile industries, the Raswa area complex south of Port Said, which is devoted to various industrial activities, and the Margham 1 complex for plastic industries.

The construction of the Small and Medium Industries Complex has been completed in the "Ho" industrial area in the city of Nagaa Hammadi. It includes 420 industrial units, of which 322 with an area of 216 square meters per unit, 86 units with an area of 432 square meters, and 12 units with an area of 540 square meters. It is worth noting that this complex is entirely devoted to engineering activities.

- **Egyptian Financial Supervisory Authority (EFSA):** By promoting SMEs, through the establishment of microfinance companies that provide products and services to the sector, the EFSA aims to continue expanding the financing base of small, medium and micro enterprises during the period "2022-2026", doubling the number of beneficiaries from about 3.5 million beneficiaries to 4.5 million beneficiaries by 2026. This is in addition to increasing the volume of microfinance granted by the entities from EGP 27 billion by the end of 2021 to EGP 50 billion by the end of 2026.
- **The Central Bank of Egypt:** By creating incentives for banks to lend to micro, SMEs, it was able to raise the size of the financing portfolio of these projects in banks to EGP 316 billion in the period from December 2015 to December 2021. The service sector accounts for the largest percentage, at 35%, followed by the industrial sector at 28%.

It also provided 111,000 services to customers of business development service centers, such as facilitating access to finance, financial analysis, and obtaining licenses from July 2019 to January 2022.

This is in addition to launching several initiatives to support these projects, including **increasing the rate of obligating banks to finance medium and small projects** by a rate ranging from 20% to 25% of the total credit facilities portfolio, and allocating a minimum of 10% to small companies, within two years ending in December 2022, which helped increase the volume of bank financing for these projects. According to the head of the Small and Medium Enterprises Committee at the Federation of Egyptian Banks, Mohamed Al-Antably, the total size of the financing portfolio for medium, small and micro enterprises in banks operating in the Egyptian market has exceeded 400 billion pounds by the end of 2021.

The CBE issued EGP 2 billion guarantee to the **Credit Risk Guarantee Company**, which will enable the company to issue guarantees to banks of about

EGP 20 billion allocated to the SME segment, with a focus on the agricultural industrial sector, new and renewable energy and information technology, which contributes to the expansion of banks in financing these projects.

As well as **the 5% initiative to finance small companies and enterprises "Mashrouak"** (excluding commercial activity), which targets important economic sectors, especially companies and industrial establishments and producers of intermediate components for industry or import substitution, in addition to labor-intensive activities. It implemented 2,000 small and medium projects, during the month of December 2021, in various governorates, with total loans amounting to 400 million pounds, and contributed to providing 20,000 job opportunities for young people. The initiative also contributed, during June 2022, to the implementation of 3,700 small and medium projects in all governorates, with loans approaching EGP 600 million, and providing more than 14,000 job opportunities for young people. The total number of projects that fall within the "Mashrouak" initiative is about 200,000 projects, with a funding volume of more than EGP 258 billion, and provided job opportunities for 2 million people.

The Presidency of the Council of Ministers issued a decision to transfer the support of 5 low-interest initiatives from the Central Bank to 3 government agencies, namely the Ministry of Finance, Ministry of Housing, Utilities and Urban Communities, and the Tourism and Antiquities Support Fund (or the Ministry of Tourism and Antiquities). This is one of the demands of the International Monetary Fund to reduce the burden on the Central Bank's budget. However, the decision did not include the initiative of SMEs with a subsidized return of 5% annually.

In addition to the above, the CBE launched the **7% initiative for medium and long-term financing** up to 10 years to purchase machinery, equipment and production lines for medium-sized companies and enterprises operating in the industrial, agricultural and new and renewable energy sectors, with a maximum of EGP 20 Mn per customer. This is in addition to the **8% initiative for medium and large projects** to finance companies operating in the industrial, agricultural, contracting and other private sectors, with annual revenues of EGP 50 Mn or more. However, this initiative has been canceled, while other initiatives supporting small projects remain.

To complement the initiatives of the Central Bank, there is the **Nile Pioneers initiative**. It includes 6 business incubators in different sectors, such as furniture, packaging, and building materials, and 32 business development service centers in 17 governorates to support innovation and competitiveness. This is in partnership with Nile University for a period of five years, through which the Central Bank provides business development services to SMEs in their various stages, starting from idea to growth, in addition to encouraging young people to

adopt a culture of entrepreneurship and build successful projects. The Central Bank aims through this initiative to spread the culture of entrepreneurship and related knowledge to support youth.

- **A guide for owners of medium, small and micro enterprises**, issued by the Ministry of Finance, to increase their profits and exploit the advantages granted to them when contracting with administrative authorities. It is a coordinated guide that contains more than 1100 project ideas in the three main sectors (the industrial sector, the trade dropper, and the service sector). This guide includes information and basic procedures for the participation in some contractual opportunities, to meet the needs of public entities from ministries, governorates, authorities, or other bodies, which the owners of these projects must know before making the decision to participate. It explains the advantages granted by the Law Regulating Contracts Concluded by Public Authorities promulgated by Law No. 182 of 2018 to owners of medium, small and micro enterprises, to encourage them to participate and compete in these contracts, in addition to other relevant laws.
- **President El-Sisi's initiative for SMEs**: President Abdel Fattah El-Sisi launched the initiative to allocate 200 billion pounds at low interest rates for SMEs. The Central Bank of Egypt implemented the initiative in January 2016 by providing 200 billion pounds at a decreasing interest rate of 5% for small projects, and at a decreasing interest rate of 7% for medium enterprises working in the agricultural and industrial sector, and at a decreasing interest rate of 12% to finance medium projects working on industrial, agricultural and renewable energy projects. The total financing pumped by the bank within the SME Initiative reached EGP 70 billion for about 62,000 projects.
- **A strategy to promote industrial development and foreign trade for Egypt until 2020**, issued by the Ministry of Industry. It included 8 sub-programs to develop small, medium and micro enterprises, and turn them into a major tool to increase industrial output, provide job opportunities and increase exports. This is in addition to the legislative program for the issuance of new legislation to issue them, foremost of which is the provision of soft loans. This aims to increase the financing directed to these projects to constitute 20% of the total available financing, and increase the capital of funds specialized in supporting these projects to reach one billion pounds, so that 100,000 young people benefit from them.
- **Comprehensive structuring strategy for the stock exchange of small companies**, and the launch of the "Tamayouz" indicator to measure the performance and movement of the market, announced by the management of the Egyptian Exchange. The Indices Committee of the Egyptian Exchange adopted the methodology of this index, which includes a sample of companies listed on

the SME market. This step is considered as a mechanism to pay attention to financing SMEs, and improving their capabilities at the level of governance, disclosure, and transparency, which qualifies them to attract foreign and local investments, while providing investment opportunities for the masses of investors.

- **Issuing the Law No. 182 of 2018 promulgating the Law Regulating Contracts Concluded by Public Entities and its executive regulations.** One of its most important advantages is the development of methods of purchase and sale, and contracting patterns to keep pace with economic developments, meet the needs of administrative authorities effectively, and create a climate for companies and medium, small and micro enterprises to compete in the contracting operations offered. The law also aims to provide fair treatment for customers from the business community with the administrative authorities, and at the same time prevent the practices of collusion, fraud, corruption and monopoly. In addition to that, the administrative authority must provide at least 20% of the value of its annual needs to contract with those medium, small and micro enterprises.
- **Issuing the Law on the Development of Medium, Small and Micro Enterprises No. 152 of 2020 and its executive regulations,** which provides several financial incentives to the medium, small and micro enterprises sector, including:
 - The exemption from stamp tax, notarial fees, and registration for contracts of incorporation of companies and establishments, credit facilities contracts, mortgage and land registration contracts.
 - The reduction of customs duties on machinery and equipment necessary for operation, by 2-5%, in addition to allocating 40% of government procurement to these projects.
 - A simplified tax system was set for small and micro enterprises. The annual tax on the volume of a project of less than 250 thousand pounds is 1000 pounds, while it is 2500 pounds on project works ranging from 250 to 500 thousand pounds. The annual tax may reach 5 thousand pounds for the project whose business ranges between 500 thousand pounds to one million pounds, 0.5% of the volume of business ranging from one million to 2 million pounds, 0.75% of the turnover ranging from EGP 2 Mn to EGP 3 Mn, and 1% of the turnover ranging from EGP 3 Mn to EGP 10 Mn.
 - The prioritization of the allocation of vacant lands available in industrial and tourist areas, urban communities, and agricultural reclamation lands for these projects.
 - The existence of new and easy procedures in the law for registering and issuing approvals and operating licenses for the establishment of projects, in addition to

providing an incentive mechanism to reconcile the conditions of enterprises operating in the informal economy to encourage them to shift to the formal sector.

❖ **Sixth: Recommendations**

- ❖ Providing more financing for SMEs, especially through the private sector and banks, as well as providing tax and customs facilities and benefits to the private sector, which undertakes or contributes to the financing of SMEs.
- ❖ Providing free courses for young people on how to start a small project and its foundations, while training and raising the skills of owners of ongoing SMEs.
- ❖ Paying attention to technical education and its development and vocational training centers, in a way that contributes to raising the professional level of graduates.
- ❖ Activating the role of civil society institutions, such as non-governmental organisations and businessmen's associations, providing them with financing enough to re-lend, in light of their experience in dealing with small and micro projects in non-traditional ways.
- ❖ Committing the projects that receive government tenders to have a percentage of the inputs for the owners of SMEs.
- ❖ Providing the necessary means of support to facilitate a supportive environment for innovative and entrepreneurial projects, setting specific standards and indicators, and monitoring and evaluating the performance of these projects. This should be with the aim of measuring their return on sustainable economic development, in a way that contributes to a positive change in cultural patterns that support the culture of self-employment.
- ❖ Creating a broad base of entrepreneurs and innovators, and an incubating environment for them and their innovative projects. This could be done through technical or financial support, direct government or through the private and academic sectors or civil society organizations, while emphasizing the importance of coordinating and intertwining these efforts.
- ❖ Concentrating the efforts of all stakeholders, governmental and private, and continuous coordination between the various key players. This is to achieve fruitful and constructive cooperation between the entities supporting business environments and start-ups, to reach the following goals, for example:
 - Raising the competitiveness of the entrepreneurship sector, and the economic contribution of emerging companies, as well as measuring the return on development.

- Organizing the relationship between the supporting agencies, and proposing solutions to the most important challenges facing the national economy in the Arab countries. It is vital to translate them into opportunities for entrepreneurial and emerging companies, and interdependence between the various agencies.
- Localizing development and deepening value chains based on innovation, which will be reflected in attracting local and foreign investments, and opening new markets.

Conclusion

The Egyptian government has attached great importance to the role of SMEs and entrepreneurship. This is because of their important economic role in enhancing competitiveness and improving economic indicators, in a way that contributes to achieving comprehensive and sustainable economic development in various sectors. This is in accordance with the current Egyptian constitution, which contained a text that took precedence over all previous constitutions, by obliging the state to pay special attention to the and micro, small and medium enterprises. Egypt's 2030 Vision did not neglect supporting the entrepreneurial business environment, diversified knowledge and competitive economies, which positively affects the priority economic sectors, and the transition to advanced levels of research and development based on innovation, and in turn the sustainable growth of those sectors.

Targeting a diversified, competitive knowledge economy comes as one of the strategic objectives of Egypt's 2030 Vision in a context related to UN SDGs. It confirms the integration of the Egyptian vision for sustainable development with the international perspective of it, as well as with Africa's Agenda 2063 "A Prosperous Africa, based on Inclusive Growth and Sustainable Development."

As a result of this interest, Egypt ranked first in terms of the number of SMEs in the Arab countries with 2454 establishments, followed by Saudi Arabia and Tunisia. In addition, these projects in Egypt achieved the highest contribution to the gross domestic product, at the level of the Arab region.