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**SENIOR POLICY WORKSHOP ON STIMULATING AND  
SUSTAINING SMALL- AND MEDIUM-SCALE ENTERPRISES  
THROUGH EFFECTIVE OUT-REACH PROGRAMMES,  
ACCESS TO FINANCE AND IMPROVEMENT OF THE  
LEGAL AND REGULATORY ENVIRONMENT  
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**Small Enterprises in Egypt  
An Overview**

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# **"SMALL ENTERPRISES IN EGYPT"**

**- An Overview -**

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## INTRODUCTION

Egypt, like many developing countries, is instituting economic reforms to correct structural macro-economic imbalances that have caused serious problems during the last two decades.

The most important aspects of economic reform in Egypt are two :

**First** : *changing the Egyptian economy into a free market economy*

**Second** : *Limiting the public ownership to a necessary minimum and extending the private ownership to almost all sectors of the national economy.*

In this context, small-scale enterprises (SSE' s) have a central role to play in Egypt, especially in setting suitable policies to overcome the problem of unemployment and eliminate differences between governorates. SEE's currently employ about 3 million workers or about 30% percent of Egypt's labour force.

In this paper the main concern is to discuss some related topics regarding Egypt's experience in (SSE's) promotion.

- 1. A new role for the private sector in Egypt.**
- 2. Small-scale enterprises in Egypt.**
- 3. Examples of major assisting institutions.**
- 4. Current problems of SSE's in Egypt.**
- 5. Concluding remarks.**

## 1. A new role for the private sector in Egypt

Private sector activity has been relatively limited because of both non-conducive macro-economic policies and regulatory constraints. The macro-economic imbalances and their policy implications made the economic environment unstable and uncertain.

Since 1991 the government of Egypt has embarked on a comprehensive **Economic Reform and Structural Adjustment Program (E R S A P)** aiming at developing the sector within framework of market economy mechanism.

Consequently, the current *Five-year-Plan (92/93/1997)* has adopted a number of policies with the objective of creating a private enterprise based market economy.

The following are the most important policies :

- The gradual transformation from public ownership of the production units to private sector and limiting governmental interference and involvement in productive activities.

Accordingly, the plan aims to raise the contribution of the private sector in increasing production and Gross National Product from 59.4% in the year 1991/1992 to 64.8% in the year 96/1997 for production, and from 60% to 64.8% for the Gross National Product during the same period.

It's contribution towards realizing production and the production of the productive service sectors in the year 96/1997 is estimated by a ratio amounting to 70.9% , 66.6% for each successively.

- The encouragement of activities of the **Social Fund for Development ( SFD )** with the purpose of mobilizing financial and technical resources to serve small private investors.

- Emphasize the creation of planning information system.

- Continuing to develop the banking system and its capabilities to meet the developing private sector needs.

- Promoting export sector and providing incentives so that export becomes a goal and strengthening external commercial representation. \*
- Opening a dialogue and consultation between the government and the private sector regarding policies and procedures.
- The regulatory environment has been improved in several respects :  
Simplification of investment procedures, overlapping regulatory jurisdiction by local, governorates and central authorities have been streamlined, the private sector is operating freely in the distribution of almost all products except utilities.

#### ***AGENDA FOR THE FUTURE OF PRIVATE SECTOR IN EGYPT***

In its status report on progress in the government's private sector development, the Egyptian government focused on following future reform areas :

- a- Extending regulatory reforms on the non-industrial sectors, and streamlining local level enforcement of healthy and safety standards.*
- b- Deepening of financial sector reforms to improve access of smaller enterprises to formal credit.*
- c- Reforming the commercial judicial system to make it easier to enforce contracts and property rights.*
- d- Reforming the tax system and streamlining tax administration.*
- e- Simplification of labor laws.*

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\* *The Information and Decision Support Center ( IDSC ) has developed a Trade net to be a dynamic link between importers and exporters, and the fast changing world of international trade.*

*Such trade net may support a significant number of smaller enterprises to get access to international markets.*

- f- Provision of technical education that meets the needs of modernizing private sector.
- g- Providing necessary infrastructure (communication, energy and technology).
- h- Making a concerted effort to attract foreign investment
- i- Improving environmental laws and their enforcement. \*
- j- Collecting and making available timely economic and financial information to all economic agent and
- K- first of all continuing stability and certainty in macro-economic policies.

All these efforts will improve further the business environment of the (SSE's) to enable them to play their role in the development of Egypt.  
The next section will discuss the status of SSE's .

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\* *The cooperative productive unions (C P U) have developed training programmes for its members enterprises of small firms which include environmental topics.*

## 2. SMALL SCALE ENTERPRISES IN EGYPT

The available evidence shows that small scale enterprises are significant and indeed a dominant component of the economic activities in Egypt. For example, FERGANY (1991) showed that there was a steady growth in employment in the private sector establishments between 1960 and 1985 of which employment in establishments with less than 10 workers increased from about one million to approximately 2.3 million. \* Another study showed that employment in small enterprises in Egypt grows by 3.3% annually between 1974 and 1979, and this rate continued to grow by 4.4% per annum between 1980 and 1982 (ARTHUR D. LITTLE 1982). Of total number of establishments, 92% of them employed between 10 and 50 workers. In 1980/81. The private sector accounted for 25% of all industrial workers and 29% of industrial output of which small enterprises accounted nearly 66% of the industrial output of the private sector and 19% of the total industrial output.

Small enterprises have achieved this remarkable growth with by and large limited support and very often a turbulent business environment. In Egypt, in the 1970s and 1980s small firms have not benefited of the measures taken to liberalize the economy, that what led the World Bank (1977) to say that progress made in small firms promotion was fairly negligible and that this sector had largely been neglected under the new policy, with regards to procedures required to facilitate the setting-up of an establishment, in terms of technical and financial assistance to start-ups and in terms of statistical surveys and studies.

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\* Similar to Egypt, the dominance of small scales enterprises can also be found in almost all african countries. In Ghana, Osei et.al. (1993) found that about 62% of firms surveyed (1365) were found between 1980 and 1990. This was called an explosion in small firm by SCHMITZ (1989). Data from Kenya showing a similar trend indicate that small manufacturing firms increased its share of total employment from 21.5% in 1985 to 28.0% in 1988 (LIVINGSTONE 1991). In Sierra Leone, Chuta and Liedholm (1982) found that between 1975 and 1980, the annual rates of entry in small manufacturing firms were high in all settlement locating groups (settlements with over 250.000 inhabitants and settlements between 20.000 and 250.000 inhabitants respectively), whilst it was 6.5% in settlements of less than 20.000 inhabitants.

Up to the nineties, government support was half hearted and only available on a very limited scale. During the 1970s and 1980s, few attempts were made to encourage and to promote the sector. In 1973, the Handicraft Industries and **Productive Cooperatives Organizations (HIPCO)** was established by the the Ministry of Local Government to assist and promote handicrafts, and to monitor and to supervise the central union of productive cooperatives. In addition, several other governmental organizations have provided services to the sector, such as the Engineering and Industrial Design Development Centre (a semi-autonomous governmental institution under the Ministry of Industry) offering technical assistance and training to small entrepreneurs, and the project of productive family (under the Ministry of Social Affairs) aiming at helping low-income families to become productive and increase their standard of living. Also financial institutions have allocated funds to lend to the small firm sector. The Egyptian Industrial Development Bank offers loans to small firms and has provided assistance for purchasing equipment and raw materials. In 1979 the department of small scale industries was established in the **General Organization for Industrialization (GOFI)** under the Ministry of Industry in order to offer technical advice and information to small firms.

As is apparent, the services offered are fragmented between various institutions and the responsibilities are divided between various ministries with little coordination and limited resources or knowledge about small firms, they had limited effects on the sector.

The concentration of assisting institutions and services in Cairo has created a clear special disparities in the distribution of small firms. In 1982, approximately 50% of small private enterprises were located in the Greater Cairo Region, and about 15% in Alexandria (ARTHUR D. LITTLE 82). This distribution has not changed. In the last decade, with Greater Cairo Region still houses about 52% of total number of small firms in 1994, employing about 75% of total employment in small firms. This reflects by and large the pattern of industrial public investment in Egypt in the last 3 to 4 decades.

The distribution of small has also been concentrated in few industrial sub-sectors. (Table 1). These sub-sectors are food, beverage and tobacco (28.2%), wood and furniture (24%), and metal products (24%). The sub-sectors employ about 60% & total employment in the small manufacturing industrial sector.

In early 1992 the CPU has embarked on the first program in Egypt that specially endeavours to encourage the establishment of new SSE's. The project aims at establishing 5,600 new SSE's providing about 70,000 new jobs in 4 years. Until 1994 the project offered LE 62 million in loan covering the 26 governorates, creating 24 thousand of direct & indirect job opportunities for university & intermediate school graduates.

Recently, NGOs started to participate in SEE's related activities. Alexandria Businessmen Association (ABA) is considered to be the first and the most active association in this field. Since 1989 ABA has offered 8044 loans for small firms (about LE 16 million) creating 9500 new job opportunities in Alexandria governorates.

Having discussed the size, structure and distribution of the small firm sector. It is relevant to discuss the policies and major institutions affecting the sector.

**TOTAL NUMBER OF THE SMALL INDUSTRIAL PROJECTS REGISTERING IN "G O F I" 1994**

Value in  
LE Thousands

<b>ACTIVITY</b>	<b>NO. OF PROJECTS</b>	<b>PRODUCTION VALUE</b>	<b>NO. OF WORKERS</b>	<b>EXPORTS</b>
- Mining & Oil Extracting	8	131013	33	-
- Food & Tobacco Projects	1980	38434048	9173	-
- Textile & Leather	3730	35113387	13465	30640
- Wood Products	3174	7376909	6664	-
- Paper, Printing & Publishing	861	5516902	3238	-
- Chemical Products	650	8028414	2687	4000
- Construction Products	1064	8968380	4595	-
- Metal Products	160	1454381	674	-
- Machines & Transport Equip.	3316	26002684	11764	-
- Manufacturing Projects	384	1479797	1210	-

### 3. EXAMPLES OF MAJOR INSTITUTIONS

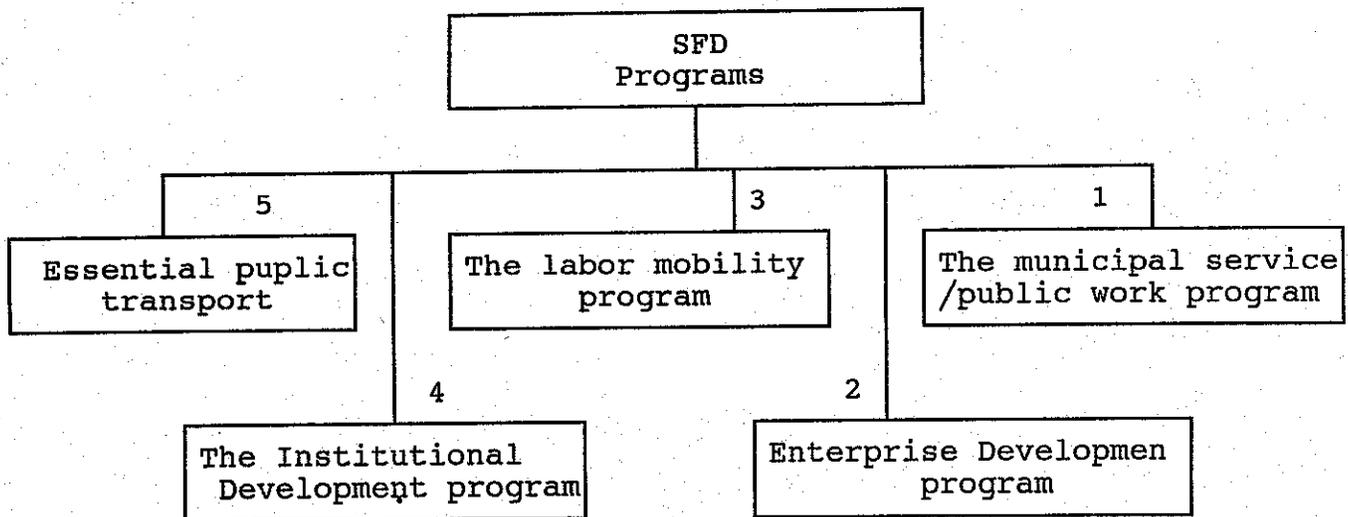
#### The Social Fund for Development

S F D was established by presidential decree No. 40 of 1991 to mitigate the negative impacts of the economic reform measures on the poorer segments of the population.

Financed by the government of Egypt in cooperation with the World Bank / IDA, the European Economic Community and other multinational and bilateral donors the SFD is committed to providing a social safety net for the poor and the unemployed, as well as for citizens who have returned to Egypt because of the Gulf Crisis.

S F D is adopting five programs (*Figure No. 1*) to reach the target groups through sponsoring agencies, such as ministries, governorates, public and private sector companies, NGOs and local community agencies.

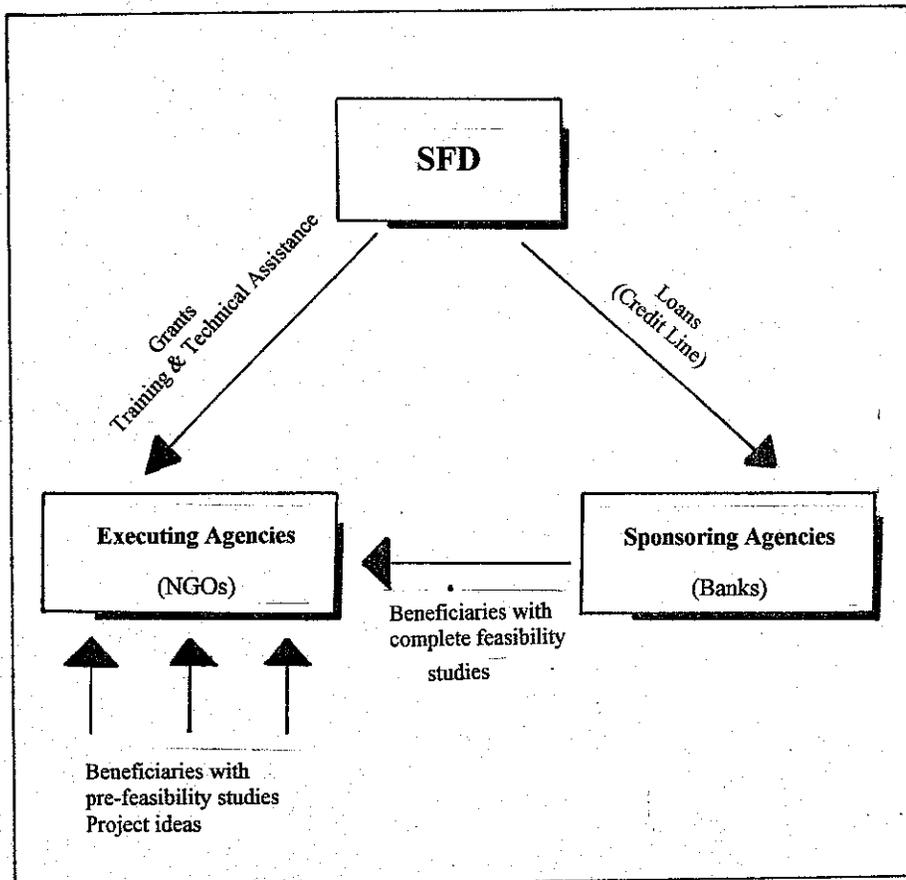
**Figure 1 "The five programs of S F D"**



## ENTERPRISE DEVELOPMENT PROGRAM (EDP)

EDP projects are carried out using a model that was developed in 1993. This model assigns the sponsoring agency and the executing agency with joint responsibility for project implementation, since the roles of both types agencies are complementary to the projects supported by the S F D. In return for their tasks, each of them receives payment which could take the form of either an institutional development grant (as in the case of NGO's) or a free (as in the case of banks) (see Figure No. 2).

**Figure 2 "Model for Implementing EDP Projects"**



E D P projects are allocated the highest share of donor funds (US\$ 261.4 million, representing 43%), since they have the largest potential for sustainable job creation. They are implemented by ministries, NGOs and banks, serving either as sponsoring or executive agencies.

Up to June 1994, 12.7% (LE 65.5 million) of EDP projects were implemented by ministers, while 87.5% (LE 449.7 million) were implemented by NGOs and banks.

The titles of the projects includes : industrial park project, small handicrafts enterprise development project, pilot project for preeding soutry, cattle raising project.

The E D P has a number of targets it hopes to achieve by the end of 1994 :

- Identifying and creating nucleus feeder units for the large and medium sectors, building clusters of viable and sustainable small enterprise, sepcially on new communities.
  
- Identifying and creating a nucleus for the manufacture of products.
  
- Enhancing and / or creating post-manufacturing support systems covering all aspects of consumer satisfaction, such as quality control, after sales service and market research.
  
- Enhancing and/or marketing and service organizations to support all activities involving manufacturing and non-manufacturing.
  
- Creating resources centers as focal point.

### INDUSTRIAL DEVELOPMENT BANK OF EGYPT:

The establishment of industrial Development Bank of Egypt (IDBE) dates back to the year 1947. Then, according to the ministerial resolution No. 144 for 1976, the bank name changed to be the **Development Industrial Bank** and started its actual operations on *1/8/1976*.

The main purpose of IDBE as stated in its statue of association is " Promoting Egyptian industries in general and the private and cooperative sector in particular, as well as supporting artisans and small manufacturers and carrying out their banking operations for them".

#### INTEREST IN SUPPORTING SMALL INDUSTRIES :

The Bank's managements headed in emphasis of its role as a governmental development entity- the necessity of enlarging its support radius to small industries. The most important methods adopted to achieve that goal were the following ones :

- 1- Installment sales against pledge of the machinery & equipment
- 2- The allocation of soft loans to small customers
- 3- The allocation of some credit lines as soft interest rates, provided by the bank in foreign currencies.
- 4- Assistance information and foundation procedures

Generally, the Bank adopts a policy which rests on granting the small industries projects a special attention in addition to special facilities.

This policy has taken a clear-cut applied and practical shape as the share of small industries has gone up continuously in relation to the total loans approved by the Bank, since its start-up on 1/8/1976, as it went up from 14.4% in 1976 to 32.9% in 1980/81, then up to 41.7% in 1990/1991.

Critical review (Khashabah M. Magid) of the back performance in the field of small firm financing it has been revealed that loans and credit allocations of the sector has not been fully utilized. This was attributed to the strict and often high collateral security required by the Bank that did not only discourage small firms but also favor highly capital enterprises.

### **CURRENT PROBLEMS OF SSE IN EGYPT**

After the implementation of the first phase of (ERSAP) SSE's still encounter a number of difficulties which hinder their development. These can be summarized in the following :

- *Limited availability of information*
- *Bureaucratic procedures involved in obtaining licenses along with rising tax rate*
- *Fragmented and non-standardised the departments charged with promoting the SSE's in Egypt*
- *Lack of specialized expertise in management, packing, marketing, training, promoting and advertising for SSE's*
- *Shortage of specialized organizations that encourage and promote entrepreneurship and stimulate entrepreneurial spirit.*
- *Lack of specialized expertise in : searching, identifying, evaluating and selecting the appropriate technology for SSE.*
- *Concentration of small firms few locations in and around large cities*
- *Lack of communications between all actors in SSE's environment*
- *Lack of incentives to encourage the export of small enterprises products.*

## **CONCLUDING REMARKS**

The foregoing status of SSE's points to a number of missing considerations :

- The need for redressing the imbalances in the distribution of small firms.
- Improving the delivery mechanism of assisting institutions by involving NGO's in promotional efforts.
- Reducing bureaucratic procedures
- Developing a dialogue which involves all related actors.
- Enhancing the regional cooperation and integration in the small firm promotion efforts between African states.

This can be boosted by exchanging experiences, successful examples of promotional efforts and the establishment of an African Institution that could work as a catalyst to cooperation.

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