



Policy Brief

Eliminating the Legislative Bias against SMEs

February 2021

This Policy Brief was prepared by the Egyptian Center for Economic Studies (ECES) within the framework of a project on "Small and Medium Enterprises". It was authored by Elsayed Muhammad Muhammad Abu Al-Qumsan. ECES extends its thanks and appreciation to the British government for its funding.

No part of this study may be reproduced or saved in a system for retrieving or transmitting information of any form or by any means, whether mechanical or electronic, or through copying, recording, or otherwise, without prior written permission from the Egyptian Center for Economic Studies.

©2020 ECES.

All rights reserved.

Abstract

Micro, small and medium enterprises provide 4 out of every 5 available jobs in the formal economy, in addition to what is actually available in the informal economy. Given the increasing unemployment rates, especially with the coronavirus pandemic, and its total contribution to GDP, estimated at about 60 percent, the micro, small and medium enterprises sector should be given favored treatment. The constraints facing the establishment of these enterprises should be removed, while giving them the necessary favored treatment to ensure their growth and achieve their objectives, by providing technical, administrative and financing support, benefiting from the experiences of the leading countries, and qualifying cadres in charge of these enterprises through high-end domestic and international training programs.

المخلص

لما كانت المشروعات متناهية الصغر والصغيرة والمتوسطة توفر ٤ فرص عمل من كل ٥ فرص عمل متاحة في الاقتصاد الرسمي أضف إلى ذلك ما هو متوفر بالفعل في الاقتصاد غير الرسمي، وفي ظل تزايد معدلات البطالة خاصة بعد جائحة كورونا، فضلا عما يمثله هذا القطاع في الناتج القومي الإجمالي والمقدر بحوالي ٦٠%، لذلك فإن هذا القطاع أولى بالرعاية وإزالة كافة المعوقات التي تواجه إنشاء هذه المشروعات وتقديم الرعاية اللازمة لنموها وتحقيق أهدافها، وذلك بتقديم الدعم الفني والإداري والتمويلي، والاستفادة من تجارب الدول الرائدة في هذا المجال، والتأهيل الجيد للكوادر القائمة على رعاية هذه المشروعات بإتاحة برامج التدريب الراقية محليا وخارجيا.

1. Introduction

The role of micro, small and medium enterprises in supporting growth and achieving economic development witnessed remarkable growth during the nineties of the last century in both developed and developing countries. This was a result of a number of prominent global shifts that brought about a change in the structure of production of goods and services towards more reliance on the production inputs provided by these enterprises, which strengthened their economic role as a key link in global supply chains. The most prominent of these shifts is the emergence of new, less expensive and more flexible production methods, as a result of the move towards the globalization of labor markets and products and the spread of business outsourcing methods from large enterprises to micro, small and medium enterprises. In addition, the increase in the number of young people looking for work in many countries and the emergence of an entrepreneurial culture contributed to supporting the move towards establishing a large number of micro, small and medium enterprises. In the aftermath of that period, these enterprises demonstrated great capacity for innovation and competitiveness, reduced production costs, flexibility and great efficiency in dealing with market conditions compared to large projects, and in using local production inputs, which made them play an important role in the global supply chains of major global companies and a prominent role in production and employment in many countries of the world.

Micro, small and medium enterprises have become a major locomotive for advancing economic development in many countries especially developing ones, due to their role in providing job opportunities at a lower investment cost than large projects. These enterprises contribute to creating four out of every five new job opportunities, besides their integration in the production chains of goods and services with large enterprises helps strengthen GDP structure and improve the level of per capita income. This made many emerging market economies and developing countries rely on them heavily to reduce unemployment and poverty rates, especially in rural and economically promising areas, thus helping to balance economic development.

In this context, and according to the data of the World Bank for the year 2015, the contribution of this sector was estimated at about 40 percent of GDP in developing

countries and about 60 percent of employment in the formal sector. International estimates indicate that about 70 percent of these enterprises in developing markets cannot access financing, especially in Africa and the Middle East.

However, we must bear in mind that the primary role of micro-enterprises is to overcome the problem of poverty because of the sources of income they provide to the marginalized groups.

2. A look at the role of micro, small and medium enterprises in the Egyptian economy

These enterprises are considered among the most important determinants for raising economic and living standards, and promoting economic development in the country, and overcoming the problem of poverty.

These enterprises are spread all over the country—rural and urban—but there are no accurate statistics on the size of these enterprises, especially since the entire informal sector is comprised of these enterprises.

The 2017/2018 economic census issued by the Central Agency for Public Mobilization and Statistics (CAPMAS) estimated the size of micro, small and medium enterprises at about 3.7 million establishments, employing about 9.7 million workers. The census captured a set of other indicators about this sector. Total wages were estimated at EGP 619.2 billion and the volume of production was about EGP 1.2 trillion, in addition to total added value estimated at EGP 87 billion. The governorates of Lower Egypt account for most of this activity. Added to these estimates are establishments operating in the informal sector, whose number have conflicting estimates.

3. Legislation biased in favor of large enterprises

Egyptian legislations include many laws that regulate the activities of economic entities. The large part of these laws do not differentiate between large entities and micro, small and medium entities, and it may appear at first glance that this achieves equality in legal status. The truth is that available potentials in large entities, whether in terms of capital or administrative capabilities that help them deal with bureaucracy in all agencies, qualify them to benefit from the many provisions contained in these legislations that were enacted for the benefit of all sectors. The micro, small and medium entities do not

have such capabilities, though, as we explained earlier, they create 80 percent of job opportunities and thus provisions must be fair to these entities as well.

In the following, we will shed light on the most important problems that demonstrate bias towards large enterprises:

- a) The problem of these enterprises obtaining their needs of machinery and equipment necessary to carry out their activity, as well as production requirements.

In fact, the vast majority of micro and small enterprises and a large part of medium enterprises have limited external dealings, as they depend in securing their needs on local production or what is imported through suppliers with import experience and specialists in importing certain commodities, especially investment goods such as machinery and equipment. Almost all of these enterprises have limited dealings in terms of exports.

While there are many legislations that offer facilities and incentives for employers in general with respect to what they import, whether machinery or equipment, such as reducing customs duties on them or exempting them from certain fees, as well as for what is exported, as follows:

1- Customs Law No. 66 of 1963:

The Customs Law included in its Chapter Five temporary admission, meaning an exemption from customs duties and other taxes and fees on imported raw materials with the intention of manufacturing them and completing their manufacture.

The provisions of this system remained a source of suffering for exporters until Prime Minister Decision No. 1635 of the year 2002 was issued, which established an advanced system for temporary admission. But, in reality, this system is used only by large enterprises and some medium enterprises, while micro and small enterprises and a large part of the medium enterprises cannot use this system [temporary admission], which is a global system aimed primarily at granting facilities for exporters, and thus these sectors are placed in an unequal position with large enterprises.

In addition, this law has devoted a special chapter to refunding customs and value-added tax previously collected on foreign inputs that were used in the manufacture of local exported products after submitting sufficient documents proving the use of imported items. Of course, large enterprises that import their production requirements are able to meet the refund rules, while micro, small and medium enterprises that do not import themselves, cannot benefit from this system because they secure their needs from the local market from specialized merchants and importers, hence these enterprises are in an unequal position in terms of cost.

2. Law regulating customs exemptions

The provisions of this law included the collection of a unified customs tax of 5 percent of the value of imported machinery, equipment and devices necessary for the establishment of enterprises that have been approved in accordance with the provisions of Law No. 43 of the year 1974 promulgating the Arab and foreign money investment system and free zones, and Law No. 159 of the year 1981 respecting joint-stock enterprises, limited liability companies, and limited liability companies. The aforementioned unified rate applies to machinery, equipment and means of transporting people and special-use vehicles for building projects, as well as enterprises established in the new urban communities and reclamation and cultivation enterprises.

This provision aims to reduce the burden on all enterprises, but in fact micro and small enterprises and a large part of medium enterprises do not benefit from this incentive because they secure their needs from traditional importers of machinery and equipment.

3. The value-added tax law

The provisions of Article 30 of this law stipulated that previously paid or charged tax shall be refunded on goods and services that are exported or used in other goods or services. Of course, large enterprises benefit from this provision, as most of them import their production requirements. While micro and small enterprises and a large part of the medium enterprises cannot recover these taxes because they secure their needs from traditional importers.

The same article provides for refunding the previously paid tax on machines and equipment that are used in the production of a commodity or the performance of taxable services. Large enterprises that import their own machinery and equipment benefit from this provision. As for micro, small and medium enterprises, they cannot benefit from the advantages and incentives included in the provisions of the previously mentioned law for all production and service projects.

4- Investment laws:

All laws promulgated to promote investment included providing benefits to enterprises in all areas of investment, the latest of which is Law No. 72 of the year 2017, as Article 10 of this law stipulates that the provisions of Article 4 of the Law Regulating Customs Exemptions promulgated by Law No. 86 of the year 1986 regarding the collection of a uniform tax of 2 percent apply to all imported machinery, equipment and devices necessary for their establishment. Investment enterprises of a special nature that are subject to the provisions of this law may also import molds, fittings and other production requirements of a similar nature without customs duties, to be used for a temporary period in manufacturing its products and re-exporting them abroad.

Large enterprises are able to enjoy these incentives as they can import on their own. As for the micro and small enterprises, and a large part of the medium enterprises, they secure their needs of these commodities from the local market and through traditional importers, and thus are encumbered. The category of customs tax on some of these materials reaches 25 percent, and this leads to burdens on micro, small and medium that are not borne by large enterprises.

5- The Small, Medium and Micro Enterprises Development Law:

The issuance of this law aimed at the promotion of these enterprises and providing them with serious incentives to enable them to play the required role in the Egyptian economy. This law included a set of incentives to revitalize this sector. Leaving aside what is included in this law regarding financing these enterprises, we find that this law restores the advantage stipulated in the law on customs exemptions and investment, as Article 28 of this law stipulates that a unified customs tax amounting to 2 percent of the value

shall be collected on all machinery, equipment and devices imported by enterprises that are necessary for their establishment.

As explained earlier, this provision does not benefit micro-enterprises and a large part of small and medium enterprises, while large enterprises with import capability benefit from it.

Moreover, although the issuance of this law was an urgent requirement, it has a flaw; it equated the positions of micro enterprises, small enterprises and medium enterprises. Indeed, it raised the maximum turnover of medium-sized companies to EGP 500 million, thus creating a bias even in this sector, as it was noticed that the banking system prefers to grant credit facilities to the upper segment. This was evident in the banks' dealings when the Central Bank's definition of medium enterprises was that "the turnover of their business does not exceed EGP 200 million pounds".

It should be noted that this law has brought together the micro enterprises and the small and medium enterprises and equated them in terms of the facilities it contained, and this is a new perspective that has not been adopted before, as the activity of micro enterprises is concentrated in sole proprietorships, especially in the field of craft industries, and hence must have planning and policies that are different from the policies and plans of small and medium enterprises.

6- Law No. 83 of the year 2020 imposing fundraising fees on some commodities:

This law included imposing a fundraising fee of 10 percent on all types of imported iron (including sheet surfaces, angles, sections, and profiles), of the market value plus the value-added tax and other taxes and fees. The phrase used was (as long as it was not sold directly in its form in the local market.) An explanation for this has been issued from the Minister of Finance that this fee is not imposed on what factories import to manufacture, but rather what is imported through traditional importers to sell to factories that cannot import, although these items constitute intermediate goods and are only used in manufacturing. For example, tin is called "the bread of engineering industries".

In light of the above, it is clear that there is a bias in favor of large enterprise. Even in the MSME sector, there is a bias in favor of the larger segment of this sector.

4. Some Global Experiences in Micro, Small and Medium Enterprises:

Large and mega projects began their first stages as small projects and then began to develop and grow. It may seem that micro, small and medium enterprises are at a primitive stage and are not yet qualified to become large enterprises. However, with the introduction of modern and advanced technology, training of skilled workers and providing assistance by the state, whether technical, financing, administrative, or marketing, these enterprises can make a jump, and develop and increase their activity, making them move towards large enterprises. In the following, we review some international experiences in this regard.

1- India:

Studies in India have proven that small enterprises are the largest generator of employment opportunities. They achieved an average employment growth rate of 7 percent during the period from 1992 to 2009, with a surge in growth during 2006, in which the employment rate reached 42.5 percent. In parallel, exports of these enterprises increased, achieving an annual growth rate ranging from 7.6 percent (in 1996) to 10 percent (in 2006).

Therefore, these enterprises are considered the locomotive of India's growth. Interest in small establishments has increased in particular since 2007, and this has become a distinctive feature of the Indian experience.

The second feature that characterizes the Indian experience is the production of a long list of products from the enterprises other than the large ones, which numbered 1,200 in 1997, thus granting an opportunity and protection to these enterprises for expansion and sustainability and forcing large industries to deal with smaller establishments within the framework of subcontracts.

The third feature is that it reduced the closures that result in displacement of a large number of workers. The establishments that face difficulties are directed to a special office that takes care of the administrative and financial reform of these troubled establishments until they overcome their difficulties. This office has the right to assign one or more managers responsible for managing these enterprises until they overcome reasons for their difficulty. These reasons may be financial, administrative, or a lack of

skills ... etc., and the office handles all these aspects with relevant parties such as banks. The office continues to closely follow the method of investing new funds and has the power to suspend loans or punish those responsible for defaulting with legal procedures.

The fourth aspect is the intensification of training efforts directed to these enterprises in general. The Prime Minister of India has planned to train a large number of workers until 2032, and this targets about 500 million Indians, 50 percent of whom are representatives of these enterprises and in the field of these enterprises. There is a specialized national center for training and similar centers in different territories.

The fifth feature is the adoption of an extended program to increase the competitiveness of these enterprises, consisting of ten programs that include industrial incubators, quality management, integrating these activities into the economy, raising technological capacity, and marketing support. ... etc.

The sixth feature is the attention to the rural industrial committees called KHDI, to which a \$150 million have been allocated apart from the assistance provided by the Asian Development Bank (ADB). This is a formula to support crafts and traditional industries such as rural food industries, and the Mahatma Gandhi Center was established to support rural industries.

India has also established institutions and agencies that provide this sector with the necessary loans and assist them in marketing their products and protecting them from default and bankruptcy, in addition to training, qualification, technical and economic consultations, and this can be summarized as follows:

- The Indian government has established a number of agencies and units that specifically provide the necessary support to SMEs: a ministry for small industries, and rural and agricultural industries, and a small industries committee, which acts as an advisory body to the ministry of small industries.
- Providing a number of banks specialized in lending to small and medium enterprises in order to increase credit coverage and facilitate obtaining the necessary loans. India is in the process of increasing the number of these banks.
- Establishing 8 courts to adjudicate debt issues.

- Establishing special centers to promote exports of small and medium-sized enterprises and assist them in the process of reaching foreign markets.
- Issuing legislations that cover the various relationships existing in the small enterprises sector, such as laws on quality standards, laws on employment, environmental protection laws, laws that define sales tax, and to assess the exemption of these units from excise duties.
- Supporting a special insurance program to prevent the occurrence of bankruptcy cases that small and medium enterprises may be exposed to.

2- Japan:

The Japanese experience in the field of establishing and developing small and medium enterprises is a model to be followed by all countries wishing to develop their economies on the one hand and to overcome the problems of unemployment on the other hand. Although Japan does not have much mineral resources or raw materials and imports most of its resources for production, it has achieved great progress in the field of manufacturing since the beginning of the 1960s until the present time. Its exports have become competitive with many major countries, thanks to the national policy pursued by the Japanese government, which aims to provide assistance to small and medium enterprises, whether technical assistance, financing, administrative or marketing, through:

- Encouraging the establishment of industrial and service complexes and the modernization of existing small and medium enterprises.
- Establishing some financing institutions to provide the necessary funding and support for small and medium enterprises.
- Establishing a program through which small and medium enterprises can obtain the same advantages and contractual terms granted to the public and governmental sectors.
- Granting small and medium enterprises technical and administrative incentives.
- Supporting businessmen by facilitating their obtaining of loans on concessional terms.

- Willingness to adapt to changing economic conditions that may lead to troubling or bankruptcy of small and medium enterprises.

The government's attention to this type of enterprises was evident in its cooperation with struggling enterprises, for fear of their bankruptcy. A struggling enterprise can obtain a loan without interest and without guarantee, to be repaid within years with a six-month period given before the repayment process begins.

The government support directed towards small and medium enterprises led to high quality production according to international standards, which led to reliance of large enterprises on the production of small enterprises instead of importing them from abroad.

The intellectual development that took place in the industry helped the shift of employment from large industries to small industries in Japan, as many large industries are giving up the production of many manufacturing components, assigning their production to other small, more specialized factories, thus achieving greater savings in the cost of production while ensuring the achievement of higher quality.

Hence, the importance of small and medium enterprises becomes evident in absorbing surplus labor from large enterprises when they renew their means of production and dispense with excess labor.

3- South Korea:

Before its economic renaissance, South Korea was suffering from backwardness and stagnation, as it was characterized by the following key characteristics:

- Dependence of the Korean economy on a single export commodity, which is rice.
- Scarcity of economic resources.
- Small cultivable area.
- Suffering from constant rural-to-urban migration.

Hence, the Korean government at that time set a number of economic plans, starting with the first economic development plan (1962-1966).

The most important characteristic of the Korean development plans in the early 1960s was their attention to the development of small and medium enterprises, as they carried out the following:

- Established a specialized bank for small and medium enterprises on the first of August 1961 aiming to support the economic activities of small and medium enterprises by providing loans and credit facilities in local and foreign currencies, accepting participatory deposits in enterprise capital, local and foreign exchange operations, in addition to providing advisory services in administrative and technical work.
- The Small and Medium Enterprises Support Authority was established to assist the government in setting economic policies related to the development of small and medium enterprises. Its mission is to modernize the means of production, strengthen cooperative activities between small and medium enterprises, establish industrial cities and establish industrial complexes in them, develop environmental industries, in addition to providing technical and administrative advisory services and directing small and medium industries towards export.

4- Singapore:

Small and medium enterprises have played a large and important role in supporting and meeting the needs of large enterprises. The Singapore Development Bank has provided financial aid to small and medium enterprises at a fixed interest rate that is less than commercial rates, and was later joined by a large number of other banks.

The Singapore Institute for Standardization and Industrial Research also cooperated in supplying small enterprises and banks with the necessary studies, quality control and setting standards. Cooperation and interest on the part of the government was evident in establishing a department to stimulate trade and exports, whose mission was to assist exporters and provide studies on international markets, as well as organizing conferences and developing and organizing training programs on trade and international markets and their needs.

5- United States of America:

The Small Business Administration Authority in the United States of America was established in 1953. It is an independent body that has its own budget and aims to help US entrepreneurs establish and operate successful small enterprises. Its role is as follows:

- Granting loans to small enterprises that are unable to provide self-financing, on reasonable and easy terms.
- Helping small enterprises sell their products and services to the federal government.
- Granting loans to enterprises that are vulnerable to natural disasters.
- Helping small enterprises market their products and export them.
- Developing the managerial and technical skills of current and potential entrepreneurs.
- The administration licenses and regulates private investment companies concerned with providing loans to small and medium enterprises.
- Supporting women and helping minorities to increase their participation in the ownership of small and medium enterprises.

In order to expand the provision of administrative and advisory assistance to owners of small and medium enterprises in all states alike, the authority's administration has established a center in each state, in addition to the existence of a public or private entrepreneurial institution that sponsors this center and manages its programs. The authority has also established offices for the private sector to combine resources of the private sector and small business administration resources, to increase the effectiveness of the authority's programs, especially with regard to providing administrative training and advisory bulletins, in addition to assistance in obtaining government contracts and subcontracts and financing the exports of these businesses through its programs.

It is clear from the above that among the important facts that can be learned from the experiences of the aforementioned countries, that small and medium enterprises have a major role in increasing the national product of countries that worked towards progress

and development through their sponsorship of these enterprises and their workers, and trying to provide the necessary means of assistance for their growth and development. Therefore, we will put forward several proposals that we can, by following them, assist this type of enterprises and drive them towards increased growth and encourage them to spread internationally through increased globalization in the field of export.

5. Evaluating the initiatives directed to micro, small and medium enterprises in Egypt

Egypt has witnessed many initiatives directed at micro, small and medium enterprises since the 1970s, including but not limited to the following:

1- Establishing the Organization for Craft Industries and Production Cooperation according to Law No. 840 of the year 1973:

This body is concerned with developing the necessary plans and policies for the advancement of this sector, which mainly includes the micro-industries represented in most of the craft industries and productive cooperation projects. Despite the existence of this body for a period of about 50 years, there is no objective evaluation on the basis of which the achievements of this body can be judged.

2- The issuance of the Productive Cooperation Law No. 110 of the year 1975:

This law stipulates that production cooperation be a branch of the cooperative sector that aims to organize and develop production capacities in craft industries and production services and supports them technically, economically and administratively, especially in the areas of finance, supply, marketing, training, organization, contracting and developing the common interests of members of productive cooperative societies, with the aim of supporting the national economy within the framework of the state's general plan and in light of cooperative principles.

It also stipulates that productive cooperative societies are democratic, mass organizations formed in accordance with the provisions of this law of those who undertake their activities in the field of craft industries.

3- Establishing the Social Fund for Development:

The Fund was established by Republican Resolution No. 40 of the year 1991 as a social and economic safety net that contributes to combating unemployment and alleviating poverty, and to improve living standards and accelerate the achievement of comprehensive economic and social development. The Fund is mandated to support small and micro enterprises and to provide an integrated package of financial and non-financial services to them, and in coordination with all parties concerned with these enterprises, with the aim of adopting the necessary policies and legislation for their development under the Small Enterprise Development Law No. 141 of the year 2004.

The Social Fund used to operate through regional offices covering all governorates of the Republic. Attached to most of these offices are service complexes that operate based on a one-stop-shop system that allows applicants to quickly obtain loans, complete the required papers, and obtain licensing, a commercial register and a tax card.

The Fund's areas of work:

- Mobilizing local and international technical and financial resources to achieve comprehensive economic and social development.
- Providing advanced financial and non-financial services to support small enterprises and their growth and development.
- Financing projects that create job opportunities and improve infra- and social structures.
- Encouraging the spread of self-employment thinking and linking large industries with small enterprises and industries.

Among the objectives of this Fund were:

- Development and financing of small and micro enterprises.
- Improving living standards in the targeted areas.
- Contributing to creating job opportunities to curb the unemployment problem, especially among youth and women.
- To alleviate poverty.

It targeted the following groups:

- Young graduates with higher, intermediate and upper intermediate qualifications.
- Those with experience and who are able to manage existing projects and who are willing to develop their projects.
- Marginalized groups and people with special needs.

The Fund announced the outcome of its performance from the date of its inception until 2015 as follows:

Since its inception, the Social Fund for Development has pumped total funding of about EGP 28.6 billion to implement many projects until the end of August 2015, detailed as follows:

- Loans to finance small and micro enterprises, at about EGP 23.5 billion, which generated about 2.2 million enterprises and provided 3.6 million job opportunities.
- Grants to finance infrastructure, community development and training, the volume of which reached EGP 5.1 billion and provided 710,874 job opportunities.

However, after the Fund's work for a period of 28 years and the end of its work, no objective assessment was made regarding the results of these actions. The crux of the matter does not lie in the large sums it spent and the job opportunities it provided, but in the follow-up on the enterprises that it financed in order to stand on what has continued and what has stumbled or stopped and.

4- Establishing the Medium, Small and Micro Enterprises Development Agency (in 2017):

The Medium, Small and Micro Enterprises Development Agency was established by Prime Minister Decree No. 947 of the year 2017 and amended by Resolution No. 2370 of the year 2018. The agency replaced the Social Fund for Development established in 1991. It is the result of 25 years of comprehensive development experiences in various fields and is deemed the entity concerned with medium, small and micro enterprises and entrepreneurship, and coordinates and unifies the efforts of all concerned parties, NGOs and initiatives working in this field.

The agency aims to set up a national program for the development and promotion of enterprises and create the necessary climate to encourage them. It works through a network of regional branches spread all over the governorates, which are its executive arm, estimated at a total of 33 branches that include the units of the one-stop shop (OSS), in addition to partnership with about 600 NGOs concerned with the development of micro-enterprises, 1800 bank branches spread all over the governorates, and a number of local development partners.

However, this Agency is an extension of the apparatus that was once the Social Fund with all its human cadres. In addition, it combined planning, policy-making and implementation, which are the same disadvantages of the Social Fund.

5- Funding Initiatives:

- The Central Bank, commercial banks, the Egyptian Banking Institute and financial institutions introduced private banking services and small and medium enterprises.
- Establishing a banking services unit for small and medium enterprises in the Egyptian Banking Center.
- Holding training courses for bank employees and organizing learning tours for them in leading countries in the development of the small and medium enterprises sector.
- The central bank providing credit facilities at low interest rates, simplifying procedures for obtaining them, and increasing the effectiveness of credit guarantee programs.

6. Key challenges facing micro, small and medium enterprises

Despite the efforts made by successive governments to develop and support small and medium enterprises, they are still facing many challenges and obstacles that prevent their growth and expansion, as follows:

- **Non-financial challenges** that include a lack of administrative experience, a shortage of skilled workers, lack of reliance on modern technologies, and exposure to bureaucratic complications in obtaining licenses.
- **Financial challenges** mainly in the difficulty of accessing finance. Difficulty in accessing finance is the biggest challenge among all these challenges. The importance of obtaining financing lies in the fact that low capital threatens these enterprises with failure and reduces their chances of resilience and growth.

There is close correlation between the amount of capital with the enterprise on the one hand and the volume of employment and sales on the other hand. In fact, all of these factors affect the enterprise's ability to obtain financing. So, the greater the company's capital, the greater the volume of its sales and the greater the possibility of its dealings with banks and benefiting from banking facilities, and this also results in the difference in the ability to export.

In general, the performance of small and medium enterprises is not good at the level of global markets, as only 6 percent of these enterprises export their products, while the rest only serve the local market.

The process of obtaining financing from banks is a complex process for micro, small and medium companies that face difficulty in attracting and obtaining the required skilled labor, technology, product and market information, production inputs, and space, which results in a limited ability to provide a feasibility study and a commercial plan. As requested by lenders. Also, these enterprises lack general contracts and contracts of large sums that give them stability, future vision and long-term expectations, and they also lack relations with large and foreign companies that provide support through their network of contacts.

In addition, bank loan officers usually do not have the experience that qualifies them to evaluate MSME proposals, which leads to higher investment risks in these enterprises (from the banks' point of view), and requires higher administrative expenses reflected in the higher interest rate for these enterprises as well as increased required collateral. Since these enterprises usually do not invest in real estate such as buildings

or land (84 percent operate from rented stores), this makes it difficult to provide guarantees to cover the loan.

Banks consider granting credit to large businesses less risky because they are more stable or less prone to risk and have available records and structured information that are easy to access and are more profitable, unlike small businesses that are less stable or more vulnerable to risk, and their records are not available, and information unclear, and difficult to access. Besides, they are less profitable, along with other problems such as lack of commercial documentation (such as registration, licenses and tax cards), low confidence in the financial data and financial performance of those businesses, and weak management and business plan.

The natural result of this is that most of the micro, small and medium enterprises in Egypt do not deal with banks, as 16.9 percent of enterprises deal with banks in Cairo, 11.5 percent in Sharkia and 9.5 percent in Gharbia. Enterprises that receive banking facilities are concentrated in those same governorates, 22.6 percent in Cairo, 13.9 percent in Sharkia, and 8 percent in Gharbia.

On the other hand, a large part of unregistered small and medium enterprises in Egypt belong to the informal sector. In reality, the number of informal enterprises cannot be accurately counted, but there are two types of small and medium enterprises: enterprises that can be counted on the one hand, and street vendors, mobile units, and home enterprises that cannot be counted on the other.

The high percentage of non-registration of enterprises is due to the high cost of both registration and shift to the formal economy, which represents 40 to 60 percent of the total cost. At the same time, the opportunity cost of staying informal is the limited growth opportunity, since unregistered businesses cannot apply for formal loans, business development services, supply contracts, or any support available from the government. In 2006, 41 percent of registered enterprises were able to obtain external financing, mainly from formal financial institutions.

As for unregistered enterprises, only 19.5 percent of them were able to borrow from other sources, while the rest of them depended on self-financing (savings, inheritance, remittances of workers abroad, family and friends, or associations) because

access to formal financial institutions is limited for these enterprises due to not being registered.

The study of the Center for International Private Enterprise (CIPE), which conducted a survey of about 800 small and medium enterprises, revealed the experience of these enterprises with corruption during the establishment of their businesses. The study found that the most prevalent form of corruption for business owners is the payment of illegal amounts of money to government employees working in government departments or local councils. Forty-three percent of the survey sample paid bribes at the start-up stage, while 29 percent paid bribes to operating and licensing bodies. The problem with the funding sources available to small and medium enterprises currently is their limited support for these enterprises, which proved to be economically inefficient because the supported activities do not reflect their actual value or depend on non-governmental organizations' programs, which is not a permanent source.

The process of obtaining financing from banks is a complex process for small and medium-sized enterprises, as these enterprises face difficulty in attracting and obtaining what they need in terms of skilled labor, technology, information on products and the market, production inputs, and space, which results in the limited ability to provide a feasibility study and a commercial plan required by lenders. Also, these companies lack general contracts and contracts of large sums that give these enterprises stability, future vision and long-term expectations, as well as lack relations with large companies and foreign companies that provide support through their network of contacts. In addition, bank loan officers usually do not have the experience that qualifies them to evaluate SME proposals, which leads to higher investment risks in these enterprises (from the banks' point of view), and requires higher administrative expenses that are reflected in the higher interest rate for those enterprises as well as higher required guarantees.

Since these companies usually do not invest in real estate such as buildings or land (84 percent operate from rented stores), this makes it difficult to provide guarantees to cover the loan. From the point of view of banks, they consider granting credit to large businesses less risky because they are more stable, less prone to risk, have available

records and organized information that are easy to access, and are more profitable. On the other hand, small businesses are less stable or more vulnerable to risk, and their records are not available, and their information is not clear, difficult to access, and less profitable, along with other problems such as lack of commercial documents (such as registration, licenses and tax cards), low confidence in the financial data and the financial performance of those businesses that amount to 70 percent, and a weak management and business plan. The corollary of this is that 47 percent of small and medium enterprises in Egypt do not deal with banks and only 22.4 percent receive bank facilities. According to a survey conducted in 2010/2011, 16 percent of small and medium enterprises have problems with banks such as high interest rates and required guarantees, in addition to the length and complexity of procedures and the excessive administrative paperwork required. This percentage increases for smaller companies, as 16.4 percent of enterprises with a capital of less than EGP 250,000 have problems with banks, while 9.9 percent of enterprises with a capital of more than EGP 30 million have problems with banks.

On the other hand, a large part of the unregistered small and medium enterprises in Egypt belong to the informal sector; in fact, the number of informal enterprises cannot be precisely counted, but there are two types of small and medium enterprises: enterprises that can be counted on the one hand, and street vendors, mobile units and home enterprises that cannot be counted on the other hand. These high percentages of non-registration are due to the high cost of both registration and the shift to the formal economy.

7. Corrective measures and initiatives required to achieve balance between economic sectors in favor of MSMEs

Micro, small and medium enterprises provide four job opportunities out of every five available jobs in the formal economy, in addition to what is actually available in the informal economy. In light of the increasing unemployment rates, especially after the Corona pandemic, as well as what this sector represents for GNP estimated at about 60 percent, it is therefore a priority to remove all obstacles facing the establishment of these enterprises and provide the necessary care for their growth and achieving their goals. This can be done by providing technical, administrative and financing support, and

benefiting from the experiences of the leading countries in this field, and training the cadres who deal with these enterprises by availing high-end training programs locally and abroad. It is noticeable that the cadres who were in the Social Fund are the same ones in the MSME Development Authority.

Therefore, it is necessary to take a package of corrective measures to stimulate the establishment of these enterprises and to encourage enterprises in the informal economy to join the formal economy, as follows:

(1) Establish an effective and efficient mechanism to compensate the enterprises that meet their needs of machinery and equipment from the local market to practice their activity for the taxes and fees they have incurred upon importing them to be equal in burdens with large projects that meet their needs of machinery and equipment through direct imports and enjoy the incentives established in terms of a single unified rate of customs duties (2 percent), as well as its right to recover value-added tax.

(2) With regard to the projects that meet their needs of imported production requirements for export from the local market and whose capabilities do not allow direct import under the temporary admission or tax drawback system, setting up permanent programs to refund the taxes and fees incurred by them, to equalize the burdens with large projects which can utilize these special customs systems.

(3) With regards to the sources of financing provided at a low interest rate for the MSME sector, donors are obligated to have a share for micro, small projects, and a share for medium projects, so that the larger ones in this sector do not take the bulk of private financing provided after raising the upper limit for the turnover of medium-sized enterprises to half a billion pounds.

(4) Enforcing Law No. 5 of the year 2015 amended by Law No. 90 of the year 2018 regarding granting preference to Egyptian products in government contracts and what was included in Law No. 152 of the year 2020 in this regard, as it was found that this law is almost not enforced due to circumvention by the addressed parties.

(5) Reconsidering the organizational structure of the MSME Development Agency, provided that there is complete separation between planners and policymakers and

implementation. This entails raising the efficiency of this body and supporting it with cadres capable of accomplishing its tasks through training programs locally and abroad, and including criteria for evaluating its performance in accordance with what is accomplished in terms of the shift of enterprises from informality to formality.

(6) Assembling all agencies concerned with the development of micro enterprises (production cooperation, the artisan apparatus, etc.) into one agency concerned with this sector, to play an effective role in facing up to the problem of poverty.

(7) Given the role entrusted to these enterprises to provide regular job opportunities to overcome the unemployment problem, the incentives provided under Law 152 of the year 2020 are included, respecting the state bearing half of the employer's contribution in social insurance for every insured job opportunity, and proposing an amendment to the law accordingly.

(8) Selecting a number of the best promising enterprises (micro, small and medium) annually at the level of each governorate and nationwide to honor them and give them an excellence incentive in an annual ceremony (the Day of Micro, Small and Medium Enterprises). This would encourage other enterprises toward more creativity and excellence and to be among the enterprises that enjoy these incentives.

(9) Spreading and strengthening the culture of entrepreneurship in the Egyptian society and organized scientific awareness about the importance of entrepreneurship by introducing entrepreneurship courses into the curricula or making it a university requirement. Also, by contributing to building and spreading the culture of self-employment in society, especially among youth, on scientific grounds. As well as by making entrepreneurship one of the basic pillars of the Egyptian economy, through graduating young people capable of initiative and creativity, rather than wait for a job in the government, transforming them from a burden on the government to job creators and innovators who depend on themselves to achieve their ambitions and hopes.

8. Conclusion

The present century is the century of micro, small and medium enterprises. Having become the backbone of the global economy, these enterprises played an effective role in innovation, development and sustainable development across the world in light of the globalization that the world is experiencing. So, there must be unprecedented efforts in the area of micro, small and medium enterprises worldwide to increase the effectiveness of this sector and its role in the global economy. Also, it needs the support of governments. We may have noticed the efforts of many countries to develop this sector and improve its competitiveness. For example, India has developed strategies and allocated funds to serve and develop these enterprises and help them get rid of the existing flaws, and adequately utilize technology in addition to operating in a more competitive and highly effective manner in the local and global markets.

Supporting and developing micro, small and medium enterprises and developing the legislative and economic infrastructure appropriate to their activities are among the most important areas in which the government must intervene and study successful international experiences to benefit from them, taking into account the specificity of the Egyptian economy. This is all with the aim of achieving the required development and addressing the issues of unemployment and poverty.