

# Policy Dialogue with Small and Medium Enterprises in Egypt

Presentation of Main Results of the Joint EBRD-ECES Study

22<sup>nd</sup> of January 2024



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# Outline of Presentation: FGDs' Main Results



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# Objective of the Joint Study



EBRD and ECES' main objective is to reach policy recommendations that address the most urgent challenges faced by SMEs in Egypt to support a healthier development path for this important segment of the Egyptian economy (over 90% of all enterprises).

The specific methodology is to follow four lines of analysis:

1. Desk research that leads to a brief yet detailed overview of the most critical aspects of the ecosystem within which SMEs operate (General Framework, Institutional and Legal Frameworks, Access to Finance)
2. Real data collection and analysis through detailed focus group discussions (FGDs) with a representative sample of SMEs in Egypt.
3. Study international experiences that can be useful for Egypt
4. Based on all the above and capitalizing on ECES's work on SMEs, identify challenges currently facing SMEs in Egypt and provide policy recommendations.

# Three Key Observations Related to SMEs Ecosystem in Egypt



- The institutional SME policy framework in Egypt remains highly fragmented, despite the serious efforts to improve it (such as MSMEDA, SMEs' new Law 152/2020,...).
- Lack of coordination among institutions results in support programs not sufficiently benefiting SMEs for which they were designed.
- Targeted policy tools appear to favor medium-sized, well-established industrial enterprises over younger.

# **Focus Groups: Sampling Methodology**

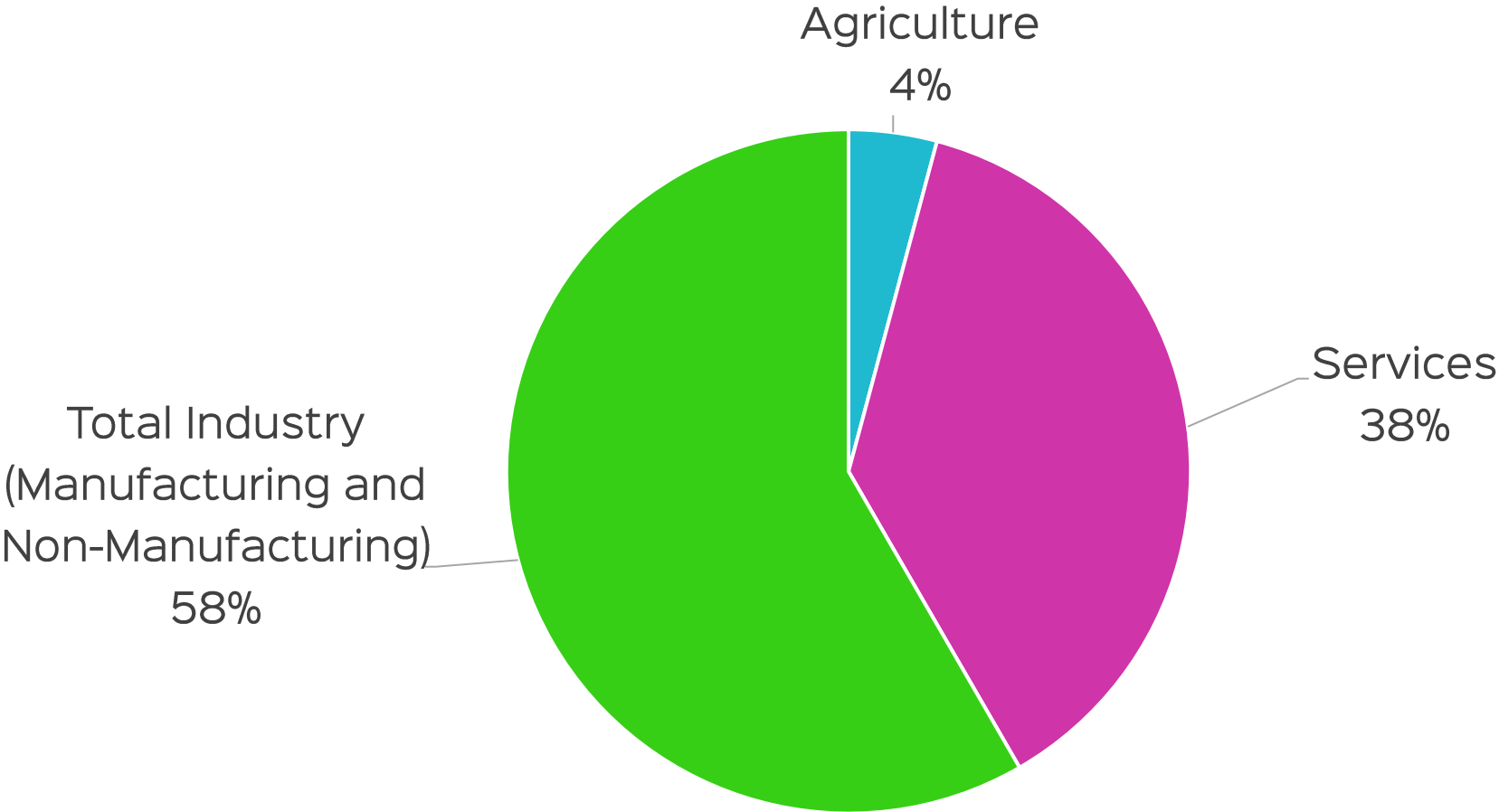
# Rationale for Sample Selection



- The sample of SMEs chosen for the focus groups is a combination of small and medium enterprises.
- Sample selection is based on four criteria:
  1. *Contribution of the sector chosen in GDP and employment*
  2. *Variability of SMEs in size and location*
  3. *Gender dimension*
  4. *Expected level of reliability of data collected from focus group discussions*



# Sectoral Division of Sample



# Sub-sectors Coverage in Sample



## Services

Consultancy

Communications and Information Technology

Financial services

Tourism

Trade and Distribution

Transportation

Media

Health

## Agriculture

Agriculture

## Industry: Non-manufacturing

Construction

Renewable Energy Solutions

## Manufacturing

Food & Beverage

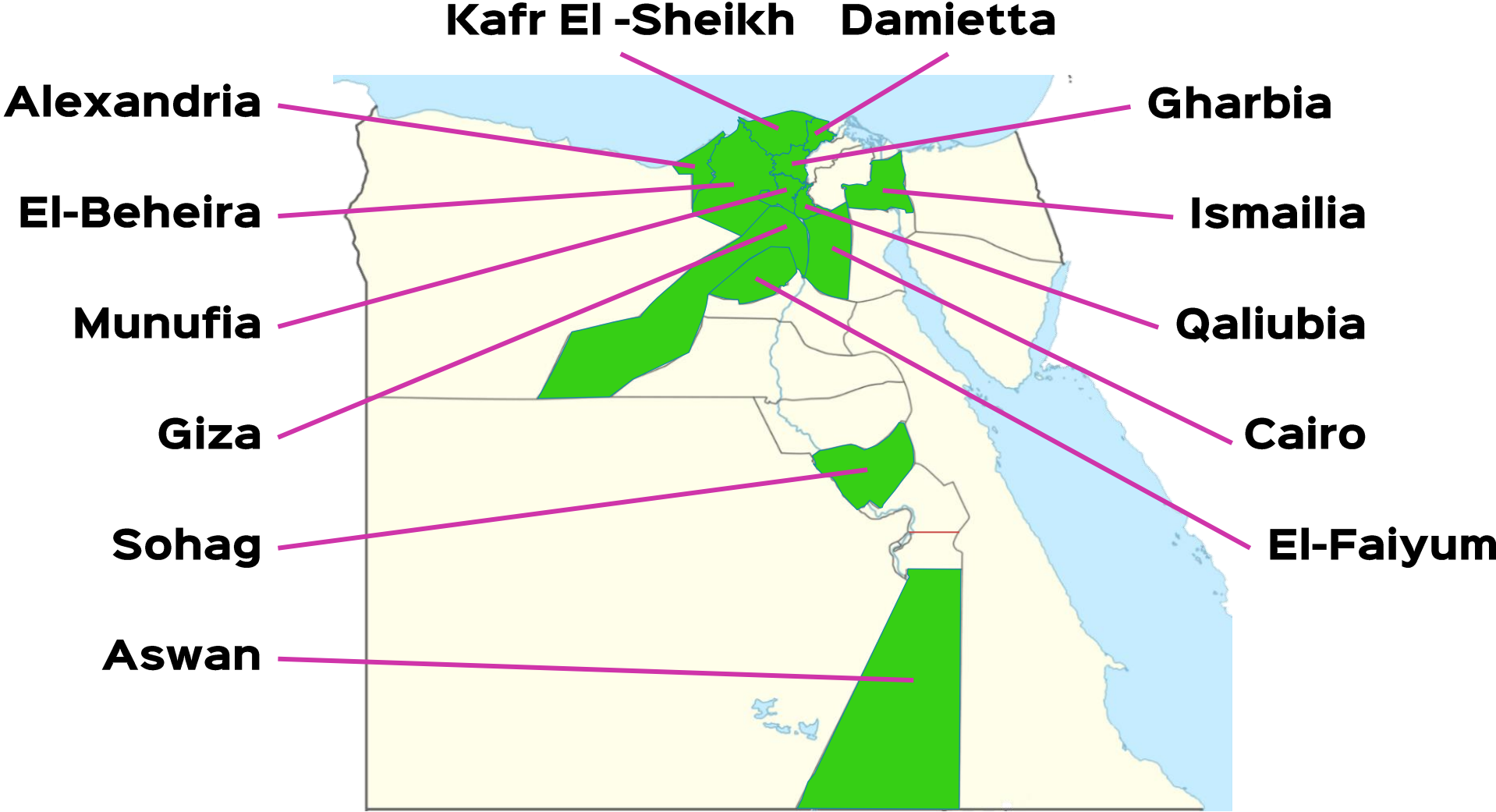
Chemicals

Engineering

Furniture

Textiles

# Geographical Coverage (Governorates)



**Close Look at Problems and Concerns  
of SMEs Raised in Focus Groups  
Discussions and Main Policy  
Recommendations Categorized as  
Horizontal, Sectoral and Geographical**

# Methodology of Formulation of Recommendations



**First**, present the best international practices most useful for correction of the list of problems observed in discussions of focus groups.

**Second**, recommendations of solutions for problems based on suggestions by participants themselves in addition to capitalizing on ECES' stock of research experience on SMEs in Egypt.

# Best International Practices: Institutional and Regulatory Framework



## UK

- The "Red Tape Challenge RTC" and "One-in, Two-out" rule were introduced to reduce unnecessary regulations.
- **Under RTC:** was run by the UK government between 2011 and 2014. It was designed to crowdsource the views from businesses, organizations and the public on which regulations should be improved, kept or scrapped. The consultations during the RTC finally covered 5,662 regulations. RTC invited the general public to comment via the internet on the usefulness of regulations within a set time limit. People could comment (anonymously) both publically through comments on the website or through a non-public e-mail inbox.
- **"One-in, Two-out" Rule** required that for every new regulation introduced, at least two existing regulations must be removed. all rules concerning businesses operating in the country can only come to effect on **two pre-determined dates each year** (6 April and 1 October). This helps small and medium size companies plan for the new or revised regulation.

# Best International Practices: Institutional and Regulatory Framework *cont'd*



## South Korea

- Has a "Regulatory Sandbox" initiative that allows SMEs to test innovative business ideas with temporary regulatory exemptions. This program enables businesses to operate in a controlled environment without immediately complying with all regulations.
- Has established "Regulatory Reform Zones" in certain areas to pilot regulatory reforms. These zones serve as testing grounds for regulatory changes that can be expanded nationally if successful.

## Australia

Has implemented the "Regulation Impact Statement" (RIS) process, which requires government agencies to assess the impact of proposed regulations on SMEs.

## New Zealand

- Has implemented a platform called "SmartStart, which simplifies the process of starting a business, offering a step-by-step guide for entrepreneurs and directs entrepreneurs to the appropriate agencies and resources.
- The **Business Connect portal** is a user-friendly online platform that provides businesses with a single access point for interacting with government agencies. It offers a range of services, including company registration, permit applications, and reporting. Businesses can access information, submit documents, and track their interactions with government agencies through this portal.



## Estonia

- Entrepreneurs can apply for licenses and permits electronically, and the government has digitalized most of its administrative processes.
- Offers an e-residency program, allowing non-residents to establish and manage a business online. This program grants entrepreneurs access to a secure digital ID, which they can use to sign documents and conduct business transactions remotely.
- Established X-Road system, a secure data exchange platform that enables various government agencies to share information seamlessly. This integration ensures that once a business submits information to one agency for a permit or license, other relevant government bodies can access the necessary data without requiring businesses to duplicate efforts.

# Best International Practices: Bureaucracy



## South Korea

- Has established startup support centers across the country, providing assistance to SMEs in various aspects of business development. These centers often offer guidance on licensing and permitting, helping startups navigate the regulatory landscape.
- Fast-track programs for certain industries and sectors, expediting the licensing and permitting process for SMEs operating in these areas:
  - Information Technology (IT) and Software Development
  - Biotechnology and Life Sciences
  - Green Technology and Renewable Energy
  - Fintech (Financial Technology)
  - Research and Development (R&D)

## Belgium

Individuals who wish to start their own business can go to a one-stop shop in their neighborhood, where they receive a single identification number that they use in all communications with the public administration as well as receive support on all the formalities involved in the process.

# Best International Practices: Bureaucracy *cont'd*



## Georgia

- The Government decided to **reduce the number of required licenses from 909 to 137.**
- Administrative simplification tools, including: **One-stop shops** and **guidelines** were published, spelling out all the necessary requirements for issuance of licenses or other documents, and pre-determined time limits for the completion of tasks were also imposed.
- **All fees are paid through banks**, and no longer directly to public officials.
- **'Silent is consent' rule:** in order to reduce processing times, the government established timeframes within which departments had to issue most licenses and permits, and the failure of responding to a request would lead to the direct grant of the permit/license.

# Best International Practices: Access to Finance



## Germany

- KfW Bankengruppe in Germany offers attractive interest rates for SMEs, around 1% to 2% below market rates.
- KfW provides various financing facilities for SMEs, including loans for investments in innovation, environmental sustainability, and general business development. These loans often come with favorable terms and reduced collateral requirements.

## India

- The Credit Guarantee Fund Trust for Micro and Small Enterprises CGTMSE provides credit guarantees for collateral-free loans to SMEs, making it easier for them to access finance.

# Best International Practices: Skills and Labor



## UK

The government provides financial incentives to encourage SMEs to participate in apprenticeship schemes (combining on-the-job training with classroom education).

## USA

The National Federation of Independent Business (NFIB) in the United States provides resources and connections for SMEs, including access to potential hires. This involves job boards\*, recruitment events, or partnerships with educational institutions to connect businesses with prospective employees.

\*A job board is an online platform or website that serves as a virtual bulletin board for posting job vacancies and career opportunities. It's a centralized space where employers and recruiters can advertise job openings, and job seekers can browse and apply for positions.

# Best International Practices: Taxes



## Canada

Canada provides a Scientific Research and Experimental Development (SR&ED) tax credit, encouraging SMEs to invest in research and development activities.

## Malaysia

The SME Investment Grant offers tax deductions for SMEs that invest in machinery, equipment, and technology.

## Germany

offers tax credits for R&D expenditures of SMEs

# Best International Practices: Initiatives Especially Designed for Women Experience of Canada



Launched in 2018, the Women Entrepreneurship Strategy (WES) is part of the Canadian government's efforts to advance gender equality in entrepreneurship and support women-owned and women-led businesses. Here are more details about the Women Entrepreneurship Strategy:

- **Funding and Investment:** WES includes significant funding to support women entrepreneurs, *to provide women-owned businesses with access to capital and resources to start, scale, and grow their enterprises.* The strategy offers *both non-repayable grants and loans* tailored to the needs of women entrepreneurs.
- **Mentorship and Networking:** *WES supports programs that connect women business owners with experienced mentors and peers to facilitate learning and sharing of experiences.*

# Best International Practices: Initiatives Especially Designed for Women Experience of Canada *cont'd*



- **Skills Development:** *WES offers training and skills development programs to help women entrepreneurs enhance their business management and leadership skills to navigate the challenges of entrepreneurship successfully.*
- **Export and Global Expansion:** *The strategy provides resources and support for women-owned businesses looking to expand into international markets.*
- **Diversity and Inclusion:** *WES recognizes the importance of supporting women from diverse backgrounds, including women with disabilities, and women from underrepresented communities.*



# Best International Practices: Initiatives Especially Designed for Women Experience of Canada *cont'd*



- **Measurement and Accountability:** *The Canadian government has committed to measuring the progress and impact of WES. It aims to hold itself accountable for achieving its goals and ensuring that the strategy effectively supports women entrepreneurs.*
- **Access to Federal Procurement Opportunities:** *As part of WES, the government has established procurement targets for women-owned businesses in federal procurement contracts. This initiative aims to provide women entrepreneurs with opportunities to supply goods and services to the government.*

# **A. Policy Recommendations for Horizontal Problems Faced by SMEs Irrespective of Sector or Location**

# Institutional and Regulatory Framework



Problems	Recommendations
<ul style="list-style-type: none"><li>• Limited knowledge about the procedures and services of Medium Small And Micro Enterprises Development Agency (MSMEDA).</li><li>• Hardly any knowledge about existing public training centers for employees (locations, specializations, graduates qualifications, quality ...). Attendees actually benefitted from information known by few colleagues on possibility of getting trained labor from Productivity and Vocational Training Department.</li><li>• Hardly any knowledge about any new measures, services and procedures by different relevant governmental entities. Also, most websites aren't updated, so enterprises are always surprised with new information upon physical arrival to different entities (high transaction cost).</li><li>• SMEs are not updated about any relevant laws and regulations in general.</li><li>• Most firms are not familiar with the SMEs new Law 152/2020, even though it provides a lot of incentives that solve many of their problems.</li></ul>	<ul style="list-style-type: none"><li>• MSMEDA is currently going through an attempt to digitize its services. It is important that this digitalization effort involves a <b>simplified presentation and explanation of all steps involved</b> not to mention all information of relevance to the small enterprises. It also has to include a <b>platform</b> that allows for interaction between the small enterprises and MSMEDA in case they need clearer information. <i>ECES' "Entrepreneurial Guide For Egyptian Women"</i> produced in 2018 (available at <a href="https://eces.org.eg/en/entrepreneurial-guide-for-egyptian-women/">https://eces.org.eg/en/entrepreneurial-guide-for-egyptian-women/</a>) involves the type of info that have to be regularly updated on MSMEDAs portal/platform.</li><li>• It is also recommended that the mentioned <b>guide be updated and used.</b></li><li>• Special focus by MSMEDA need to be given to <b>law 152</b> and its executive regulation because it has a lot of answers related to SMES. It also involves a lot of incentives that they are benefitting from. One suggestion that can help is to have <i>a seminar just on this law</i> to explain the advantages to SMEs.</li></ul>

# Institutional and Regulatory Framework *cont'd*



Problems	Recommendations
<p>Changes in laws and regulations are done haphazardly. There is no place where all the laws exist other than the Official Gazette and there is no explanation for laws and no grace period to reconcile the situation.</p>	<ul style="list-style-type: none"> <li>• Issuing or amending any legislations twice a year in specific dates.</li> <li>• Conducting a community dialogue before issuing any law so that it is compatible with reality and does not require adaptation.</li> <li>• Information about new regulations must be made available to companies for a sufficient period.</li> </ul>
<p>The current definition of sizes of SMEs do not take into consideration the actual economic circumstances in Egypt and worldwide or the recent drastic changes in the value of the currency.</p>	<ul style="list-style-type: none"> <li>• Revision of the definition of sizes of SMEs based on the real value of money today (for example, a small enterprise which exports for 2 million \$ a year will be shifted to a higher size category because of change in exchange rate). So the definition of sizes is better to be in Dollars.</li> </ul>
<p>Most SMEs do not have the appetite to export and focus only on the local market.</p>	<ul style="list-style-type: none"> <li>• Better acquaint SMEs by entities providing export services and create a special channel for easy export by SMEs directly or via intermediaries.</li> </ul>
<p>Unavailability of raw materials.</p>	<ul style="list-style-type: none"> <li>• Facilitating access to raw materials by different sectors which requires deeper analysis in sectoral studies to specify problems associated with each type of raw materials.</li> </ul>

Problems	Recommendations
<p>Many procedures have become more difficult with the introduction of digital business services (such as electronic invoices of taxation (small writing, limited flexibility in data entry, acceptance for a limited number of applications even if done by the same enterprise).</p>	<ul style="list-style-type: none"> <li>• Establish a <b>web-based service</b>, <i>allows businesses to easily generate a customized list of the permits and licenses required from all levels of government</i></li> <li>• Create <b>user friendly online platform</b> <i>to provide businesses with single access for interacting with all government agencies</i>. It should offer range of services including company registration, permit applications and reporting so that they can access information, submit documents, and track their interactions with government agencies through this portal and in a single application.</li> <li>• Apply some <b>modifications to the e-invoice system</b> <i>so that more than one tax could be added to the same invoice (unified invoice) to save time and effort.</i></li> </ul>
<p>Any <b>slowness or malfunction</b> in the <b>electronic invoice system</b> can cause cumbersome accounting problems.</p>	<ul style="list-style-type: none"> <li>• Developing the <b>communications infrastructure</b> to improve digital services.</li> </ul>
<p>There is no <b>paperwork substitute</b> for any of the <b>digitized system facilities</b>.</p>	<p>Return back to have an exception of the case of e-licensing if applicants have trouble with the electronic system to prevent any delay.</p>

Problems	Recommendations
There is no unified central database of enterprises' information shared by all related official entities	<ul style="list-style-type: none"><li>• Establishing a unified database.</li><li>• Linking all government agencies together.</li><li>• Create a system of data sharing and standardization of documents, allowing users to report the data only once.</li></ul>
The digitalization system has been introduced fast before government employees were trained enough to know how to use it.	<ul style="list-style-type: none"><li>• Qualifying workers in the digital system <i>through providing those employees with digital training courses to help them better use the digital services to fasten the whole process.</i></li></ul>

Problems	Recommendations
<p>While few services were actually digitalized, the vast majority are not <i>(such as the National Organization for Social Insurance)</i>.</p>	<ul style="list-style-type: none"> <li>• The digitalization system has to be completed and cover all the governmental system.</li> <li>• The electronic system should be introduced to the insurance office system <i>and to be linked with other government authorities.</i></li> </ul>
<p>Commercial register has to be renewed every three months and to be presented to governmental entities with every new transaction and in a hard original copy.</p>	<ul style="list-style-type: none"> <li>• Revising the period of renewal <i>of all licenses and registries and return back to issue the commercial register annually and accept copies (not originals) as well as share the same copies between all related entities.</i></li> </ul>
<p>Duration of the operating license was changed from a permanent license to a follow-up license <i>that has to be renewed annually</i> from the main branch of the organization.</p>	<ul style="list-style-type: none"> <li>• Return back to issue the permanent operating license.</li> </ul>
<p>Enterprise's own logo is treated as an advertisement for others and so payment is due .</p>	<ul style="list-style-type: none"> <li>• Change the decision, making advertisement company's own logo as free <i>and charge if advertisement is for other companies.</i></li> </ul>

Problems	Recommendations
<p>Security control is one of the restrictions in the system that is exaggerated and needs revision (example, suspension of personal bank accounts and vehicles licenses <i>in case a firm files a complaint against the Tax Authority on ground of arbitrarily assessment of tax dues</i>).</p>	<ul style="list-style-type: none"> <li>Limiting the penalty procedure or whatever action needed and ensure not to be extended to the entire business, <i>to not paralyze enterprises and avoid giving a negative image for the ecosystem.</i></li> </ul>
<p>Any change of activity even if minor in the same field of specialization is very complicated <i>because of procedures at IDA.</i></p>	<ul style="list-style-type: none"> <li>Streamlining the process of changing from an activity to another <i>as long as it is consistent with the nature of industries in the industrial zone, consistent with the line of production and not harmful to climate (Intelligent process).</i></li> </ul>
<p>Extra unnecessary fees under the label of insurance are paid in the process of registration, enterprises are often frustrated because insurance gives impression that to be paid if an accident actually occurs.</p>	<ul style="list-style-type: none"> <li>Any imposed fees should be credible and effective so <i>that the enterprise feels it is worth the money and not just a burden on him.</i></li> </ul>
<p>Cost of transportation went up due to tolls on roads <i>and haphazard estimation of fees for trucks carrying products (karta).</i></p>	<ul style="list-style-type: none"> <li>Reducing cost of transportation (<i>fees by trucks of SMEs</i>) <i>to encourage SMEs to continue to operate.</i></li> </ul>



Problems	Recommendations
<p>Generally, difficulty faced by SMEs in obtaining financing compared to large firms.</p>	<ul style="list-style-type: none"> <li>• Activating the system of credit guarantee companies.</li> <li>• The need for stable monetary policies for long periods of time so that firms can make future plans for their projects.</li> </ul>
<p>SMEs face high interest rates, <i>although there are credit guarantee companies that assure the repayment of 90% of the loan, but the banks have not yet activated this system.</i></p>	<ul style="list-style-type: none"> <li>• Designing more banking programs to fund SMEs and providing incentives to banks' employees to increase the share of credit extended to SMEs.</li> <li>• Offering subsidized loans, venture capital funds, and credit guarantees to support SMEs.</li> <li>• Providing loans to SMEs with interest rates lower than market rates (relaunching CBE initiative with more flexible criteria) in addition to providing credit guarantees for collateral-free loans to SMEs, making it easier for them to access financing.</li> </ul>
<p>SMEs miss a lot of profits/ good business opportunities because of delays in finalizing financing procedures in banks.</p>	<ul style="list-style-type: none"> <li>• Reducing the time taken to grant loans, <i>so that SMEs can benefit from their full potential.</i></li> </ul>

Problems	Recommendations
<p>Commercial banks generally have a low appetite for risks. So, innovative enterprises generally suffer from limited availability of financing opportunities.</p>	<ul style="list-style-type: none"> <li>• Providing incentives to encourage entrepreneurs to initiate innovative enterprises.</li> <li>• Encouraging and spreading information about venture capital and angel investors which are more eligible to fund risky and innovative projects.</li> </ul>
<p>Available business development services (BDS) that precede finance obtainment are not enough, which in turn limits SMEs' benefits from financial support.</p>	<p>Allocation by MSMEDA of funds for BDS for SMEs.</p>
<p>Offered financial support to SMEs from banks is mostly for capital investment such as buying machines, <i>when SMEs have other more major needs of financing.</i></p>	<p>Funding entities must study thoroughly the needs of SMEs and provide tailored funding packages.</p>
<p>Early phases in a project (ideation, stereotype production) require types of finance that are not available at the proper scale in the Egyptian ecosystem.</p>	<ul style="list-style-type: none"> <li>• Provide incentives that lead to the expansion of financial and business development services whether by the regular banking system or by accelerators, business incubators, venture capital and angel investors.</li> <li>• Encouraging donor programs to provide support to SMEs as per their needs and their stage of operation (tailored made support)</li> </ul>

Problems	Recommendations
The problems of obtaining foreign currency needed for imports are still at the forefront of problems facing enterprises.	Exploring the possibility of (commodity bargain/ counter trade*) with other countries as a solution, <i>but this requires a detailed study which above the scope of this report.</i>
The level of risk faced by enterprises has increased under the present circumstances <i>and translate more often than not into the inability to pay interest and due for payment loans.</i>	This should be the role of MSMEDA or through a fund <i>operated by MSMEDA to mitigate risks faced by serious SMEs whose projects were well studied by MSMEDA itself.</i>

\*It includes a bargain agreement of fixed value and duration between two different countries, whereby they exchange products with each other without entailing a currency conversion).

Problems	Recommendations
Lack of competent cadres in all goods and services' sectors.	<ul style="list-style-type: none"> <li>• Governmental incentives to firms undertaking training.</li> <li>• Enabling government training centers and offering specialized courses aligned with industry needs.</li> <li>• Adopting the Spanish model, where firms pay 0.7% of profits, with the state undertaking the training, provided that firms request the type of training needed for their workers.</li> <li>• Creating accurate descriptions for all jobs.</li> <li>• Providing accredited licenses to different jobs with level definition.</li> <li>• The government should provide subsidies for various training programs, to make it affordable for SMEs to invest in employee development.</li> <li>• Incentivize different sectors to expand their activities in multiple governorates, which lead to create more jobs and maintain the labor force in their original locations.</li> </ul>
Ineffectiveness of many of available public labor training centers, <i>not to mention focus on quality control, as they are not aware enough of the needs of the labor market and the type of training needed.</i>	
An information gap between the available supply of trained workers and demand for it. Enterprises seeking workers do not know of the availability of graduates from vocational technical schools.	
High labor turnover <i>as workers are searching constantly for better remunerating opportunities.</i>	
In spite of the existence of many training centers, there is a shortage of qualified workers, <i>which forces some firms to seek workers from abroad.</i>	
Enterprises pay fees under the title of training expenses to the Ministry of Manpower <i>and yet no training take place for their workers.</i>	
Skills labor concentration in specific geographic areas.	

Problems	Recommendations
<p><i>Because of the high informality in the Egyptian economy, many of the expenses of enterprises are associated with informal transactions or transactions with the informal sector. For these there are no electronic invoices.</i></p>	<p>Applying gradually the electronic system of taxation until all the invoices could be issued in e-formats.</p>
<p>Many tax due estimates are excessive beyond reality, and enterprises have to challenge these estimates and file appeals/objections against the Tax Authority's decisions. This situation happens very frequently mainly because tax officers have targets to achieve irrespective of how they collect them.</p>	<p><i>The assessment of tax officers performance should not be based on the amount of taxes they collect but on other criteria, such as their accuracy in specifying the most approximate estimate of taxes.</i></p>
<p>Tax officers are not familiar with Law 152 of 2020 and its incentives that SMEs can benefit from.</p>	<p>Spread awareness about related laws and regulations to public related employees.</p>
<p>Some SMEs complained about retroactive taxation for many years behind (a never closed file).</p>	<p><i>Preventing tax inspection of past years and when a settlement between the enterprise and the Tax Authority is reached, it should be once and for all.</i></p>

Problems	Recommendations
The electronic invoice format is not recognized by the Customs Authority	<ul style="list-style-type: none"> <li>Adopting one format for the e-invoice, <i>endorsed by and approved by all relevant public entities.</i></li> </ul>
Major shipping firms issue invoices in a specific format, while the Tax Authority requests an e-invoice in a different format, <i>resulting in many problems when conducting tax inspection.</i>	
The amount of taxes imposed on advertisements displayed on digital platforms is not specified <i>and left up to the discretion of the tax officer.</i>	<ul style="list-style-type: none"> <li><i>Continuation of Ministry of Finance's efforts to adopt a clear tax system for digital platforms.</i></li> </ul>
Enterprises have to keep hard copies of for many years which is cumbersome for them.	<ul style="list-style-type: none"> <li>Keeping hard documents could be for maximum two years only and expanding the use of technology in archiving.</li> </ul>
The obligation of transfer of hard files, when an enterprise transfers from one tax office to another <small>مأمورية الضرائب</small>	<ul style="list-style-type: none"> <li>Transfer of files from one tax office to another should be through the portal of Tax Authority and transfer the hard files later.</li> </ul>
Tax responsibility is considered a burden when paid as a bulk <i>given the crisis situation of the Egyptian economy and the world.</i>	<ul style="list-style-type: none"> <li>Payment of taxes on monthly basis <i>will improve the enterprises' liquidity condition and at the same time, benefit the Ministry of Finance by receiving the flow of liquidity through the year.</i></li> </ul>

## **B. Policy Recommendations for Specific Problems Faced by Specific Sectors**

# Financial Services (Digital Transformation)



Sector	Problems	Recommendations
Financial Services	<p>In some sectors such as financial services, in order for the minutes of the Board of Directors to be approved from the Financial Regulatory Authority, they must be <b>written on paper and taken to the Authority's headquarters</b>, whereas in the past, firms would send the minutes via e-mail, and after approving them, firms go to the Authority's headquarters to collect them, indicating a <b>step backward</b>. It is a horizontal problem as well.</p>	<ul style="list-style-type: none"><li>• Modernizing the electronic system of the Financial Supervision Authority.</li></ul>



# Non- Manufacturing and Transportation & Logistics (Digital Transformation)



Sector	Problems	Recommendation
Non- manufacturing	The difficulty of issuing licenses electronically.	<ul style="list-style-type: none"><li>• Fix technical problems that cause difficulties in issuing licenses.</li><li>• Provide training courses to employees and users.</li></ul>
Transportation and logistics services	Customs' automation made the release procedures longer and of higher cost. (Problem is also relevant to all other sectors and not just transportation and logistics).	<ul style="list-style-type: none"><li>• Simplify the procedures, adjust faster the technical hiccups in the system, and improve connections and consistency with the digitized systems of the other related organizations.</li></ul>

# Tourism and Financial Services (Bureaucracy)



Sector	Problems	Recommendations
Tourism	<ul style="list-style-type: none"> <li>• Small firms cannot get involved in the tourism sector. One of the requirements for establishing a new firm is paying approximately EGP 2.25 million to the Ministry of Tourism as insurance, which is extremely costly for small firms (a prohibitive condition). The other reason is that there has been no license for new firms since 2007, and the only solution has been to buy an existing firm.</li> </ul>	<ul style="list-style-type: none"> <li>• Developing a special arrangement to Tourism sector as it is a quick source of foreign currency, so a fast contributor to Egypt's current problems, which implies an agreement to be made between Ministry of Tourism and Banks.</li> <li>• Changing the current tourism law to allow for small firms to exist.</li> <li>• Setting a clear distinction between issuing licenses to Hajj and Umrah firms and to firms that attract tourism from abroad.</li> </ul>
Financial Services	<ul style="list-style-type: none"> <li>• Failure to implement the initial public offering (IPO) program announced by the government leads to a lack of trust between the government and investors.</li> <li>• After investors became accustomed to the stamp tax, it was abolished and replaced with the capital gains tax, which resulted in the Stock Exchange index falling for a long time.</li> </ul>	<ul style="list-style-type: none"> <li>• Although the IPO is not relevant directly the small enterprises, but its immediate implementation will affect positively the trust in the system.</li> <li>• Changing of taxes in a very limited margin.</li> </ul>

# Agriculture /Animal products/Food Industries (Bureaucracy)



Sector	Problems	Recommendations
Agriculture /Animal products/Food Industries	<ul style="list-style-type: none"> <li>• A decline in food processing exports as a result of delayed disbursement of export subsidies and high production costs.</li> <li>• Deficiency in agricultural research by official governmental authorities specifically tailored to increase productivity. For example, Egyptian onions contain a large amount of water, and their size is significantly reduced following drying them for export.</li> <li>• The existence of monopolistic practices in importing feed industry inputs, (especially corn, concentrates, among others).</li> <li>• There is no control over serums and veterinary medicines. There are informal factories that manufacture them, resulting in many losses.</li> </ul>	<ul style="list-style-type: none"> <li>• Expediting the payment of firms' export subsidies.</li> <li>• Importing onion seeds that do not contain large amounts of water, which are available in the United States.</li> <li>• Tightening the Ministry of Agriculture's control over informal market.</li> <li>• Direct ongoing donor programs on agriculture to restructure the sector in order to benefit small players.</li> </ul>

# Non-Manufacturing Sector (Bureaucracy)



Sector	Problems	Recommendations
Non- Manufacturing	<ul style="list-style-type: none"><li>Government agencies control quarries of marble, and the conflicting triple role of the Egyptian Company for Mining (regulator, producer and exporter), which led to a decline in private investment in this sector.</li></ul>	<ul style="list-style-type: none"><li>Abolish the role of the Egyptian Company for Mining as a regulator, and confine this role to the Egyptian Mineral Resources Authority (EMRA) (return to the old system).</li></ul>

# Tourism and Communications & Information Technology (Access to Finance)



Sector	Problems	Recommendations
Tourism	Financing needs of the tourism sector are not met by the banking sector because it is considered as a high risk sector, which prevents having needed funds to improve the services provided to tourists.	<ul style="list-style-type: none"> <li>• Offer a range of governmental financing programs including subsidized loans and credit guarantees to support them.</li> </ul>
Communications and Information Technology	Banks do not prefer to work with firms of digital financial services (Fintech), considering that working with them is of high risk, because most firms are relatively new, with intangible assets and may incur losses in the beginning.	<ul style="list-style-type: none"> <li>• Offer at least tax deductions for SMEs that invest in technology to encourage them to join this sector.</li> <li>• Increase knowledge of Fintech and government to negotiate with banks on their perception of risk in that innovative sector and how it can be reduced.</li> </ul>

# Communications & Information Technology (Labor and Skills)



Sector	Problems	Recommendations
Communications and Information Technology	<ul style="list-style-type: none"><li>▪ Difficulty of finding quality university graduates to employ in this sector because of weak curriculum. Compensated only partially by programs offered by the Ministry of Communication.</li></ul>	<ul style="list-style-type: none"><li>• Regularly update curricula of the Faculty of Communication and Information Technology to keep up with technology changes and improve chances of youth for being employed. Strengthen the programs offered by the Ministry of Communication and scale them up to increase the number of qualified youth in this important domain.</li></ul>

# Financial Services (Labor and Skills)



Sector	Problems	Recommendations
Financial Services	There is a problem of lack of qualified employees in the stock exchange because university graduates are not enough trained and the cost of training is very high.	<ul style="list-style-type: none"><li>• The most immediate solution is to revisit the stock exchange model in Cairo university which needs promotion so all stakeholders know about it. It also needs revision of programs to be able to provide more specialized training so that financial services companies can benefit from that.</li><li>• Creating a division for stock exchange in the faculty of commerce to specialize in stock exchange given its importance.</li><li>• Establishing strong co-op program that allows business to hire students for work terms, providing them with a source of subsidized training.</li></ul>

# Transportation and Logistics Services (Taxes)



Sector	Problems	Recommendations
Transportation and Logistics Services	<ul style="list-style-type: none"><li>Major shipping firms issue invoices in a specific format, while the Tax Authority requests an e-invoice in a different format, resulting in many problems when conducting tax inspection.</li></ul>	<ul style="list-style-type: none"><li>Unify and approve one specific format for all the invoices that will be accepted by all the authorities to avoid wasting time.</li></ul>



# Handicrafts (Insurance)



Sector	Problems	Recommendations
Handicrafts	Most workers in handicrafts are females, in addition to a percentage of disabled people of both genders, all of them receive pensions and refuse to work formally so as not lose their pensions.	<ul style="list-style-type: none"><li>• Revision of the insurance system so that it does not deprive vulnerable groups from getting pensions from other initiatives as they need both sources of income for survival. Best solution is to allow them to keep their pensions even if they get other jobs especially that these pensions are very low (no more than LE 500).</li></ul>

## **C. Policy Recommendations for Geographical Problems**

Region	Problems	Recommendations
Greater Cairo	<p>Some sectors are concentrated only <u>in specific governorates</u>, such as the financial services and communication &amp; information technology in the Greater Cairo (Cairo, Giza and Alex), which may encourage labor migration.</p>	<ul style="list-style-type: none"> <li>Given the growing importance of this sector, there is a need to offer incentives to encourage their creation in all other governorates. The creation of such companies will encourage the entire value chain to have specialized human resources all over Egypt and not just in these governorates.</li> </ul>
Cairo	<p>The social insurance office in Nasr City affiliated to New Cairo Industrial Zone blocks all enterprise's accounts in all related entities if it did not pay the insurance even for a very short period of time.</p>	<ul style="list-style-type: none"> <li>Improving the insurance system by having a Check and Balances system.</li> <li>Clarifying all relevant rules.</li> <li>Establishing system of penalty for government employees.</li> </ul>

Region	Problems	Recommendations
<p>New Cairo (Thousand Factories)</p>	<p>The cost of the industrial sewage analysis is high, as firms pay the New Cairo City Authority EGP 1,800 as analysis fees if there is no problem with the wastewater, and an amount of up to EGP 180,000 if any percentage of acids is found in the analysis result, noting that the area is not equipped with industrial sewage!</p>	<ul style="list-style-type: none"> <li>• Elimination of irrelevant industries from industrial sewage analysis.</li> <li>• Improving the communication process between utilities and enterprises as well as making rules of payment transparent.</li> </ul>
	<p>Although firms have electronic electrical meters, they are required to pay additional amounts.</p>	<ul style="list-style-type: none"> <li>• Revision of the unneeded paid fees by the Ministry of electricity.</li> </ul>
	<p>Change of activity is very difficult even if it is in the same specialty because of IDA and New Cairo Development Authority costly and lengthy procedures, to the extent that the factories prefer to add a new activity instead of change the activity. It is a horizontal problem as well.</p>	<ul style="list-style-type: none"> <li>• Streamlining the process of changing from an activity to another as long as it is consistent with the nature of industries in the industrial zone, consistent with the line of production and not harmful to climate (Intelligent process).</li> </ul>

Region	Problems	Recommendations
Damietta	<ul style="list-style-type: none"> <li>• Difficulty of issuing licenses to furniture workshops, as the tenant is required to register the property first in order to obtain a license for the workshop. This is extremely difficult, as these workshops have been rented for a long time and the papers required to license the property may not be available, or the property owner may not be available for any reason, which makes this impossible.</li> </ul>	<ul style="list-style-type: none"> <li>• Separation of status between workshops' tenants and property's tenants.</li> </ul>
Minya (Al-Mutahra Industrial Zone)	<ul style="list-style-type: none"> <li>• There is no source of water in the industrial zone other than wells water, which is highly salty and is not suitable for use in food industries.</li> <li>• A problem in the availability of qualified labor, as Upper Egypt lacks the culture of working in industry.</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of a water desalination plant and facilitation of procedures of wells licenses.</li> <li>• Training centers should customize specific training programs responding to the needs of Upper Egypt.</li> </ul>

Region	Problems	Recommendations
Sohag (Al-Kawthar Industrial Zone)	<ul style="list-style-type: none"> <li>The level of services declined, both electronically and paperwork. Obtaining a taxpayer document from the Investment Services Office to submit to the bank takes approximately <u>three months</u>. The same applies to the rest of services, such as obtaining a replacement for a damaged or lost tax card, noting that the services provided through the office were transferred to Luxor Governorate around seven months ago.</li> <li>Al-Kawthar Industrial Zone is the only industrial zone in the governorate that pays higher amounts of real estate tax (around 1600 EGP) compared to other industrial zones (pay around 250-300 EGP for the same area) under the pretext of its affiliation to the residential area.</li> </ul>	<ul style="list-style-type: none"> <li>Having a presentation of all services in all areas of Upper Egypt to reduce the transaction cost and transportation for small enterprises to receive these services.</li> <li>Improving the quality of electronically delivered services particularly in Upper Egypt so that return to paper documentation stops to be seen as superior alternative.</li> <li>All real estate taxes all over Egypt have to be equal irrespective of the location.</li> <li>Reconsidering the imposition of real estate tax on SMEs because productive entities should not be treated as real estate.</li> </ul>

Region	Problems	Recommendations
Delta	<ul style="list-style-type: none"><li>The Ashmoun Insurance Office in Menoufia Governorate refuses the payment of fees by check or bank transfer.</li></ul>	<ul style="list-style-type: none"><li>Upgrading the payment process to involve non- cash payment methods.</li><li>Ensuring that all governmental entities collect fees through online channels only and may use cash in case of break in systems only.</li></ul>

**Few Urgent Problems that  
Need to be Addressed  
(Quick fix with Quick results)**



# Improved Communication



- Improved communication of available services by “MSMEDA”.
- Improved communication of advantages already existing in Law 152/2020.
- Produce a guide to SMEs similar to the one done by ECES few years back in an updated format (EBRD’s potential initiative).
- More dialogues as group discussions reveal benefits and tools over frequent problems that some enterprises are not aware of.

## Change of simple procedures that do not add much to the treasury yet pass a loud positive message of support by the government for all SMEs... few examples (1)

- Cancel fees for enterprises' own logos on their vehicles, or at least cancel it within a certain size and ask for nominal fees if size is exceeded.
- Not link “tax disputes” to blocking of bank accounts and stopping licenses for company vehicles. Treat the two as two separate issues so that companies can continue to operate.
- Cancel fees for insurance for vehicle registering or at least explain why it is included in the procedures and indicate clearly that it does not mean actual payments when accidents take place.

## Change of simple procedures that do not add much to the treasury yet pass a loud positive message of support by the government for all SMEs... few examples (2)

- Announce a general rule that corrections of governmental procedural mistakes in specific cases (once confirmed) are automatically announced as adopted for similar cases by the same organization.
- Provide a guide for actual costing for transactions that are vaguely specified (such as “karta tolls on trucks”) with reductions for smaller trucks.
- Allow for installment payment for taxes due (monthly basis) in the case of SMEs.
- Deal with the obvious (enlarge the writing on the digitized electronic invoice system).

# Improved efficiency of government employees



- Adding a “ REAL complaint box” in all governmental organizations and adopt a TV and radio campaign indicating that complaints **are actually looked at** and employees not acting according to the rules are actually penalized.
- Training of government employees delivering services in all governmental organizations (starting with a pilot as was successfully done in the Registration and Authentication Office).
- Seriously improve the capabilities of “ MSMEDA” at all levels.
- Unify all rules and regulations in all governorates irrespective of how far they are from Cairo.
- Incentivize government employees that facilitate things for SMEs.

# Thank You

