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MICRO, SMALL AND MEDIUM ENTERPRISES IN EGYPT

**Entrepreneurship, Business Procedures
and Value Chain Analysis**

Creative Associates International | August 2014

MICRO, SMALL AND MEDIUM ENTERPRISES IN EGYPT

Special Focus on Entrepreneurship,
Streamlining Business Procedures and
Value Chain Analysis

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Executive Summary

The purpose of this report is to support Creative Associates International in preparing for the anticipated **United States Agency for International Development (USAID) /Egypt Trade and Investment Indefinite Quantity Contract** and its related task orders on micro, small and medium enterprises (MSMEs), entrepreneurship support and business processes.

This report describes and assesses the available information on the broad ecosystem of MSMEs and entrepreneurship in Egypt—focusing on the ecosystem, efforts for streamlining business processes, and a value chain analysis for such enterprises. The report also offers recommendations on strategy and actionable program design on how to support MSMEs and entrepreneurs in impacting the Egyptian economy.

Chapter 1 introduces the current situation of MSMEs in the Egyptian economy including their role, distribution, key challenges, recent developments and recommendations for further development. **Chapter 2** provides an overview of the ecosystem of entrepreneurship, including key stakeholders, initiatives, fundamentals and potential. **Chapter 3** presents the Egyptian entities and one-stop shops that streamline the business procedures for small and medium enterprises (SMEs). **Chapter 4** gives an overview of two main sectors in Egypt: textiles and information and communications technology. This overview includes a value chain analysis of the textiles sector and a detailed analysis of the information and communications technology sector, including current developments, projected growth, women's participation, infrastructure development, value added, number of companies, issued capital and revenues, employment, investments, exports, value chain linkages, policy support for SMEs and entrepreneurship development.

Introduction

The Egyptian economy is one of the more diversified economies in the Middle East—tourism, agriculture, manufacturing and services sectors all contribute with semi- equal ratios to the gross national product. Due to recent structural reform, the Egyptian economy is achieving high growth rates—and an attractive investment climate has evolved thanks to positive developments in infrastructure, transportation, communication, energy, skilled labor, modern industrial cities, free zones, banking and stock markets.

Egypt's current social and political transformation poses historic challenges and opportunities for its economic development and growth. The lack of employment opportunities, particularly for youth under the age of thirty-five, has been cited as one of the principal causes of the Egyptian revolution and the country's political unrest, which has taken its toll on the Egyptian economy. With political uncertainty and economic slowdown, there is an ever more urgent need to create jobs for young Egyptians. Unemployment has reached its highest level, particularly among women and youth in Upper Egypt, at 13.4% in 2013.¹

Micro, small and medium enterprises (MSMEs) are the backbone of any economy. Nowadays when governments or international institutions put forward a plan or policy, they show great concern about the role of MSMEs in the economy as they know that these businesses are crucial to economic growth and development. Yet despite the importance of such enterprises for Egypt, obstacles often stand in the way of their development, such as financial and political issues, lack of technology adoption and unskilled workers. Furthermore, MSME owners of these businesses tend to have informal financing—borrowing from relatives, friends and rotating credit associations (Gameia)—instead of formal financing, which requires long and complicated procedures (including registering as an entity).

Many researchers consider most owner-managers of these enterprises to be entrepreneurs because they start the venture, administer the business, and are responsible for its failure or success. Both SMEs and entrepreneurs share the broader ecosystem. Indeed, “most new firms are small firms, so that a substantial part of the entrepreneurship literature is concerned with the dynamics of small and medium enterprises (SMEs).”²

Despite these many similarities, the literature holds that there are a few differences between SMEs and entrepreneurs—most being related to credit provision. As such, policy remedies to barriers facing MSMEs in the Middle East and North Africa have primarily involved the establishment of special funds and agencies to fill gaps left by the financial and banking system. Most reparative work on work on MSMEs and entrepreneurship in Egypt has focused on barriers to growth from technical and economic angles, with little attention thus far having been paid to nonfinancial obstacles such as political and institutional challenges. Our report will shed light on these challenges.

¹ Central Agency for Public Mobilization and Statistics

² Naudé, W. (2008) “Entrepreneurship in Economic Development,” Research Paper, United Nations University -WIDER, United Nations University, No. 2008/20, p.3.

CHAPTER 1: DEPICTING THE MICRO, SMALL AND MEDIUM ENTERPRISE ECOSYSTEM IN EGYPT

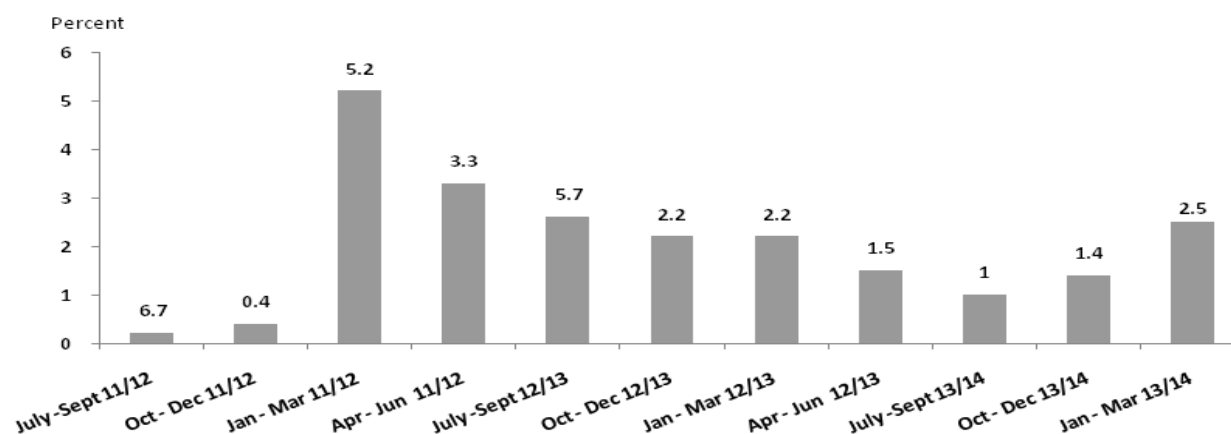
1. Macroeconomic Outlook

The Government of Egypt targeted a growth rate of over 3% during FY13/14 and intends to pursue a long-term plan to support growth by injecting an incentive package of EGP 30 billion. The incentive package will be used to support public-sector investments and infrastructure projects. The following main macroeconomic indicators of the Egyptian economy are provided to give a perspective of the overall business environment in Egypt.

The second quarter (Q2) of FY13/14 witnessed several political developments towards the fulfillment of the Roadmap³, which positively affected the Egyptian economy. Thanks to financial aids provided by Gulf countries combined with Egypt's active economic plan, Standard and Poor's increased Egypt's sovereign credit rating in November 2013 (for the first time since January 2011) from CCC+/C to B-/B in the short and long terms and also at the level of local and foreign currencies. That a sovereign credit rating agency observed the remarkable improvement in the Egyptian economic stability is a primary step towards restoring international markets' confidence in the Egyptian economy.

The economic growth rate stood at 2.5% in Q4 FY13/14 compared to 2.2% during Q3 FY12/13.

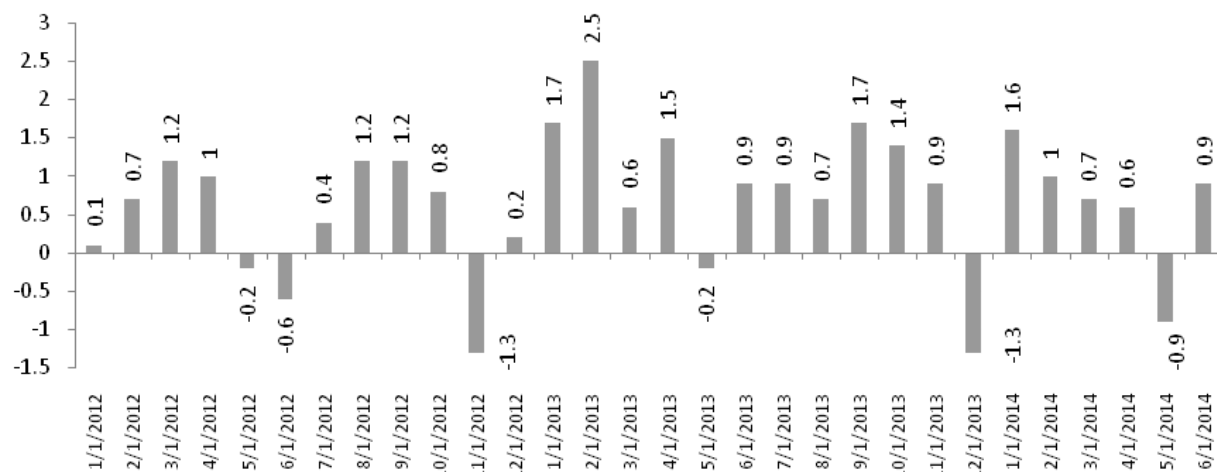
Figure (1): Real GDP growth



According to the data of the Central Agency for Public Mobilization and Statistics (CAPMAS), the monthly Consumer Price Index (CPI) inflation remained constant at 0.9% from June 2013 to June 2014.”

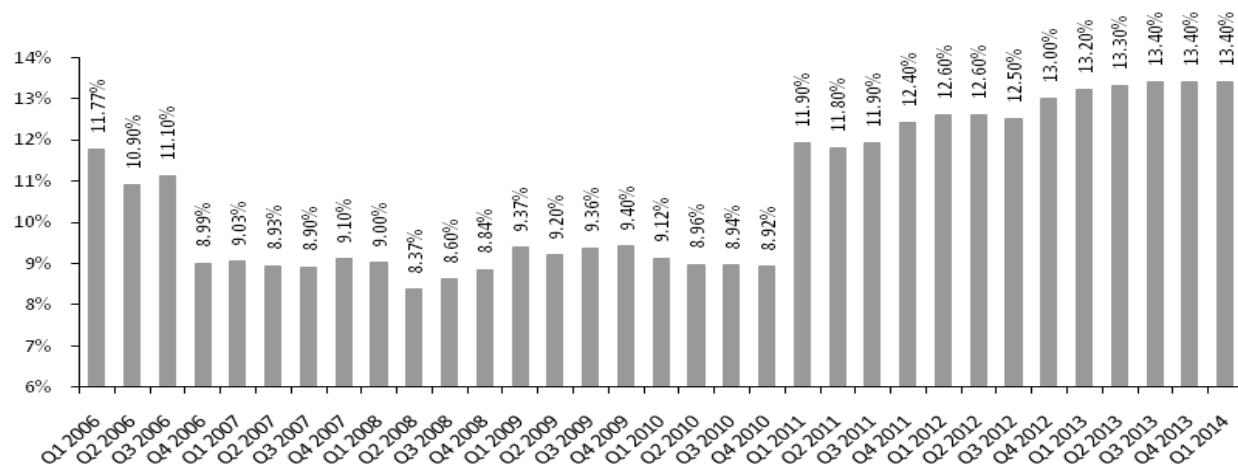
³ The Roadmap is for a transfer to civilian power and includes the successful completion of parliamentary elections.

Figure (2): Change in inflation rates in consumer prices



According to the most recent labor force sample survey conducted at the end of Q1 FY14, the unemployment rate stood at 13.4% compared to 13.2% at the end of Q1 FY13.

Figure (3): Unemployment Rates



Taking the most recent data available from the General Authority for Investment and Free Zones on newly established companies for June 2014, 800 new companies were established by Egyptian, Arab and foreign private investors, compared to 755 companies set up in June 2013. The daily average of new companies established in June 2014 was 36. The services sector accounted for the bulk of new establishments, with 344 new companies. The services sector was followed by manufacturing (208 companies), construction and building (128 companies), information and communication technology (46 companies), agriculture (43 companies), tourism (29 companies) and financing services (2 companies). During June 2014, female owners established 9% of new companies, whereas males established 77% of new companies for that same period. Legal entities accounted for the remaining 14% of new establishments.

At the level of investment in specific governorates for this June 2014 period, Assuit accounted for the bulk of new establishments, with 19 companies, followed by Sharqia with 12 companies and Cairo with 8 companies. The issued capital for the newly established companies totaled EGP 1403.5 million, with

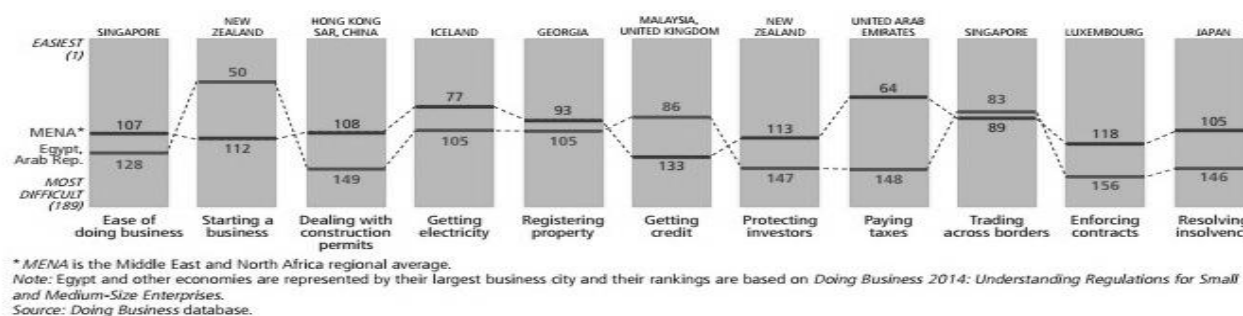
Assuit accounting for the largest share, with an EGP 29.6 million. Suez followed with EGP 23.7 million, and Souhag with EGP 10.6 million.

(The information above is for all companies established regardless of their size. ACCELERATE has requested this information from the General Authority for Investments and Free Zones for the SMEs established in FY12/13. Information is expected to be ready by the end of August 2014.)

Over the past few years, Egypt has made strides in recognizing the importance of the SME sector and its significant contribution to economic growth and job creation in Egypt. While there have been efforts to improve the business environment for local entrepreneurs, these efforts have been diluted by a lack of sustained commitment to substantive changes and an unwillingness to risk upsetting the established order.

According to Egypt's Doing Business Report of 2014, the country is still facing structural challenges that impede private-sector activity. With an aggregate ease of doing business ranking of 128 among 189 economies (see figure below), Egypt still has room for much improvement—for example, via clearer and more transparent rules applied more consistently. Such rules would facilitate rather than impede the private sector in Egypt, where the need to encourage entrepreneurship is thus perhaps even more urgent than in other countries.⁴

Figure (4): Doing Business in Egypt Ranking 2014



Hence, the Government of Egypt should prioritize SME encouragement as part of its short- and long-term strategy for development. For example, the government should allow temporary business licenses (able to be transformed into permanent licenses by the power of law within thirty days) and offer tax exemptions to SMEs for five years from the date of establishment.

In recent years, Egypt has recognized the importance of having a policy framework to support SMEs. Under the terms of a 2004 law, the government has developed a structured policy framework for micro and small enterprises (MSEs) that is the responsibility of the Social Fund for Development, the main public player and policy coordinator for the micro and small segment of the SME population. In parallel, the Social Fund for Development has recently developed targeted policy tools to help MSEs establish and grow their businesses by providing a range of programs such as business support services, microfinance activities and a network of business incubators.

Egypt has also made considerable improvements in delivering targeted policy to enhance SME innovation through dedicated centers and networks—namely, through the Egypt Technology Transfer and Innovation Centers. The country also performs moderately well in helping to improve these

⁴ Doing Business Subnational (World Bank and International Finance Corporation), Doing Business in Egypt Report 2014.

enterprises' operations through startup and growth services provided by the Industrial Modernization Center.

Yet, multifaceted challenges still impede further development of the micro, small and medium enterprise (MSME) sector in Egypt. Among these challenges are the following:

- A policy gap exists regarding SMEs with high-growth potential, a sector where institutions are active but working in isolation from one another and sometimes ill-equipped to meet the needs of fast these fast-growing enterprises;
- The high number of informal businesses in this sector distorts competition and inhibits the effectiveness of government policies;
- Targeted policy tools appear to favor medium-sized, well-established industrial enterprises over younger, smaller enterprises with high-growth potential operating in the services; and
- Lack of coordination among institutions results in support programs not benefiting MSMEs for which they were designed.

The momentum is building in the region as the Arab Spring generates an appetite for reform, providing new opportunities for MSMEs. Egypt's new government is committed to supporting and developing these enterprises by improving their enabling environment and increasing their access to finance. In June 2014, a new portfolio for SMEs was added to the already existing Ministry of Trade and Industry. Nonetheless, the new government still anticipates a long development process since it has yet to address the priorities that have become more pressing after the January 25 and June 30 revolutions—priorities that include opening up further access to private-sector opportunities for income and employment and easing significant constraints on enterprise operations, startup, competitiveness and growth.

2. The Role of Micro, Small and Medium Enterprises in Economic Growth

Developing countries usually view MSMEs as a dynamic force for sustained economic growth and job creation. These enterprises not only create sustainable opportunities by expanding private-led employment, they also contribute to economic growth by bringing innovative products and services to the market, thereby increasing effectiveness and efficiency in the economy.

Over the past few years, countries in the Middle East and North Africa region have been aiming to build stable and sustainable economies through diversifying and expanding an enterprise base across a range of different sectors, thus improving the competitiveness of the region's private sector. By enlarging the SME base, these countries hope to create opportunities for locals and motivate innovation in higher value-added sectors.⁵ For Egypt, MSMEs account for about 99% of private enterprises. And they represent between 86 % and 97% of all formal sector enterprises—and an even higher proportion if informal enterprises are also taken into account⁶—yet their contribution to gross domestic product does not exceed 25%.⁷

The Egyptian private sector is characterized by the presence of many MSMEs having up to 99 employees and operating at high levels of informality, with low value-added, low production quality and poor

⁵ <http://the-mea.co.uk/news/focus-sme-role-economic-growth#sthash.HAsswB42.dpuf>. Accessed June 18, 2014.

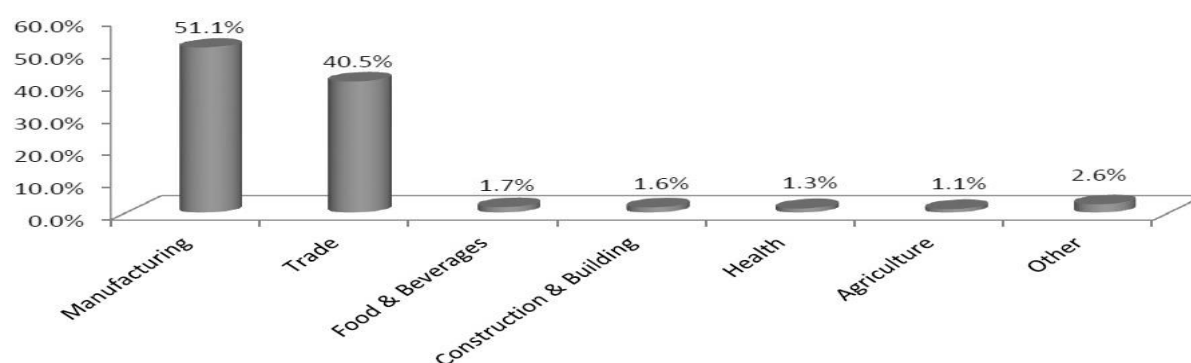
⁶ World Bank, Middle East and North Africa Region: Micro, Small and Medium Enterprise Technical Assistance Facility, Official Document, February 2012.

⁷ <http://www.msmenewsnetwork.com/index.php/richard-keery>. Accessed June 18, 2014.

export performance.⁸ In contrast, the majority of large companies operate in highly regulated industries such as oil and gas, telecom and financial services. The estimated number of MSMEs at the end of 2011 totaled about 3.04 million establishments, with an average enterprise size equal to 2.63 workers generating the bulk of employment and income opportunities. MSMEs are the main source of private-sector jobs in Egypt, with enterprises with fewer than 50 employees accounting for over 80% of private-sector employment.⁹ These enterprises represent 85% of non-agriculture private-sector employment and for 33.7 % of total employment.¹⁰

The majority of SMEs in Egypt are in the services sector, and none in the mining sector. Almost 90% of these enterprises are concentrated in just two sectors—the manufacturing sector (51.1%) and the wholesale trade sector (40.5%). **Figure (5)** shows that SMEs in Egypt are highly skewed at the sectoral level.¹¹

Figure (5): Small and Medium Enterprise Distributions by Economic Activity



Developing MSMEs is important to economic inclusiveness and social justice. About 56% of Egyptians live on US 2 to USD 4 per day, depending mainly on SMEs, typically in the informal sector, for their livelihood. More than 70% of young, first-time job seekers end up working in one of these businesses, with wages of about USD 3.70 per day.¹²

Egypt was ranked 146th out of 148 countries for labor market efficiency in 2013-14, its bleak performance due largely to increased worker strikes, high redundancy costs and low worker productivity. According to the Central Agency for Public Mobilization and Statistics, Egypt's annual unemployment rate stood at 13.4% in Q3 of 2013, compared to 8.9% over the same period in 2010. Unemployment rates were especially high among women and youth: 23% of females were unemployed¹³; and about 20.9% of the 25-to-29-year-old age group and 39.3% of the 20-to-24-year-old age group were unemployed.

⁸ Sahar Nasr and Laila Abdelkader, World Bank, Middle East and North Africa Knowledge and Learning: Quick Notes Series, Issue no. 90, April 2013.

⁹ <http://english.ahram.org.eg/NewsContent/3/12/1278/Business/Economy/There-is-a-clear-%E2%80%98missing-middle%E2%80%99-gap-in-Egypt-SM.aspx>. Accessed 21 June 2014.

¹⁰ United Nations Industrial Development Organization, "UNIDO Activities in Egypt Report," 2014.

¹¹ Hala El Said, Mahmoud Al Said, Chahir Zaki, "Small and Medium Enterprises Landscape in Egypt: New Facts from a New Dataset," 2012.

¹² Hafez Ghanem, Egypt's Difficult Transition: Why the International Community Must Stay Economically Engaged, Global Economy and Development, Brookings, Working Paper no. 66, January 2014.

¹³ World Bank, Middle East and North Africa Region: Micro, Small and Medium Enterprise Technical Assistance Facility, Official Document, February 2012.

Although MSMEs account for the lion's share of employment creation in the private sector, these enterprises fall short of creating enough jobs for young entrants coming into the market. Public-sector jobs have become the most prevalent—an unwelcome trend that has created distortions in the market and has contributed to long unemployment spells. The challenge, therefore, is for the government to create better conditions that will enhance job opportunities in the private sector, especially for the educated youth, whose entry into the labor market, according to Egypt's Labor Market Survey (2012), has been delayed by the economic circumstances.¹⁴

There is a vision to boost the economy and create jobs for the hundreds of thousands of frustrated youth who swell the ranks of the unemployed every year. However, turning this vision into reality requires a careful plan and a major shift in thinking. Because of the vital role of fast-growing MSMEs in creating jobs, Egypt's government has been focusing its attention on the characteristics of these high-growth firms, highlighting the importance of building their capacities and skills, and reducing barriers to entry and operation. Despite these efforts, growth has thus far failed to reach its full potential and generate enough employment—Egypt has been unable to make substantial progress in reducing its persistently high unemployment rates.

3. Key Challenges

MSME sector development in Egypt is held back by numerous challenges related to the regulatory environment, financial infrastructure, financial institution lending capacity, enterprise management skills, enterprise creditworthiness, liquidity of the financial intermediaries and the availability of risk-sharing instruments.

MSMEs do not have access to credit services, so they build personal networks to obtain loans based on trust. These enterprises lack marketing channels, so they make use of personal contacts with merchants and suppliers. In the struggle to keep their businesses alive, owners rarely have the time to look into how new approaches or technologies could make their enterprises more efficient. Among the major challenges facing the sector are non-conducive legal, regulatory and supervisory frameworks. Banks cite a lack of enterprise transparency, difficulties in using collateral, and uncertainty over creditor rights as primary barriers to the MSMEs' greater involvement in bank financing.

There are also high administrative costs of small-scale lending, as well as inadequate banking skills for dealing with MSMEs. Thus, there is need to build the capacity of financial intermediaries, especially banks (and mainly state-owned banks), and to address deficiencies in financial infrastructure (including a lack of available borrower information and outdated MSME lending technologies.) Banks lend inefficiently and are not able to expand MSME lending significantly to these enterprises while also managing costs and risks. On the other hand, MSMEs have limited access to finance because they lack capacities to prepare business plans and loan applications, tend to have opaque or nonexistent financial statements, and possess insufficient collateral. Moreover, there are also gender-related constraints concerning access to finance, which include higher costs of finance, difficulties in gaining approval for financing, and stricter collateral requirements. These problems explain the low levels of bank lending to these smaller enterprises.

MSMEs also face nonfinancial issues. Besides the cumbersome legal and regulatory framework, as well as a highly bureaucratic system, they suffer from a lack of adequate business development services, adequate information, advanced technology and skilled labor.

¹⁴ <http://www.africaneconomicoutlook.com>. Accessed June 21, 2014.

In that context, it is important to remove constraints to competition and entry and enable new generations of MSMEs to emerge who are oriented towards competing in global and domestic markets based on their firms' performance, not on privilege. For this to happen, business-friendly policy reforms will need to level the playing field and remove traditional sources of rent and privilege.

The key to a more sustained and rapid private-led economic growth is to strengthen institutions' ability to implement private-sector policies equitably and consistently to generate equal opportunities, create jobs and develop market players' skills.

4. Recent Developments

Given the urgent need to create jobs that can absorb the high unemployment rates, in addition to the various challenges posed by global economic development, Egypt has been intent on creating a strong, competitive MSME sector that is able to play a leading role in the development process. It is in this context that this sector's development has become major focus of attention for the Government of Egypt, donor agencies, private-sector initiatives and nongovernmental organizations (NGOs) since the late 1990s. However, despite its high priority, no coherent policy for MSMEs has been developed.

Although there have been several different government, private sector and donor players in the market, they faced various constraints such as 1) absence of a clear policy towards MSMEs development to guide and coordinate the various efforts to maximize their benefit; 2) lack of a unified operational definition for the target group; 3) lack of sufficient and adequate information on the sector; and 4) lack of coordination among the various institutional actors. However, some efforts and initiatives undertaken by the Egyptian government—as well as by donors, the private sector and NGOs—to develop the MSME ecosystem have proved promising and successful.

Efforts to support such enterprises in Egypt can be attributed to the following:

- A. Government Efforts
- B. Banking-Sector Reform
- C. Donor Support
- D. Private-Sector Support

A. Government Efforts to Enhance the Micro, Small and Medium Enterprise Ecosystem

Creation of a settlement committee for new investment disputes. The Prime Minister, Ibrahim Mehleb, issued a decree to set up a committee to settle investment disputes. The new entity is chaired by the minister of Justice and includes the ministers of Trade and Industry; Local Development; Finance; and Investment and Transitional Justice. It also includes chair of the General Authority for Investment and Free Zones, chair of the State Council's Advisory Body and secretary general of the Council of Ministers.

Prioritization of investment legislation amendments. According to the Minister of Investment, Ashraf Salman, updating and amending the investment laws top the priorities for the Ministry of Investment since these laws will play a big role in encouraging investments and helping to clear out many obstacles and issues that used to hinder both domestic and foreign investors. Following the meeting of the newly reshuffled council of ministers with President Abdel Fattah Al Sisi, Salman added that his ministry will be giving much attention to attracting foreign investments to enhance the economy, create more jobs and reduce the high unemployment rate.

Simplification of license procedures. All services rendered by the General Authority for Investment and Free Zones are being simplified and streamlined, said its chairman, Hasan Fahmi. He added that the

governmental authority also seeks to decentralize through its branches in Alexandria, Assuit, Ismailia and Tenth of Ramadan. More coordination will take place with different license providers so that licenses are issued from the General Authority's One-Stop Shop, Fahmi announced. Coordination is underway with the National Center for Planning State Land Uses to offer lands available for investment via the General Authority, while allocation shall be made by competent bodies.

Establishment of The General Authority for Investment and Free Zones' new branches in Sohag, Sixth of October and Gamasa . The General Authority for Investment and Free Zones will open three new branches in Sohag, Sixth of October and Gamasa (FY 2014/15) to provide investment services, said the Minister of Trade, Industry and Investment, Monir Fakhri Abdel Nour. The inauguration of these new branches is in line with the Ministry's plan to roll out the one-stop-shop system to bring together into one place providers of licenses and investment zone permits, expand decentralization and help investors. Abdel Nour said that the government seeks to clear out all obstacles to producers and investors and provide necessary support to start up their businesses. He noted that coordination is underway with the Ministry of Housing and the New Urban Communities Authority to design specific and appropriate mechanisms for distributing and allocating industrial lands for investors in the period to come.

Adoption of microfinance laws. The Council of Ministers approved a draft law on microfinance to create new mechanisms of finance for microenterprises, which typically do not have access to traditional finance institutions, said the Minister of Trade, Industry and Investment, Monir Fakhri Abdel Nour. The law primarily seeks to regulate and supervise the microfinance business by ensuring protection for related parties' interests and overseeing finance providers to ensure efficiency, transparency and social justice. The law also seeks to fight poverty. According to the new draft law, a special unit will be established within the Egyptian Financial Supervision Authority to oversee microfinance provided by associations and nongovernmental organizations, which will include representatives of relevant ministries and entities, most notably the Social Fund for Development. The unit will fight abuses and illegal activities from this type of finance—associations being an easy and penetrable target—action which requires no substantial financial expertise.

B. Banking-Sector Reforms

In Egypt, despite banking reforms that had been launched in 2004, the limited ability of MSMEs to easily access suitable and sufficient means of finance has always been considered a major obstacle facing these enterprises. From a supply point of view, most banks are becoming more risk averse towards SMEs, especially due to a widespread notion that financing these enterprises is risky and that serving them requires high transaction costs that make them less profitable than larger companies.

Thus, the Central Bank of Egypt launched in December 2008 an initiative, as an integral part of Phase II of the Banking-Sector Reform Program (2008-2011), to enhance SMEs' access to finance and banking services. Those reforms led to robust, solid and well-capitalized banks. The number of banks decreased from 57 to 39; assets increased by 88% to reach EGP 1.1 billion in 2008—up from EGP 0.57 billion in 2003—with total deposits increasing by 85% over the same period; the capital adequacy ratio increased from 12.2% to reach 15.1%; and total net worth increased by more than 100% from EGP 32 billion to EGP 75 billion. Yet, despite the significant improvement at the macroeconomic level, there is still a challenge related to the access to finance, especially for SMEs.¹⁴

¹⁴ Hala El Said, Mahmoud Al Said, Chahir Zaki, "Small and Medium Enterprises Landscape in Egypt: New Facts for a New Dataset," 2012

The Central Bank of Egypt has been working on encouraging banks to lend to SMEs by allowing them lower reserve requirements if they expand their lending to these enterprises. The Egyptian Banking Institute has been training banks' staff on dealing with SMEs.

Today, just under half of Egypt's banks have activity in SME banking. These include the National Bank of Egypt (the largest one), Banque Misr, AlexBank, Suez Canal Bank, United Bank, HSBC, the Commercial International Bank, and Banque du Caire (the microfinance pioneer). The government had announced prior to 2011 that it would transform a major state-owned bank (Banque du Caire) into a lender to SMEs, but little progress had been made when efforts ceased as of Jan. 25, 2011. There has been progress, however, in registering more microfinance institutions in the credit bureau database.

Despite the Central Bank's push in this sector, incentives for banks to build SME portfolios are still weak (high cost, high risk, lack of innovation in products and services)—only four main banks are engaged in micro-lending in Egypt. Banks extend credit using their own resources or in their capacity as loan managers, either on behalf of donors or, more typically, on behalf of the Social Fund for Development. The National Bank of Egypt has been providing financing for working capital since the late 1980s. The Principal Bank for Development and Agriculture started its rural finance program in 1993. More recent entrants into the sector are Banque du Caire, which started its micro-lending operations in 2001, and Bank Misr, which began micro-lending in September 2003. By virtue of an agreement signed with the Spanish Agency for International Cooperation in 2001, the Commercial International Bank has been managing a microcredit fund that it disburses through the National Bank of Egypt.

Yet the microfinance sector still remains broadly underdeveloped, with SMEs unable to obtain adequate finance and the nonbank financial side of MSME finance being minimal. The Social Fund for Development does more microfinance, but factoring and leasing is still limited—and angel investors are few. In the nonbank financial sector, microfinance institutions are weak and inefficient in supplying credit.

The already difficult circumstances facing MSMEs in accessing finance could worsen with the recent economic and political developments. Financial services in Egypt are underutilized by these businesses as only 50 % are dealing with banks.¹⁵ In some cases, liquidity within banks and equity funds for SME lending do exist. However, a shortage of bankable enterprises keeps these funds inert, and private equity funds geared toward SMEs are unable to draw down their funds because of the enterprises' poor bankability. In other cases, where there are financial-sector concerns, financial market failures hurt small firms more than large ones, as highly bankable investments and new ideas starve for capital—stifling small-firm entry, growth and innovation.

C. Donors Efforts to Enhance the Micro, Small and Medium Enterprise Ecosystem

In recent years, the interest among donors in MSME development has increased—an overall positive trend. However, at times, donors are working on parallel initiatives that do not always complement one another. This is particularly true of groups that continue to subsidize financial and nonfinancial services while others are trying to make them more financially sustainable. **The following are some, but not all, of the donors' efforts undertaken in the past few years to support and develop MSMEs in Egypt.**

World Bank: The World Bank grant for SMEs has three pillars: SME regulatory framework (still no law for microfinance), capacity building of banks and nonbanks, and capacity building of SMEs.

¹⁵ <http://www.sme-egypt.com/Documents/A%20paper%20on%20SMEs%20Landscape%20in%20Egypt.pdf>. Accessed June 21, 2014.

The World Bank's USD \$300 million **Enhancing Access to Finance for Micro, Small and Medium Enterprises Project** aims to sustainably improve inclusive access to finance for MSMSEs on a commercial basis through a line of credit and apex institutions that on-lend the funding to banks and microfinance nongovernmental organizations. The USD 300 million loan for these enterprises will go through the Social Fund for Development, as they cannot lend directly to SMEs but through regulated financial institutions. There had been an attempt to work through the Post Office, but changes in management at the Post Office made it impossible to pursue. The World Bank also works with the Alexandria Business Association. However, the World Bank program aiming to support MSMEs is only via loans and technical assistance facilities.

The World Bank also has another MSME project in the pipeline called the **Middle East and North Africa Micro, Small and Medium-Enterprise Facility** (also referred to as the **World Bank Middle East and South Africa Micro, Small and Medium Enterprise Technical Assistance Facility**), which comes under the umbrella of the **Arab World Initiative**. It is supported by two trust funds, one managed by the International Finance Corporation and the other by the World Bank. The main objectives are to improve the business environment for MSME finance, build the capacity of financial institutions for sustainable financing, and support MSME business development services. The facility is expected to impact around 250,000 of these businesses over the next five years, with a total funding of USD 30 million, of which around USD 10 million is executed by the World Bank.¹⁶

Canadian Aid: The Government of Egypt has also turned to Canada for support in the MSME sector. In 2000, the **Small and Medium Enterprise Policy Development Project** was created with the support of Canada's International Development Research Center and efforts by the Egyptian government to bring about significant policy changes. The project has been successful in developing a more favorable regulatory framework, enacting revisions to the income tax regime, initiating a thorough assessment of the informal sector, and making changes to the Tender Law. The Prime Minister has directed the Minister of Finance to develop additional venture capital opportunities for SMEs. Moreover, based on the project's work, a coherent new vision for SME development has been endorsed and adopted—**Enhancing Competitiveness of Small and Medium Enterprises in Egypt: General Framework and Action Plan**.

From 2004 to 2011, an USD 18 million **CAD Business Development Support Services Project** was established to foster better employment opportunities through support to SME development, with an emphasis on Egypt's marginalized groups, particularly women and youth. The project's purpose was to enhance the SME sector in selected governorates by supporting existing and/or new business development service providers and other related local institutions.

The Business Development Support Services Project has aided the Egyptian Bank Institute in establishing a SME unit in accordance with the **Central Bank in Egypt's** decree for improving access to finance. This unit offers a wide range of capacity-building services to SME units and staff in all banks and enhances entrepreneurs' awareness about access to finance. The unit also provides several training packages for small and medium business owners who need to enhance their understanding of dealing with and satisfying the requirements of banks. Also to bridge the gap between both sides, the unit conducts awareness-raising events, through which entrepreneurs are acquainted with bank requirements as well as offered a training program titled "SME Guide for Dealing with Banks." The Egyptian Bank Institute has recently launched initiatives in the field of financial education, as well as entrepreneurship and SME

¹⁶ World Bank, Finance and Private Sector Development, Concept Note: "Middle East and North Africa Region, MICRO, SMALL AND MEDIUM ENTERPRISE TECHNICAL ASSISTANCE FACILITY," February 2012.

development, as these fields play an important role in economic development. The initiative's main aim is to facilitate access to finance for SMEs and generate the spirit of entrepreneurship and innovation so crucial to encouraging young graduates to participate in the entrepreneurship ecosystem in Egypt.

The Business Development Support Services has also successfully launched the General Authority for Investment and Free Zones' **Bedaya Center for Entrepreneurship and SME Development**. Bedaya programs are tailored to deliver value to clients with the aim to support SME businesses, enhance their competitiveness, strengthen their innovation and promote the entrepreneurial culture in Egypt. The ongoing updating of these programs ensures the consistency of the offered services with the changing needs of SMEs and entrepreneurs while also simultaneously identifying where the gaps exist and providing solutions. Bedaya's services to promote the early-stage growth of SMEs include 1) business clinics that provide business development services; 2) private equity investment funds (smart capital); and 3) a Startup Academy, the first program in Egypt aimed at building entrepreneurs' capacities to prepare business models via a 15-week workshop.

Two additional projects were endorsed to support SMEs: **The Small and Medium Enterprise Program** (2004-2012) and **The Egypt Enterprise Development Project** (2008-2014). The former aimed to improve employment opportunities by supporting to SME development in four governorates, the latter in six governorates (See the two projects' outcomes in the section on business development provision support.)

European Union: The European Union and the European Bank for Reconstruction and Development has also stepped up their support for SMEs in Egypt. **The Small Business Support Program** has already begun more than 100 projects to help Egyptian businesses access high-quality business advice, with the European Union providing €2.4 million to the program. As SMEs continue to suffer from poor access to finance, limited managerial skills and low productivity—greatly hampering their potential to create jobs—strengthening this area is a top priority for both the European Union and the European Bank for Reconstruction and Development in Egypt. The Small Business Support Program connects SMEs with the expertise that can transform their businesses. Working with local consultants and international experts, the program gives these businesses the tools, skills and know-how to innovate, attract finance and expertise, and become the next generation of business leaders. In addition to working with individual businesses, the European Bank for Reconstruction and Development also engages in policy dialogue with government agencies, local business associations and chambers of commerce to help promote the role of investment and local consultancy services in small-business development. To date, the multilateral development bank has invested approximately €240 million through 10 projects in Egypt, in various sectors, and has carried out more than 100 advisory projects with SMEs.

Local and International Nongovernmental Organizations: Most nongovernmental organizations focus primarily on managing microcredits. **The Aga Khan Foundation** has implemented several socio-economic programs in Egypt in the Darb al-Ahmar district that are focused on housing rehabilitation, microfinance, apprenticeships and health care. Nurse's training and early childhood education programs are also underway in Aswan. The First Microfinance Foundation of Egypt was founded by the Aga Khan Agency for Microfinance, which is committed to alleviating poverty by boosting socio-economic development within low-income communities. They also provide access to financial and nonfinancial products and services in rural and urban areas.

The PlaNet Finance of France is a microfinance nongovernmental organization that is making its expertise available to a wide range of actors in Egypt involved in microfinance. This organization's programs are designed to fight poverty in a more comprehensive way. Through its microfinance

programs, PlaNet Finance Advisory Services leverage the microfinance institutions' network and resources to tackle critical issues such as health, environment, education and rural-area development.

D. Private-Sector Initiatives to Promote the Micro, Small and Medium Enterprise Ecosystem

Aside from mainstream reforms to improve credit information, creditor rights, and dispute resolution, MSMEs and startups in Egypt benefit also from other innovative financing such as angel finance, seed finance, venture capital and crowdfunding. These instruments are rare but have been recently appearing in Egypt. Some of these are Beltone MidCap, Union Capital, and others (as detailed in Chapter 2 on venture capitals, angel investors, and crowdfunding platforms).

5. Business Development Services Provision Support

The provision of business development services in Egypt is still in its early stages. Most donor-supported, public- and private-sector service providers are either unsustainable, provide inadequate services, or have limited outreach programs and accessibility to MSMEs. These providers' technical capacity to innovate and design market-driven services needs strengthening. This lack of mature business development service providers tends to compound the general weaknesses of the micro and small enterprises' (MSEs) human resource base, which is characterized by a relatively low level of formal education. As a result, deficiencies in the administrative and technical capacity of MSEs are pervasive, leaving these enterprises with few available alternatives with respect to assistance in these areas. This systemic weakness severely restrains these enterprises' ability to develop, grow, and build innovative capacities.

In most cases, entrepreneurs, as well as MSEs, embark on investments without being equipped with the minimum prerequisites for success. For example, an entrepreneur may neglect to conduct a feasibility study, relying instead on his/her own limited knowledge of the investment in question. Furthermore, at operational level, he/she tends to lack the tools that employ relevant key indicators for measuring business performance to ensure the development of the enterprise and take corrective measure where necessary. These prerequisites for success involve all business core functions: marketing and sales, quality assurance, production and operations, finance, and accounting. It also involves supporting functions such as information management, human resource development, and administration.

Discussions with various stakeholders have revealed that MSEs need additional training in understanding basic accounting, cash management and credit control practices. Some stakeholders believe that these businesses need more information on the markets in which they operate, as well as the general business environment, in order to develop sound business plans.

Despite these obstacles, various multi-donors have undertaken initiatives that focus on enhancing and promoting the provision of business development services in Egypt. It was observed that the Canadian International Development Agency-funded projects—**the Business Development Support Services Project, the Egypt Enterprise Development Project, the Decent Employment for Youth (in collaboration with the International Labor Organization), and the Small to Medium-Sized Enterprise Program in Egypt**—have succeeded in operating in many governorates spanning Cairo, Alexandria, Lower Egypt, and Upper Egypt.

The Canadian International Development Agency has managed to introduce some demand-driven, nonfinancial business development services to existing business development service providers, such as the fee-for-services scheme—one that employs incremental and timely increase in fees to cover operating costs—from the outset. The agency also provided financial support to facilitators (i.e., the

General Authority for Investment and Free Zones and the Egyptian Bank Institute) and other business development service providers on a declining basis (for service provision). In addition, it has improved the skills of service providers' staff in designing, delivering, managing and monitoring new products and services; built these providers' institutional capacity to implement and sustain cost-effective services responsive to SMEs and marginalized groups' needs; and supported linkages and networking between services providers, Egyptian government officials, and SMEs.

The Business Development Support Services Project, for example, used innovative approaches (e.g., specific interventions, coaching and technical support to business development service providers, facilitators and project staff) to promote and integrate crosscutting themes of gender equality, child protection and environment sustainability. The project also managed to establish two SME units, one at the Egyptian Bank Institute and the other at the General Authority for Investment and Free Zones (which resulted in the establishment of the Bedaya Center for Entrepreneurship and SME Development). In addition, the project succeeded in building the capacities of many business development service providers and established a business advisory program in collaboration with the American University in Cairo. The delivery of a business advisory program is key to building a cadre of young business advisers who can support the growth and development of Egyptian SMEs.

El Mobadara,¹⁷ also with the help of the Canadian International Development Agency, has promoted different business development services tailored to women (e.g., vocational training, entrepreneurship training, and exhibitions) through the Regional Enterprise Development Centers in six governorates. It also adjusted its training materials to the lower education levels of women in rural areas, organized transportation to and from training locations, and charged lower training fees to women because of their lesser ability to pay the full costs. The intended result of the Egypt Enterprise Development Project is to 1) increase the availability of affordable, acceptable and gender-responsive nonfinancial services to MSMEs through the Regional Enterprise Development Centers, with targets to offer business development service packages to approximately 6,000 startups and existing MSMEs and to 2) enhance access to affordable financial services targeting male- and female-owned MSMEs to help create at least 15,000 jobs.¹⁸

The Small to Medium-Sized Enterprise Program (2004-2012) has also succeeded in (1) establishing 20 sustainable business development service providers in 10 governorates in Egypt, reaching 22,000 MSMEs including 7,000 women-led enterprises—and now serving about 4,000 clients annually, enabling these businesses to increase their sales and exports and enhance their profitability and long-term competitiveness. The project has also (2) strengthened the capacity of two key government institutions to incorporate business development service strategies and practices into their work: (a) the General Authority for Investment and Free Zones, a principal governmental authority that regulates and facilitates investment in Egypt, and (b) the Central Bank's Egyptian Bank Institute, which is developing publicly- and privately-owned banks' capacity to offer business development services to MSMEs to improve their access to financial services.

The **United Nations Development Program** also had efforts on that front: in December 2002, the program established the **Business Enterprise Support Tools Project**. The project was designed as an

¹⁷ In 2008, El Mobadara became the executive agency for the implementation of the CAD USD 4.75 million Canadian International Development Agency-funded Egypt Enterprise Development Project, the first-ever Egyptian entity to be assigned an executive agency role by the Canadian agency.

¹⁸ Middle East and North Africa-Organization for Economic Cooperation and Development Investment Program and OECD-MENA Women's Business Forum, Analysis of Business Development Service Provision and Incubation for Women Entrepreneurs in the Middle East and North Africa Region, Working Draft, December 2013.

intervention to create long-term jobs by encouraging MSMEs to develop and expand. The project introduced an innovative, integrated approach to providing business support services to MSMEs on a local level in four pilot communities—Giza, Fayoum, Beni-Suef and Minia—and was implemented by establishing the Integrated Business Support Centers. These centers assisted people who were interested in starting up their own businesses as well as owners of existing SMEs—and whose companies have the potential to grow and create jobs—by providing a range of business services: vocational and business skills training; marketing services; consulting services; information services; and technical services (e.g., photocopying, editing, etc.). These centers, at times, also served as a physical space to shelter startup or expanding companies. The Integrated Business Support Centers were also designed to provide financial services in the form of a financial-leasing scheme to be managed in conjunction with the centers.¹⁹

The **Social Fund for Development** is also about to launch a new and innovative project funded by the **European Bank for Reconstruction and Development**, as a component of the MSME Support Program approved by the Middle East and North Africa Transition Fund in 2013. The project aims to strengthen the Social Fund for Development's capacity to focus on women's entrepreneurship development in three key regions of the country (Greater Cairo, Delta and Upper Egypt) where the number of women clientele is high. During the first two years of the pilot (2013-2015), the project will help women entrepreneurs to access nonfinancial business development services to improve their performance. Targeted beneficiaries are women entrepreneurs with a credible track record who have been in business for at least two years. Women entrepreneurs, to be considered for the project, must have a competitive advantage; are financially and commercially viable (yet lack resources to finance a complete project); have the management and financial resources to follow through on any business advice and take effective action; have a genuine need for business advice and can absorb the assistance given (even if they have little or no previous experience using external consultants); and are ready and able to pay at least 10% of the net project cost.

In the pilot phase, the project aims to assist approximately 60 women entrepreneurs with targeted advisory services and mentoring that will lead to the improved performance of their enterprises, plus train approximately 150 women entrepreneurs in advanced entrepreneurial and management skills (including on how to access financing). The project will also train, on the job, approximately 15 local business advisers and at least six Social Fund for Development personnel in delivering business advisory services to women entrepreneurs. This component will contribute to building business advisers' capacity to serve the women entrepreneurs' market.

The **United States Agency for International Development's** mission in Egypt also supported MSMEs and entrepreneurship through two projects—the **Egyptian Competitiveness Program** and the **ALROWAD Project**. The Egyptian Competitiveness Program aimed at improving labor skills and productivity by supporting entrepreneurship. One of the main tasks under this component was to improve public awareness of financial services, business development services, and training and academic opportunities for entrepreneurs. ALROWAD, a USAID Economic Growth Annual Program Statement (APS) grant, supported entrepreneurial Egyptian business consultants (including individuals, firms and associations) to expand their expertise and service offerings by leveraging social media, peer-to-peer networks, and information technology. The ALROWAD Project supported qualified Egyptian consultants in establishing professional communities in their areas of specialty. The project steered the consultants toward community leadership and aimed to establish the professional communities as profitable services as a way to support Egyptian entrepreneurs and MSMEs to grow, innovate and expand. ALROWAD has

¹⁹ Hanna Ruszczyk, The Business Support Tools (BEST) External Review, June 2005.

demonstrated its ability to improve MSMEs on many nonfinancial issues, including technology, business development service provision and labor skills development. As a result, 35 professional communities were created to expand business development services to MSMEs and entrepreneurs, led by Egyptian business consultants across the gamut of commerce and industry. ALROWAD has managed to build a membership of 1,800 (of whom more than 70% are women), create 1,455 new jobs and 105 new business services, and train up to 3,000 MSME members. The project also developed a comprehensive interactive website to provide business development solutions and to create business development service awareness.

However—and with respect to the notable level of support from donors, international organizations and NGOs in providing business development services and their programs' broader efforts to improve such services for MSMEs and entrepreneurs—business development service providers should have a wider outreach to provide training and capacity building beyond what these programs offer. This goal can be successfully accomplished by addressing more capacity-building programs to service providers to ensure and improve sustainability and funding of programs; by coaching and mentoring these service providers to tailor training and services to fit the needs of entrepreneurs and MSMEs; and lastly, by linking these business development service providers to sources of finance that can assist MSMEs and entrepreneurs in identifying the appropriate sources that can help actualize their business ideas and support them in their quest for loans.

6. Conclusions and Recommendations

Developing countries usually perceive MSMEs as a dynamic force for sustained economic growth and job creation. In Egypt—despite institutional, regulatory, and banking efforts and reforms by the government, donors, and private sector—the ability of MSMEs to expand, grow and sustain their activities is still held back by numerous challenges. These enterprises are geographically concentrated in one or two governorates, operating chiefly in two economic activities—manufacturing and trade. Among the major challenges facing these sectors are non-conducive legal, regulatory and supervisory frameworks.

The easy access to suitable and sufficient means of finance has always been considered a major obstacle facing many MSMEs. After the revolution it has become even more difficult for any such enterprise to obtain commercial lending as banks have been financing the growing demands of the government debt. Financial services seem to be underutilized by these businesses as only 50% are dealing with banks and benefiting from an improved access to finance. On one side, banks cite a lack of enterprise transparency, difficulties in using collateral, and uncertainty over creditor rights as primary barriers to their greater involvement in finance. There are also high administrative costs of small-scale lending, as well as inadequate banking skills for dealing with MSMEs where there is need to build the capacity of financial intermediaries, especially banks (and mainly state-owned banks). On the other side, MSMEs' limited access to finance can be attributed to their incapacity to prepare business plans and loan applications, as well as their tendency to have opaque or nonexistent financial statements and insufficient collateral.

Aware of the importance of developing and promoting MSMEs, the Government of Egypt has undertaken several initiatives to support this end, either on the policy or the regulatory level. Yet, neither a national strategy or policy—nor a comprehensive package of policies—has been formulated. The MSME ecosystem in Egypt needs to be aided by its government, not only through debt support, but also through policy and infrastructure support like collateral registry and a microfinance law.

Donors also had a stake in promoting MSME development. They contributed greatly to improving the business environment for MSMEs by easing access to finance, building the capacities of financial institutions, and offering business development services and training to service facilitators and providers.

The private sector has also stepped in to fill in the financing gap for startups. Many of the existing Egyptian entrepreneurship programs have strengthened and expanded alongside other donors' efforts in that regard, mainly in the last three years.

On the microfinance side, the efforts to develop MSMES have been minimal—the microfinance sector remains broadly underdeveloped, with microenterprises largely unable to obtain adequate finance.

From a policy implication standpoint—post January 25 and June 30 revolutions—there is a need for strategic economic reforms to vitalize Egypt's struggling economy and promote investment, especially for SMEs. This goal can be achieved through the following actions:

- Improving the legislative infrastructure, several bankruptcy rules and regulations, and creditor capacity to take fast possession of collateral in case of default; speeding up the process of establishing collateral registries, which should aim at building electronic registers and streamlining the registration process;
- Encouraging banks to build on their expertise in matchmaking their clients in different stages of value chain (linkages);
- Updating financial methods for financial reporting (e.g., standardized template);
- Changing the entrepreneurial mindset; and
- Enhancing entrepreneurship education.

The Government of Egypt should prioritize SME encouragement as part of its short- and long-term strategies for development. Procedures should be facilitated by allowing temporary licenses to be transformed into permanent licenses by the power of law within thirty days and by offering tax exemptions to SMEs for five years from the date of establishment.

Moreover, the institutional setting of MSME policy should be reconfigured: a single inter-ministerial body should oversee and coordinate the work of ministries, while a one-stop-shop arrangement for assisting and informing SMEs should be rolled out across Egypt's regions. The SME sector, dominated by informal businesses, needs formalizing: A Ministry of Finance task force should take a comprehensive, carefully coordinated approach towards the informal sector, one that combines incentives and encourages formality, growth and innovation.

Egypt should also provide better services and financial support to innovative SMEs by establishing linkages, promoting synergies between different support programs, and developing alternative financing, guarantee schemes, and research and development funds. Comprehensive packages of technical assistance, advisory services, and policy support are urgently needed to respond to the increasing demand for generating job opportunities and attaining a level playing field in the context of the Arab Spring upheavals.

CHAPTER 2: UNDERSTANDING THE ENTREPRENEURSHIP ECOSYSTEM IN EGYPT

1. Overview of the Current Entrepreneurship Ecosystem

A strong, sound and synergetic entrepreneurship ecosystem is essential to start a grassroots entrepreneurial movement in Egypt and to show economic impact out of all the entrepreneurship activities taking place. The Egyptian ecosystem has shown much progress since 2011, driven by a small group of successful businessmen deploying their own resources to develop a successful entrepreneurship ecosystem.

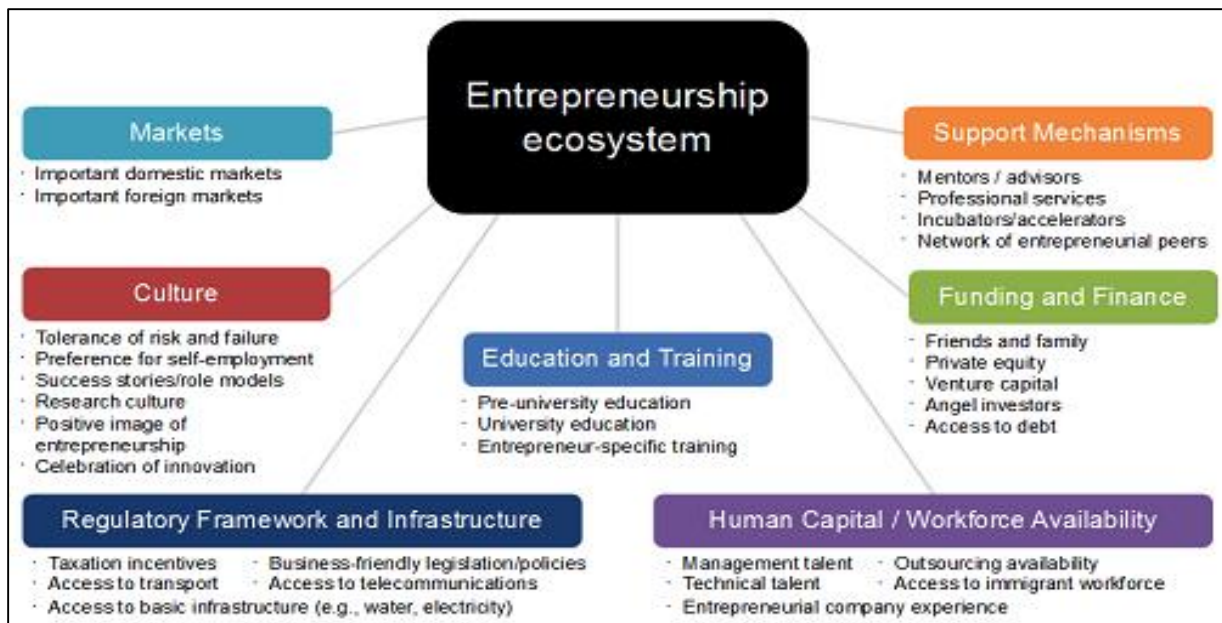
One of the major changes occurring in Egypt's entrepreneurship ecosystem over the last four years is the change in professional leadership of various entrepreneurship organizations. Several smart entrepreneurship organizations learned that they need to find passionate managers who are professional and transparent in their approach. This awareness is apparent among several organizations including Flat 6 Labs, Endeavor, Middle East Council for Small Business and Entrepreneurship, and Nile University. We have witnessed two major international nongovernmental organizations, Endeavor and Injaz, continue to improve their programs as well. With the rise of these catalysts and leaders, some traditional business associations and government agencies have pulled back on their support to entrepreneurship, whereas others have tried to catch the rising stars. These polar tendencies are due largely to the political instability and the resulting difficult business environment. Prior to 2011, the typical entrepreneurship event in Egypt was a business plan competition hosted by a local business association and partially financed by the government, which did not create or support many businesses. Today new generations of Egyptian ecosystem players are changing the formula; they are self-financing or receiving financing from the private sector. They rely on a multiple set of services—including mentoring, shared workspace and training—and have expanded their targets from just students. More recently, many organizations are shifting away from supporting entrepreneurs in the technology sectors to supporting entrepreneurs in other growth sectors, including waste removal and alternative energy.

In 2013, over 30 organizations that support entrepreneurs in Egypt have been identified—and the list continues to grow. The list includes nongovernmental organizations, universities, private-sector accelerators/incubators, companies, business associations and government agencies (**Annex A includes a list of some of the most active organizations**).

Although the number of entrepreneurship actors has grown, it is noticeable that not all organizations are making the same impact. What has become apparent over the last four years is that organizational and governance structures are key to the success of any entrepreneurship program. In addition to infrastructure, other factors such as culture, education and training, access to markets, funding and finance, skilled workforce and strong teams, and regulatory frameworks are strengthening the whole entrepreneurship ecosystem.

According to the World Economic Forum in 2012, the entrepreneurial ecosystem includes several components that affect the whole process, as represented in **Figure (6)** below.

Figure 6: Entrepreneurship Ecosystem



As outlined in Figure 6, there are six main components needed for creating an effective entrepreneurial ecosystem: markets, culture, education and training, funding and finance, human and workforce availability, and regulatory framework and infrastructure.

Accessible markets. The presence of accessible markets is one of the main pillars for establishing an entrepreneurial ecosystem in the region—but Egypt has been slow to capitalize on these opportunities. The major problem in accessing markets in Egypt is structural. According to the Doing Business Report in 2013, Egypt is considered one of the weakest countries in the world in enforcing contracts, ranking 152nd out of 184 countries. In Egypt, companies are built based on personal relationships rather than enforceable legal contracts, which inevitably limit the amount of new business opportunities that can enter the market. Another obstacle is the major disconnect between supply and demand. Products are developed—not based on actual customers’ needs—but rather on the contingency that they might create the need, leading to a great discrepancy.

Culture really matters. Entrepreneurial activities are highly manipulated by the cultural environment of the region. Before 2010, changing the mindset was considered a critical challenge but progress has been made—attributable mainly to the media and social media that covered hundreds of inspirational stories about entrepreneurship. According to the Global Entrepreneurship Monitor Report, **(Figure 7** shows some positive trends in 2008, 2010 and 2012 in the perception about entrepreneurship) more individuals than previously find entrepreneurship to be a good career choice, have less fear of failing as an entrepreneur, and see more opportunities to become entrepreneurs.

Education and training. Since 2011, Egypt has placed great emphasis on providing programs on entrepreneurship to secondary schools and universities, which has continued to increase but with diversification towards technology. According to the General Authority for Investment and Free Zones,

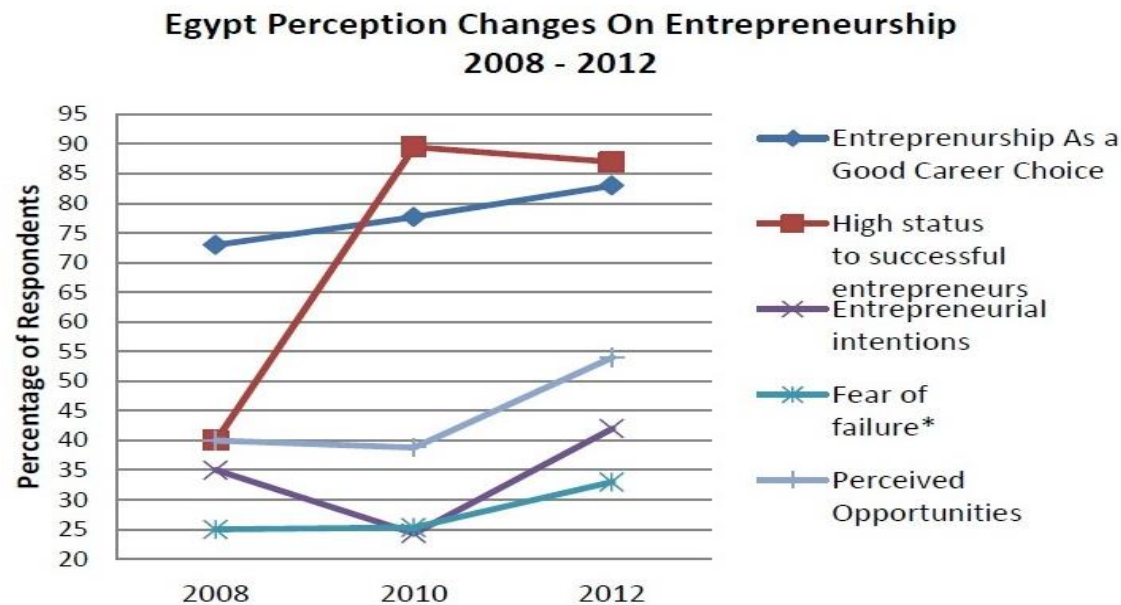
the information communication and technology sector accounted for 4.28% of social entrepreneurship²⁰ and GDP in 2011, which grew at a rate of over 11.5% between 2011 and 2012.

Raising funds and access to finance. Before 2011, entrepreneurs had been depending on banks, families and friends to finance their projects. In 2010, entrepreneurs faced difficulties in getting commercial loans due to the high risks associated with their projects. However, in the last four years, other forms of funding such as angel investments, crowdfunding, venture capitals and private equity have performed strongly.

Human and workforce availability. One of the most important components for any successful entrepreneur is their initial workforce. Egypt lacks skilled labor, which is a primary obstacle to upgrading growth companies. In 2010, Egypt ranked last compared to other countries in the level and quality of education of primary and secondary schools on encouraging creativity, self-sufficiency and personal initiative.

Regulatory framework and infrastructure. In terms of government policies, Egyptian entrepreneurs still face several obstacles related to bureaucracy, taxes being imposed on new and growing firms, and in obtaining required permits and licenses. Thus, most early-stage businesses tend to be informal. The Ease of Doing Business Index for 2012 shows that rates for starting a business in Egypt has receded, especially in terms of paying taxes and dealing with permits.

Figure (7): Egypt Perception Change on Entrepreneurship



A. Entrepreneurship Regions in Egypt

Entrepreneurs are located across different urban and rural regions in Egypt, yet highly dense within Greater Cairo. Approximately 40% of early-stage entrepreneurs and established business owners are based in Cairo.²¹ The Delta region ranks the second-most active entrepreneurial area in Egypt in terms of

²⁰ A Social entrepreneur is an individual with innovative solutions to society's most pressing social problems. He/she is ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change. www.ashoka.org

²¹ United States Agency for International Development Entrepreneurship Report

number of entrepreneurially active adults concentrated in one region. In contrast, Alexandria, compared to other regions, has the lowest percentage of early-stage entrepreneurs and established business owners, although it is one of Egypt's major cities. Looking only at technology startups based in Cairo, Egypt may seem incredibly entrepreneurial. However, against the backdrop of struggling souvenir hawkers in Luxor or subsistence farmers in Sharqia or Assuit, this impression of local entrepreneurship might differ. Entrepreneurship development is very local and usually needs a concentration of talented people.

B. Entrepreneurial Gender Gap in Egypt

Despite efforts to encourage Egyptian women to start their own businesses, their participation in the newly rising entrepreneurship ecosystem still remains lower than expected. The early-stage entrepreneurial activity prevalence rate for men is 13.1% compared to 2.4% for women. Almost 86% of early-stage entrepreneurs in Egypt are led or owned by men, while women comprise the remaining 14%. Compared to the years 2010 and 2008 (with participation rates for women in total entrepreneurship in Egypt having reached 35% and 20%, respectively), 2012 has recorded the lowest rates of participating entrepreneurial women in Egypt. In contrast, the percentage of entrepreneurial men has increased from 65% in 2010 to 86% in 2012. Typically, the main motive for men to become entrepreneurs is to pursue a market opportunity (5.4%) rather than out of necessity (4.5%). For women, there is no difference between opportunity and necessity motives.²²

C. Egyptian Entrepreneurship Ecosystem: Strengths, Weaknesses, Opportunities and Threats Analysis

In Egypt it is rare to find entrepreneurs who are taking advantage of change to create innovative, valuable products or business models that will lead Egypt into new growth markets.²³ Most Egyptian entrepreneurs show little desire to grow and thus are not pursuing new markets or products. There is no concrete data that explains this lack of desire to grow, but the entrepreneurial mindset may be part of the cause (as discussed previously in the chapter).

Still, there are some exciting areas of innovation and entrepreneurship in Egypt—in particular, the information and communications technology sector—that have a promising number of growth entrepreneurs. In other sectors, such as food processing and textiles, the majority of Egyptian entrepreneurs are simply duplicating other pre-existing businesses run by family members, friends or neighbors. These duplicating entrepreneurs reduce risk via letting others test markets, products and business models. This form of entrepreneurship does not contribute much additional value to the economy, especially unfortunate given there are so few innovations being introduced in Egypt. This type of entrepreneurship is one possible reason for the interest in franchising among investors like the Social Fund for Development. Egyptian financial organizations prefer franchising because it provides an easily understood, live financial model that has been tested.

Meanwhile, there have been many entrepreneurship initiatives recently implemented. Several gaps still exist, however, in the system. Two critical gaps are commercial opportunity recognition and private-sector collaboration. As stated previously, it is critical for entrepreneurs to be able to identify and react to change by creating new products, business models or processes. Entrepreneurs also need to recognize that change will most often occur in the market place. This means entrepreneurs need to

²² Global Entrepreneurship Monitor Report, 2012

²³ Egypt Entrepreneurship Final Report, Where are all the Egyptian Entrepreneurs?, Mike Ducker and Deloitte, TAPER II project, http://www.academia.edu/5193052/EGYPT_ENTREPRENEURSHIP_FINAL_REPORT_WHERE_ARE_ALL_THE_EGYPTIAN_ENTREPRENEURS

engage with market players and test new ideas. They need to understand how to investigate the unknown—namely, how to capture opportunities about markets when there is no existing market analysis. To do so, entrepreneurs must engage with market players to identify problems and opportunities. **Table (1)** shows the strengths, weaknesses, opportunities and threats of the Egyptian ecosystem in light of what was mentioned above.

Table 1: Egyptian Entrepreneurship Ecosystem – Strengths, Weaknesses, Opportunities and Threats Analysis

Strengths	<ul style="list-style-type: none"> • Egypt’s unique geographical location in the center of the world • Large and young population with multilingual capabilities • Existence of local initiatives that support Egyptian entrepreneurs • Existence of incubators and accelerators • More comprehensive training programs provided to entrepreneurs • New entrepreneurship media 	<ul style="list-style-type: none"> • Increased desire from multinationals to support entrepreneurs in innovation • An increasing number of public-private partnerships in Egypt after the 2011 revolution • Other means of funding such as crowdfunding, angel investments and private equity • Different initiative setup—such as accelerators, incubators, co-working spaces, angel groups, crowdfunding platforms, venture funds and startup training • The growth of startup competitions • A change in the entrepreneurial mindset • New models recently developed whereby nongovernmental organizations, universities, private-sector incubators and accelerators, government agencies, and mentors collaborate to implement cost-effective entrepreneurship initiatives 	Opportunities
Weaknesses	<ul style="list-style-type: none"> • Insufficient number of qualified graduates • Low quality of education regarding innovation, creativity, leadership skills and management • Immigration of talented Egyptian entrepreneurs • Political instability • Lack of talented and trained employees • Centralization of services promoting entrepreneurs • Absence of coherent network of entrepreneurs • Access to land 	<ul style="list-style-type: none"> • Harsh competition (internally and externally) • High speed of technology development that will be difficult for some entrepreneurs to cope with • Bureaucracy • Restricted policies and regulations, especially for taxes and licensing 	Threats

2. Key Challenges, Potential Risks and Means of Mitigation

Over the last four years, the Egyptian entrepreneurship ecosystem has kept a watchful eye on the future orientation of enterprise growth; the international, regional and local media have also covered the incredible changes. Young Egyptians want to be entrepreneurs, and now many more than before show respect to others who have chosen to take this path. There has been an implausible growth in entrepreneurship programs and events over the last four years and in the number of organizations and people providing early-stage technical support and financing to entrepreneurs. Many of the existing

Egyptian entrepreneurship programs have strengthened and expanded in tandem with other donors' efforts in that regard. Yet, progress is mostly due to a select number of Egyptian private-sector individuals who have made a concentrated effort to make a difference. These individuals include Ahmed El-Alfi and Hany Sonbaty, founders of Flat 6 Labs and Sawari Capital; Dr. Khaled Ismaili, Chairman of Endeavor and founder of KiAngles; Ihab El-Fouly and Tarek Fahim of Tamkeen Capital; Hossam Allam and Con O'Donnell from Cairo Angels; Mohammed Gawdat and Samer ElSahn from Tahrir Square; and Shereen Allam of AWTAD, which supports women entrepreneurs. These individuals contributed considerable financial resources—and time—to change the ecosystem in Egypt.²⁴

Despite the efforts exerted, several other new entrepreneurship initiatives are still facing many challenges. In asking some early-stage investors for their top criteria for investing in an early-stage company, in almost every case they cite wanting to back a leader with a strong team and a big market opportunity. Entrepreneurs in Egypt, compared to their global and even regional counterparts, struggle to gain access to key growth factors, including talent, markets, government decision makers and land. In terms of access to markets, many Egyptian markets are blocked either by new firms that are controlled by state-owned entities or by large corporations that do not outsource to other firms that may add potential value. Other challenges facing early-stage entrepreneurs and startups include lack of adequate primary and secondary education; conducive regulatory environment; efficiently structured financial infrastructure; thriving financial institutions with more lending capacity; training and awareness on enterprise-management skills and enterprises' creditworthiness; liquidity of the financial intermediaries; access among early-stage businesses to affordable business advisory services; credible and trusted advisers to turn to in their decision making; the availability of risk-sharing instruments; and finally, adequate entrepreneurial culture and awareness (particularly for women and youth). With no voice within the government, Egyptian entrepreneurs will continue to face such headwinds.

Fortunately, there is a wide range of entrepreneurship programs and initiatives that exist to support entrepreneurs to grow and expand their businesses besides the insufficient access to international best practices, innovations, and partnerships.

Business risks associated with any entrepreneurial activity entail heavy losses, debt payments, employment problems, stiff competition, market and political instability, conflicts, enforcement of law, slow processes and decision making.¹⁵ To mitigate risks associated with entrepreneurial activities, early-stage businesses and startups have to conduct research (e.g., business strategies and plans, feasibility studies, etc.). In addition, entrepreneurs should choose business opportunities that match their skills, experiences and interests; compile key information about sectors, success stories and best practices; identify mentors to guide their path; adjust capital sources needed for their businesses with the business risks that might incur pursuing creativity and innovation; and identify main markets and competitors.¹⁶

²⁴ United States Agency for International Development, "Egypt Entrepreneurship: Success, Challenges and the Lessons of Supporting Job-Generating Entrepreneurs in Egypt," Cairo, 2013.

¹⁵ <http://www.exforsys.com/career-center/entrepreneurship/entrepreneurship-associated-risks.html>. Accessed on June 25, 2014.

¹⁶ <http://blog-businessandeconomy.blogspot.com/2011/10/how-to-overcome-business-risk.html>. Accessed on June 24, 2014.

3. Facilitating Access to Finance

Access to finance is still a significant bottleneck blocking the creation, growth and success of startups and small and growing companies. High administrative costs of small-scale lending, inadequate banking skills for dealing with early-stage businesses, and deficiencies in financial infrastructure due to the lack of available information and outdated early-stage financing approaches are the problems threatening any startup's survival.

Most of the SMEs and microfinance programs, which focus primarily on subsidized financing, have not shown a correlation between their program activities and economic/job growth. While there is demand for commercial capital for high/fast-growth entrepreneurs, the largest gap exists for companies that need financing between USD 200 thousand and USD 1 million. These companies, therefore, often rely on capital provided by accelerators, angel investors, crowdfunding platforms and early-stage venture capitalists.

For entrepreneurs focused on growth, 47% of them considered access to finance to be a major obstacle. There are major financing gaps for high-growth businesses, as evidenced by the fact that 83% of the fastest-growing companies, called gazelles, stated they self-financed their business growth. For these high/fast growing entrepreneurs, bank and debt financing are mostly through government and microfinance organizations that focus on lending to micro, small and medium enterprises (MSMEs) with high-growth potential. Wherein lies the problem is that only a handful of these entrepreneurs who are ready for investment from a major venture capital firm have reached that growth state that would qualify them for financing. On another note, and moving up the finance chain, most private equity firms have been proven to be very risk adverse towards further investing during political crises.

The real heroes in early-stage investment are those Egyptians who have built accelerators/incubators and crowdfunding platforms, or who have invested as individual angels or through angel groups. A great deal of the progress over the last four years has been driven by small, successful groups investing a significant amount of their own financial resources and time to change the ecosystem in Egypt. These include Flat 6 Labs, Sawari Capital, Endeavor, KiAngles, Tamkeen Capital, Cairo Angels, Tahrir Square, AWTAD, Innoventures, Shekra, Beltone MidCap, Union Capital and many more.

A. Bank and Debt Financing

Bank and debt financing are usually cheaper than equity financing, yet it is still very difficult for any early-stage entrepreneur to receive such funding in any country, especially in Egypt. Only 7% of new investments and working capital in Egypt is financed externally through the banking sector, compared to more than 13% in the Middle East and North Africa region, and 18% in the rest of the world. Egyptian banks often prefer to extend credit to large corporate clients and connected individuals who are considered less risky, while startup entrepreneurs remain financially constrained. After the revolution it has become even more difficult for any type of SME to obtain commercial lending as banks have been financing the growing demands of the government debt. Moreover, banks lend inefficiently and are not able to expand lending to early-stage businesses significantly while also managing costs and risks. Hence, equity financing for early-stage businesses, coupled with the necessary business development services to ensure their growth and sustainability, are of utmost importance.

B. Venture Capitalists

Venture capitalists are an important source for providing the high-growth, entrepreneurial SME community with much-needed financing. Types of venture capital include seed and startup financing and early-, expansion- and mature-stage financing. In Egypt, the government has launched initiatives to

enhance the venture capital industry, such as the adoption of the law No. 8-1997 and the Capital Markets Law No. 92-1995, which grants venture capital firms tax exemptions. According to the Middle East and North Africa Venture Capital Report of 2013, published by the Middle East and North Africa Private Equity Association, venture capitalists typically invest in startups and non-listed, early-stage small businesses. The investment commitment over the life of the deal averages USD 3 to 5 million, reaching in some cases up to USD 15 million. A typical exit plan is usually through initial public offerings, mergers and acquisition, management buy-out or trade sale. Despite venture capital not being confined solely to technology investments, technology is often a core factor that creates the level of scalability required in a venture capital deal. According to the Global Venture Capital and Private Equity Country Attractiveness Index Report produced by Ernest and Young, in 2009 Egypt ranked 67th globally in terms of a venture capital ranking index, while in 2012 it ranked 56th—the country at that time still in the midst of a fluctuating and turbulent environment. Index ranking is based on weighted average assessment of key performance factors including (1) economic activity; (2) depth of capital markets; (3) taxation; (4) investor protection and corporate governance; (5) human and social environment; and (6) entrepreneurial culture and deal opportunities. Even with vacillating rankings across the last few years, Egypt still occupies a midpoint position among major developing African and North African regions.

C. Angel Investors

Angel investors are unlike formal venture capitalists. They have different investment criteria, tending to invest more on intuition rather than on the precise valuation of a company balance sheet. That angel investors rely so heavily on their intuition is because they typically invest in the very early stages of a company, when the entrepreneur may not yet have a well-articulated business plan. Angel investors play a role in providing substantial managerial knowledge and access to a company's personal networks. In addition, business angel investments help mitigate information asymmetries by providing a positive signal of the venture's quality. Angel-investing activities are still considered new to the Egyptian ecosystem.

D. Crowdfunding

Crowdfunding is the use of small amounts of capital from a large number of individuals to finance a new business venture. Crowdfunding makes use of the easy accessibility of vast networks of friends, family and colleagues through social media websites like Facebook, Twitter and LinkedIn to get the word out about a new business and attract investors.

Crowdfunding has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners, relatives and venture capitalists. This type of financing is beneficial to entrepreneurs as it provides access to capital, hedges risk, works as a marketing tool, allows crowdsourcing and brainstorming, and introduces loyal customers easier than any other source of traditional funding and provides the opportunity of pre-selling.

However, the concept in Egypt is still new and only a few companies are engaged in crowdfunding—such as Shekra and Shariqty—which do not rely on their technology platforms but on their hard-working management teams to help pipelines of entrepreneurs who deserve the investments.

4. Access to Nonfinancial Services to Entrepreneurs

A. Accelerators and Incubators

Accelerators and incubators are innovative investment vehicles and business service providers that have made a novel contribution to advancing entrepreneurship around the globe, helping an entire generation of young companies—and particularly high-tech startups—to grow and thrive. Business incubators typically focus on attracting an array of pure startup companies and firms at an early stage of development. The key distinguishing feature of an incubator is its ability to give startups preferential access to a network of potential partners. Incubators contribute to economic development by creating new, high-quality businesses, improving business competitiveness, generating job opportunities, and developing new, innovative products and services.

In 2010, incubators in Egypt were driven by different government programs, which have shown limited success. The Technology Innovation and Entrepreneurship Center and the Social Fund for Development are the main government-led incubators. There are also six private-sector support accelerators and one nongovernmental organization focused on social enterprises that have helped to launch 70 startups. Three of the private organizations are focused on information and communication technology, and the majority are in Cairo. All of them provide seed funding as well as a number of services including training, mentoring, awareness, advisory and connections. While all of these private-sector accelerators and incubators have received funding from a small, select group of successful business people, the majority of their funding has come from their founders. Many of Egypt's top startups owe their genesis to these private-sector accelerator/incubator groups, with many of these enterprises receiving follow-on investments.

A high number of seed deals were driven by Flat 6 Labs as they take in six to seven teams every cycle and provide seed funding, mentoring and coaching, training and connections over a four-month period. Initially Flat 6 began working in technology and slowly moved into other sectors, including alternative energy and bottom-of-the pyramid products. Flat 6 Labs are considered the most active accelerator/incubator in Egypt and one of the best in the Middle East and North Africa region.

B. Mentoring and Coaching

Mentors and coaches are typically individuals who volunteer their time and efforts to provide advice, knowledge, connections and encouragement to entrepreneurs. Mentoring is critical for ensuring a sound entrepreneurial ecosystem. In 2010, Injaz and Endeavor were utilizing volunteers from the private sector to support entrepreneurship programs. Since 2013, mentoring and coaching have become two important tools in the Egyptian entrepreneurship ecosystem. The new accelerators and incubators have leveraged the need for mentors for the growing number of startup events like Startup Weekend and the Startup Cup.

5. Stakeholders on the Map

According to the United States Agency for International Development's Egypt Entrepreneurship Report of 2013, some of the current and influential stakeholders in the Egyptian entrepreneurial ecosystem include the following¹⁷:

Incubators/ Accelerators	
<ul style="list-style-type: none"> • Flat 6 Labs • Tamken Capital • Innoventures 	<ul style="list-style-type: none"> • Tahrir Square • Inno101 • Nahdet El Mahrousa
Nongovernmental Organizations	
<ul style="list-style-type: none"> • INJAZ • Endeavor 	<ul style="list-style-type: none"> • Middle East Council for Small Business and Entrepreneurship • AWTAD
Co- Working Spaces	
<ul style="list-style-type: none"> • The District • Al Maqqar 	
Government Entrepreneurship Initiatives	
<ul style="list-style-type: none"> • GAFI Bedaya Center • GAFI SME Clinic • The Innovation and Entrepreneurship Center 	<ul style="list-style-type: none"> • Industrial Modernization Center • Social Fund for Development
Universities	
<ul style="list-style-type: none"> • American University of Cairo's Women's Entrepreneurship and Leadership Program • Nile University 	<ul style="list-style-type: none"> • British University in Egypt • Enactus¹⁸
Early-Stage Investors	
<ul style="list-style-type: none"> • Cairo Angels • Shekra • Sawari capital • Ideavelopers 	<ul style="list-style-type: none"> • Vodafone Ventures • KI Angels • MC Egypt • Abraaj Group

¹⁷ Egypt Entrepreneurship: Success, Challenges and the Lessons of Supporting Job-Generation Entrepreneurs in Egypt, 2013, USAID.

¹⁸ An annual student competition through which students develop social enterprises to solve problems in their community

6. Conclusion and Recommendations

Growth-focused entrepreneurs are major job creators. In many ways the 2011 revolution has marked the beginning of a new Egyptian entrepreneurship ecosystem that now focuses on growth entrepreneurs driven more by effective stakeholders than by government agencies or traditional business associations. These stakeholders include a small group of individuals from the private sector who have stepped in and spearheaded an entrepreneurship development movement in the country. These individuals have set up accelerators, incubators, co-working spaces, angel groups, crowdfunding platforms, venture capital funds and startup training initiatives. Egypt has also seen in the last four years passionate and professional managers from various entrepreneurship NGOs and private universities assume leadership roles to help accelerate their programs. Despite some universities being hindered by their governance structures in their ability to support young entrepreneurs, most still manage to drive their initiatives with the support of student groups. The majority of these initiatives are also supported by hundreds of new private-sector volunteers who mentor, guide, advise, and teach—and sometimes invest as an angel investor. Due to the growth of the Egyptian ecosystem and support from different donors, there is now a greater positive perception of entrepreneurship in Egypt. These initiatives have established Egypt as one of the major entrepreneurship hubs in the Middle East and North Africa region, a distinction which has been highlighted in the international press. While these private-sector leaders, nongovernmental organizations and youth groups led the new wave of entrepreneurship activities in the ecosystem, traditional players have played a much smaller role. Government agencies and traditional business associations that drove the entrepreneurship activities before 2010 have been hampered by the political instability of the last three-and-a-half years, a constraint that has led to new models being developed whereby nongovernmental organizations, universities, private-sector incubators/accelerators, government agencies and mentors collaborate to implement cost-effective entrepreneurship initiatives.

While the growth of these new initiatives during a politically unstable time is inspiring, many new initiatives are still narrowly focusing on startups, technology and social entrepreneurship. There is not much support for pure growth-focused, nontechnology and nonsocial entrepreneurs.

Entrepreneurs are also facing many constraints such as finding the appropriate sources of finance and the right talent or product/market to grow their company. The entrepreneurial culture is nonexistent and Egypt's education system ranks among the poorest in the world—two major impediments that reduce the potential to start, expand or grow a business. Entrepreneurs have limited access to many of the markets controlled by state-owned entities, government joint ventures or large corporations that tend not to outsource. Early-stage entrepreneurs struggle to get access to land and support services due to layers of bureaucracy and a lack of voice to advocate for a better business environment. The ecosystem emerged with a bang, but it's only the beginning of a long and difficult journey.

Recommendations:

- **Grow the ecosystem.** Growing the ecosystem is much more important than growing a program. It is important to reach out to different entrepreneurship initiatives and private-sector volunteers. Expanding to secondary locations, which are still dependent on support from Cairo, is also important. Networking and collaboration among all the ecosystem stakeholders should be the top priority.
- **Engage people.** Women and young entrepreneurs need more attention. Egyptian women represent 50% of the science and engineering graduates and should not be pigeonholed into industries that represent less than 1% of global markets. Women-focused entrepreneurship

programs need to expand their targets away from crafts and home-based businesses and focus more on how women can manage interpersonal relationships to overcome major cultural issues. Moreover, mentors, coaches, angels and volunteers are the unsung heroes of the ecosystem and should be treated as such.

- **Recruit talent.** The biggest determinant of an entrepreneur's success in Egypt is the entrepreneur's characteristics, including his/her level of motivation and his/her team. Smart policymakers understand that in the global world today retaining and recruiting talent (especially entrepreneurs) in your country is a battle you must win to grow an economy. The objective of any good ecosystem is to attract these people to leave their safe jobs and to start their own businesses. In doing so, a country can extract incredible additional economic value out of these individuals as founders of startups rather than as employees of large corporations or government agencies.
- **Support new initiatives to establish growth-focused entrepreneurs.** The majority of ecosystem players and initiatives have focused on early startups over the last four years that have, in turn, helped to develop more startups. It is time now for new entrepreneurship initiatives to support established growth entrepreneurs or those companies that are viable but need support to find their next growth surge. The only ecosystem player who supports these growth entrepreneurs is Endeavor, but there is a need for more of these activities, which include the following:
 - **Raise more capital:** There is a need for programs that can help to support more capital for growth-focused entrepreneurs.
 - **Improve access to land:** The time, money and frustration involved in expanding a physical business in Egypt are among the worst in the world. The development and control of industrial lands needs to be rethought with early-stage entrepreneurs at the table to hear their ideas.
 - **Provide specific expertise as advisers:** Entrepreneurs at this stage of growth usually have very specific needs, and only a few experts can provide this guidance. Programs need to be more selective about the connections that should be made.
 - **Provide guidance on team building:** When a company rapidly grows, it needs to bring in experts to help manage and build the team. This transition often means the company must give up some control on management decisions, and thus it needs mentors who can provide guidance on this.
 - **Promote industry collaboration:** The success of the Egyptian entrepreneurship in information and communications technology is driven by the sector's collaborative nature. Other industries should follow the sector's example to benefit from the constant flow of innovation and new market value.
- **Establish a platform for entrepreneurs to voice their concerns and problems.** Early-stage entrepreneurs need a strong platform to advocate directly with the government. Thus, a platform to voice concerns and problems should be created.
- **Strengthen the regulatory framework and infrastructure.** Formal legal and regulatory structures should be made more accessible to most entrepreneurs so as to lower their transaction cost, enabling them to grow. Regulatory institutions must be functional so as to proactively move against monopolies and other predatory practices. Moreover, the state should still be required to play a significant role in supplying basic infrastructure, investing in human resources and narrowing the gaps between regions. State affirmative action is needed as well to remove age- and gender-related discrimination against entrepreneurs.
- **Increase access to information.** Access to information lies at the very heart of reforming the entrepreneurship ecosystem in Egypt. Most current problems experienced by entrepreneurs in Egypt are rooted in their lack of information and their asymmetrical access to it. Information is

necessary for both market contenders and the state. On one hand, public information must be made equally accessible to all market actors. This act requires a variety of legal and institutional reforms that would collect data and make it available. On the other hand, information about entrepreneurs and enterprises must be made available for state agencies. By doing so, the state can gather and process information so as to set accurate plans and strategies. Moreover, making this information public is the only way by which private-sector entrepreneurs can access financial and nonfinancial resources across the board. However, informational problems and solutions are not solely technical. They are social and political as well, requiring the building of mutual trust between economic actors—who are themselves social actors—and the state.

- **Foster awareness on the entrepreneurship culture in general.** By promoting cultural awareness among young people, as actors and users, Egypt will be enhancing their sense of initiative and entrepreneurial spirit. Access to culture and active participation in cultural activities can reinforce young people's well-being and their awareness of sharing a common cultural heritage.

CHAPTER 3: STREAMLINING BUSINESS PROCEDURES

1. General Authority for Investment and Free Zones

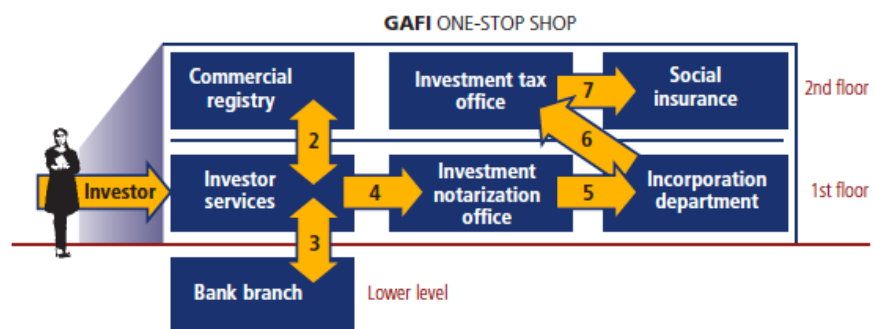
Between 2004 and 2005, the General Authority for Investment and Free Zones began setting up one-stop shops in Cairo, Alexandria, Assuit and Ismailia. The Cairo One-Stop Shop began operating in late 2004 and moved into permanent headquarters in January 2005. The one-stop shops in Alexandria, Assuit and Ismailia followed later that year.

The General Authority for Investment and Free Zones added a fifth one-stop shop in the Tenth of Ramadan City in 2013 to primarily serve the Sharqia governorate. Currently, the one-stop shop in Cairo is the central hub that serves the entire country (including Dakahlia, Damietta, Fayoum, Giza, Gharbiya and Sharqia), and therefore has the highest volume of registrations. Like in Cairo, the one-stop shop in Alexandria has its own building that services investors in the city and the northern coastal governorates. Meanwhile, Assuit's one-stop shop occupies a single floor in the governorate building and covers the southern governorates of Aswan, Sohag and the New Valley. Finally, Ismailia deals with the Canal governorates, Port Said and Suez. With guidance from an interministerial committee, the General Authority for Investments and Free Zones took leadership of the startup reform efforts in Egypt. It streamlined procedures, cut costs, eliminated the minimum capital requirement and reorganized the one-stop shop several times to make the process of incorporation faster, cheaper and easier. Reforms included integrating more agencies, such as tax authority, into the one-stop shops, introducing a flat fee structure and eliminating the bar association fees.

For micro, small and medium enterprises (MSMEs) and entrepreneurs, formal incorporation has many benefits. Legal entities outlive their founders. Resources are pooled as shareholders join forces. The legal form under which the company is registered matters: Evidence shows that marketing business incorporation had helped increase the number of businesses established. In 2005, the General Authority for Investment and Free Zones registered 5,807 new companies. However, in 2012 the number of new business established rose to 7,832. The increase was significant for the limited liability companies, the main form for MSMEs.

In 2006, the International Finance Corporation began working with the General Authority and five other government agencies to simplify key administrative

procedures for starting a business as part of a pilot program in Alexandria. The International Finance Corporation noted in its post-operation comments that relations between the government agencies was one of the most challenging project aspects—and one that took a meeting among executives to rectify.



Source: Doing Business database.

Today, there is a strong presence of ministries and other government entities in the one-stop shop to respond to investor inquiries and provide information and services. The key aspects are as follows:

- A high number of entities are represented in each branch (43 in the Cairo, 29 in Alexandria, 12 in Ismailia and 7 in Assuit).
- Three of the most important delegated representatives (the public notary office, the commercial registry and the tax authority office) are now electronically connected to the central database, resulting in more efficient, integrated services with a high degree of reliability and accuracy.
- The General Authority for Investment and Free Zones applies an incentive system to the ministry and other representatives, in addition to certain nonmonetary privileges, to ensure a motivating work environment and loyalty.
- The one-stop shop fully involves other entities in developing workflow processes through the automation of services.
- Affiliated governmental entities (the Ministry of Tourism, the Ministry of Defense and the Industrial Development Association) hold regular meetings to tackle difficulties facing investors.
- The General Authority for Investment and Free Zones has memoranda of understanding with various entities to guarantee effective cooperation for the investor (including with the commercial attaché office to help in promotional efforts, with the Social Fund for Development, and with other civil society groups such as business associations).

2. Social Fund for Development One-Stop-Shop Service

The Social Fund for Development's one-stop-shop entities are service units where agency representatives entrusted with issuing documents and licenses for small enterprises are grouped in one place pursuant to the Law on the Development of Small Enterprises 141/2004 and its executive regulations. These service units are part of the service complex that includes, in addition to the service unit, an integrated loan center.

The unit comprises government representatives and Social Fund for Development staff to assist in issuing the following:

- Tax card
- Commercial registry
- Temporary license for startup enterprises (valid for 30 days)
- Final license
- National number for startup and existing enterprises

3. Tamayouz Centers

A. CAIRO 2010

On Tuesday, April 13, 2010, the minister of Trade and Industry, the minister of Telecommunication, the governor of Cairo, and the chair of Cairo Chamber of Commerce opened the groundbreaking public service office called Tamayouz. This pilot Tamayouz center is the first service office in Cairo that provides one-stop-shop services to individual traders and partnerships from different regional areas. The Tamayouz center brings together the services of eight different agencies under one roof. These agencies include Real Estate Publicity, Tax Authority, Insurance Authority, Commercial Registry, Import and Export Control Organization, Customs Authority, Cairo District Licensing, and Chamber of Commerce.

In an area that exceeds 750 square meters of automated state-of-the-art office space, clients are met by professional reception employees who provide them with information, enter their preliminary identification data, and direct them to the appropriate agents in Tamayouz. To ensure full transparency and efficiency, Tamayouz provides its services to clients through the front office, keeping the procedural work to the back-office agency representatives who are connected to their respective agencies. Required documents and fees are found on online advisory systems. Printed brochures, as well as explanatory signboards, are located everywhere in the center.

Since its opening on March 28, 2010, Tamayouz has been attracting large numbers of customers. The center has been providing around 350 services every day, in addition to responding to over 700 information requests. However, high customer traffic never meant the dilution of quality. “There is no end for development. We also opt to enable provision of all these services through a single agent to achieve a real single window model,” said Dr. Hassan El Gogary, the project manager.

The major advantage of Tamayouz is its focus on customer service and satisfaction. The young staff of Tamayouz were very well selected and trained for an entire year by the consultants of the USAID-funded Technical Assistance for Policy Reform Project and the Cairo Chamber of Commerce. The consultants trained the staff on customer service, business etiquette, service quality, and computer and language skills as well as provided a focused training on participating agencies’ business procedures. To achieve even more integrity, Tamayouz awards incentives to its staff based on performance and customer satisfaction.

Customers of Tamayouz no longer have to visit five or six different governmental authorities to establish a business or add or change an activity. Furthermore, Tamayouz has managed to cut company establishment time to one-third of the time consumed when services were obtained via individual governmental agencies; in cases of tax and insurance services, procedural time was reduced from 30 to three days.

B. ALEXANDRIA 2012

On June 28, 2012, Tamayouz Alexandria was officially opened by U.S. Ambassador Ann Patterson; Minister of Supply and Internal Trade, HE Attia; and Federation of Egyptian Chambers of Commerce Chair, Ahmed El Wakil. The center is the first of the planned national network. It will serve as a model and as a center of excellence, a proving ground and training center for Tamayouz implementation nationwide. The opening was a success and initial public response was excellent. In the first 10 days of operation, the center helped 1,111 customers and provided 826 services, including 250 services to new companies.

Tamayouz is a success but there are still challenges. The Egyptian Competitiveness Program worked with the Federation and the Alexandria Chamber to improve the service delivery further by reducing the opportunities for corruption. The approach included (1) a baseline survey to quantify the improvement and the impact of the center; (2) replacing the Tamayouz manager; and (3) increasing the marketing campaign to inform potential customers about the center, as well as the services’ cost and estimated time.

C. OTHERS

The United States Agency for International Development and the Egyptian Competitiveness Program supported the Tamayouz Center in Alexandria and developed and opened a new Tamayouz Center in Qualyoubia in 2013. Due to the success of the Qualyoubia Tamayouz center, the Egyptian Competitiveness Program began work on similar centers in Port Said, Sohag and Assuit. The work on

these three new centers are well underway (the Port Said center has already been opened)—and under the competitiveness program’s Wind-Up Plan, these centers (once opened) will continue operating as prior to the program’s closing.

4. Suggested Reforms and Recommendations

A. Reforms to Existing One-Stop Shops and Replications

Although the results indicate that the one-stop shop is generally satisfactory (i.e., excellent treatment, relatively short time for issuing licenses, reasonable fees, delivery of services through a single window), establishing a project on a wider scale would require a more thorough assessment of the following one-stop-shop factors:

- effectiveness of its setup;
- achievements to date;
- service limitations;
- service management;
- appropriateness of its resources and the timelines of its service delivery;
- customer response, and;
- relationship with other local government entities

However, the following constraints, coupled with the center’s non-conducive operating environment, reduce the center’s effectiveness and can undermine its role as a one-stop shop aiming at alleviating the regulatory and paperwork burden to SMEs

- Lack of publicity on center’s role;
- Absence of an authority to issue licenses as per district rules and regulations;
- Local administration staff’s unfavorable attitude and their violation of the governor's instructions;
- Lengthy and cumbersome procedures;
- Complicated, conflicting legal requirements and conditions;
- Entities’ regulations and directives are outside of the center’s control;
- Confinement of center’s role to facilitating the delivery of industrial licenses only (this limits the number of licenses issued through the center as it is easier, less risky and less costly to start commercial and service activities).

Such analysis would help in designing an effective SME policy. The policy design should evolve through a transparent, participatory consultative process with stakeholders and beneficiaries. Policy architects should be responsive to local and regional needs and coordinate at the local and national level with different entities involved in SME development. The interactive consultation with local government and institutions should take place through a direct link with enterprises to address their needs, problems and concerns and provide them with realistic and factual inputs on policy design. Fine-tuning policies through follow-up, assessment, and input during policy implementation phase is equally important. This step would require conducting the necessary local and regional studies and surveys and then articulating and implementing the appropriate support programs.

Reforming the regulatory framework for SMEs should entail an explicit understanding of the overall economic importance of this sector within a broader strategy for creating an enabling environment for SMEs. Central to this policy objective is the reforming of the financial-sector regulatory framework. The

reforms should encompass changes in banking regulations so as to allow banks to recognize the special status of SMEs, provide needed financial services to this important sector, and enhance existing services. Also, establishing specialized financial institutions should help foster competition in the SME lending market. This act will require developing the standards governing the delivery of financial services.

Against this backdrop, the role of the one-stop shop must also to be reinforced and enhanced. To achieve this goal, several actions must be carried out, taking into consideration the suggestions and recommendations of the center's staff.

- Governorates should be carefully selected for replication. Considerations such as local density of SMEs, the rate of their formation, the rate of closure, average per capita income, and the availability and capability of existing delivery channels—and their selection—are all important factors that must be carefully scrutinized and dealt with in advance in all potentially participating governorates.
- The citizen requiring the licenses for activities that should be approved by the supplier should be allowed temporarily to obtain water and electricity for his/her firm until approval of the Inspection Committee is received.
- The Environmental Affairs Agency should have subsidiaries in the governorates to approve industrial activities, as approvals of such activities have to be issued at the headquarters in Cairo.
- Certain building regulations—such as those for bakeries and plastic factories—have to be reconsidered and consistently enforced. For example, recent directives of the Environmental Affairs Agency stipulate that plastic factories should not be built in places adjacent to residential buildings—a condition that cannot be applied in Mansoura, for practical reasons. In addition, bakeries were allowed to use natural gas although using natural gas is still generally prohibited.
- To face the difficulties associated with the social insurance for small firms, owners, and workers, it is recommended to establish an electronic connection between the Social Insurance Authority in Cairo and the Social Insurance Directorate in the governorates. This electronic connection would help to process timely and accurate procedures and would give a true picture of each subscriber's status.
- The representative of the industrial safety should be accorded the authority given to the tripartite committee comprising representatives of the ministries of manpower, health and housing.
- Representatives of the tax administration, health, defense and fire should be included in the center's structure.
- Adequate staff should be available to reduce the representatives' workload and to secure the permanent availability of substitutes.
- Adequate and efficient means of communications between the center and its customers should be provided.
- An awareness campaign and effective publicity should be organized to promote the center's activities and gain support for its efforts.

B. General Recommendations

Other diverse but equally important steps that need to be taken include the following:

- Establishing an institutional mechanism to identify SMEs so as to entitle them to benefit from the facilities (that will be) provided exclusively for the sector.

- Reviewing labor and social legislation to determine whether such legislations meet the needs of SMEs and to ensure compliance with social security regulations.
- Updating data sets to develop a simple, unified definition for SMEs.

Availability/accuracy, accessibility and adequacy of data must be ensured as follows:

- **Availability/Accuracy.** Regularly updating the establishment census for SMEs is suggested. Such regular updating will be extremely useful not only as a frame for sample surveys but also as a system for follow-up and monitoring.
- **Accessibility.** The issue of accessibility of data sets collected through governmental and nongovernmental agencies needs special attention. Integration data sets from different sources should be considered. A database structure needs to be agreed upon by stakeholders.
- **Networking.** Networking among SMEs stakeholders is urgently needed; it can be achieved by launching a website that provides information relevant to SMEs in Egypt, a blog space to exchange ideas, and/or an interactive communication space for SME users.
- Policy issues should be discussed among government officials, credit providers, donor investors, involved institutions, business associations, SME experts—and before all entrepreneurs and borrowers.
- Resources should be allocated to contend with relevant environmental conditions.

CHAPTER 4: VALUE CHAIN ANALYSIS

1. Textile Sector in Egypt:

A. Sector Overview:

The Egyptian economy witnessed a noticeable turnaround after the Jan 25 revolution toward a more inspiring economy premised on more equity for the masses, less tolerance of monopolistic practices, and greater shared value of economic outcomes. However, Egypt's ranking in the world competitiveness report has deteriorated, its ranking in 2011 having fallen twenty places down to the 94th position (out of 142 countries). Its best sub-ranking is in market size (27th), whereas its worst sub-ranking is in labor market efficiency (141st). Also, technology and innovation pillars continue to worsen. If this economic downturn continues and no drastic changes are made, Egypt may lose its competitive position in many sectors through the coming years.

Despite setbacks in the Egyptian economy during the last four years, still one of the main sectors that enhances the Egyptian export position around the world and is considered to be a main pillar for growth is the textiles sector. It is one of Egypt's most important industrial sectors, accounting for 25% of the country's total industry and nearly 30% of all industrial labor employment. Cotton and textile fabrication ranked third in Egyptian exports and accounted for 25% of all Egyptian cumulative exports in 2010.¹⁹

Before 1973, the textiles industry—especially cotton—was a leading and competitive industry for the Egyptian economy. However, after the establishment of the Open Door policies, and especially during the 1980s, textiles started to lag behind. In 1993, the total shares in the textiles industry was falling behind that of oil, petroleum and tourism. In 2003, the industry's total production reached around 27% of the total industrial production in Egypt. Between the years 2005-2008, the sector had experienced an average growth of 10% due to the **Qualified Industrial Zone Protocol** with the United States. It is highly significant that Egypt's textile garment industry is one of the very few manufacturing processes that have the complete supply chain within the country's resources. Although the public sector has historically dominated most of the activities in this sector, the private sector is now playing a major role.

It is worth mentioning that the Egyptian agreements with the European Union, the United States and the Qualified Industrial Zone all had shifted the sector to a state of continuing growth. The industry has since then been unceasingly working on enhancing its productivity and its competitiveness by trying to adopt the latest technology. As a result, the textiles industry has become a major contributor to the local economy and the international market as well—despite major challenges facing the sector such as lack of qualified trained labor (according to international standards). This lack of skilled labor is due primarily to a weak research and development and technology framework. However, Egyptian unskilled labor is very cheap, which yields a comparative advantage for the whole sector among its rivals. Yet, achieving a competitive advantage is the major challenge ahead.

B. Sector Positioning

Today, the textiles industry contains more than 3,000 companies, with both private and public enterprises ranging between companies that employ only two laborers to those employing as many as

¹⁹ <http://www.alexbank.com/Uploads/documents/research/Towards%20A%20New%20Egyptian%20Economic%20Reform.pdf>

20,000 laborers. The textiles industry employs around 8% of the total industrial workers and 2% of the whole labor force, including government and agriculture labor. In terms of exports, the industry accounted for 13% of total exports in 2002. Between 2006-2010, the government increased the annual textile exports by 3 billion EGP. Although there is stiff competition internationally from the United States, China, Turkey, India and Israel, the Egyptian economy shares around 35% of the world market. Today the textiles industry is attracting foreign direct investments from around the globe. Total investments (foreign and local) have risen by an average of 9.5% per year over the past four years.²⁰

The industry's main export products are fibers, yarns, cotton and blended fabrics, carpets and floor coverings, apparel and tailoring, and knitted apparel. The main governorates that produce textiles in Egypt are Alexandria, Qalyoubia, Gharbiya and Cairo.

The textiles industry is characterized by the existence of both public and private enterprises. Despite the dominance of the public enterprises in the sector, private companies operate in the industry, which includes SMEs and informal workers. Egyptian law No. (141/2004) differentiates SMEs based on two criteria: the enterprise's capital and the number of employees. Small enterprises have capital between EGP 50,000 and EGP 1 million and less than 50 employees. Medium enterprises have capital between EGP 1 and 50 million and more than 50 employees. The General Authority for Investment and Free Zones' data on the textile sector for small enterprises is shown in **Table (2)**.

Table 2: Number and Capital of Newly Established Small Companies in Textile Sector (Values in EGP Million)

Textile Sector (Small Enterprises)		2009	2010	2011	2012	2013
Number of Companies Established		82	141	111	200	321
Total capital		30.64	60.25	44.25	56.13	71.65
Group Contribution in Capital	Egyptians	18.71	50.70	30.59	32.25	55.40
	Arabs	2.47	4.46	6.85	20.81	13.00
	Foreigners	9.46	5.09	6.81	3.07	3.25

Source: General Authority for Investment and Free Zones, 2014

The number of established small companies in the textiles sector increased steadily from 2009 to 2013, despite political instability in Egypt after 2011. Egyptians, compared to Arabs and foreigners, contributed the most capital to these established small companies, which shows that Egyptians have access to various sources of funding.

The General Authority for Investment and Free Zones' data for newly established medium enterprises in the textile sector is shown in **Table (3)**.

^{20 20} "High Financial Profitability and Low Economic Returns," Selim Tarek and Wissa Yasmine, April 2012, The American University in Cairo.

Table.3 Number and Capital of Newly Established Medium Companies in Textile Sector (Value in EGP Million)

Textile Sector (Medium Enterprises)		2009	2010	2011	2012	2013
Number of Companies Established		21	38	23	64	101
Total capital		74.08	248.23	156.77	333.02	435.04
Group's Contribution in Capital	Egyptians	45.75	125.13	89.56	57.45	112.23
	Arabs	8.50	28.16	7.00	223.19	303.38
	Foreigners	19.83	94.94	60.21	52.38	19.43

Source: General Authority for Investment and Free Zones, 2014

The number of medium companies established in this sector was not big compared to the small companies. These lower numbers imply that there is a need to support owners of these medium-sized companies as they are key players in the supply and the value chain of this sector. The major contributions in capital were from Egyptians and Arabs, while foreigners' contribution decreased considerably due to the political and economic instability following 2011.

The significant discrepancy in the number of small and medium companies established and Egyptians' greater contributions in capital to small companies indicates the willingness of many domestic entrepreneurs to invest in and start small companies in the textile sector.

Therefore, it is imperative that the textile industry capitalize on this opportunity for development. It constitutes a major contributor to the nation's exports, as it is ranked second after food processing in its share of exports by the manufacturing sector. High domestic and international demands for the sector's different products such as yarn, cotton, and carpets represent a major opportunity for the entire country. Woven apparel represents the largest category of the textiles sector that assisted Egypt to become the second largest exporter to the Middle East and North Africa region.²¹

Sector opportunities: Cheap labor and low energy cost are the two most important factors that give the country a competitive advantage for this sector. Moreover, the whole supply chain for the textiles industry is present within the Egyptian economy.

Sector challenges: That the entire production process is inside Egypt constitutes an asset and a liability, particularly after the Free Trade Agreements that have exposed Egypt to the fluctuations and competitiveness of the international market. If any of the stages of production fail to adapt to the international manufacturing and trading patterns, the entire industry will be under high risk. The weak technological base of the textiles sector and the poor quality of textiles produced in Egypt over the past 30 years, excluding the apparel industry, has made it difficult to compete with the higher-quality and lower-priced textile products imported from China.

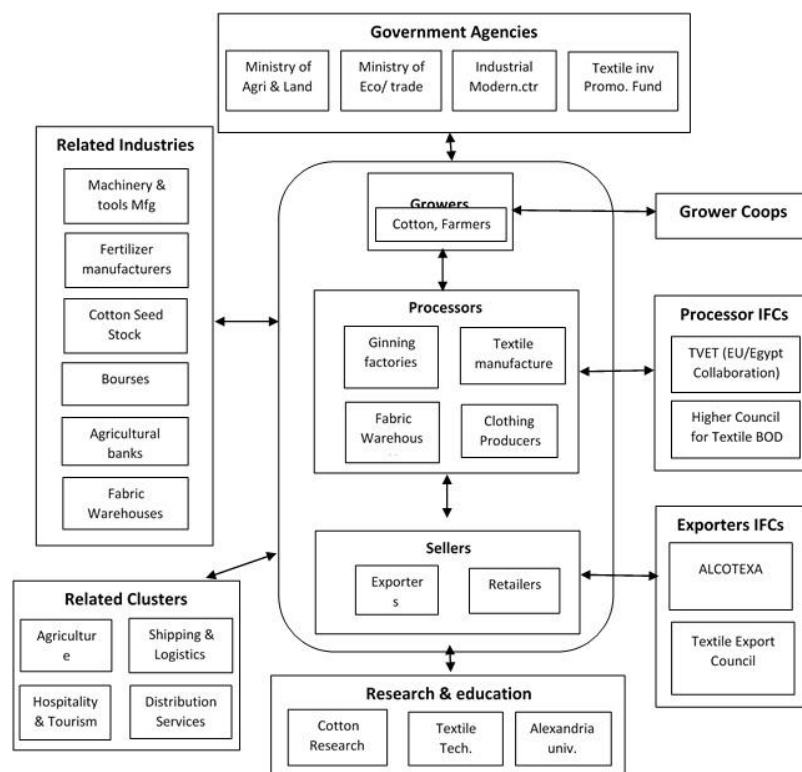
²¹ High financial profitability and low Economic Returns, Selim Tarek and Wissa Yasmine, April 2012, The American University In Cairo.

C. Sector Value Chain and Linkages

Egypt has the only fully vertically integrated textile industry in the region, with the entire production process—from the cultivation of cotton to the production of yarns, fabrics, and ready-made garments—carried out domestically. However, there is a need to establish textile clusters to enable the firms to operate more optimally.

The major players in the Egyptian textile value chain can be divided into three segments: **growers** (cotton farmers); **processors** (ginning factories, weavers/clothmakers and ready-made textile producers); and **sellers** (exporters and retailers).²² See **Figure (8)**.

Figure 8: Egyptian Textile Value Chain



Source: (Abdallah, 2012)

Growers:

The Egyptian government is the sole buyer of the replanting seeds in Egypt. Egyptian farmers are free to plant any crop they choose, but if they are planting cotton, the government specifies the areas for planting each variety of cotton.

Processors:

The processing segment includes the production of intermediate goods like lint, yarn and fabric, as well as finished goods like ready-to-wear clothing. Cotton ginning in Egypt is dominated by five firms, four of which are publicly-owned.

²² The textile cluster in Egypt, Abdallah rawiah et al, 2012, Micro economics of competitiveness.

For textile commodities, spinning and weaving are the main feeding sectors for the textiles industry. Most spinners export because they produce fine counts—an expensive product for the local market—and fabrics from imported yarn mainly target the local market.

The Egyptian textile and apparel industry consists of 40 public-sector companies that are organized into three large holding companies and an estimated 3,500 private- and investment-sector companies ranging in size from over 10,000 workers to fewer than 10. The public sector dominates the early stages of production, with a 90% share of spinning and 60% share of weaving in Egypt, but performs much weaker in apparel production, with only a 30% share. In looking at the age of machinery used at various stages of the value chain, the reasons for the production weaknesses of Egypt's public sector are clear—public companies are saddled with aging equipment (almost all of it is older than 15 years) that hurts their overall operational efficiency. Overemployment, inferior technology, and low levels of capital utilization are other major contributors. In the apparel industry, where public companies face greater competition from the private sector, the picture is somewhat better, showing a greater share of newer equipment.²³

Dyeing and finishing are the weakest points in the value chain, with the least amount of investments. Therefore, the Egyptian government is looking to attract new private investments into upstream segments of the textile industry to sharpen Egypt's competitiveness edge in the global market.²⁴

For the ginning cluster, privatization initiatives have been under way since the mid-'90s but have been unsuccessful for two overarching reasons. First, the antiquated equipment would require large private-sector capital expenditures since there is no local loom machinery industry and the government maintains high import taxes on foreign machinery, thereby diminishing the attractiveness of any such investment. Second, many Egyptian officials saw privatization as a threat to social peace as it would make thousands of public-sector employees redundant; however, the foreign investment in private-sector firms is common, majority-foreign ownership is legal, and most spinners target the export markets.

In 2008, an Industrial Development Strategy was developed by Egypt's Ministry of Industry; it identified the most important industrial sectors that contribute to manufacturing value added. The strategy's focus is closely aligned with the objectives of developing exports and deepening Egypt's integration into the global economy. Rather than designing a unified strategy for the textile sector, Egypt may benefit strategically by directing investments in fine weaving and dyeing to produce larger quantities of high-quality fabrics for the export market. Structural problems in the spinning and weaving sectors include the high cost of initial investment and the long time for break-even and return on investment. Many investors are more interested in ready-made garments because the initial cost of investment is lower and the return on investment is usually faster. There are no clear policies or strategies that address increasing local value addition in terms of local content or local processing.

Exporters:

The largest textile producers manage exports themselves, but most processors rely on exporters to reach international markets. Textile and finished-goods producers generally affiliate with the Egyptian Exporters Association (ExpoLink), a less-focused trade association that promotes the development of trade in all Egyptian manufactured goods.

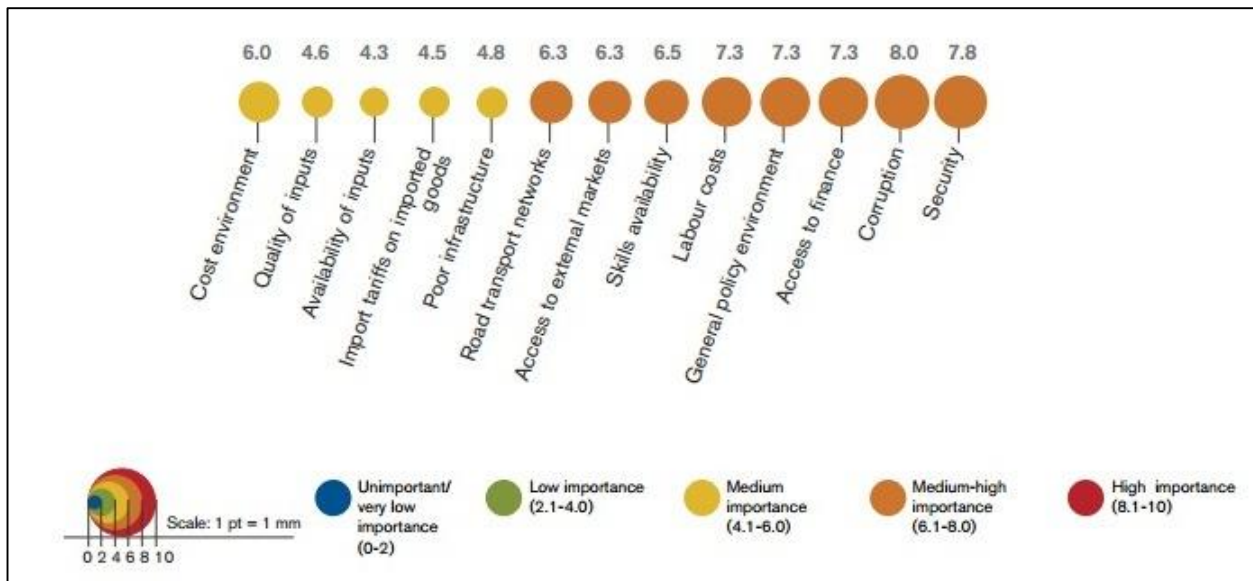
²³ <http://www.piie.com/publications/wp/wp05-8.pdf>

²⁴ http://www.uneca.org/sites/default/files/uploaded-documents/era2013_casestudy_eng_egypt.pdf

D. Sector Linkages:

Linkages opportunities in the textile sector are limited and lie in backward linkages (high-quality cotton fabrics) and forward linkages (finished new products). However, a number of factors affect these linkages, as shown in **Figure (9)** below.

Figure 9: Factors Affecting Egyptian Textile-Sector Linkages



Source: Economic Report on Africa, 2013

E. Sector Recommendations:

- Policy leaders must define a vision for cluster improvement that can endure across business cycles and political administrations.
- Investment in the ginning mills must be spurred through privatization of the spinning segment.
- The key bottleneck—an uncompetitive ginning sector—must be removed if Egypt is to become the leading producer of long-staple yarn and fabric in the world and the leading supplier of textile expertise to the Middle East and North Africa.
- Subsidies to state-owned mills should be eliminated to force these enterprises to compete on their own merits. By purchasing commodities at artificially-inflated prices, government-owned factories gain an unfair competitive advantage over private-sector players, causing inefficient resource allocation and discouraging private investment that might upgrade competitiveness.
- Either permit growers to diversify their crops and increase production of short-stem cotton at competitive prices or reduce the non-tariff transaction barriers to importing raw products.

2. Information and Communications Technology Sector

1.A. Sector Overview

Egypt is one of the highest-growth potential information and communications technology markets in the Middle East, receiving much attention from tier-one vendors and distributors, most of whom are already very familiar with the market. Given its huge population, rising economy and relatively low personal computer concentrations, the country will continue to be an important market player over the forecast period.

The Egyptian government has made big strides in the last couple of decades towards establishing the country as a potential information and communications technology hub in the region. Major infrastructure developments have upgraded the sector's capacities in Egypt. In addition to laying a modern communication infrastructure, the Egyptian government is promoting the use of computers and the internet for economic growth. With its proactive policy and clear, long-term vision, the Egyptian government, in partnership with the private sector, seeks to make the information and communications technology sector a major leader in the country's economy.

Alongside the Government of Egypt's reform efforts, there has been a significant and ongoing deregulation of the business environment. As a result, there was a 11.04% increase in the number of companies operating in the information and communications technology sector in Egypt between December 2012 and December 2013, with 5,644 companies operating in December 2013 compared to 5,083 operating companies in Dec 2012—of which 77.36% were information and communication technology companies, 15.15% value-added services, and 7.49% communication companies.²⁵

In 2012/2013, the information and communications technology sector sustained an annual growth rate of 2.31%, and had received, up until September 2013, about EGP 46.76 billion in government funding. Moreover, in FY 2012/2013, the sector generated revenues of EGP 41.72 billion, contributing 2.77% to real gross national product (GDP). The total number of direct employees in this sector (Information and Communication Technology, Telecom, Post, Smart Village and Maadi Technology Park) reached 217.78 thousand employees in Q1 2013.²⁶

In addition, with its unique location at the crossroads of Europe, Africa and the Middle East, Egypt is well situated to offer easy access to markets in the Arabian Gulf, the Levant, North Africa and Sub-Saharan Africa, as well as Europe. As such, it started to position itself as a potential information and communications technology hub in the Middle East region and as one of the top five major outsourcing and off-shoring destinations. Moreover—and as a reflection of Egypt's competitiveness in this sector—a multitude of international companies are using Egypt as a base for software development, technical-support contact centers, and research facilities such as **IBM, Intel, Microsoft, Cisco, Oracle, Satyam, Wipro, Orange, Alcatel, Tele-performance and Vodafone**. Egypt is also a key communications node, notably hosting SEA-ME-WE2, the world's first submarine cable linking Southeast Asia, the Middle East and Europe. Hence, Egypt is an ideal location to base a business with regional – and even global – ambitions.

²⁵ Ministry of Communications and Information Technology, "ICT Indicators in Brief," Monthly Issue, January 2014.

²⁶ General Authority for Investment and Free Zones, "Invest in Egypt Report: Communication and Information Technology," Cairo, 2014.

1.B. Information and Communications Technology Sector: Current Developments and Potential Growth

A conducive regulatory environment is critical for boosting the information and communications technology sector and its growth. Since the late 1990s, the Egyptian government has made deregulation and development of the telecommunications sector a top priority. One of the main steps in deregulating the sector was creating the National Telecommunications Regulatory Authority in 1998. The key responsibilities of this regulatory body are to increase private investment in the sector; to oversee telecommunications technical aspects such as monitoring frequencies and their spectrum; to issue service licenses; and to approve all sector-related tariffs. In October 1999, the Ministry of Communications and Information Technology was launched as the policy authority for the information and communications technology sector. This ministry's mandate is to develop and improve the telecommunications infrastructure and promote the development of Egypt's information society.

As success under current global conditions has become linked to the country's ability to overcome the challenges of globalization, the Government of Egypt has implemented several action plans that were instrumental in developing the information and communications technology industry's opportunities and maintaining its position in the world markets.

1.B.1. Information and Communications Technology Infrastructure Development

Egypt has three advanced mobile phone networks (**Mobinil, Vodafone Egypt and Etisalat Egypt**); all three have 3G and 3.75 G infrastructure. They serve over 99.70 million subscriptions till December 2013—the number of subscriptions growing by 3% since December 2012 and hitting a penetration rate of 118.9%. Internet subscriptions show an annual growth rate of 17.4%—there are more than 38.75 million regular internet subscribers till December 2013 and over 2.63 million ADSL subscribers till December 2013. Fixed-line subscriptions reached about 6.82 million till December 2013. The country's network of postal outlets is being reconfigured to be a business communications network, as well as points of contact for government services. WiFi networks are provided countrywide by businesses, restaurants and cafes for their customers. In 2013, the number of citizens acquiring the International Computer Driver License (ICDL) certification in Egypt reached 8,000.²⁷

²⁷ General Authority for Investment and Free Zones, "Invest in Egypt Report: Communication and Information Technology," Cairo, 2014.

The following table of indicators shows the information and communications technology infrastructure developments from December 2007 to December 2013:

Table 4: Information and Communications Technology Infrastructure Developments (Dec2007-Dec2013)

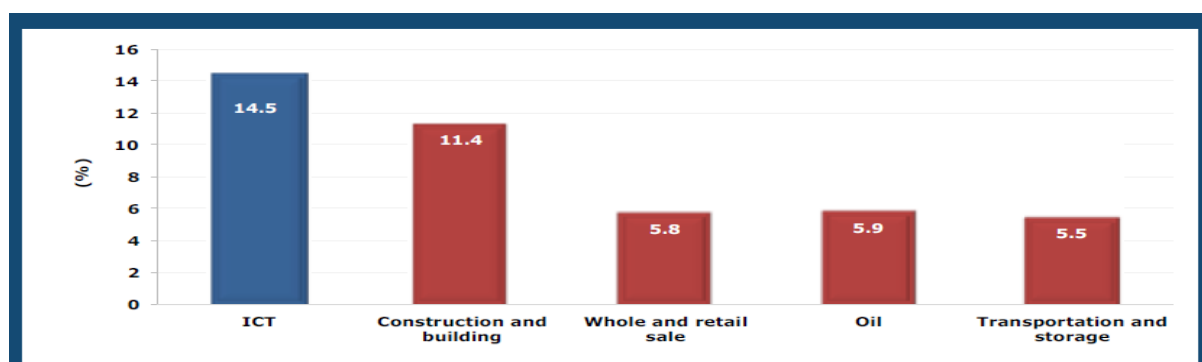
Detail	Indicator	Unit	Dec. 2007	Dec. 2013	Growth Rate (%) (2007-2013)
Mobile Lines	Number of mobile phone lines	Million subscriptions	30.09	99.70	231.34
	Mobile penetration	%	40.68	118.19	77.51
Internet	Internet capacity	Gigabits per second (Gbps)	14.866	250.98 *	1588.28
	Number of internet users	Million users	9.87	38.75	292.60
	Internet penetration	%	13.57	45.93	32.36
	ADSL subscription	Million subscriptions	0.43	2.63	511.63
	Mobile internet users	Million users	--	14.50	--
	USB modem subscription	Million subscriptions	--	3.90	--
Fixed-Line Services	Exchange capacity	Million lines	13.75	14.83	7.85
	Number of fixed telephone lines	Million lines	11.2	6.82	-39.11
	Number of exchanges in rural areas	Exchanges	1,162	1,201	3.36
	Number of international connecting circuits and links	Circuits	31,133	81,746	162.57
Postal Services	Number of post offices	Offices	3,634	3,843	5.75
	Average number of people served by individual post offices	Persons	20,350	21,917	7.70
	Number of pensions distributed through post offices	Million pensions	3.2	4.80	50.00

Source: Ministry of Communications and Information Technology, Cairo, Egypt.

1.B.2. Information and Communications Technology Value Added in the Egyptian Economy

The information and communications technology value added GDP at current prices reached EGP 30.9 billion (USD 5.6 billion) in 2008/2009, while its value added at fixed prices reached EGP 30.3 billion (USD 5.5 billion), with an annual growth rate 14.5%. The private sector played a leading role in generating the total information and communications technology value added as it contributed about 69 % of the total value added generated in 2008/2009. The below figure shows the growth rates of some of the fastest-growing sectors in the Egyptian economy in 2008/2009.

Figure 10: Information and Communications Technology Sector's Contribution in the Egyptian Economy (2008/09)



Source: Nagwa El Shenawy, "Statistical Compilation of the ICT sector and Policy Analysis in Egypt," WSIS Forum, Geneva, 2011

1.B.3. Number of Information and Communications Technology Companies, Issued Capital and Revenues

There was a 43.46% increase in the number of companies operating in the information and communications sector in Egypt between 2010 and 2013, with 5,644 companies in December 2013 compared to 3,934 companies in 2010, of which 77.96% were information and communications technology companies, 14.22% value-added services and 7.78% communication companies.²⁸ At 16.1%, the increase in the number of small and medium companies operating in this sector for that same period was much lower, recording a total number of 1,387 companies by 2013. **Table (5)** shows the increase in the number of total information and communications technology companies in Egypt between 2010 and 2013, while **Table (6)** shows the (trivial) increase in the number of small and medium companies for that sector for the same period.

Table 5: Number of Companies in the Information and Communications Technology (ICT) Sector (2010-2013)

	2010	2011	2012	2013	Total No. of ICT Companies in Egypt (2010-2013)	Growth Rate% (2010-2013)
Total No. of ICT Companies in Egypt	3934	4428	5083	5644	19089	43.46
ICT	3078	3457	3982	4366	14883	41.84
Value-Added Services	532	621	707	855	2715	60.7
Communications	324	350	390	423	1487	30.5

Source: Ministry of Communication and Information Technology, Cairo, Egypt.

Table 6: Number of Small and Medium Companies in the Information and Communications Technology (ICT) Sector (2010-2013)

	2010	2011	2012	2013	Total No. of ICT SMEs in Egypt (2010-2013)	Growth Rate% (2010-2013)
Total No. of Small and Medium ICT Companies in Egypt	291	321	430	338	1387	16.1
Small²⁹ Companies (EGP 50000-1 million)	277	302	409	321	1309	15.8
Medium³⁰ Companies (EGP 1 million-50 million)	14	19	21	17	71	21.4

Source: General Authority for Investment and Free Zones, Cairo, Egypt.

²⁸ Ministry of Communications and Information Technology

²⁹ According to the General Authority for Investment and Free Zones, small enterprises have an issued capital of $\geq 50000 \leq 1$ million EGP.

³⁰ According to the General Authority for Investment and Free Zones, medium enterprises have an issued capital of ≥ 1 million ≤ 50 million EGP.

According to data provided by the Ministry of Communications and Information Technology and the General Authority for Investment and Free Zones, small and medium information and communications technology companies constituted only 7% of the total number of information and communications technology companies in Egypt from 2010 to 2013—the growth rate of these companies having fluctuated quite a bit between 2010 and 2013. Despite the number of SMEs in this sector having grown only 9% in 2011, there was a surge in the number of companies established in 2012, reaching a high growth rate of 35%; by 2013, however, the number of established SMEs had declined by 21.5%. The sharp fluctuations in the new small and medium companies' growth rates in this sector have been attributed to the political and economic imbalances that Egypt has witnessed in the past four years.

As shown in the **Table (7)** below, there was a surge in the amount of issued capital for all information and communications technology companies, from 35.75 billion EGP in 2007 to 46.47 billion EGP in 2013—an almost 30% increase. Yet, if we compare the total issued capital for all information and communications technology companies in December 2012 with the total issued capital in December 2013, we will find that the amount was almost stagnant, increasing by only 0.3%.³¹

Table 7: Information and Communications Technology (ICT) Issued Capital (2010-2013)

	2010	2013	Growth Rate % (2007-2013)
ICT Companies Total Issued Capital (Billion EGP)	35.7	46.47	0.30

Source: Ministry of Communications and Information Technology, Cairo, Egypt.

Over the last decade Egypt's information and communications technology sector was transformed from one dependent on subsidies and grants to a revenue-generating sector and a net contributor to the treasury, adding over USD 7.8 billion to the treasury between the years 2005 to 2008—hence enabling the government to enhance and widen its provision of social services and developmental plans.³² In 2013, this sector's contribution to the treasury was EGP 13.20 billion (USD 1.846 billion).³³

³¹ The General Authority for Investment and Free Zones (GAFI) and Ministry of Communications and Information (MCIT), 2014.

³² The Organization for Economic Cooperation and Development, "Egypt Information and Communications Technology Sector: Competitiveness, Growth and Key Challenges," 2010.

³³ Ministry of Telecommunications and Information Technology (MCIT), Cairo, Egypt.

1.B.4. Employment in the Information and Communications Technology Sector

The total number of direct employees in the information and communications technology sector had climbed to 217, 780 employees in Q1 2013, up from 182,000 in 2009 and 175,000 in 2008. These figures include Information Technology (IT), Telecom, Post, Smart village and Maadi Technology Park employees but do not include employees from the outsourcing industry (e.g., call centers, which reached 50,000 employees during the period 2006-2009). Also, they do not include indirect employees in information and communications technology clubs, internet cafés and private communication stores, which was estimated to be at 500,000 in 2009.

In this context, Egypt's information and communications technology sector was expected to create around 40,000 new direct jobs within the years 2011-2013—in line with the launch of the second investment information and communications technology zone in Maadi. Yet due to the political uncertainty facing Egypt since 2011, the number of jobs created in this sector in 2013 fell far short of expectations.

However, the information and communications technology sector has many drivers that could help boost job creation, such as the following:

- **Talented and educated pool of potential employees.** More than 300,000 Egyptians obtain university degrees every year, of whom 70,000 are in commerce, 18,000 are in engineering and over 3,000 are in information and communications technology, thus producing a large potential talent supply with the skill sets necessary to succeed in this sector;
- **Bilingual/multilingual population.** Egyptians speak European languages with a neutral, easily understood accent. Annually, more than 22,000 students graduate who are fluent in various European languages including English, French, and German, many of whom have been studying their second language since primary school. Thus, a large potential supply of talent with the language skills to succeed at all levels of the value chain—from call-center operators to senior researchers at offshore development centers for multinational corporations—is available;
- **Already existing information and communications technology infrastructure.** The existing information and communications technology infrastructure in Egypt greatly eases start-up costs and enhances day-to-day productivity. Its competitive infrastructure includes submarine fiber-optic cables that link Egypt to Southeast Asia, the Middle East and Europe; landlines that have dial-up access; and high-speed broadband and wireless networks that are already in place in major urban areas throughout the country;
- **Affordable skilled labor.** In Egypt, skilled labor is readily available at reasonable prices. Programmers, for example, are paid, on average, USD 10-20 per hour. Since wages are stable, growing only 5% annually, employers can afford to hire—and keep—skilled laborers at a rate that is cost-effective for their companies.
- **Tech-oriented consumer base.** Egypt's technology-savvy consumer base (comparable to the entire populations of many European countries) is hungry for new products and services. Thus, scaling up demand for more products and services to be supplied by current or new information and communications technology companies is a very viable possibility.

1.B.5. Investments, Exports and Value Chain Linkages

I. Investments

Investments in information and communications technology in Egypt grew considerably from 2001/02 to 2009/2010. During 2005-2007, the sector had succeeded in attracting local and foreign investments of more than USD 8 billion. Consequently, seventeen international companies are now operating in Egypt and exporting IT-enabled services (e.g., call centers). Implemented investments by the communications private sector grew sharply in the past few years, reaching EGP 17.3 billion in 2009/2010. Public-sector investments represented only 12.2% of total implemented investments in the communications sector in 2009/2010, proving the dominance of the private sector, both locally and multi-nationally, in the communications sector. This is evidence of the successful privatization and deregulation trend the government has supported to improve the sector.³⁴ As of February 2014, the information and communications technology industry consisted of 5,686 companies operating inland with total investments of USD 10.75 billion and 38 companies operating in free zones with total investments of USD 100.98 million.³⁵

The Egyptian national vision is mainly focused on attracting more foreign direct investments—especially in business process outsourcing activities—particularly in view of their positive spillover on employment rates. To achieve this goal, a comprehensive framework—one aimed at attracting more multinational corporations that are interested in business process outsourcing, at encouraging technology and know-how transfer, and at building qualified yet cost-effective human capital—was put in place. The government’s **Information Technology Industry Development Agency** supports the information technology and business process outsourcing industries in Egypt.

The Information Technology Industry Development Agency provides end-to-end support for foreign direct investors seeking to enhance their global offerings using Egypt’s competitive advantages. The agency helps overseas investors explore and apply for incentives covering all strata of the information technology industry, and especially in the business process outsourcing/information technology outsourcing fields. The agency’s full-fledged support to investors includes backing all activities required by investors, including information gathering, site visits, case studies and others. It also provides incentives that support the company’s needs as well as facilitates the setup and establishment of procedures in Egypt. The agency also worked on reducing companies’ startup costs, including the telecommunication costs of running circuits to link Egypt with the Gulf and other Arab countries. The General Authority for Investment and Free Zones operates a one-stop shop that streamlines and expedites investor services that most businesses can incorporate in 72 hours.

Egypt has been undertaking many other initiatives with the objective of creating an attractive and conducive business environment for international multinational organizations, such as offering different types of business lines that include research and development/engineering activities, knowledge process outsourcing services, localization and Arabic content services, business process outsourcing services, technical support activities, contact centers, and IT products and services. In addition, Smart Village Egypt was launched in 2003 to be the first, fully operational technology cluster and business park in Egypt. It was established to accommodate local and multinational companies, government and financial authorities, educational institutions, and research and development centers, all of which share state-of-the-art infrastructure, modern facility management and a broad range of business and

³⁴ Alex Bank, “Information and Communication Technology Industry: Boosting Industry in Egypt,” Sector Survey, January 2011.

³⁵ The General Authority for Investment and Free Zones, “Invest in Egypt Report: Communication and Information Technology,” Cairo, 2014.

recreation services. In 2010, the government announced the launch of a new business-delivery hub, called Maadi Investment Park, which is specifically aimed at attracting business process outsourcing companies. This park is centrally located in Cairo and easily accessible by public transportation. Moreover, a United Kingdom-based company has signed a deal to establish a business center in Alexandria, while several other leading multinational corporations are also actively considering Alexandria as a business hub.

The Government of Egypt also provides incentive packages catering to investor needs via 1) offering tax exemptions and reductions for the information and communications technology sector, 2) reducing land prices for investors in this sector, 3) easing export and import regulations, 4) providing demand-driven training programs for sector professionals at the government's expense, and 5) assigning Government of Egypt officials to facilitate interaction with government organizations.

II. Small and Medium Enterprises Value Chain/Business Linkages

Broadly speaking, the definition of value chain/business linkages refers to any program aimed at linking purchasers with potential suppliers. Purchasers are usually identified as multinational corporations interested in investing or already operating in a host economy, perhaps a developing one, wherein suppliers are local businesses trying to enhance their competitiveness and to capture opportunities for increased trade. The four types of linkages are described below:

1. Backward linkages occur when multinational corporations buy parts, components, materials and services from local suppliers;
2. The second type of linkage forms when these corporations engage in joint ventures, licensing agreements, or strategic alliances with local partners—offering them access to technological and managerial know-how—or when they offer foreign companies access to local authorities, institutions and markets;
3. Forward linkages with customers occur when multinational corporations outsource the distribution of their brand-name products through marketing outlets; when they produce machinery, equipment or other inputs; or when they offer after-sales services to industrial buyers beyond the usual advice on usage and maintenance of the purchased good;
4. The last type includes demonstration effects and human capital spillovers. This term refers to the uncontrolled, not channeled, ways of transferring technology or know-how as opposed to the second type of linkage that occurs through formal, contractual channels.

As a result of these linkages, many internal and external benefits are reaped. Internal benefits include helping to develop domestic industry; deepening the involvement of the foreign direct investor in the host country; maximizing the purchasing of foreign direct investments and companies to the benefit of the host country; assisting the host country's general economic growth through a multiplier effect; facilitating import substitution; and promoting corporate social responsibility. External benefits include attracting more foreign direct investments via the development of useful selling tools (which allows domestic companies to grow and move into export markets) and improving the general profile of the country's industrial capacity.

Many multinational corporations have started to use Egypt as an offshore destination, and Egyptian outsourcers have started to serve international companies. In the past few years, the country has

developed a promising contact center industry that serves technology multinational corporations and that continues to grow at a rapid pace.

As a matter of fact, Egypt is well positioned as the Middle East's prime winner to take advantage of the boom in global outsourcing, already worth an estimated USD 300 in 2009, according to international research centers. Egypt was assessed as having the strongest position based on its young population and its sustainable and abundant talent pool of technologically skilled and multilingual university graduates. Its geographical location—adjacent to Europe and Asia—coupled with strong government support are also factors that contribute to Egypt being a potential outsourcing hotspot. A multitude of international companies are using Egypt as a base for software development, technical-support contact centers and research facilities. Examples of which include IBM, Intel, Microsoft, Cisco, Oracle, Satyam, Wipro, Orange, Alcatel, Tele-performance and Vodafone, among others.

In Egypt, for example, small-scale enterprises supplying Microsoft Egypt have been able to leverage the reputation of their lead partner through the lighthouse effect of having credibility bestowed upon them by a global player. SME suppliers that are certified Microsoft Gold Partners have used the Microsoft network for projects both in Egypt and in the region. On the other end, the supplier network assists Microsoft with new-market entry and local credibility.

The case of Microsoft Egypt gives insights into the relationship between multinational corporations in Egypt and local partners (suppliers). Various companies in the Egyptian market joined Microsoft's global value chain such as Arabize, Bayanet, IT Worx, MNS, OMS, and Xceed. Based on Microsoft's classification, companies were split into two categories:

- 1- Companies providing a service that complements an existing Microsoft product, thus vertically integrating into Microsoft's value chain. A typical example of such companies is a systems integrator. These companies' customers are the end users of Microsoft's products; and
- 2- Companies providing the support functions for Microsoft, thus helping it deliver its final product. These companies' customer is Microsoft. It is worth noting that companies in this category tend to serve Microsoft on a global scale (as opposed to the first category of companies who serve Microsoft's local or regional customers) as the services they provide are largely location independent. **Table (8)** below shows the profile of these firms.³⁶

³⁶ United Nations Conference on Trade and Development, "Integrating Developing Countries SMEs into the Global Value Chain," 2010.

Table 8: Local Suppliers' Profiles

Firm's Name	Number of employees	Turnover in \$million	Major Shareholders (25% or more)	Important lines of business
Arabize	70	< \$1	Family Owned	• Localisation service provider
Bayanet	70	\$1 - \$5	Privately Owned	• Business application provider • Enterprise resource planner
IT Worx	600	\$11 - \$40	Privately Owned	• Software professional services
MNS	30	< \$1	Privately Owned and Owned by other companies	• Unified communications provider
OMS	120	\$6 - \$10	Privately Owned	• IT infrastructure services • Business – productivity solutions • Off-the-shelf software packaging
Xceed	1200	\$11 - \$40	Public Sector	• Contact Centre

The above companies have been part of Microsoft's global value chain for four-and-a half years. A large percentage of them have international competitors located mainly in the Gulf region or in India. Bayanet and OMS have a relatively low degree of transformation of their incoming Microsoft services (about 52%) compared to IT Worx and MNS.

The Microsoft partnership has been instrumental in enabling local companies to access regional-growth opportunities and therefore to become more integrated into the global value chain, as opposed to being just a local implementer. Many partners that have developed a successful relationship with Microsoft Egypt have used that network to implement Microsoft projects in other neighboring countries. Microsoft has encouraged this expansion and has provided its trusted Egyptian partners with the necessary support (technical and commercial) to succeed in the regional markets. Microsoft benefits from this expansion when serving its customers in other Arab markets, where resources are less readily available and technical know-how is less developed. Companies such as Xceed are proud of such a strong tie with Microsoft and often leverage it to impress other multinational corporations.

However, local partners (suppliers) voiced their concerns over the challenges they face that might threaten their symbiotic relation with these corporations (namely Microsoft, as Microsoft Egypt relies 100% on its partners) and their role in the multinational corporations' global value chains.

Challenges facing local suppliers as reflected by Microsoft Egypt's local suppliers:

- **None of the companies belonged to a cluster.** Stiff competition amongst the Microsoft partners leads to them overcommitting to end customers. Very few firms belong to an industry association, making clustering a difficult (e.g., Arabize had no partners, whereas Xceed

partnered with human resource companies, training companies, Telecom Egypt, and the Information Technology Industry Development Agency).

- **Lack of qualified, skilled labor human resources.** All of the companies confirmed that the lack of qualified and skilled human resources posed a threat to their firm's position in Microsoft's global value chain. Generally speaking, the lack of capable and available skilled human resources is a prevalent in Egypt.
- **Stronger enforcement of intellectual property rights.** In Egypt, new laws are being implemented to protect intellectual property rights related to software, database designs and layouts of integrated circuits. However, the laws needs to be better enforced. The Government of Egypt, in cooperation with multinational donors, has started educating judges and district attorneys on the specific issues related to intellectual property rights. The penalties imposed by the government on intellectual property violations are in certain cases too harsh, so harsh that untrained judges find it difficult to implement them.
- **Lack of creativity.** There is a lack of originality among these firms and a relatively low percentage of product transformation. Most information technology firms tend to be service-oriented companies that offer add-ons to existing Microsoft products rather than provide their own innovative solutions.

The Microsoft case incorporates a concept of quality that ought to include not only job creation and technology transfer, but more importantly, the long-term commitment of a multinational corporation and the extent to which it establishes mutually beneficial linkages with local suppliers. In such a qualitative approach, value is imputed through the interaction and networking with domestic enterprises and the opportunities that arise as a result, as in the case of Microsoft Egypt.

Box 1: Microsoft Global Supply Chain and Standard Partner Program for Local Suppliers in Egypt

Microsoft was founded in 1975 and is today the world's largest software company with global annual revenues of USD 44.28 billion, a market capitalization of USD 283 billion, and a workforce of 76,000 employees in 102 countries. Created in 1993, Microsoft Egypt is a wholly owned subsidiary of Microsoft Corporation. Microsoft Egypt has been very successful in growing business in Egypt, especially in the last decade. It now employs over 100 professionals and occupies a large building in the Smart Village, Egypt's premier information technology park. Microsoft Egypt was awarded the **Best Microsoft Subsidiary in Europe, Africa and the Middle East** in 2004. Bill Gates presented the award in person to the Microsoft team in Cairo in July 2004.

To deliver the final product to the end user, Microsoft has to ensure that the following six consecutive phases of the value chain are completed:



Microsoft has a standard Partner Program for local companies. Microsoft Egypt follows the global model with its local partners. A local company's level of expertise and level of engagement are what determines the level at which it joins the Partner Program. A company advances in such a program by earning Partner Points, which it accumulates through upgraded capabilities and an established track record. The Partner Program is divided into three membership levels: Microsoft Registered Members (Level 3), Microsoft Certified Partners (Level 2), and Microsoft Gold Certified Partners (Level 1).

Microsoft Egypt offers quite a few training programs to its partners such as **Website**: Microsoft has a website through which partners can request and register for training; **Partner Academy**: the Microsoft Partner Academy offers training every year on soft skills and technical tracks; **Online Web Courses**: Microsoft Egypt provides online readiness using webcasts and online courses; **IT Pro**: Microsoft Egypt also offers IT Pro seminars quite often in its subsidiary where partners are invited to attend sessions; and **Training on New Products**: Microsoft Egypt provides in-depth training on the launch of new products and the aftercare as well.

Microsoft offers a wide array of products in Egypt that could be classified into 1) operating systems such as Windows NT and Windows Vista; (2) software development tools and database products such as SQL server; (3) office automation tools such as Office 2007; and (4) business applications (mainly enterprise resource planning applications) such as Dynamics (previously known as Axapta and Great Planes).

Microsoft Egypt does not sell its products directly to customers, preferring instead to reach end customers through various partners. These partners can be classified as follows: original equipment manufacturer, distributors, direct-sale representatives, and system integrators.

III. Exports

The Information Technology Industry Development Agency remained committed in 2013 to support and promote information and communications technology exports through several initiatives and programs. The agency ventured to recognize new funding sources and cooperatives for this sector's projects. As Egypt has a significant information technology and business process outsourcing industry already in place, several international customers and major multinational corporations (including Intel and France Telecom's Orange) are developing products in Egypt for export to the global marketplace. Local players (including ITWorx, ITsoft, Sakhr, Harf and Arabize) export software ranging from Arabic-language solutions to plug-ins and modules for popular software packages globally. Major multinational corporations including Microsoft, Adobe and Corel develop their products in Egypt for global export. New research and development centers in niche areas of data mining and wireless technologies are exporting to major markets as well. In 2013, Egypt's total exports from the information and communications technology sector reached USD 1.3 billion. The Ministry of Communications and Information Technology aims to reach USD 2.5 billion in sector exports in 2017.³⁷

1.B.6. Projected Information and Communications Technology Sector Growth

To support the democratic transition and grow the information community and digital citizenship, the aims are to raise the number of high-speed internet subscribers in Egypt to USD 13 million by 2015; to raise revenues generated from outsourcing services to USD 2.5 billion and from intellectual property to USD 1 billion; to have personal computers in at least 40% of Egyptian households within five years, including establishing a national network of 1,000 technology homes; and to boost exports of software and embedded software within two years to USD 500 million.

According to Egypt's 2012-2017 information and communications technology strategy to strengthen the economy, Egypt is targeting to maintain sector growth rates of 7-10% over the next five years while increasing the sector's contribution to national income to 5%. It also aims at the expansion of the national network of technology parks to 20 and the growth of Egypt Post as a primary savings facility by a yearly average of about 15%.³⁸

During the EGX Initial Public Offering Summit 2014, the Egyptian Minister of Communications and Information Technology, Eng. Atef Helmy said that by 2020, the volume of investments are expected to reach EGP 130 billion (USD 18.5 billion), out of which only 1.5% will have been contributed by the government, with the private sector providing the rest. These investments, Helmy said, will lead to a 19% growth in the sector, while its contribution to Egypt's gross domestic product (GDP) will rise to 7% in 2020.

In line with Egypt's information and communications technology strategy for 2020, the government will create a digital society that would allow Egyptians to use information and communications technology services and maintain communications growth by attracting global companies. As part of this plan, the government is working on installing maritime cables in the Suez Canal (within the framework of the Suez Canal National Project with EGP 12 billion/USD 1.7 billion) with the aim of making Egypt a global hub of internet services, which would further qualifying the country to become an attraction area for global investments.

³⁷ The General Authority for Investment and Free Zones, "Invest in Egypt Report: Communication and Information Technology," Cairo, 2014.

³⁸ Ministry of Communications and Information Technology, "ICT Strategy 2012-2017," 2012.

The Egyptian government also hopes to increase the number of professionals working in outsourcing to 75,000; in information technology to 30,000; and in innovation and entrepreneurship to 10,000. Egypt's vision, as well, is to create in a total of one million jobs in the information and communications technology sector by 2020, including 200,000 direct job opportunities.³⁹

1.B.7. Policy Support for Small and Medium Enterprises and Entrepreneurship Development in the Information and Communications Technology Sector in Egypt

The Government, with the help of the Ministry of Communications and Information Technology, has actively supported the information technology industry through various initiatives, as listed below.⁴⁰

- High- tech business parks (e.g., The Smart Village) have been established to facilitate companies' operations by providing them with world-class infrastructure at a very reasonable cost.
- Partnerships have been made with major information and communications technology firms such as Siemens, Alcatel and Cisco to train information technology engineering graduates.
- The lack of venture capital triggered the creation of Techdevfund and Ideavelopers. The Technology Development Fund was created to bring together investors and startups. It is managed by EFG-Hermes and has investments from various sources such as the Government of Egypt, Telecom Egypt and various banks. At the initial stage, a sum of EGP 50 million was dedicated to fund information technology incubators. Ideavelopers is a separate but related organization that provides expert consultation services to help businesses increase their productivity.
- Along with the private sector, the government has started a plan to improve the workforce's information technology skills. From 2000 to 2006, the Ministry of Communication and Information Technology supported the training of 133,737 students in basic IT skills and 23,999 in professional IT training skills. In 2004, the ministry, along with Cisco, has formed a public-private partnership to create the E-Learning Competence Center. This center provides e-learning solutions for individuals and SMEs ranging from beginners' courses to networking and advanced troubleshooting computer skills. In 2001, the Egyptian Technology University was approved by the Prime Minister of Egypt. The university offers advanced graduate courses and currently has 22 executive MBA students.
- The first research and development center was opened in 2005 and other centers followed. The Ministry of Communications and Information Technology, the center's initial investor, hopes that these centers will be self-sufficient in three years. Four research and development centers have been established in to increase innovation in Egyptian data mining and computer modeling, wireless technologies, mobile and e-services, and electronic design.
- The Information Technology Industry Development Agency provides training programs, capacity- building programs for local information technology companies, and image-building programs for Egypt. It is also responsible for promoting legal reforms, including those related to cybercrimes and intellectual property rights. In addition, the agency functions as a mediator

³⁹ Ibid.

⁴⁰ United Nations Conference on Trade and Development, "Integrating Developing Countries SMEs into the Global Value Chain," 2010.

dealing with IT disputes and offers technical counseling and help related to the use of e-signatures and electronic transaction. Various information and communications technology projects have already been allocated financial resources by the agency through the establishment of support programs and funds with the main aim of stimulating the local market's capacity to grow exports. It has also sponsored various visits to international events, trade shows and marketing campaigns.

- The Technology Innovation and Entrepreneurship Center was established in 2010 and formed as a catalyst between the government, private sector and academia. The Information Technology Industry Development Agency encourages the entrepreneurial spirit of Egypt's youth with a variety of educational, technological and financial support. Already the agency has managed to conduct specialized programs, form strategic partnerships with leading multinational companies in the information and communications technology sector, and attract greater venture capital investment.

The Ministry of Communications and Information Technology seeks to support micro, small and medium enterprises (MSMEs) by means of raising their performance and competitiveness through helping them identify new marketing and production opportunities. It also seeks to support MSMEs located outside Egypt's main cities to create job opportunities in these communities.

The Information Technology Industry Development Agency adopts various initiatives to boost MSMEs by injecting them with direct and indirect financial support through a set of programs. In May 2014, this development agency organized the MicroCom Exhibition and Forum to support small businesses and microenterprises in information and communications technology to develop and market their products. Ninety-five exhibitors participated and more than 200 applications and products were developed to help provide integrated solutions for all economic sectors in a variety of fields, including industry, education, health and tourism. A cooperation protocol was signed in June 2014 with the Financial Services Institute to provide SMEs with training and consulting services related to nonbank financial areas, helping these businesses in information and communications technology fields to get acquainted with the suitable funds, counter challenges, and find solutions to improve their productivity. In September 2014, the agency signed a cooperation protocol with Bedaya Center for Entrepreneurship and SMEs Development to encourage financial institutions to pump investments into information and communications technology projects, especially those designed for small and medium-sized companies.⁴¹

⁴¹ The General Authority for Investment and Free Zones, "Invest in Egypt Report: Communication and Information Technology," Cairo, 2014.

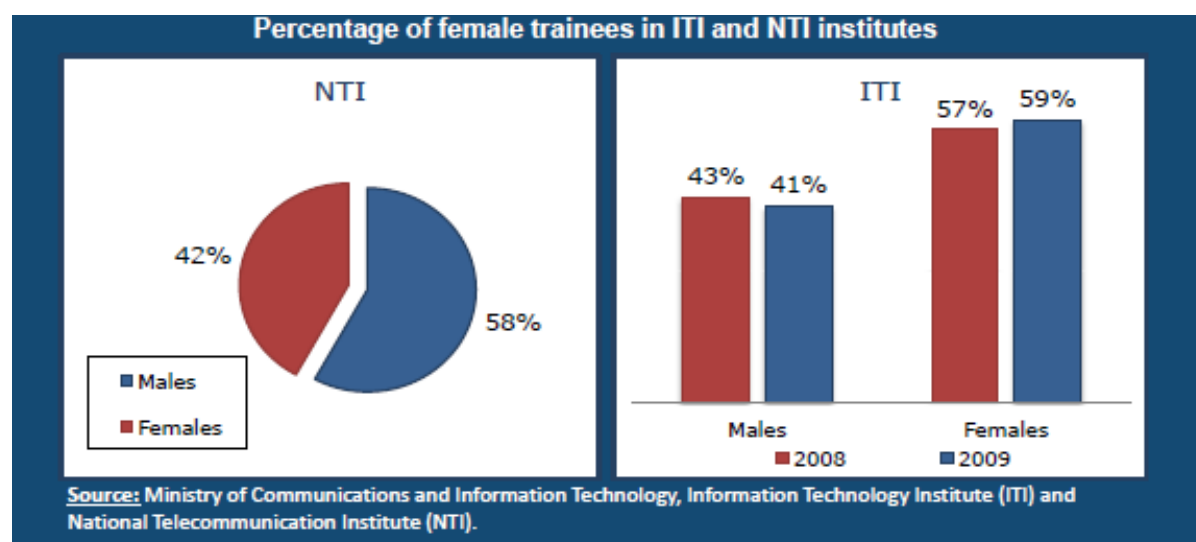
1.B.8 Women in the Information and Communications Technology Sector and Related Sectors

I. Female Employment Characteristics in the Information and Communications Technology Sector

In the information and communications technology sector, females accounted for around 30-40% of the total workforce in 2008. Females' participation is higher in the fixed telecommunications sector reaching 35%, while females in mobile communications services accounted for 27% of the total employees within the sector. Total female employees accounted for 34% —compared to 66% for males—of the overall total employment in Egypt telecoms. Despite the lower percentage of females in Egypt's total telecom workforce, the number of female trainees in the Information Technology Institute and the National Telecommunication Institute (both provide specialized and professional information and communications technology training) account for 58% and 42% respectively. In addition, females constitute 49% of the International Computer Driving License certificate holders in Egypt—a statistical fact that prompted the Ministry of Communications and Information Technology to adopt an initiative to enhance the computer skills of this particular segment of society.⁴²

Figure (11) below figure shows the percentage of female to male trainees enrolled at the Information Technology Institute and at the National Telecommunication Institute in 2008-2009.

Figure 11: Percentage of Female and Male Trainees in Information Technology and National Telecommunication Institutes



⁴² Nagwa El Shenawy, "Statistical Compilation of the ICT Sector and Policy Analysis in Egypt," WSIS Forum, Geneva, 2011.

II. Empowering Women in the Information and Communications Technology-Related Sectors

A number of projects aim to enhance the role of women in the labor market by introducing the implementation of e-commerce and making use of it to increase sales for female SME owners, as well as to improve women's job qualifications in general. Other projects focus on empowering women politically by increasing their awareness of their legal rights and providing technical assistance in learning how to use e-government services. Moreover, women appeared to be important beneficiaries of other general projects aiming at illiteracy eradication and integrating information and communications technology into the Egyptian education system. Recently, gender has gradually risen as one of the important issues that needs to be tackled by the Ministry of Communications and Information Technology. The ministry has started to publish information and communications technology indicators classified by gender, though still on a very limited scale.

The National Council for Women and the USAID have financed the establishment of the Support Center for Women in SMEs. The center—whose target groups are university graduates and SME owners and employees—aims at developing management, research, marketing, and accounting skills for women entrepreneurs. The National Council for Women also signed an agreement, funded by the USAID, supporting e-commerce and information technology. In cooperation with the Scientific Authority for Egyptian Women, the council is carrying out a project to help equip female SME owners with the necessary skills to run a business. In addition, the project offers guidance to help women entrepreneurs utilize e-commerce to increase their local and international sales. Under an agreement signed by the National Council for Women and IBM in early 2004, IBM Occupational Training Centers were formed to establish a regional center for women's occupational training. The project helped to provide technical assistance to women in shifting to use e-government services and to develop the National Council for Women's website to offer technical advice, electronic translations, and a security system—along with other services.⁴³

The government, the private sector, international organizations and the civil society were also active in enhancing interlinkages between women and the information and communications technology sector. Several of the initiatives adopted by these groups focused on areas such as disseminating awareness regarding the use of information and communications technology in improving women's job qualifications, intensifying the role of female-owned SMEs, eradicating illiteracy and enhancing legal awareness.

1.C. Conclusion and Recommendations

The Government of Egypt recognizes information and communications technology as a critical component of the national economy, not only due to its substantial contribution to value added, employment, exports and diversification of the economy, but for its dynamic, innovative potential and its broader role in providing enabling technologies, products and services that underpin the development of Egypt as a knowledge economy in the global market.

In 2013, there was an 11.04% increase in the total number of companies operating in the information and communications technology sector in Egypt, reaching 5,644 companies, of which 77.36% were information technology companies, 15.15% value-added services and 7.49% communication companies. Yet, indicators show that the number of newly established SMEs in that sector declined by 21.5% that

⁴³ Dina Atef Mandour, "Impact of ICT on Gender Gap in Egypt," The American University in Cairo: Social Research Center and the Canadian International Development Agency, Working Paper no. 004, November 2009.

year, a downturn mostly attributed to the political and economic unbalances facing Egypt in the last four years. In general, there was a surge in the amount of issued capital by all information and communications technology companies between 2007 and 2013—an almost 30% increase. In 2012/2013, the information and communications technology sector had sustained an annual growth rate of 2.31% and generated revenues of EGP 41.72 billion, contributing 2.77% to real GDP. In 2013, Egypt's total exports from this sector had reached USD 1.3 billion—and by 2017, Egypt hopes to increase that number to USD 2.5 billion. The information and communications technology sector in Egypt has managed to attract local and foreign investments, with total investments reaching USD 10.75 billion in February 2014.

Egypt was also assessed as being the strongest economic competitor in the Middle East and North Africa region based on its young population and its sustainable and abundant talent pool of technologically skilled, multilingual university graduates. Its prime geographical location—close to Europe and Asia—and its strong government backing has positioned Egypt to be an outsourcing hotspot in the years ahead. A multitude of international companies are using Egypt as a base for software development, technical-support contact centers and research facilities.

Women's employment in the information and communications technology sector is still minimal. There is no available data on women-owned SMEs for this sector. However, there's great potential to empower women in the information and communications technology-related sectors to advance their involvement in entrepreneurship and enhance SME growth.

While Egypt has witnessed huge developments in information and communications technology lately, the sector is still facing some challenges in the midst of changing global conditions, where trade borders are vanishing and competition is increasing in every sector. Despite government efforts, great industry potential and incentive packages that support information and communications technology in general, and SMEs in particular, SMEs are still facing stagnant growth rates.

Recommendations

- The government of Egypt, to realize its vision to create more jobs and boost the economy, must design policies that are more demand-driven and inclusive, strengthen its partnership with the private sector, move towards higher-value added services, leverage foreign skills and expertise, strengthen coordination among various government entities, make use of the latest technology, and set quantifiable targets and monitor progress.
- The information technology industry in Egypt is in great need of qualified experts. Therefore, training in the different information technology enabled service and information technology enabled service sectors should be the key priority.
- Many Egyptian companies are small and lack the maturity to compete globally. Capacity-building activities for SMEs to strengthen their management and technical capabilities is needed and will help equip them to compete more effectively in the regional and international markets.
- There is a clear lack of information and communications technology associations and clusters—thus there is a need to strengthen existing associations, as well as create new ones, and encourage clusters.

- The general business environment needs to be improved through faster and more efficient government service delivery, lower taxes for startups, and the enforcement of stronger anti-piracy regulations.
- Further incubation-related services for potential information and communications technology entrepreneurs are needed, and more partnership agreements need to be secured (under the auspices of the Government of Egypt) between multinational corporations based in Egypt and local suppliers/partners.

ANNEX 1: Egyptian Micro, Small and Medium Enterprise Stakeholders, Partners, and Service Providers

Donor Agency	PROJECT/PROGRAM	PERIOD	AMOUNT
USAID	<ul style="list-style-type: none"> Small Enterprise Credit Project 	2006	US \$ 35 M
	<ul style="list-style-type: none"> Bank Credit Guarantee Fund 	2007	LE 150 M
	<ul style="list-style-type: none"> Small and Emerging Business Project; for Institutional development of banks and NGOs in MSE finance and business services. Includes Banque du Caire, Alexandria Business Association, LEAD (Lend, Empower, Advance, and Develop) Foundation and through the Egyptian Banking Institute. 	2007	US \$ 86.6 M
	<ul style="list-style-type: none"> Technical Assistance for Policy Reform Project II: USAID has been the primary funder of microfinance since 1989 providing over US\$150 million to date including banking sector reform, doing business and legal reforms. However it now plans to end its microfinance support in Egypt. 	2005-2010	US \$86 M
	<ul style="list-style-type: none"> Training of state-owned banks and provision of advisory services to develop new or existing MSME portfolios 	2011-2014	
	<ul style="list-style-type: none"> Issuance of the microfinance law, its executive regulation and support to microfinance NGOs to transform into microfinance institutions (MFIs) 	2012-Dec 2013	
	<ul style="list-style-type: none"> Develop comprehensive training program materials for the SFD to train MSMEs 	2011-2013	
	<ul style="list-style-type: none"> Capacity building of tier II and tier III MFIs in the areas of financial management, information sharing and governance. 		
	<ul style="list-style-type: none"> Egyptian Competitiveness Program (ECP) 		
	<ul style="list-style-type: none"> ALROWAD (Economic Growth APS recipient) Zaytun (Economic Growth APS recipient) 		US \$1.8

CIDA	<ul style="list-style-type: none"> • SME Policy Development • Business Development Services Project (BDSSP) • Technology and Knowledge Transfer – gas • Participatory Development Program • Employment and Labor Market Support • Provides non-financial business service through capacity strengthening of existing BDS facilitators and providers. Examples of BDS include technology transfer, business management, access to existing credit facilities, quality improvement, export readiness, franchising, trading houses, brokerage mechanisms. 	2006 2004-10 2003-06 2003-08 2002-06	CAD\$ 9.2 M CAD\$ 18 M CAD\$ 4.5 M CAD\$ 14.7 M CAD\$ 9.3 M
EU	<ul style="list-style-type: none"> • Industrial Modernization Program • Trade and Export Promotion • FISC Rural (agricultural) • FISC - SFD* • Access to EU Research Frameworks and Networks • EBRD- Small Business Support Program 	1999-06 2004-06 2004-06 2004-06 2006-08 2011 2014	Euro 250 M Euro 20 M Euro 18 M Euro 17M Euro 12 M Euro 2.4 M US\$ 120 million
GTZ	<ul style="list-style-type: none"> • SME Promotion Project • Technical and Vocational Education (Mubarak-Kohl Initiative) 	2003-06	Euro 2 M

		1993-04	DM 39.9 M
JICA	<ul style="list-style-type: none"> • Technical Support – Export Training Center • Job Opportunity Study* 	2005-08	JPY 200 M
		2005-06	JPY 100 M
JBIC	<ul style="list-style-type: none"> • SFD – Small Enterprise Dev* 	2002-08	JPY 5,194 M
KfW	<ul style="list-style-type: none"> • Microfinance Best Practice Project – Social Fund* • Dakahleya Rural Finance Program 	2005-08	Euro 5 M
		1999-05	Euro 22 M
Italian Cooperation	<ul style="list-style-type: none"> • Poverty Alleviation and Employment Generation • Integrated Support to Egyptian SMEs • Italian Invest Promotion Unit • Relocation of Tanneries from Old Cairo 	1998-03	Euro 7 M
		1998-03	Euro 16 M
		1998-04	Euro 1.5 M
		2003-06	Euro 24 M
DANIDA	<ul style="list-style-type: none"> • Achieving Compliance in Industry 	2002-07	Yearly allocation Danish Budget
AECI (Spanish Agency for International Cooperation)	<ul style="list-style-type: none"> • Agro Food Technology Center • Leather and Shoe Technology Center • Credit Line to Commercial International Bank 	2002-04	Euro 0.8 M
		2002-05	Euro 1.2 M
		2001-03	Euro 12 M
IFC - WB	<ul style="list-style-type: none"> • Private Sector Development • Support for secured lending framework • Support for improving leasing environment • Integration of MFIs in to credit bureau • Advisory services to private banks • Advisory services to MFIs 	2004-07	US\$ 100 M

	<ul style="list-style-type: none"> • Rolling out of business edge for MSME training • MSMEs Technical Assistance Facility 	2014	US \$30 M
UNDP	<ul style="list-style-type: none"> • Institutional Support to SFD* • Business Enterprise Support Tools (BEST) – MicroStart 	2004-07 2002-06	US\$ 0.2 M US\$ 0.27 M

United Nation Industrial Development Organization	<ul style="list-style-type: none"> • 1) Footwear and Leather Industry Service Center – SFD* • 2) Upgrading Selected Industries in Borg El Arab • 3) Cluster and Networking Development • 4) Establishment of National Cleaner Production Center • 5) Traceability of Agro-Industrial Products for EU Market • 6) Upgrading the Medicinal and Aromatic Plants value chain: Access to export markets • Project background and rationale • 7) Interregional project to promote SME origin and export consortia • 8) Human security through inclusive socio-economic development in Upper Egypt • 9) Support to the Development of Culture and Creative Industries and Clusters in the Southern Mediterranean 	1) 2003-06 2) 2003-05 3) 2006 4) 2004-07 5) 2004-07 6) 2011 – 2014 7) 2012 – 2014	US\$ 0.97 M Euro 5.8 M US\$ 0.6 M US\$ 2.1 M LE 18 M US\$ 2,870,000 EUR 140,000 US\$ 5,372,791
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	<ul style="list-style-type: none"> • 10) EPALM: Upgrading date palm value chain in Egypt • 11) Industrial energy efficiency 	8) 2013-20169) 2013 – 2016 10) 4 years	EUR 5,500,000 US\$ 10,000,000 US\$ 3,950,000
	<ul style="list-style-type: none"> • 12) Strategic demonstration project for accelerated conversion of CFC chillers in 6 African countries (Cameroon, Egypt, Namibia, Nigeria, Senegal and Sudan), AFROC • 13) Phase-out of chlorofluorocarbons consumption in the manufacture of Aerosol Metered Dose Inhalers • 14) National CFC chlorofluorocarbons phase-out plan for Egypt 	11) 2013 – 2018 12) 2008 – 2014	US\$ 1,000,000 US\$ 5,889,000
	<ul style="list-style-type: none"> • 15) Phase-out of Hydrochlorofluorocarbons-141B from the manufacturing of polyurethane foam • 16) Hydrochlorofluorocarbons phase-out management plan: enabling activities in the refrigeration and air-conditioning sector • 17) National phase-out of methyl bromide in horticulture/commodities fumigation • 18) Promoting low-carbon technologies for heating and cooling applications 	13) 2011-2014 14) 2010-201415) 2011-201416) 2011-2014	US\$ 900,000US\$ 1,440,498US\$ 502,000US\$ 1,934,994 US\$ 6,500,000
	<ul style="list-style-type: none"> • 19) Upgrading Medicinal and Aromatic Plants value chain: Access to export markets • Green Trade Initiative 	17) 2011-2014 18) 2014-2019	US\$ 2,870,000EUR 140,000
	<ul style="list-style-type: none"> • 20) Inter-regional project to promote SME origin and export consortia 	19) 2011-2014 20) 2012-2014	

World Bank	<ul style="list-style-type: none"> Enhancing Access to Finance for Micro and Small Enterprises Project Third Financial Sector Development Policy Loan 		US\$ 300 M US\$ 500 M
African Development Bank	<ul style="list-style-type: none"> SME Franchising Loan: A line of credit to encourage local franchising to SMEs. Grant allocation covers TA aspect of project Agri-business Development Operation (with 1.93 in grant money): A line of credit to SFD for the development of the SME agricultural sector with a 1.5 million USD technical assistance component. 		\$40 million \$70 million
AFD	<ul style="list-style-type: none"> Line of credit to the National Bank of Egypt in order to develop its SME lending activity, and extend the maturity of the loans it grants to SMEs. The loan will include a TA component dedicated to train SME department to develop the expertise on the SME market, and to develop the capacities of SMEs in their relation with banks Support the creation and development of micro and small enterprises/SFD 		15 million Euros
Arab Fund for Economic and Social Development	<ul style="list-style-type: none"> SME credit line for MSMEs 		US \$ 77 M
Kuwaiti Fund	<ul style="list-style-type: none"> SME credit line for MSMEs 		US \$ 85 M
International Fund for Agricultural Development (IFAD)	<ul style="list-style-type: none"> On-Farm Irrigation Development Project in the Old Land Operation: To reduce rural poverty by substantially increasing agricultural productivity and income of the targeted households in the project area. SFD will support for employment and income generation SMEs through better access to rural financial and capacity building. It was approved by the IFAD Board in November, 2009, pending Agreement signature and ratification 		US\$ 9.9 million 0.3 million (grant)
GIZ	<ul style="list-style-type: none"> Policy development on labor market, employment and youth issues, Regional cooperative support structures to improve employability of youth, Environment for vocational guidance, skills training, vocational education and job placement 		\$10.4 million
KfW	<ul style="list-style-type: none"> Technical support, training and capacity building of NGOs, banks, MFIs and beneficiaries 		--

CIDA	<ul style="list-style-type: none"> Decent Employment for Youth/ILO: provides non-financial business service through capacity strengthening of existing BDS facilitators and providers. Examples of BDS include technology transfer, business management, access to existing credit facilities, quality improvement, export readiness, franchising, trading houses, brokerage mechanisms. 	Multi-year award for fiscal years 2010-11 to 2016-17	\$10,000,000.00
KHALIFA FUND	<ul style="list-style-type: none"> To catalyze the start-up of SMEs with the overarching goal for these businesses to achieve significant socio-economic impact throughout Egypt. 	2014	\$200 MILLION
International Finance Corporation (IFC)	<ul style="list-style-type: none"> Support for secured lending framework Support for improving leasing environment Integration of MFIs in to credit bureau Advisory services to private banks Advisory services to MFIs Rolling out of business edge for MSME training 		

ANNEX 2: Stakeholders Summarized Database

Private Sector Initiatives	Type	Category of Support	Contacts
Union Capital	Private Equity Investment Fund		Minoush Abdel-Meguid, Managing Director
Credit Guarantee Company			
Cairo Angels	Angel Investors		
Shekra	Crowd funding		<p>Shehab Marzaban</p> <p>SMarzban@shekra.com</p> <p>Adel Bosili</p> <p>aboseli@shekra.com</p> <p>info@shekra.com</p> <p>Facebook: SharekFekra</p>
Beltone Capital Holding	Financial Investment		<p>Mr Hazem Barakat</p> <p>Chairman of the Board of Directors</p> <p>Tel. +202 2461 0300</p> <p>Fax +202 2461 9851</p> <p>E-mail: hbarakat@beltonepe.com</p>

Beltone MidCap Fund	Beltone Private Equity S.A.E.		Mr Abdel-Monem Omran Chairman of the General Partner Tel. +202 2461 0300 Fax +202 2461 9851 E-mail: aomran@beltonepe.com
Sphinx Turnaround Fund	Sphinx Private Equity Management International		Ms Marianne Ghali Managing Director Tel. +202 279 267 81/2 Fax +202 279 267 83 E-mail: mghali@sphinxegypt.org
AIESEC	Student-Run Organization	International Exchange opportunity provider with global SMEs Conferences Meeting space Webinars Think tanks	Egypt@aiesec.net http://www.aiesec-eg.org/ Facebook: aiesecegypt
ALROWAD/ Accelerate	Consulting/ Support Services	Training Weekends Conferences Blogs/Bloggers	info@alrowad-egypt.org http://alrowad-egypt.org/ Facebook:ALROWAD.EGYPT

		Creativity stimulant	
Alliance Magazine	Newsletters	Blogs/Bloggers	alliance@alliancemagazine.org http://www.alliancemagazine.org/ https://www.facebook.com/alliancemagazine
Arabnet	Community	Networker Blogs/bloggers Competitions/contests Newsletters Conferences Startup toolkits Employee recruitment needs provider Workshops	info@arabnet.me https://arabnet.me/ Facebook: arabnetme
Beit Al Karma Consulting	Consulting/ Support Services	Impact Evaluator of case-by-case entrepreneur service providers Standard and Tailored Training Services Business Advisory Counseling Services	Alaa Shahein info@bk-eg.com http://www.bk-eg.com/ Facebook: /Pages/ Beit-Al-Karma/289651933954
Cilantro Central	Media	Showcasing entrepreneurs	centralstation@cilantrocafe.net Facebook: cilantrocentral
The District	Workspace/Co-Working Space/ Meeting Space	--	Mazen Helmy Founder and Managing Director info@district-egypt.com

			http://district-egypt.com/ Facebook: DistrictEgypt
EBDA2 by Google	Competitions/ Contests	Mentorship Networking	answers@startwithgoogle.com http://www.startwithgoogle.com/ Facebook: StartWithGoogle
Egypreneur	Networker	Media and showcasing entrepreneurs Community Information provider/newsletters Conference Positivity stimulant Creativity stimulant Culture	Abdelrahman Magdy amagdy@egypreneur.com.eg http://egypreneur.com/ https://www.facebook.com/Egypreneur
Egypt Business Directory	Media And Showcasing Entrepreneurs	Webinars News Event coverage	gehad.hussein@egypt-business.com http://www.egypt-business.com/ Facebook: Egypt.Business
El MASHROU3	TV Show	Media and Showcasing Entrepreneurs Competitions/Contests Fair/Exhibiting/Tradeshows Networkers Community	info@elmashrou3.tv http://elmashrou3.tv/ Facebook: ElMashrou3

El Raseef's Flash Hub Wamda	Networking	--	masr@elraseef.com https://www.facebook.com/ElRaseef
Fab Lab Egypt	Maker Space	--	fablabegypt@gmail.com http://fablab-egypt.com/ https://www.facebook.com/fablab.egypt
Flat6labs	Accelerator	--	heba@flat6labs.com http://flat6labs.com/ https://www.facebook.com/Flat6Labs
Ideavelopers	FUNDERS: Venture Capital	--	info@ideavelopers.com http://www.ideavelopers.com/
Microsoft Imagine Cup	Awards/ Contests	Advocacy Grants Creativity stimulant Startup toolkits	support@imaginecup.com http://www.imaginecup.com/ https://www.facebook.com/microsoftimaginecup
Innoventures Llc	Incubator/ Accelerator	Workspace/co-workspace Networkers Consulting/support Services Mentorship programs FUNDERS: Angel investors, Venture capital and Zero stage venture capital	Hesham Wahby info@innoventures.me http://www.innoventures.me/ Facebook: innoventures.egypt

		Culture	
Invenst Llc	Accelerator	--	info@invenst-ventures.biz https://www.facebook.com/pages/InveNst-Ventures-Boutique/231962590203619
Mena-Oecd Investment Programme	Competitions/ Contests	Volunteer provider for entrepreneurs Networkers Mentorship programs Government connected Report producer / Annual Publications Conferences	jorge.galvezmendez@oecd.org http://www.oecd.org/mena/investment/
Mesaha	Co-Working Space / Meeting Space	Youth-led initiatives hub	info@mesaha.org http://www.mesaha.org/
Middle East Angel Investment Network	Angel Investors	Funders: zero stage venture capital Funders: venture capital Entrepreneurship education provider Newsletters (virtual) Media and showcasing entrepreneurs Blogs/bloggers Fair/exhibiting/tradeshows	admin@middleeastinvestmentnetwork.com http://www.middleeastinvestmentnetwork.com/ https://www.facebook.com/pages/Angel-Investment-Network/132382673486552
O Desk	Employee Recruitment For Entrepreneurs	Alternative income provider (for entrepreneurs not working in a full time paying job)	press@odesk.com https://www.odesk.com/ https://www.facebook.com/odesk

Open Space EGYPT	Consulting/ Support Services		info@openspaceegypt.com http://www.openspaceegypt.com/ https://www.facebook.com/OSTEgypt
Al Maqarr	Coworking Space / Meeting Space	--	info@almaqarr.com Facebook: AlMaqarr
Rasheed22	Workspace/Co-Working Space/ Meeting Space	Networkers Positivity stimulant Community Creativity stimulant Alternative income provider Culture Stimulant	coworasheed22@gmail.com https://www.facebook.com/Rasheed22
Sawari Ventures	Venture Capitalist	--	info@sawariventures.com http://www.sawariventures.com/
Silatech	Policy	Funder: Microloans Angel Investors Venture Capital Private Equity	info@silatech.com http://www.silatech.com/ https://www.facebook.com/SilatechPage
Startup Weekend	Training Weekends	--	Egypt@startupweekend.org http://cairo.startupweekend.org/
Vodafone Ventures	Venture Capital	Funders: venture capital Consulting/support services	http://www.vodafone.com.eg/vodafoneportalWeb/en/myWorld_mainPage

		<p>Infrastructure support Customer-entrepreneur link</p> <p>Egyptian entrepreneurial initiatives abroad</p> <p>Employee recruitment needs provider for entrepreneurs</p> <p>Sales/distribution/export services</p>	<p>http://www.vodafone.com.eg/vodafoneportalWeb/en/myWorld_mainPage</p>
Wamda	Media and Showcasing Entrepreneurs	<p>Showcasing Entrepreneurs</p> <p>Funding</p>	<p>editor@wamda.com</p> <p>http://www.wamda.com/</p> <p>https://www.facebook.com/WamdaME</p>

ANNEX 3: NGOs Supporting Micro, Small and Medium Enterprises and Entrepreneurs

NGOs	Type	Category of Support	Contacts
Egyptian Private Equity Association	Private Equity Association	--	Dalia Tadros dalia.tadros@epea-eg.org www.epea-eg.org
Alexandria Business Association	Funders: Microloans	MFI NGO Non-financial service Grant offering Business development skills	imelouk@aba-sme.com http://www.aba-sme.com/
Taleeda	Incubator	Legal umbrella Web space Training services	enableme@taleeda.org http://www.taleeda.org/
Nahdet El Mahrousa	Incubator	Space Networkers Community Entrepreneurship Education provider	ahmed.hussein@nahdetmasr.org http://www.nahdetelmahrousa.org/ https://www.facebook.com/nahdetelmahrousa

		Impact evaluator Volunteer provider for entrepreneurs Mentorship programs Researcher	
MENA Private Equity Association	Infrastructure Support	Researcher Report producer / Annual Publications Advocacy Think Tank	http://www.menapea.com/home.php
Middle East Council for Small Business and Entrepreneurship	Networkers	Entrepreneurship Education provider Conferences Books	noha.ahmed@mcsbe.org https://www.facebook.com/groups/mcsbe/
INJAZ Egypt	Entrepreneurship Education Provider	Competitions/Contests Fair/Exhibiting/Tradeshows Training Weekends Positivity stimulant Mentorship programs Government connected Startup Toolkits	injaz@injaz-egypt.org http://www.injaz-egypt.org/ https://www.facebook.com/InjazEgypt
Endeavor	Accelerator	Networkers Entrepreneurship Education provider Conferences Annual Publications Fellowships Consulting/support Services Mentorship programs Media and Showcasing Entrepreneurs	info@endeavoreg.org http://www.endeavoreg.org/ https://www.facebook.com/EndeavorEG

AWTAD	Accelerator	Customer-Entrepreneur link Consulting and support services Mentorship programs Networker Creativity Stimulant Entrepreneurship Education Provider	mhossam@awtad-egypt.org http://www.awtad-egypt.org/ https://www.facebook.com/pages/AWTAD/95094669293
Ashoka Arab World	Fellowship	Networkers Community Entrepreneurship education provider Report producer/annual publications Competitions	ibibars@ashoka.org http://ashokaarabworld.wordpress.com/ https://www.facebook.com/AshokaArabWorld
Art Of Hosting Meaningful Conversations	Networkers	Learning community Conferences Culture stimulant Consulting	http://www.artofhosting.org/home/ http://artofhosting.ning.com/ https://www.facebook.com/groups/aohegypt https://www.facebook.com/artofhosting
Arab Development Initiative	Conferences	Entrepreneurship Education Provider Creativity Stimulant Startup Toolkits Policy	info@arabdevelopment.com http://www.arabdevelopment.com/ https://www.facebook.com/ADInitiative
The American Chamber Of	Networker		http://www.amcham.org.eg/ https://www.facebook.com/amcham.egypt.entrepreneurship

Commerce			
Al -Mubadara	Network	<p>Community Creativity stimulant</p> <p>Consulting/support Services Volunteer provider for entrepreneurs</p> <p>Mentorship programs Fellowships</p> <p>Employee recruitment for entrepreneurs</p> <p>International exchange opportunity provider with global SMEs</p>	<p>info@arabempowerment.org</p> <p>http://www.almubadarah.org</p> <p>Facebook: arabempowerment</p>
Egyptian National Competitiveness Council	Advocacy	<p>Events</p> <p>Projects</p> <p>Publications</p>	<p>info@encc.org.eg</p> <p>Facebook: ENCCNGO</p>

ANNEX 4: Universities with Entrepreneurship Initiatives

UNIVERSITIES	Type	Category of support	Contacts
Nile University	Entrepreneurship Education Provider	Researcher Fellowships Creativity stimulant Networkers Positivity stimulant	nsami@nileuniversity.edu.eg http://www.nileu.edu.eg/ https://www.facebook.com/NileUniversity
Entrepreneurs' Society	Student-Run Organization	Competition/Contest TV Show Co-working Space Mentorship	entrepreneursociety2012@gmail.com https://www.facebook.com/pages/Entrepreneurs-Society/35718649783?sk=timeline
El-Khazindar Business Research and Case Center	Business Research and Case Study Provider	kcc@aucegypt.edu	--
Cairo University Innovation Support Office	Innovation Training/ Technology Transfer Provider	Consultancy and Support Services Innovation Support and Training Tech Development, Protection Business Planning and Development Tech Licensing	cuiso.innovation@gmail.com Facebook: Innovation.Cairo

The British University In Egypt	Entrepreneurship Education Provider	Research in different areas pertinent to Entrepreneurship, i.e. education, finance, women entrepreneurs, etc.	hala.hattab@bue.edu.eg http://www.bue.edu.eg/
American University Of Cairo Entrepreneurship And Innovation Program	Entrepreneurship Education Provider	Incubator Entrepreneurship Education provider Networkers Competitions/Contests Training Weekends Media and Showcasing Entrepreneurs Mentorship programs Volunteer provider for entrepreneurs	entrepreneur@aucegypt.edu http://www.aucegypt.edu/Business/eip/Pages/AboutEIP.aspx Facebook: AUC.Business

ANNEX 5: Government Organizations Supporting Entrepreneurship

Government Organization	Type	Category of support	Contacts
Research Development and Innovation Program	Government Support (Specialized In Driving A Culture For Innovation)	Funders: Grants Fair/Exhibiting/Tradeshows	info@rdi.eg.net http://www.rdi.eg.net/
Industrial Development Agency	Policy and Industrial Support	--	www.ida.gov.eg
Industrial Training Council	Skills Development	Training Capacity Building	www.itcegypt.eg
Industrial Modernization Center	Policy and SME Competitiveness Support	BDS Consultancies	www.ims-egypt.org
Technology Innovation and Entrepreneurship Center	Incubator/ Accelerator		Incubation Department” Info_tip@tiec.gov.eg www.tiec.gov.eg Facebook: tiec.egypt
Bedaya Center for Entrepreneurship and SME development (GAFI)	Investment Support	BDS Entrepreneurship support Access to Finance	www.gafisme-bedaya.com



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