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Small and Medium Enterprises Landscape in Egypt: New Facts from a New Dataset*

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Abstract: Small and medium sized enterprises (SMEs) have usually been perceived as a dynamic force for sustained economic growth and job creation in developing countries. In Egypt, despite banking reforms that have been launched in 2004, the ability of SMEs to more easily access suitable and sufficient means of finance has always been considered a major obstacle facing many SMEs. For this reason, and in order to be able to extend the financial services provided to this segment and increase the benefits of the banking reform, the Central Bank of Egypt launched in December 2008 an initiative, as an integral part of the Second Phase of the Banking Sector Reform Program (2008-2011), to enhance SMEs access to finance and banking services. In this paper, we present a descriptive analysis of the SMEs landscape in Egypt relying on this extensive census. The main findings of the census show that there is a high concentration of SMEs at different levels. First, the geographical distribution of SMEs is significantly skewed since almost half of them are concentrated in three governorates Sharkeya, Cairo and Gharbeya. Second, they are chiefly operating in two economic activities, namely manufacturing and trade. Third, a very few firms are exporting. Finally, financial services seem to be under-utilized by SMEs as only 50 percent are dealing with banks and benefiting from an improved access to finance.

Key words: SMEs; access to finance; Egypt
JEL codes: D2, G21, P42

1. Introduction

Micro, small and medium sized enterprises (SMEs) have usually been perceived as a dynamic force for sustained economic growth and job creation in developing countries. From a social viewpoint, SMEs secure livelihood for a large and ever expanding segment of the population. In Egypt, there are around 2.5 Million SMEs representing 75% of the total employed workforce and 99% of non-agricultural private sector establishments. Despite their importance, they are still facing several problems, in particular access to finance which a typical challenge in developing countries. In fact, 70% of non-OECD countries report SME financing gap compared to 30% in OECD ones. Therefore, reducing this SMEs financing gap in low-income countries should increase the

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incentive of SMEs creation and consequently improve economic growth and increase job creation. In addition, improving the access to finance of SMEs is significantly important in promoting entrepreneurship and innovation.

In Egypt, despite banking reforms that have been launched in 2004, the ability of SMEs to more easily access suitable and sufficient means of finance has always been considered a major obstacle facing many SMEs (Egyptian Banking Institute, 2009). It is worthy to mention that, from a supply point of view, the majority of banks are becoming more risk averse towards SMEs, especially due to a wide spread notion that financing SMEs is risky and that serving them requires high transaction costs which makes them less profitable than larger companies (El Said et al., 2013).

For this reason, and in order to be able to extend the financial services provided to this segment and increase the benefits of the banking reform, establishing a database for SMEs to serve bankers as well as policy makers seems to be an important priority. Hence, the Central Bank of Egypt launched in December 2008 an initiative, as an integral part of the Second Phase of the Banking Sector Reform Program (2008-2011), to enhance SMEs access to finance and banking services. In this respect, and due to the importance of the availability of timely and accurate information, the Central Bank of Egypt (CBE) and the Egyptian Banking Institute (EBI) commissioned the Central Agency for Public Mobilization and Statistics (CAPMAS) to conduct an SME nation-wide census, fully focusing on value added formal economic activities on a full census basis. The Center of Surveys and Statistical Applications (CSSA) at the Faculty of Economics and Political Science, Cairo University undertook the project on- site quality control. This survey includes quantitative and qualitative characteristics of each company or unit. This includes identifying the number of employees, legal status, economic activity, level of exports, sales turnover, invested capital and the problems facing each company in dealing with banks, etc.

The descriptive analysis of this paper is largely inspired from a companion paper (El-Said et al., 2013) in which we conduct an empirical analysis of the determinants of access to finance of SMEs in Egypt. Yet, the contribution of this paper is that it provides a much more detailed descriptive analysis at several fronts: access to finance, exports, regional location, economic sectors and factors of production. The main findings of the census show that there is a high concentration of SMEs at different levels. First, the geographical distribution of SMEs is significantly skewed since almost half of them are concentrated in three governorates (Sharkeya, Cairo & Gharbeya). Second, they are chiefly operating in two economic activities, namely manufacturing and trade. Third, a very few firms are exporting. Finally, financial services seem to be under-utilized by those firms as only 50 percent are dealing with banks and benefiting from an improved access to finance. It is worthy to mention that those financial services are also concentrated in the same governorates and the same economic activities that have been mentioned above.

The paper is organized as follows: Section 2 presents some stylized facts regarding the banking sector reform in Egypt. Section 3 shows the questionnaire design. Section 4 presents a landscape of SMEs characteristics using the firm-level data that have been collected. Section 5 focuses on SMEs and their access to finance. Finally, section 6 concludes and presents some policy implications.

2. Banking Reform in Egypt

The Central Bank of Egypt in 2004 adopted a reform program that aims at building solid infrastructure and more efficient and sound banking sector. Although the global financial crisis led to many negative repercussions on several world economies, the Egyptian banking sector weathered the negative repercussions due to the successful reform program that have launched in 2004. Indeed, as it was mentioned by the World Bank (2009) "*the Egyptian financial sector is the most far reaching, substantive and comprehensive drive toward financial sector strengthening so far in Egypt-and indeed in any other country of the Middle East and North Africa region*".

This reform has been implemented in two phases. The first phase had three main pillars: first, strengthening the legal, regulatory and supervisory framework; second, consolidating the banking sector and increasing private participation within banking assets and finally the financial, operational and institutional restructuring of public-sector banks. Those reforms led to a robust, solid and well capitalized banks (see Table 1), as 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; total deposits increased by 85% over the same period; 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.

Table 1 Banking Aggregates before and after 2004 Reform

LE million (as at June)	2003	2008	% change
Total Assets	577,938	1,083,311	+ 87.7%
Total Deposits	403,144	747,199	+ 85,3%
Loans & Discounts	284,722	401,425	+ 41.2%
Capital & Reserves	29,960	53,436	+82.7%

Source: Central Bank of Egypt.

The second phase of the banking sector reform program that started in 2009 aims at deepening the Egyptian banking sector and enhancing its efficiency and competitiveness through enhancing Access to Financial Services, continuing the strengthening of the regulatory and supervisory framework through the implementation of Basel II/III and enhancing the implementation of Corporate Governance rules and regulations. Those reforms increased the loans-deposits ratio reaching 54%, average loans-GDP ratio reaching 49.4% and average deposits-GDP ratio reaching 90%. Those figures are much higher than the world average in 2008.

Yet, despite this significant improvement at the macroeconomic level, there is still a challenge related to the access to finance, especially for SMEs. Figure 1 shows that, in non-OECD countries, bank's primary target is large enterprises that represent only 1 percent of total firms. By contrast, micro-firms, though representing around 70 percent of total firms, get merely credit or financial services from banks.

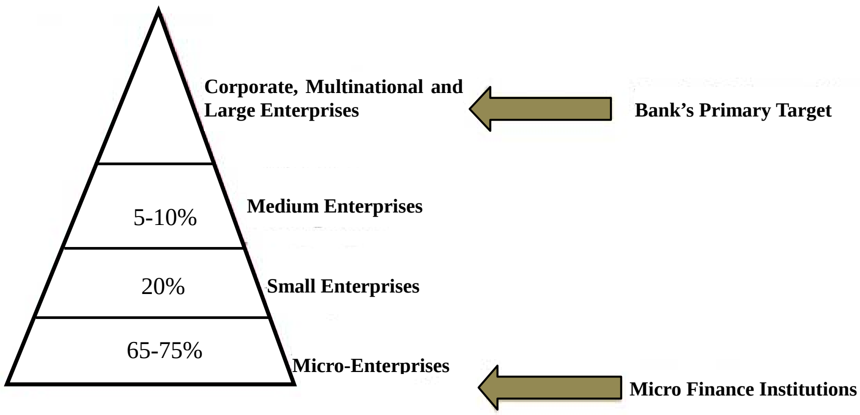

Figure 1 Business Landscape in Non-OECD Countries

Source: OECD, 2011.

For this reason, and in order to be able to extend the financial services provided to this segment and increase the benefits of the banking reform, establishing a database for SMEs to serve bankers as well as policy makers seems to be an important priority. Hence, as it was mentioned before, the Central Bank of Egypt launched in December 2008 an initiative, as an integral part of the Second Phase of the Banking Sector Reform Program (2008-2011), to enhance SMEs access to finance and banking services. The next section provides more details about this census.

3. Questionnaire Design

3.1 Structure

The questionnaire includes four main categories of questions.

First, it contains some general information regarding the legal status of the firm (whether it is a partnership, a limited liability firm, branch of a foreign firm, sole proprietorship, etc.). In addition, since only formal firms are taken into account, the interviewee should mention the number and the date of his industrial and commercial registration.

Second, it includes some information related to the firm endowments, such as the number of workers (less than 20; from 20 to 34; from 35 to 50 and more than 51) and the value of the capital.

Third, the questionnaire is categorizing firms according to the sales turnover which is the variable banks consider the most while giving loans. In addition, this section includes some questions showing whether the firm exports or not, the destination of exports (Arab countries, African countries, other) and the share of exports to total sales (less than 25%, from 25 to 50% and more than 50%).

Fourth, the questionnaire contains a final module on access to finance by asking the interviewee:

- whether she/he deals with banks or not,
- whether she/he benefits from some banking facilities or not,
- whether she/he faces problems with banks or not and if yes, she has to determine the type of the problems (high interests, commissions and administrative expenses; banks ask for a lot of collaterals; procedures are lengthy and complicated; banks ask for a lot of documents; others)

3.2 Scope

The census covers all SMEs in Egypt, identified here as every company or economic activity:

- That is formally registered: therefore we exclude informal firms which represent almost 20 percent in Egypt
- That employs five employees or more.
- That has a significant economic value added: thus activities of limited economic value added have been excluded, namely Barber shops, beauty salons and kiosks were excluded from the survey.

In other words, three filters have been taken into account in order to include only registered firms with more than 5 employees and having a significant value-added. Based on these criteria, the census ended-up by including around 36,492 firms.

3.3 Methodology

First, it is worth to mention that the framework used is that developed by the Central Agency for Public Mobilization and Statistics (CAPMAS) in 2006 adding new establishments and excluding activities of limited economic value added. Second, the primary data was obtained through conducting face to face interviews with SMEs, using a well-structured questionnaire designed jointly by Central Bank of Egypt (CBE)/Egyptian Banking

Institute (EBI) committee in consultation with an experienced statistician to measure both quantitative and qualitative factors. The census was done through seven phases to guarantee the quality of the collected data

- ***Pre-testing the questionnaire***: A pretest of the questionnaire was conducted to a sample of SMEs in “El Qualiobia” governorate whereby some modifications and repositioning of sequence of questions was made according to the pretest results.
- ***Training of CAPMAS researchers***: Extensive training sessions were conducted to all CAPMAS field researchers to ensure their understanding of the questionnaire and the approach in conducting the interviews. The training was conducted jointly by CAPMAS and the Center of Surveys and Statistical Applications (CSSA) at the Faculty of Economics and Political Science under the supervision of CBE and EBI.
- ***Pilot***: After collecting the data of the pilot (that was conducted in “El-Sharkia” governorate in April 2010) the data collected was analyzed, verified and validated, accordingly, some activities of limited economic value added were excluded throughout the survey.
- ***Collecting the data***: Data was collected through face-to-face interviews conducted by CAPMAS researches using the developed questionnaire.
- ***Quality control***: Two different quality control teams were assigned to ensure the validity and accuracy of the data collection process
- ***On-site QC***: Undertaken by the (CSSA) that was responsible for monitoring and controlling the process of data collection in the field on a daily basis.
- ***Off-site QC***: Undertaken by a joint team from CBE and EBI responsible for verification and quality controlling the data entry process with random checks.

4. Landscape of SMEs in Egypt

4.1 Legal Form

Figure 2 shows the distribution of SMEs according to the legal form. SMEs adopt chiefly a sole-proprietorship (that represents almost 60 percent of total firms) given the fact that it is the easiest to be created. Those firms are owned and run by one individual and in which there is no legal distinction between the owner and the business. The owner receives all profits (subject to taxation specific to the business) and has unlimited responsibility for all losses and debts. Its advantages are related to the fact that entrepreneurs have the ability to limit risk to investors. Sole proprietorships also have the least government rules and regulations affecting it which fosters their creation by entrepreneurs. The remaining 40 percent are distributed among joint liability, partnership in commendams, joint stock, de facto, limited liability, limited partnership in shares and subsidiaries.

4.2 Geographical Location

It is worthy to note that SMEs are highly skewed at the geographical level since almost half of them is concentrated in the three governorates of Sharkeya, Cairo and Gharbeya (see Figure 3). This may be explained by higher externalities coming from other firms which are located in large governorates that are located in urban regions. Similarly, access to road and to transportation of goods positively and significantly affects firms’ productivity as they allow firms to better produce and market their products or services to a wider scope of clients. Finally, since other governorates have not a significant share of SMEs, more attention should be attribute to them in order to improve their infrastructure and therefore to allow firms to be established there.

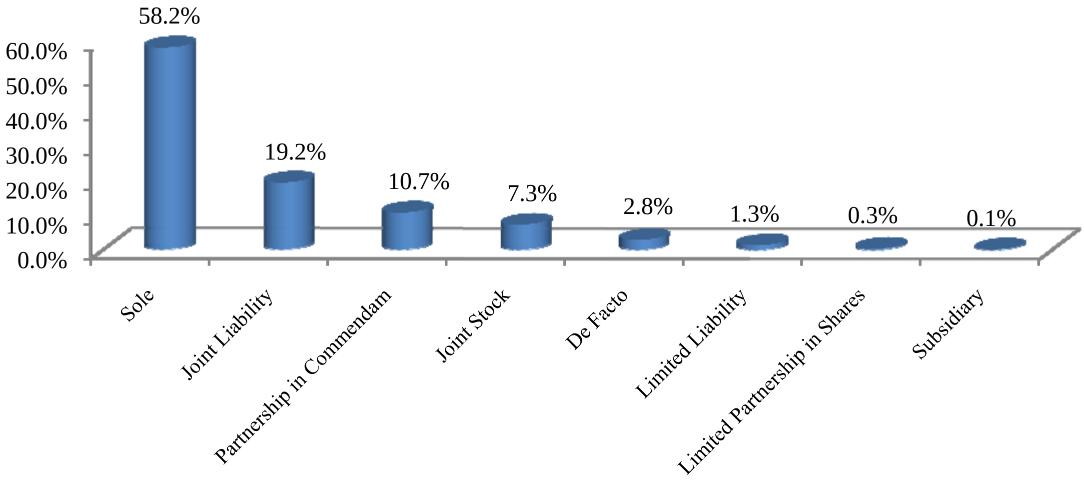

Figure 2 Distribution of SMEs by Legal Form

Source: Constructed by the authors using SMEs dataset.

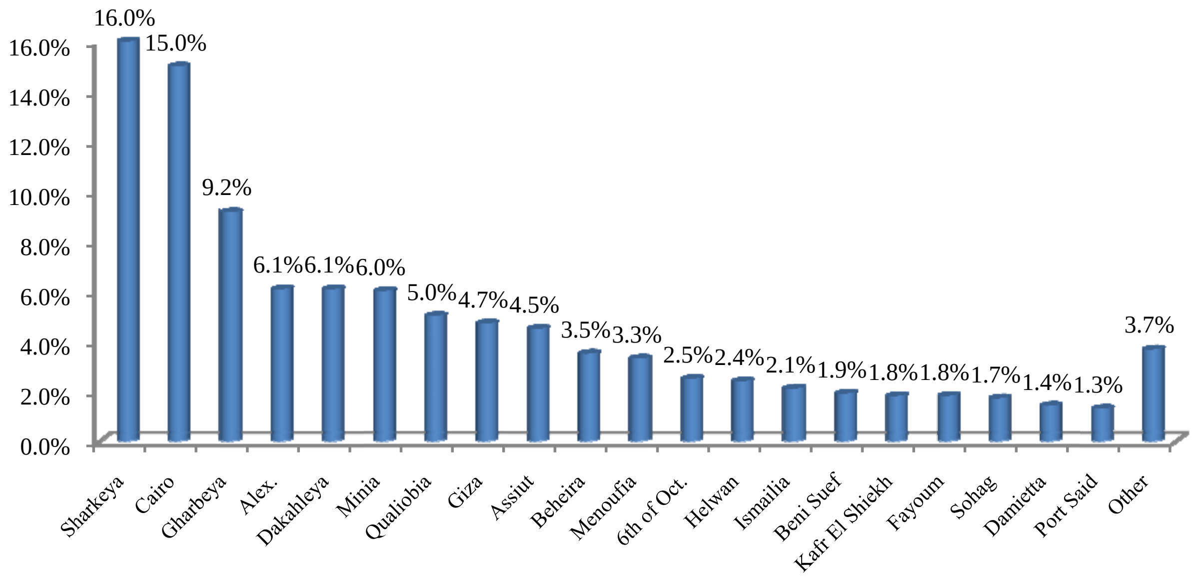

Figure 3 Distribution of SMEs by Governorates

Source: Constructed by the authors using SMEs dataset.

4.3 Factors of Production

Moving to factors of production, it is worthy to mention that differences in endowments between SMEs are notably important. First, as it is shown in Figure 4, 83 percent of SMEs are endowed with a capital less than EGP 250,000. By contrast, those having more than EGP 15 million do not exceed 2 percent of total SMEs in Egypt pointing out to what extent SMEs should have a higher access to financial services and facilities from banks to expand their activities and increase their capital.

The same pattern observed for capital holds for labor (see Figure 5) since SMEs with the capacity of 5-19 workers represent the highest percentage (85.4 percent). By contrast, on the other side of the distribution, only 6.3

percent of SMEs have a capacity of more than 50 workers. Therefore, most of the firms are either micro or small pointing out the phenomenon of the “missing middle”, in which many small firms and a few large firms produce the bulk of value added which is ubiquitous in developing countries.

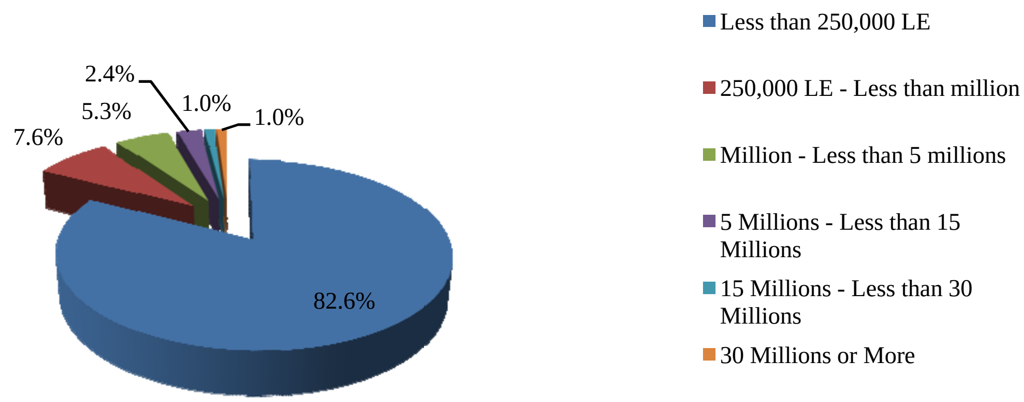

Figure 4 Distribution of SMEs by Capital Value

Source: Constructed by the authors using SMEs dataset

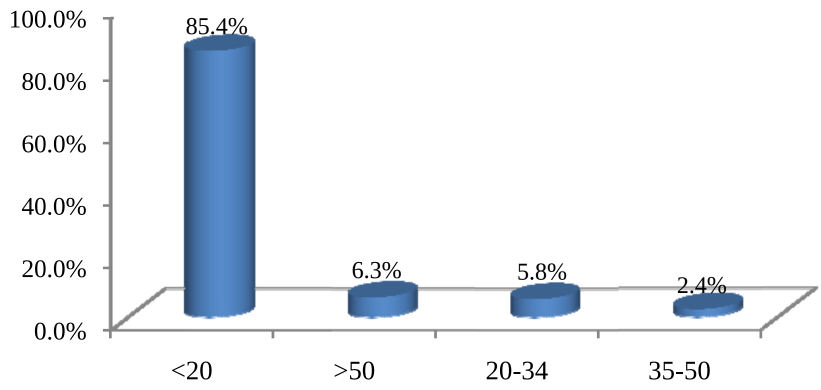

Figure 5 Distribution of SMEs by Number of Employees

Source: Constructed by the authors using SMEs dataset.

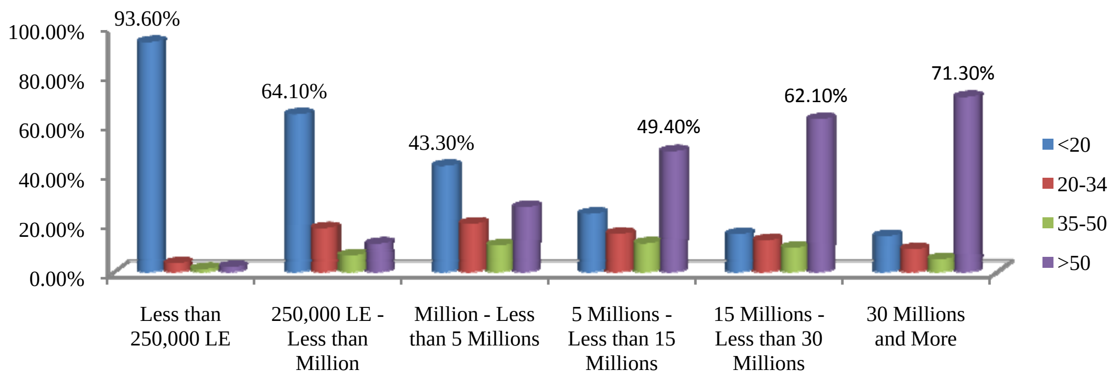

Figure 6 Distribution of SMEs According to the Number of Employees and the Capital

Source: Constructed by the authors using SMEs dataset

Figure 6 confirms those findings by plotting the distribution of SMEs according to labor and capital. One can conclude that the lower the number of employees, the less capital it owns and the lower the output. That is why the coefficient of association between capital and labor for SMEs in Egypt is notably high in most of the activities, especially manufacturing, trade, food and beverage and agriculture (see Table 2). Therefore, it can be claimed there are some complementarities between labor and capital in Egyptian SMEs.

Table 2 Relationship between Capital and Number of Employees, by Activity (Measured in Terms of the Appropriate Association Coefficient)

Activities	
Agriculture	0.756
Manufacturing	0.823
Trade	0.867
Food & Beverages	0.819
Health	0.689
Construction & Building	0.475
Other	0.66

Source: Constructed by the authors using SMEs dataset.

4.4 Economic Activity

As it was mentioned before, SMEs in Egypt are highly skewed at the geographical level. Such skewness is observed at the sectoral level (see Figure 7) as well since almost 90 percent of them are concentrated in just two sectors namely the manufacturing sector (51.1 percent), followed by the whole sale trade (40.5 percent). This is due to the fact that the entry barriers in terms of capital, skill and technology characteristics are low, especially in the trade sector.

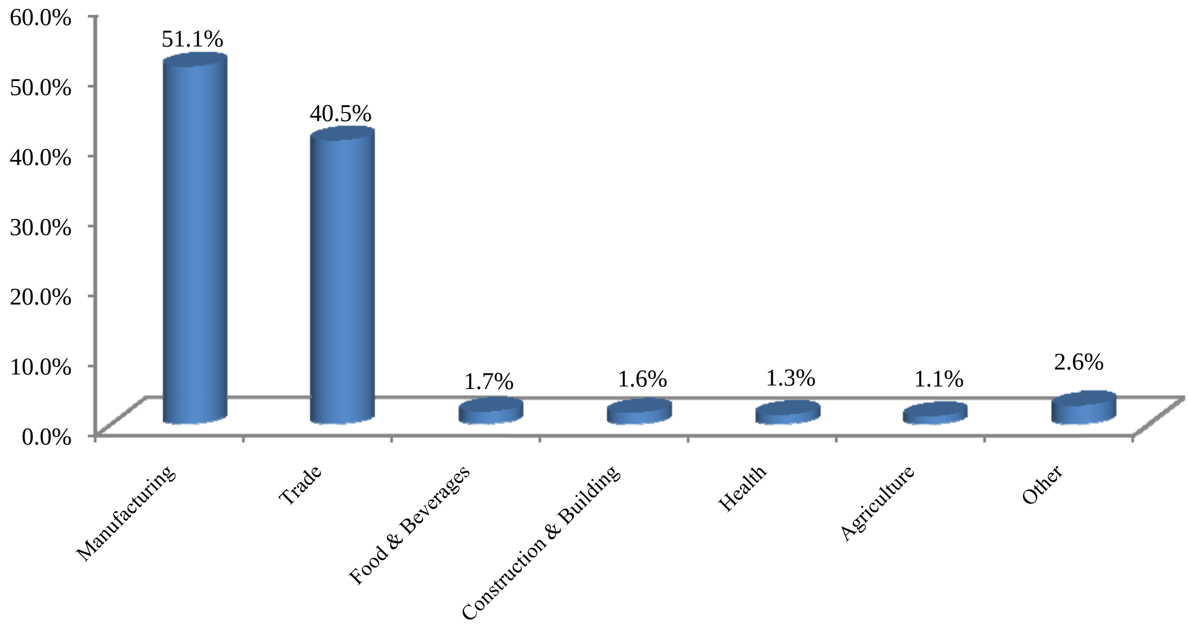

Figure 7 Distribution of SMEs by Economic Activities

Source: Constructed by the authors using SMEs dataset.

4.5 SMEs Performance at the Domestic Level

SMEs performance at both the domestic and international levels is highly dependent on their factor endowments. Clearly, larger firms with more capital and more labor are more likely to be productive and therefore have higher sales turnover. Figure 8 points out the distribution of SMEs according to sales turnover and shows that almost half of the SMEs' sales are less than EGP 500,000. By contrast, those who are producing between EGP 20 million and EGP 50 million does not exceed 2 percent of total SMEs.

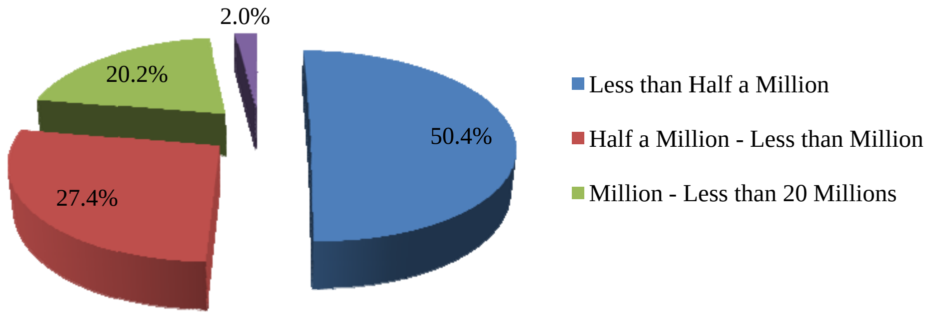

Figure 8 Distribution of SMEs According to the Sales Turnover

Source: Constructed by the authors using SMEs dataset.

Figure 9 adds another finding related to the link between the number of employees and the sales turnover, i.e., their productivity. One can claim that the higher the number of employees, the higher the sales turnover. This finding can be verified for the lowest and highest categories of the sales turnover. In fact, 97 percent of the SMEs producing less than EGP 500,000 are endowed with less than 20 employees and 60 percent of the SMEs producing between EGP 20 and 50 million have more than 50 employees. Yet, it becomes more problematic for firms that are endowed with 20-34 and 35-50 employees since their shares in the middle categories of the sales turnover (half a million to less than a million and million to less than 20 million) are significantly low. Surprisingly, 90 (54) percent of the firms producing between EGP 500,000 and EGP 1,000,000 (million-20 million) have also less than 20 employees showing that those small firms are more productive than their medium counterparts. This confirms the missing middle story since most companies are small and between large and small firms, SMEs are very scarce, perform poorly and consequently constitute a "missing middle". One of the suggestions that may increase their productivity is to target clusters establishment. Cluster locations are good candidates to host and disseminate new technologies, training and marketing techniques; moreover new policies have a greater chance of succeeding in cluster communities owing to the cluster's specialization in a certain production activity which facilitates the spread of knowledge and skills within the community.

4.6 Exports Performance

SMEs do not perform very well on international markets since only 6 percent of SMEs export, while the remaining serve only the domestic market. Clearly, this may be explained by differences in factor endowments and in access to financial services. Figure 10 shows that the higher the capital, the higher the share of exporting firms. Only 1.8 percent of the firms having less than EGP 250, 000 do export. This figure increases when capital increases since the share of exporting firms becomes 27.1 and 24.4 percent of the firms having a capital between EGP 15 million–EGP 30 million and more than EGP 30 million, respectively.

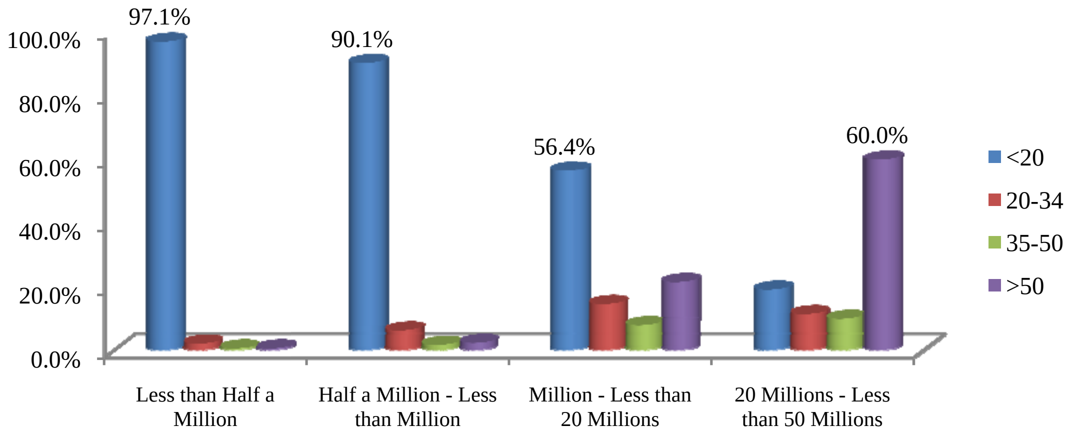

Figure 9 Distribution of SMEs According to the Number of Employees and the Sales Turnover

Source: Constructed by the authors using SMEs dataset.

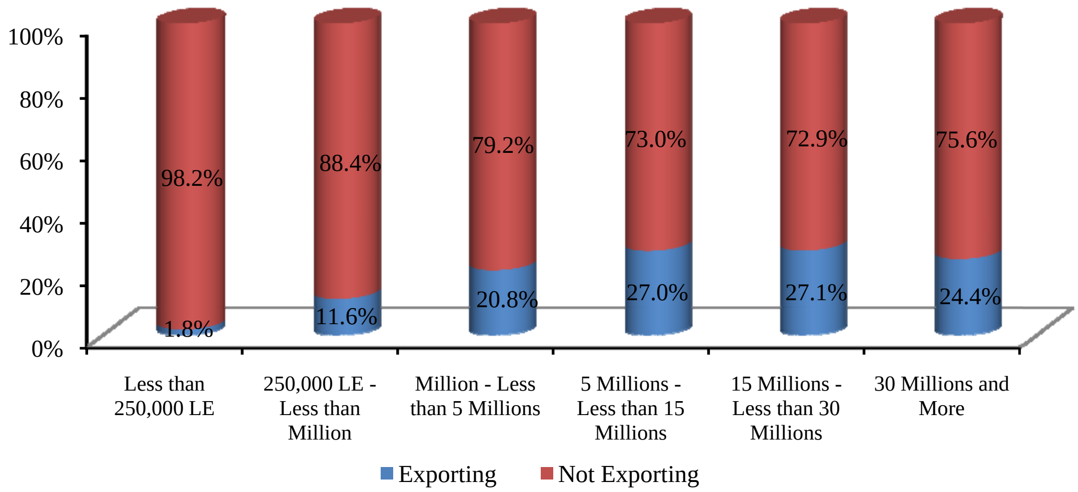

Figure 10 Distribution of SMEs by Exporting Status and Capital

Source: Constructed by the authors using SMEs dataset.

This remark holds for both labor (Figure 11) and sales turnover (Figure 12) since the higher the number of employees and/or the higher the sales turnover, the more a firm is likely to export. Figure 11 shows that 28.4 percent of the firms endowed with more than 50 employees do export. This figure is remarkably low for small firms since exporting firms represent only 1.8 percent of those having less than 20 employees.

Figure 12 presents exporting vs. non-exporting firms according to the sales turnover. It is quite clear that the higher the sales turnover, the more a firm is likely to being an exporter. In other words, we can claim that the most productive firms who serve the domestic market have a greater potential to serve international one as well. This is in line with the Melitz model (2003) of heterogeneous firms. According to this model, firms face uncertainties about their future productivity when making an irreversible costly investment decision to enter the domestic market. Following entry, firms produce with different productivity levels. In addition to the sunk entry costs, firms face fixed production costs, resulting in increasing returns to scale of production. The fixed production costs lead to the exit of inefficient firms whose productivities are lower than a threshold level, as they do not expect to earn positive profits in the future. On the demand side, the agents are assumed to have Dixit-Stiglitz preference over the continuum of varieties. As each firm is a monopolist for the variety it produces, it sets the price of its product at a constant markup over its marginal cost. There are also fixed costs and variable costs associated with the exporting activities. However, the decision to export occurs after the firms observe their productivity. A firm enters export markets if and only if the net profits generated from its exports in a given country are sufficient to cover the fixed exporting costs.

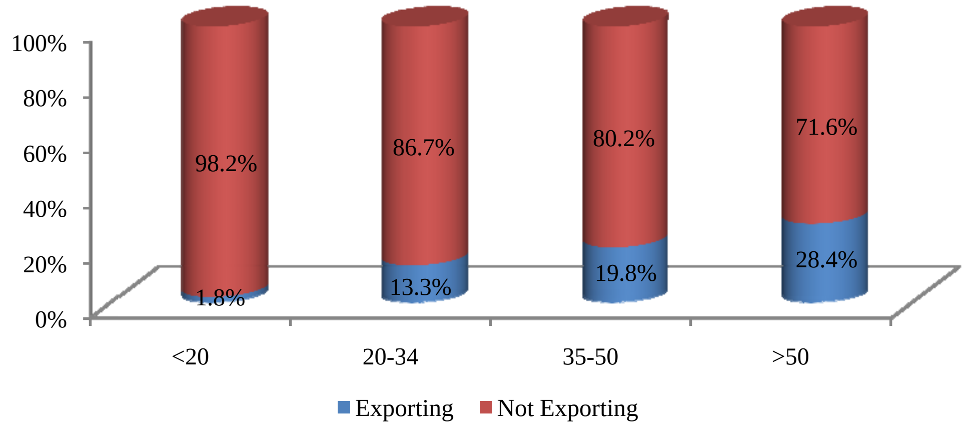

Figure 11 Distribution of SMEs by Exporting Status and Number of Employees

Source: Constructed by the authors using SMEs dataset.

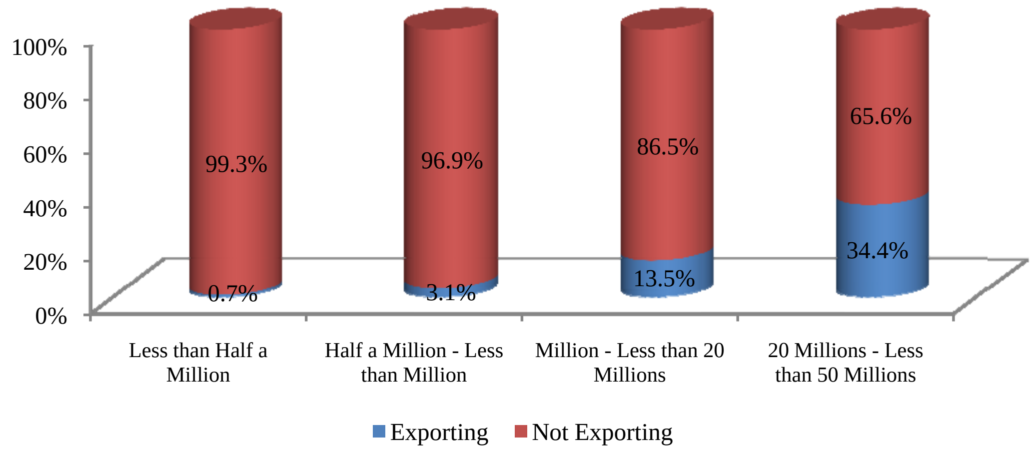

Figure 12 Distribution of SMEs by Exporting Status and Sales Turnover

Source: Constructed by the authors using SMEs dataset.

By observing the destination of those exports, Figure 13 shows first that Arab countries are the first destination of SMEs products since, on average, 43 percent of SMEs goods and services are imported by Arab countries. Secondly, it is worthy to note that the higher the capital, the more a firm can export to more than a destination since 52.7 percent of the exporting firms endowed with a capital of more than EGP 30 million export to more than two destinations. This finding shows to what extent boosting SMEs capital endowments can increase their productivity, change their non-exporting status or even help them to serve several foreign markets.

Finally, another factor affecting firms exporting status is related to having access to financial services. Figure

14 shows that 91.5 percent of exporting firms deal with banks. Consequently, all those factors affect SMEs productivity and that is why only larger firms having more employees, with a larger capital and having access to banking facilities are the most productive and therefore are the most likely to export.

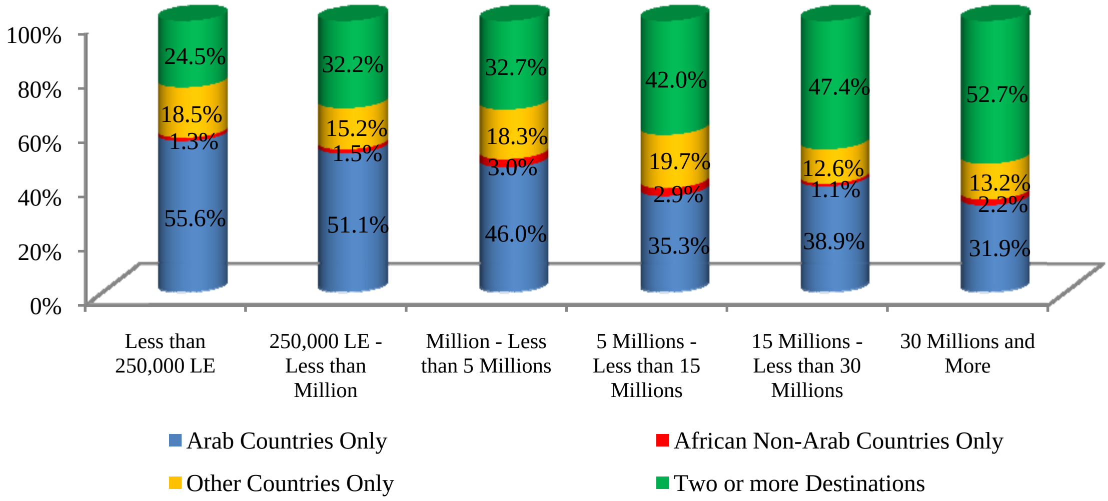

Figure 13 Distribution of SMEs by Capital and Importing Country

Source: Constructed by the authors using SMEs dataset.

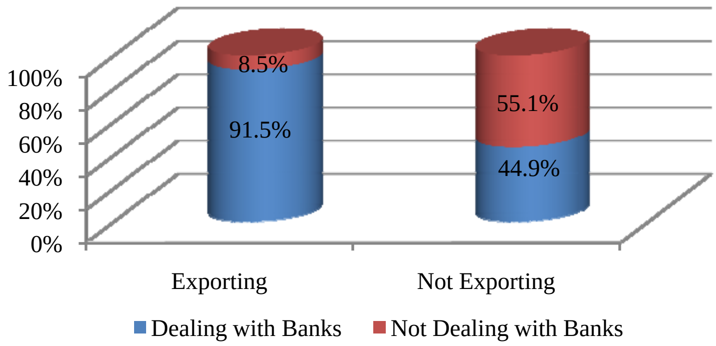

Figure 14 Distribution of SMEs by Exporting Status and Dealing with Banks

Source: Constructed by the authors using SMEs dataset.

5. Access to Finance

From the SMEs' point of view, it is more difficult for SMEs to obtain financing from banks, as: the government and international development communities are focusing more on micro businesses; banks often prefer to extend credit to large corporate clients and connected individuals that are considered less risky; and finally, banks are much more trust worthy than obtaining it from other sources. Yet, from the banks point of view, it is less risky to provide loans for larger businesses since they are more stable, less prone to risk, have available records, have structured information, are easier to access, are more profitable. By contrast, small businesses are less stable, are more prone to risk, don't have available records, have unclear information, are difficult to access and are less profitable. They suffer from some other problems such as: lack of business documents (such as registration, license, and tax cards) and the reliability of financial statements, as well as the "financial performance" represent 70 percent; weakness of management and lack of business plans. Bearing these characteristics in minds, we found that 47 percent of SMEs in Egypt do not deal with banks and 22.4 percent have access banking facilities as shown in Figures 15 and 16.

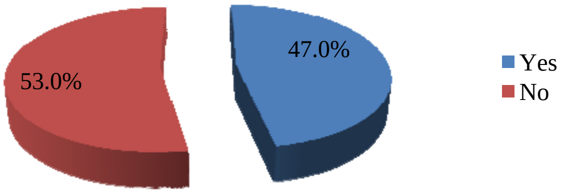

Figure 15 Distribution of SMEs According to Dealing with Banks

Source: Constructed by the authors using SMEs dataset.

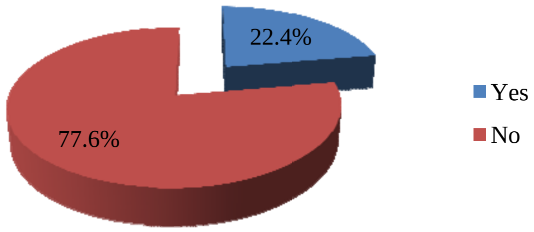

Figure 16 Distribution of SMEs According to Having Facilities from Banks

Source: Constructed by the authors using SMEs dataset.

It is worthy to examine the factors that determine access to finance. In a companion paper (El Said et al., 2013), we empirically estimate the determinants of access to finance of SMEs in Egypt. First, as it was mentioned above, there is a strong correlation between number of employees, capital and sales turnover. This is reflected on the access to finance since that the higher the capital (Figure 17), the larger the firm (Figure 18) and the more it sells (Figures 19 and 20), the more a firm is likely to deal with banks and benefit from financial services. This is why 18.6 percent and 41.2 of small firms with a capital less than EGP 250,000 and/or less than 20 employees respectively deal with banks and have access to banking facilities. Those figures are substantially higher for larger firms since 59 and 84 percent of SMEs with a capital more than EGP 30 million and/ or more than 50 employees respectively deal with bank.

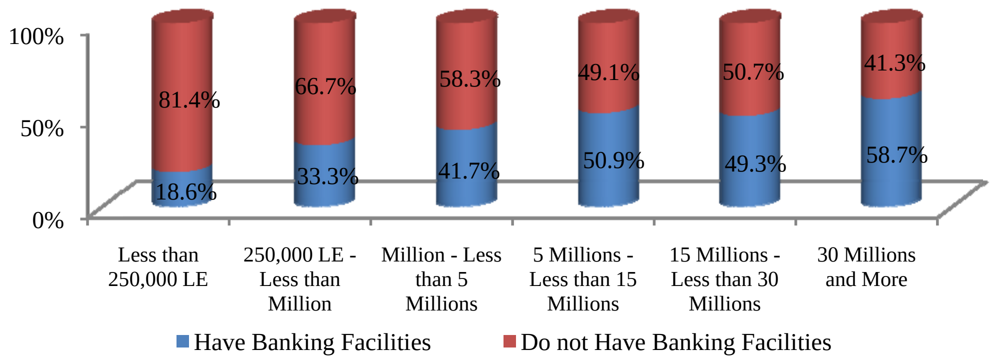

Figure 17 Distribution of SMEs by Banking Facilities and Capital

Source: Constructed by the authors using SMEs dataset.

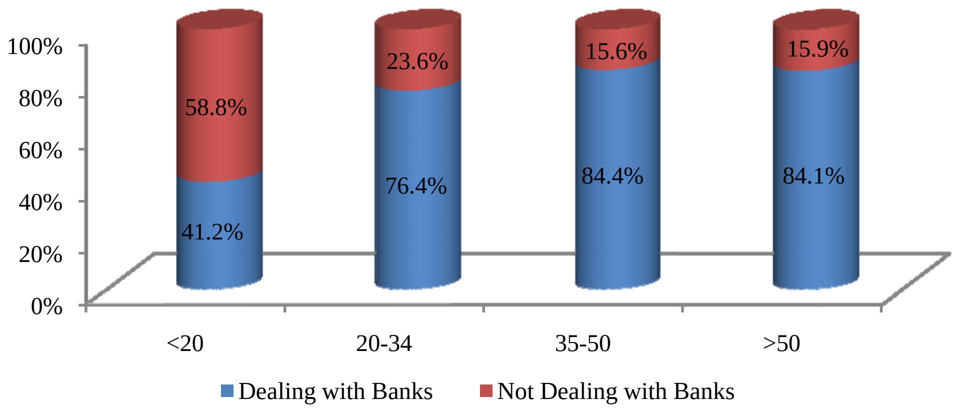

Figure 18 Distribution of SMEs by Dealing with Banks and Number of Employees

Source: Constructed by the authors using SMEs dataset.

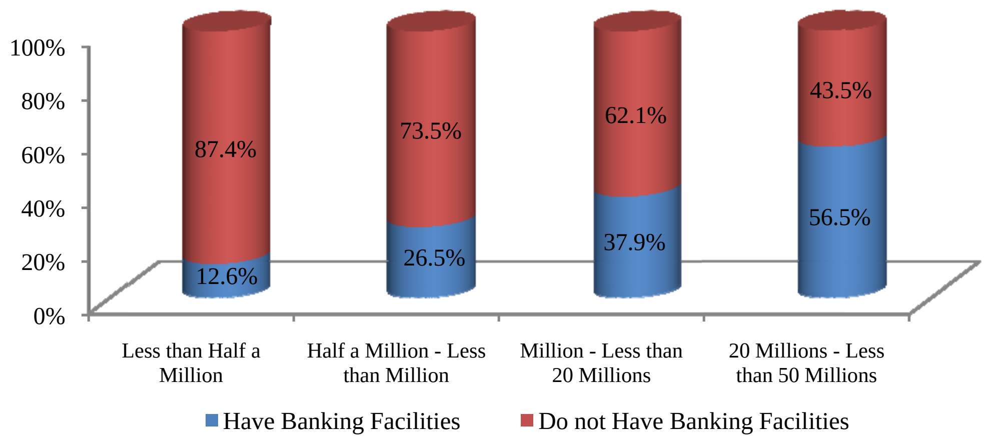

Figure 19 Distribution of SMEs by Banking Facilities and Sales Turnover

Source: Constructed by the authors using SMEs dataset.

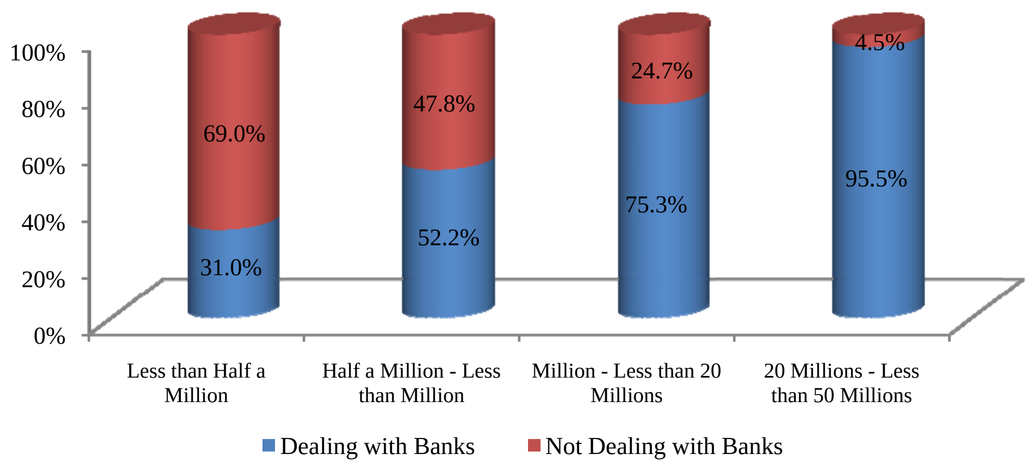

Figure 20 Distribution of SMEs by Dealing with Banks and Sales Turnover

Source: Constructed by the authors using SMEs dataset.

Numerous studies have discussed that SMEs are financially more constrained than large firms and are less likely to have access to formal finance. Banks are not adequately providing SMEs with capital in developing countries as there is large financing gap for SMEs in developing countries. For instance, the top five banks serving SMEs in non-OECD countries reach only 20% of formal micro enterprises and SMEs. In addition, in Sub-Saharan Africa, this number is even lower, at 5%. Nearly 25% of SMEs in emerging markets have a loan but are financially constrained, and almost 60% do not have a loan overdraft, but need one (Dalberg, 2011). From the bank standpoint, the higher costs, lack of skills and higher (perceived) risks of investment in SMEs translate into high interest rates and collateral requirements. Furthermore, posting collateral is complicated by the fact that most SMEs operate in environments with weak property rights and poor contract enforcement in which borrowers do not have legal titles to house or land, and therefore cannot use these as collateral. For this reason, some SMEs face some problems with banks. As it is shown in Figure 21, 16.1 percent of SMEs have problems with banks and this share increases with smaller firms (Figure 22). Indeed, 16.4 percent of SMEs having a capital less than EGP 250, 000 do have problems with banks. By contrast, this figure is slightly lower for larger firms since 9.9 percent of SMEs with a capital more than EGP 30 million have banking problems.

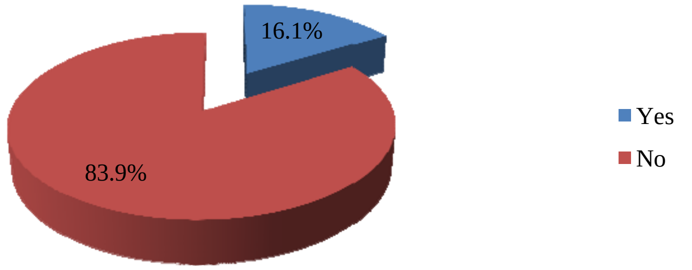

Figure 21 Distribution of SMEs According to Having Problems with Banks

Source: Constructed by the authors using SMEs dataset.

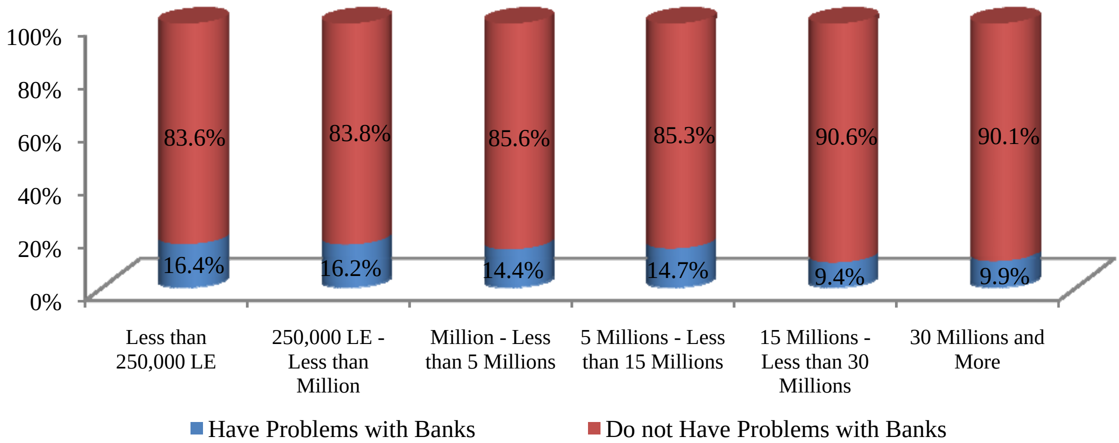

Figure 22 Distribution of SMEs by Problems with Banks and Capital

Source: Constructed by the authors using SMEs dataset.

At the governorate level, as it was mentioned before, most of the Egyptian SMEs are concentrated in three main governorates (Cairo, Sharkeya & Gharbeya). The same pattern can be observed for SMEs that deal with banks (see Figure 23) since 16.9 percent of SMEs dealing with banks are located in Cairo, 11.5 percent in

Sharkeya and 9.5 in Gharbeya. Similarly, SMEs having banking facilities (see Figure 24) are chiefly concentrated in the same governorates (22.6 percent in Cairo, 13.9 percent in Sharkeya and 8 percent in Gharbeya). Clearly, there is a great potential of developing new SMEs in other governorates through an easier and more equitable access to finance.

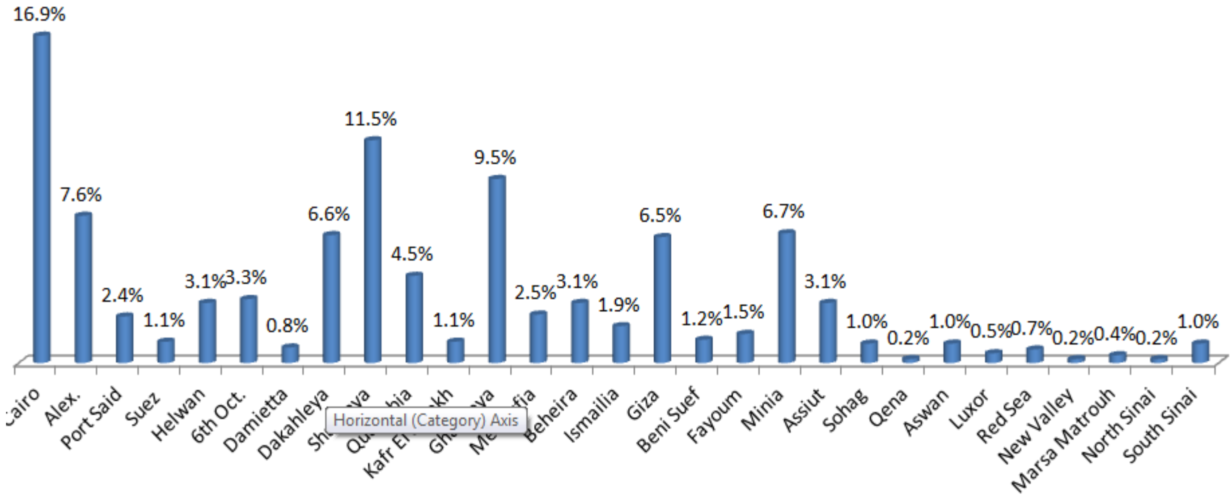

Figure 23 Distribution of SMEs Dealing with Banks by Governorates

Source: Constructed by the authors using SMEs dataset.

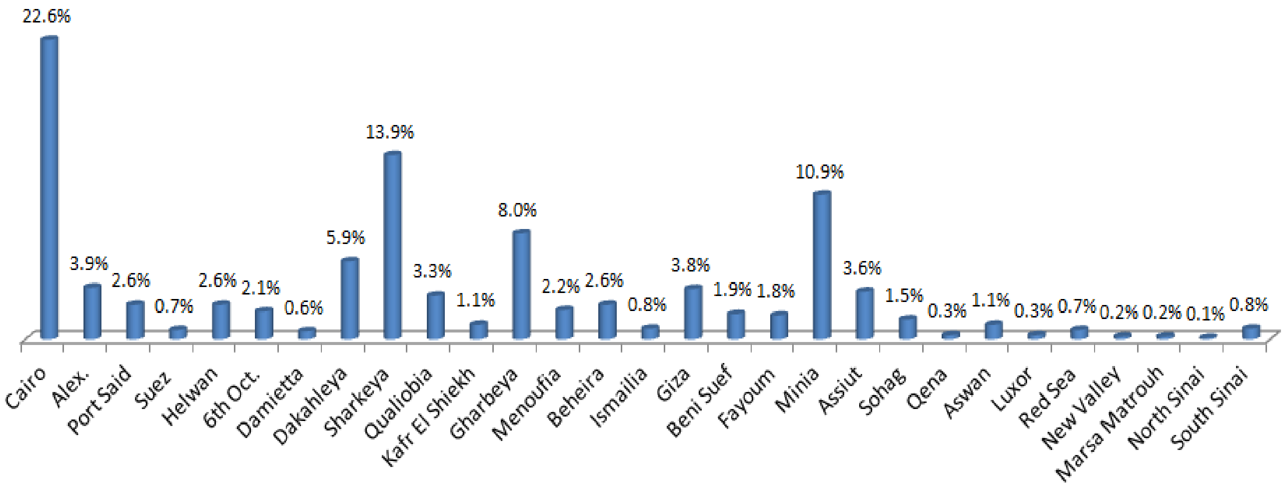

Figure 24 Distribution of SMEs Having Banking Facilities by Governorates

Source: Constructed by the authors using SMEs dataset.

Concerning economic activities, most of the firms that benefit from dealing with banks (see Figure 25) are mostly concentrated in manufacturing (44.3 percent) and trade (43.8 percent). Yet, having a more detailed look on each sector separately (Figure 26) shows that 86.8 percent of construction firms and 72 percent of food and beverage ones deal with banks. This figure is lower for SMEs working in the manufacturing and trade sectors since SMEs who deal with banks represent 40.7 and 50.9 percent respectively of firms operating in these two sectors. Those findings are not contradictory since there is a frequency effect as almost 90 percent of SMEs are concentrated in just the manufacturing sector (51.1 percent), followed by the wholesale trade (40.5 percent).

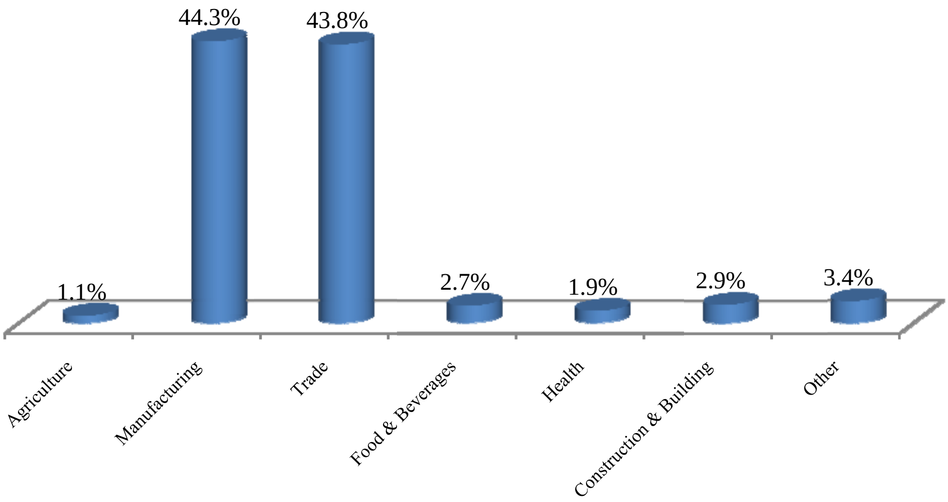

Figure 25 Percent Distribution of SMEs Dealing with Banks by Economic Activity
Source: Constructed by the authors using SMEs dataset.

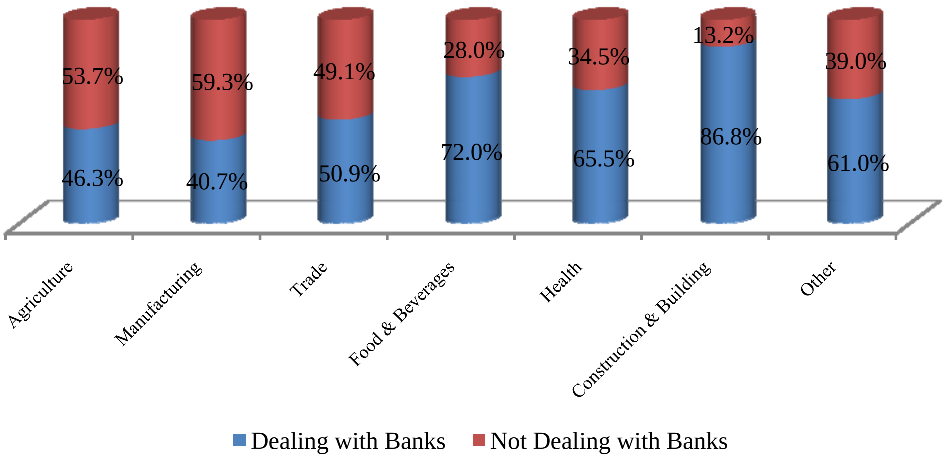

Figure 26 Percent Distribution of SMEs by Dealing with Banks and Economic Activity
Source: Constructed by the authors using SMEs dataset.

To put in a nutshell, small firms face serious impediments in what concerns access to finance given that larger firms with a greater capital, more employees and higher sales turnover are more likely to benefit from banking facilities. Therefore, in order to resolve problems related to access to finance, encourage competition among banks to provide full fledge of diversified products with lowest charges due to the economies of scale effect; CBE's relaxation of the 10% banks' reserve requirements on SMEs lending; facilitation of technical assistance to banks and improving the communication between the two sides of the SMEs' lending market through discussing bottleneck issues and bridging the gap; overcoming the asymmetric information between borrowers and lenders, which is particularly acute in the "informationally opaque" market for small business credit through fostering access to finance for SMEs through NILEX (Box 1), the establishments of the I-score (Box 2) and a national census.

Box 1: NILEX

NILEX is the Egyptian Exchange' market for growing medium and small companies, which offers an appropriate, secure, yet flexible regulatory framework, for both companies and investors, together with a streamlined admission process.

It supports the capital raising activities of small and mid cap developing companies. Its advantage is not only limited to providing finance, but companies can access to long term capital for the expansion of their businesses.

It supports promising sectors in the economy which suffers from finance obstacles; and it also provides opportunity for investors to diversify their portfolios by investing in high growth companies.

NILEX Benefits can be summarized in the following:

- Unlimited Long-term Finance
- Cheap Financing cost
- Relaxed Rules & Regulation
- Dedicated Funds to ensure liquidity
- Full Government Support
- Lower Listing Fees (0.5 per thousand of the capital)
- Local & Foreign investors' Interest

For more information, please check: www.nilex.egyptse.com/ar/

Box 2: Egyptian Credit Bureau "I-Score"

The Egyptian Credit Bureau "I-Score" maintains a database of credit information for SMEs and consumers. The first credit bureau in Egypt, which demonstrates how a private credit bureau can be set up in a relatively short time when all stakeholder interests are aligned and the project has backing of the authorities. The Credit Bureau has been established under the name of the Egyptian Credit Bureau "Estealam". The first general assembly meeting was held on September 5th, 2005. 25 banks in addition to the Social Fund for Development contributed in the company, with an issued capital of 30 million Egyptian pounds distributed to seven million and five hundred thousand shares, the value of each share of four pounds (all the shares in cash). The founders and subscribers have paid the 25% of the nominal value of the shares upon subscription and completed the paid up capital in February 2007. The purpose of the company is to provide information services and credit classification.

It includes work in the following areas:

- Gathering all information about customers, whether associated with credit companies and financial institutions, retailers and credit provided by banks or other views from all available sources of information.
- Creating certified official records of that information with the company, analyzing the data and classifying it.
- Creating indicators of credit quality for debtors whether individuals or institutions, making it possible for them to form a sound credit history.
- Providing financial advice and practical solutions, all of the specialized counseling to individuals or institutions who want to improve the level of credit ratings, or those who want to improve the financial instrument or who want to build a credit history on a sound basis to start by a specific institution (with the exception of legal advice).
- The sale of information services and products associated service and other new services to all beneficiaries in Egypt and in a manner that does not conflict with the provisions of secret bank accounts.
- Carrying out the work of the agency in the field of information and credit classification of enterprises or companies linked to their work with the company subject to the provisions of laws, regulations and decisions applicable licensing condition for the exercise of such activities.

Impact of I-Score:

- I-Score led the process of the creation of the borrower data bank with Unique ID (GT 5.7 Million).
- Significant increase in number of credit facilities/loans data base size (GT 14.3 Million).
- Catalyst for banks/lenders to improve their data quality, revision of internal lending policies/procedures leading to new avenues to grow credit/improved profitability and advanced skill sets.
- Contribution to increased awareness among lenders on data quality in acquisition and management.
- Catalyst for active credit growth with prudence and confidence by providing a unified and robust borrower database across the lending community

For more information, please check www.i-score.com.eg

6. Conclusion and Policy Implications

Small and medium sized enterprises (SMEs) have usually been perceived as a dynamic force for sustained economic growth and job creation in developing countries. In Egypt, despite banking reforms that have been launched in 2004, the ability of SMEs to more easily access suitable and sufficient means of finance has always been considered a major obstacle facing many SMEs. For this reason, and in order to be able to extend the financial services provided to this segment and increase the benefits of the banking reform, the Central Bank of Egypt launched in December 2008 an initiative, as an integral part of the Second Phase of the Banking Sector Reform Program (2008-2011), to enhance SMEs access to finance and banking services. In this paper, we present a descriptive analysis of the SMEs landscape in Egypt relying on this extensive census. The main findings of the census show that there is a high concentration of SMEs at different levels. First, the geographical distribution of SMEs is significantly skewed since almost half of them are concentrated in three governorates (Cairo, Sharqiya & Gharbeya). Second, they are chiefly operating in two economic activities, namely manufacturing and trade. Third, a very few firms are exporting. Finally, financial services seem to be under-utilized by SMEs as only 50 percent are dealing with banks and benefiting from an improved access to finance.

From a policy implication standpoint, there is a need for strategic economic reforms to bring Egypt's economic condition into vitality and promote investment, especially for SMEs through:

- Improvements in the legislative infrastructure, several rules and regulations associated with bankruptcy, creditor capacity to take fast possession of collateral in case of default. In addition, there is an urgent need to speed up the process of establishing collateral registries which should aim at building electronic registers and streamlining registration process.
- Encouraging banks to build on their expertise in matchmaking their clients in different stages of value chain (linkages)
- A need for updating financial method for financial reporting (e.g., standardized template)
- Changing the Mindset
- Enhancing Entrepreneurship Education

It is worth to mention that this last point is crucial to improve SME performance in Egypt. Indeed, the role of entrepreneurship has become increasingly apparent in economic and social development. Economically, entrepreneurship stimulates markets. The formation of new business leads to job creation and has a multiplying effect on the economy. Socially, entrepreneurship empowers citizens, generates innovation and changes mindsets. These changes have the potential to integrate developing countries into the global economy. Thus, entrepreneurship is described as a potential driver to support the economic growth, since it is important for productivity, innovation and employment. Accordingly, it has been a policy goal of many developed countries to develop a culture of entrepreneurial thinking. This can be done through providing appropriate enabling environment via integrating entrepreneurship into education systems, learning process, technical assistance, legislation and integration among all stakeholders.

Access to finance of small and medium enterprises is extremely important in promoting entrepreneurship and innovation as well improving the state of the national economy in Egypt. Accordingly helping those who decide to start their small enterprise in acquiring necessary entrepreneurial and managerial competencies is essential in order to ensure their success. Being aware of the importance of entrepreneurship development, EBI SME unit is providing several training packages for Small and medium business owners who need to enhance their understanding of dealing with and satisfying the requirements of banks.

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