



Small & Medium Enterprises In Egypt

Definition, Landscape and Stakeholders

May 2016



SMEs reached nearly 2.78 million enterprise accounting for more than 90% of total private enterprises in Egypt

SMEs contribute significantly to the Egyptian economy in all aspects.

They also employ nearly 66% of the total workforce and 75% of total non-agriculture man power.

I. Introduction

Small and Medium Enterprises (SMEs) are considered the most crucial element in any economy. Focusing on Egypt, SMEs account for nearly 70% - 80% of the Gross Domestic Product (GDP). They also employ nearly 66% of the total workforce and 75% of total non-agriculture man power. Regarding production Small Enterprises contribute to nearly 13% of the total industrial production where Medium Enterprises account for nearly 46% of the industrial production, leaving the large enterprises with 41% of industrial production. Accordingly the contribution of SMEs to the Egyptian economy is significant from all aspects.

Access to information in the SMEs is the main challenge, as a large portion of the SMEs operate in the informal sector. The last official report for Central Agency for Public Mobilization and Statistics (CAPMAS) regarding SMEs was in 2006 as SMEs reached by then 2.45 million enterprise accounting for more than 90% of total private enterprises in Egypt, then. In 2015 it is estimated that SMEs reached nearly 2.78 million enterprise where the annual increase in SMEs is nearly 37,000 enterprise.

II. SMEs Definition

A unified official definition of SMEs doesn't exist in Egypt as there is a vast array of definitions. The following table includes the most important definitions by Local Institutions 1 and International Institutions² concerned with the SMEs sector in Egypt.

1. Local Institutions include: Social Development Fund, Ministry of Investment and the Ministry of Industry and Foreign Trade.
2. International Institutions include: World Bank, the African development bank and the UNDP

The main elements of definitions are:

- The number of employees in the company: where most of the institutions define companies with less than 100 employees as SMEs. Defining SMEs by the number of employees is the most common definition.
- Capital size and value of assets: Other institutions define SMEs by the capital size and the value of assets in the company.
- Revenues or Turnover: Sales turnover is one of the most widely used SMEs definitions.
- Sectorial aspect: Some institutions change their definitions of SMEs with the change of the sector. In other words they apply different SMEs definitions depending on the sector to which the SME belongs.

¹ Local Institutions include: Social Development Fund, Ministry of Investment and the Ministry of Industry and Foreign Trade.

² International Institutions include: World Bank, the African development bank and the UNDP

SMEs Definition in Egypt by Domestic and International Institutions

The very definition of SMEs varies slightly between domestic and international institutions

	Institution	The definition
Definition of Domestic Institutions	Social development fund	Based on capital paid and number of employees: Micro enterprise: less than EGP 50,000 capital paid up to 10 employees. Small Enterprise: EGP 50,000 to EGP 1 million capital paid up to 50 employees. Medium enterprise: Industrial sector - up to EGP 10 million capital 50 to 100 employees. Trade & services sector – EGP 500 000 to EGP 2 million, 10 to 19 employees.
	Ministry of investment	By size, turnover and sector. Agro-based industries, manufacturing to 150 employees Up to EGP 20 million turnover Services, Trade and ICT: 5 to 50 employees Up to EGP 10 million turnover.
	Central bank of Egypt	By sales turnover: Small enterprises : less than EGP 20 million sales turnover Medium enterprise: less than EGP 100 million sales turnover
	Ministry of foreign trade	Small enterprises: 10-50 employees and registered capital from around USD 90,000 to 900,000. Medium enterprises : from 50 – 100 employees and registered capital from USD 900,000 dollar - USD 1,800,00
Definition of International Institutions	World bank	Employees : less than 300 Maximum revenues : USD 15,000,000 Maximum assets : USD 15,000,000
	African Development Bank	Employees : Less than 50
	UNDP	Employees: Less than 200

Sole proprietorship is the most common form in Egypt given it has the least requirements.

Sole proprietorship form about 60% of SMEs in Egypt

Joint liability form is the second most common form accounting for about 20%

III. SMEs Landscape in Egypt

In 2010-2011 The Central Bank of Egypt (CBE) sought to improve the SME financing mechanisms in Egypt. One of the most important challenges was the lack of the appropriate information infrastructure upon which the policy can be built. Accordingly CBE in cooperation with CAPMAS and the Faculty of Economics and Political Science in Cairo University conducted a “National SME Consensus” to analyze the SMEs landscape in Egypt. The results were published in the Economic research forum (ERF) in 2015, the American Journal of Business and Economics in 2014 after updating the data set. A comprehensive data set was constructed and published on the website initiated specifically for the purpose entitled3. The sample was relatively a large sample which included nearly 37,000 SMEs with a well-structured survey.

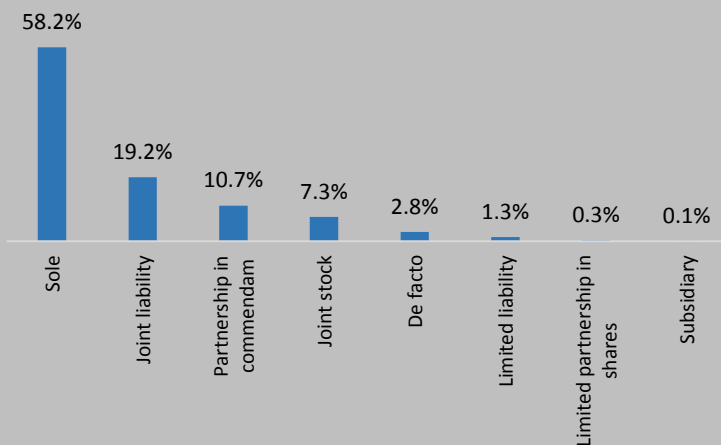
The data set includes the following:

- i. The distribution of the of SMEs by legal form
- ii. The governorates with highest SME condensation
- iii. The distribution of SMEs by capital value
- iv. Classification of SMEs by employees
- v. The exporting situation of SMEs
- vi. Access of SMEs to banks and bank facilities

A. SMEs by Legal Form

According to the data set 58.2% of SMEs in Egypt adopt the legal form of sole proprietorship given it is the easiest legal form with the least procedures and legal documentation. In this form the owner and the business are no two separate entities rather they are treated as one where the owner becomes personally subject to taxation and liabilities if any and he acquires all the profit. Joint liability form is the second most common form accounting for 19.2% of SMEs while joint stock accounts for only 7.3%. The main conclusion is the dominance of simple business legal forms.

Distribution of SMEs by Legal Form



More than one-third of SMEs located in Delta area

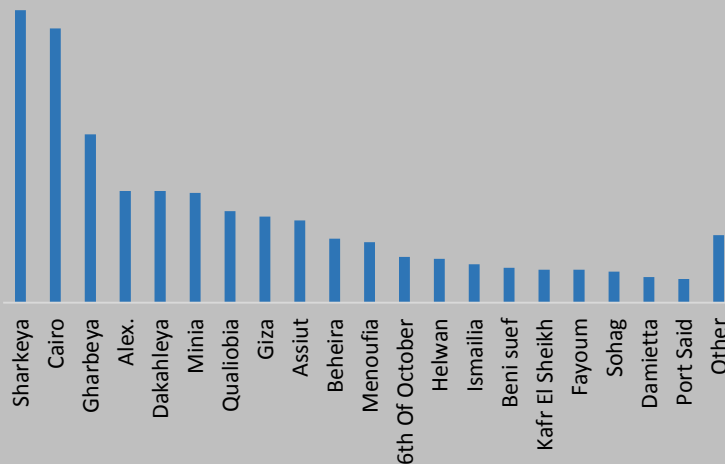
About 30% of SMEs in Egypt located either in Sharkeya or Cairo.

More than 80% of the total SMEs in Egypt are of capital below 250,000

B. SMEs Distribution across Governorates

The highest concentration of SMEs was found to be in Delta area in Egypt Where Sharkeya came first with 16.0% of the total SMEs and Gharbeya came third with nearly 9.2% of the total SMEs and Dakahleya came Fifth accounting for 6.1% of total SMEs, together they comprise 31.3% of total SMEs. Cairo came second as 15.0% of total SMEs were located in Cairo.

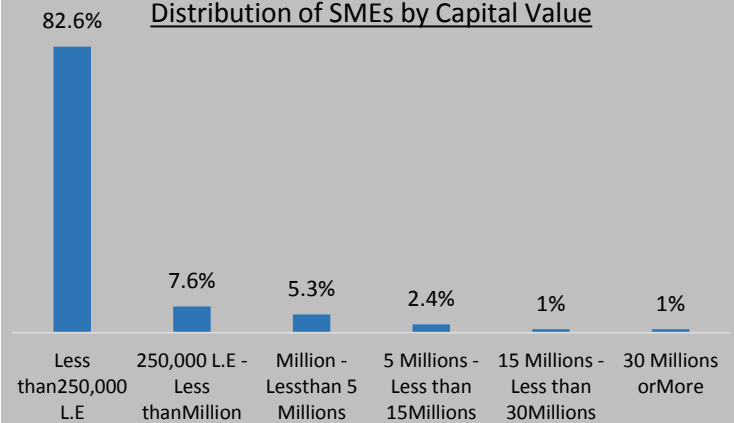
Distribution of SMEs by governorates



C. SMEs by capital value

Results showed that 82.6% of the total SMEs in Egypt are of capital below 250,000 LE where only 7.6% are between 250,000 to EGP 1 million and only 2% of the SMEs have capital value more than EGP 15 million.

Distribution of SMEs by Capital Value



More than 80% of the total SMEs in Egypt have less than 20 employees

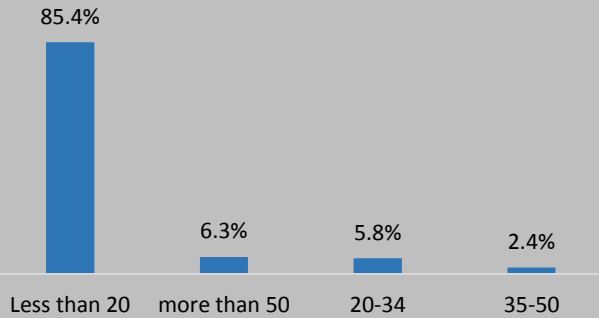
More than 90% of the SMEs in Egypt are involved either in manufacturing or trading.

Half of the SMEs in Egypt have less than EGP 500,000 sales turnover.

D. SMEs by Number of Employees

As mentioned before the distribution by the number of employees is one of the most important elements of definition. It was found that nearly 85.4% of the SMEs have less than 20 employees and only 6.3% of the SMEs have more than 50 employees. This is consistent with having most of the SMEs below 250,000 paid capital.

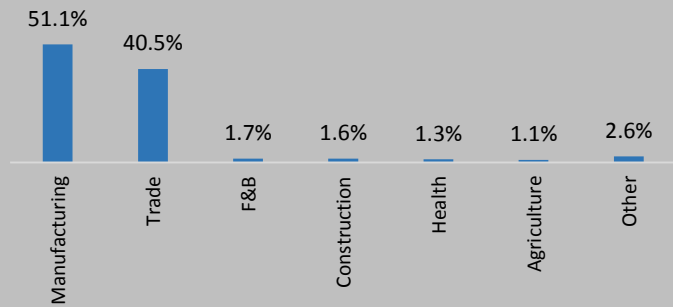
Distribution of SMEs By No. of Employees



E. SMEs Distribution across sectors

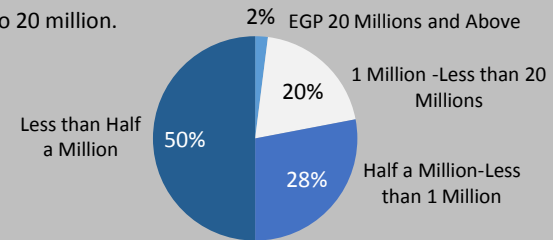
Manufacturing was found to be the sector with highest number of SMEs accounting alone for 51.1% of total number of SMEs. The Trade sector came second place accounting for 40.5% while food and beverages sector came in the third place with only 1.7% of total SMEs in Egypt.

Distribution of SMEs By Economic Activity



F. SMEs classification by Sales Turnover

Another very important crucial classification of SMEs is sales turnover. More than 50% of the SMEs in Egypt have less than EGP 500,000 sales turnover. Only 2% of the SMEs achieve a turnover higher than EGP 20 million yearly where 20.2% achieve sales turnover between EGP 1 million to 20 million.



SMEs classification according to Sales Turnover (EGP)

SMEs with exporting capabilities & access to finance

The exporting portion of SMEs increases with the increase of the sales turnover.

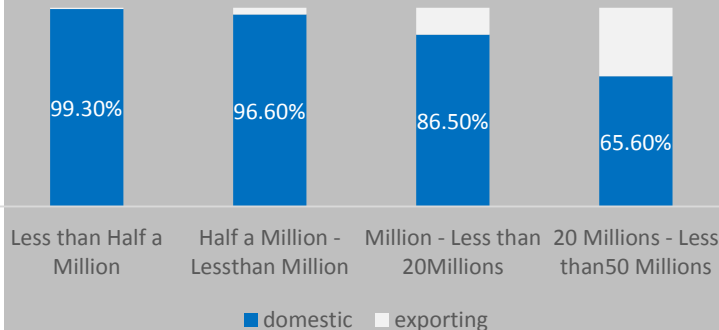
Less than quarter of SMEs in Egypt have access to bank facilities which is a very low percentage.

the higher the capital of the SMEs the easier it is for the SME to have access to a bank facility.

IV. SMEs with Exporting Capabilities

While taking a closer look at SMEs with exporting capabilities, it was found that the exporting portion of SMEs increases with the increase of the sales turnover. More than 99% of the SMEs with sales turnover which is less than EGP 500,000 don't export and only sell domestically. Only 3.4% of the SMEs with sales turnover between EGP 500,000 – 1,000,000 export where the other only sell domestically. This percentage rises significantly to 13.5% of the companies with sales turnover between EGP 1,000,000 and EGP 20,000,000. The highest portion of exporting exporters lies in the category SMEs which achieves revenue EGP 20,000,000 – 50,000,000 as nearly 35% of SMEs in this category are exporters.

SMEs Exports classified by Turnover

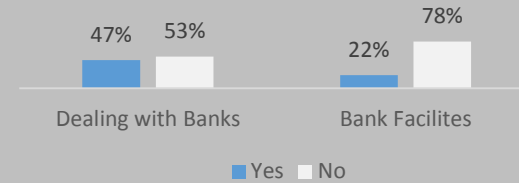


V. Access to finance

A. Access to banks and bank facilities

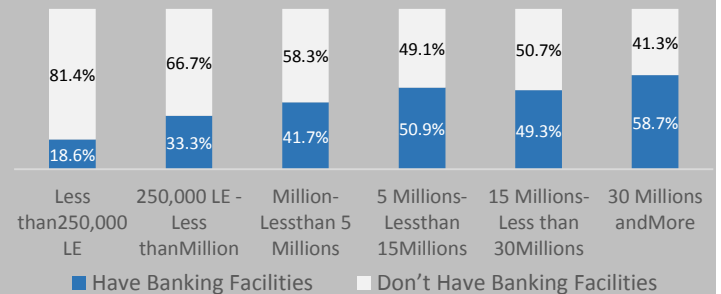
Owing to the lack of records, the high perceived risks of SMEs, the lack of the documentation and other factors; only 47% of the SMEs were found to be dealing with any of the banks' activities and only 22.4% of SMEs have access to bank facilities which is a very low percentage.

SMEs relationship with Banks



It was also found that the higher the capital of the SMEs the easier it is for the SME to have access to a bank facility. Where only 18.6% of SMEs with less than 250,000 capital have access to banking facility and percentage rises to reach nearly 58.7% with companies having capital more than EGP 30,000,000.

Distribution of SMEs By Banking Facilities & Capital



SMEs with exporting capabilities & access to finance

The exporting portion of SMEs increases with the increase of the sales turnover.

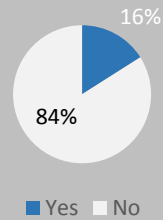
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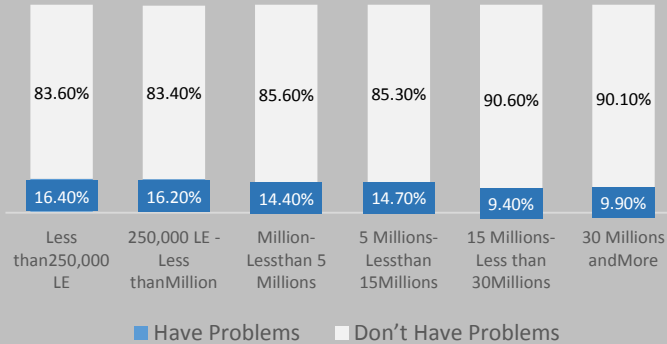
B. SMEs having problems with Banks

The data set shows that only 16.0% of the SMEs dealing with banks face problems with banks and 84.0% have no problems with their banking facilities. The percentage of SMEs facing problems tends to decrease with the increase of the capital of the SME where only 9.9% of the SMEs with capital higher than EGP 30,000,000 face problems with banks.

SMEs having problems with Banks

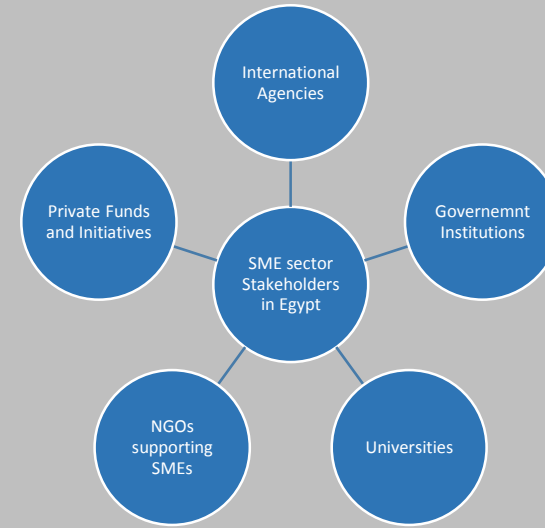


Distribution of SMEs by Problems with Banks & Capital



VI. SMEs stakeholders in Egypt

Due to the large portion of SMEs in the Egyptian economy, all components of the economy are considered as stakeholders.





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