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2014

# working paper series

**MICRO AND SMALL HOUSEHOLD ENTERPRISES  
IN EGYPT: POTENTIAL FOR GROWTH  
AND EMPLOYMENT GENERATION**

**Ali Rashed and Maia Sieverding**

**Working Paper No. 831**



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**May 2014**

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First published in 2014 by  
The Economic Research Forum (ERF)  
21 Al-Sad Al-Aaly Street  
Dokki, Giza  
Egypt  
[www.erf.org.eg](http://www.erf.org.eg)

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## Abstract

Micro and small enterprises (MSEs) comprise an important sector of the Egyptian economy and account for a substantial portion of employment outside the public sector in the wake of the 2008 financial crisis and the January 25<sup>th</sup>, 2011 revolution, it is therefore important to update analyses of trends in MSE development and assess the potential for growth in the sector. In this paper we examine changes in micro and small household enterprises across the 1998, 2006 and 2012 rounds of the Egypt Labor Market Panel Surveys (ELMPS), and present new data from the expanded ELMPS module on the financial status of household enterprises. Our findings indicate that substantial constraints to the growth of the MSE sector continue to exist, and may have been exacerbated by the difficult economic conditions prevailing in Egypt over recent years. The overall percentage of households reporting an enterprise has declined since 1998, particularly in rural areas and in Upper Egypt. The MSE sector also continues to be dominated by micro enterprises with fewer than five workers. A trend towards formalization of the MSE sector observed between 1998 and 2006 has been reversed, with the percentage of MSEs operating informally increasing slightly between 2006 and 2012. On average, informal enterprises report lower asset holdings, capital values and monthly revenues than formal ones. The large majority of household enterprises, whether formal or informal, are financed through personal sources, despite programs put in place to provide loans to MSEs. In this context, initiatives to support MSE start-ups and expansion need to be reinvigorated, including not only financing but also business training, and reforms to alleviate regulatory constraints and barriers to formality.

**JEL Classifications:** J4, D1, R2

**Keywords:** Micro and small enterprises, Egypt Labor Market Panel Surveys, formality

## ملخص

تشمل المشروعات متناهية الصغر والصغيرة قطاعا هاما من الاقتصاد المصري و تمثل جزءا كبيرا من فرص العمل خارج القطاع العام في أعقاب الأزمة المالية لعام 2008 و ثورة 25 يناير 2011 . لذا فمن المهم تحديث تحليلات اتجاهات تنمية المشروعات متناهية الصغر والصغيرة وتقييم إمكانات النمو في هذا القطاع. في هذه الورقة ندرس التغيرات في المؤسسات المنزلية متناهية الصغر والصغيرة في جولات المسوحات التتبعية لسوق العمل في مصر لسنوات 1998 2006 و 2012 ( ELMPS ) ، وتقديم بيانات جديدة من هذه المسوحات الموسعة عن الوضع المالي للمشروعات المنزلية. النتائج التي توصلنا إليها تشير إلى استمرار وجود قيود كبيرة على نمو قطاع المشروعات متناهية الصغر والصغيرة، وربما تكون قد تفاقمت بسبب الظروف الاقتصادية الصعبة السائدة في مصر خلال السنوات الأخيرة. وقد انخفضت النسبة الإجمالية لمشروعات الأسر منذ عام 1998 ، ولا سيما في المناطق الريفية وفي صعيد مصر. لا تزال تهيم أيضا المؤسسات الصغيرة التي تضم أقل من خمسة عمال على قطاع المشروعات متناهية الصغر والصغيرة. وقد لوحظ ان الاتجاه نحو إضفاء الطابع الرسمي على قطاع المشروعات متناهية الصغر والصغيرة بين عامي 1998 و 2006. قد تم عكسه مع وجود زيادة طفيفة بين عامي 2006 و 2012 لنسبة المشروعات المتوسطة والصغيرة العاملة بشكل غير رسمي . وفي المتوسط ، فان المؤسسات غير الرسمية تظهر انخفاضا في حيازة الأصول، و قيم رأس المال والإيرادات الشهرية عن تلك الرسمية. الغالبية العظمى من المشاريع الأسرية ، سواء كانت رسمية أو غير رسمية ، يتم تمويلها من خلال مصادر شخصية ، على الرغم من كل البرامج التي وضعت لتقديم قروض إلى المشروعات متناهية الصغر والصغيرة. في هذا السياق، تحتاج كل مبادرات دعم المشروعات متناهية الصغر والصغيرة المبتدئة والتوسع إلى إعادة تنشيط ، بما في ذلك التمويل والتدريب على الأعمال التجارية ، والإصلاحات التنظيمية لتخفيف القيود والحوجز على التحول الرسمي.

## **1. Introduction**

Micro and small enterprises (MSEs) comprise an important sector of the Egyptian economy and account for a substantial portion of employment outside the public sector. Trends in MSE development therefore have implications for the overall state of the Egyptian economy, a topic that is particularly important to explore in light of the economic downturn that Egypt has experienced since the January 25<sup>th</sup>, 2011 revolution. In this paper we use the household enterprise module of the Egypt Labor Market Panel Survey (ELMPS) 2012 to present an updated picture of micro and small enterprises, with a focus on the role of the MSE sector in contributing to employment. Our analysis addresses changes in the MSE sector across the 1998, 2006 and 2012 rounds of the ELMPS, and examines new data from the expanded ELMPS module on the financial status of household enterprises. Our findings indicate that substantial constraints to the growth of the MSE sector continue to exist, and may indeed have been exacerbated by the difficult economic conditions prevailing in Egypt.

## **2. Constraints to MSEs Growth in Egypt**

MSEs dominate Egypt's private sector, accounting for approximately 98% of non-agricultural economic units and 81% of the labor force outside the public sector (UNDP 2008). Following Loewe et al. (2013, 52), in this paper we use the Central Agency for Public Mobilization and Statistics' (CAPMAS) definition for micro, small and medium enterprises, which is based only on the number of employees in the enterprise and does not take into consideration other factors such as capital or assets. According to the definition of CAPMAS, enterprises with 1–4 employees are micro enterprises, 5 – 49 employees are small, and 50 – 99 employees are medium. Since 99% of the household enterprises captured by the ELMPS are considered micro or small according to this definition (see Table 5), in this paper we use MSEs synonymously with household enterprises.

The important role of MSEs in the Egyptian economy has been recognized for a number of years, both in academic and policy circles. In turn, the Egyptian government has undertaken a number of policy measures to support MSEs. These measures include the institution of a new law governing MSEs in 2004, the implementation of reforms to lower barriers to start-ups and formalization, and the establishment of programs, including the Social Fund for Development, that aim to provide financial support and advice to small enterprises (El Mahdi and Rashed 2007; UNDP 2008). In 2008, the Central Bank of Egypt also launched an initiative to improve SMEs' access to banking services including loans (El Said et al. 2013).

Nevertheless, the MSE sector continues to face a number of constraints to growth that limit its potential to contribute to employment generation and broader economic development. Previous studies have shown that MSEs in Egypt are concentrated at the micro end of the spectrum, with the large majority having fewer than five employees, and operating with low levels of capital (El Mahdi and Rashed 2007). The majority of MSEs also operate informally, which in the context of such enterprises means that many fail to fully comply with legal requirements for businesses, such as licensing, registration and tax payments (Maloney 2004). In Egypt, operating informally has proved to have a negative effect on the productivity of MSEs (Hendy and Zaki 2012) and to reduce the likelihood of the enterprise's owner moving out of poverty (El Mahdi 2010).

Other factors limiting the ability of MSEs in Egypt to grow are the human capital of entrepreneurs and their willingness to take risks; the difficulty of the regulatory environment and lack of enforcement; and lack of access to finance (Loewe et al. 2013). The issue of access to finance in particular has been widely noted in the literature on MSEs in Egypt as well as globally, and intersects with other constraining factors such as enterprise size and formality. For example, a recent study of formal SMEs in Egypt found that only 50% deal with a bank. A number of factors, including sector of economic activity and legal form, lower

capital and a smaller number of employees are associated with the greater likelihood of not having access to banks (El Said et al. 2013). These results agree with cross-national studies which find that smaller firms have less access to finance, and that lack of access to finance is in turn a constraint to small enterprise growth (Beck and Demirguc-Kunt 2006). As informal MSEs are on average smaller and have less capital than formal MSEs (El Mahdi and Rashed 2007), they are likely to be even more constrained in their access to finance and therefore their ability to grow.

In summary, recent studies on the MSE sector in Egypt overwhelmingly conclude that further reforms to the regulatory environment and more targeted efforts to support the development of the MSE sector are needed. This is particularly true given that MSEs face disincentives to growth, in that they become more “visible” to regulatory bodies (El Hamidi and Baslevent 2013). Yet at the same time, small size and informal operations, which characterize much of the MSE sector in Egypt and elsewhere in MENA, are two factors that may limit the potential of the sector to contribute to employment generation and broader economic growth. The ELMPS 2012 is, however, the first survey of MSEs conducted in Egypt after the January 25 revolution and the subsequent economic downturn. How the sector has been affected by the unique post-revolution economic and policy environment is therefore largely unknown. Using the expanded household enterprise module in the 2012 survey, our analysis addresses recent changes in the factors known to play a key role in the development of the MSE sector.

### **3. Data and Methods**

Since the original 1998 round of the survey, the ELMPS has included a household enterprise module that captures data on all non-agricultural enterprises operated by a member of the household. The module is applied to any household in the ELMPS sample in which a household member is found to be self-employed, an employer who hires others to work in his enterprise, or an unpaid family worker engaged in production for the market. The ELMPS 2012 captured 2,236 such MSEs, on which the analysis in this chapter is based. All analyses are produced using the ELMPS sample weights (for more information on the survey design and sample weights see Assaad and Krafft 2013).

For each enterprise identified, the ELMPS 2012 collected data on a number of topics that were also addressed the 1998 and 2006 rounds of the survey, including ownership, sector of economic activity, location of operations, employment and formality status. The 2012 round also included several new sections on household enterprises, namely those covering earnings, expenditures and assets. These new sections, in addition to changes in the questions on MSEs financing, allow for a more extensive analysis of the financial challenges facing the MSE sector, and thereby a more complete picture of its potential for employment growth.

An important factor that is considered throughout our analysis is the formality of the enterprise. Our definition of formal is based on three variables: whether the owner has a business license, whether the enterprise is commercially registered, and whether regular accounting books are kept for the enterprise. For the purpose of this chapter, we consider an enterprise that complies with any one of these criteria to be formal. We adopt this broad definition of formality in recognition of the fact that many enterprises in Egypt, as well as other developing countries, are ‘semi-formal’ and gradations of formality may be significant for MSE development and the outcomes of their owners (Maloney 2004). Our analysis of changes in the MSE sector from 1998 to 2012 is based on descriptive statistics.

### **4. Changes in the MSE Sector, 1998 - 2012**

The ELMPS 2012 found that a total of 18.3% of households reported a non-agricultural enterprise. This continues the downward trend in MSE ownership observed between 1998 (26.3%) and 2006 (21.5%). Using the survey’s expansion weights to extrapolate this figure on a national scale suggests that there are approximately 3.58 million households in the

country with at least one non-agricultural enterprise. As shown in Figure 1, ownership of an MSE declined in all of the regions of Egypt between 2006 and 2012, even in urban Lower Egypt, which had seen an increase in MSEs ownership between 1998 and 2006. The most noticeable declines in MSEs ownership since 1998 have occurred in rural areas and in Upper Egypt. Rural Upper Egypt has seen the most substantial decline, with MSEs ownership halving since 1998, when 30.0% of households reported a non-agricultural enterprise, compared to 14.9% in 2012. Meanwhile, urban Lower Egypt continues to be the region with the highest percentage of households reporting an MSE, at 25.6% in 2012.

The MSE sector continues to be dominated by wholesale and retail activities, although for the first time since 1998 fewer than 50% of MSEs were engaged in such activities (Figure 2). The percentage of MSEs engaged in manufacturing also declined somewhat, whereas there were small increases in the transportation and construction fields. There also appears to be some limited diversification of sectors taking place, as the percentage of MSEs engaged in professional, scientific and technical areas, information and communication increased slightly, as well as the other category that includes education and real estate, among other fields. The percentage of MSEs engaged in accommodation and food service declined slightly, in contrast, which may be a result of the decline in tourism following the January 25 revolution.

Despite the difficult economic conditions prevailing in Egypt since the 2006 round of the ELMPS, 30% of the MSEs found to be operating in 2012 had been established during the six-year period between the two rounds. Similarly, a quarter of MSEs found in 2006 had been established after the 1998 round. This suggests a considerable rate of start-up activity in the MSE sector, and potentially a fairly high rate of failure, which is consistent with other studies on the MSE sector in Egypt (El Mahdi 2010; Loewe et al. 2013). Over half (56.4%) of the MSEs included in the 2012 data were established in 2000 or later.

Looking across the three ELMPS rounds also indicates some shifts in the characteristics of enterprise owners. For the purposes of this paper, owners are identified as the individual in the household who spends the most time working in the enterprise. Legal ownership may be shared in some cases with the household head or other individuals, however for the large majority (84%) of the enterprises identified in the ELMPS, the household head was also the person who spent the most time working in the enterprise.

Whereas MSEs owners, on the aggregate, became more urban between 1998 and 2006, this trend was reversed between 2006 and 2012, so that by 2012 just over half of MSEs were located in urban areas. This may be a result of differences in MSE start-up and failure rates across different regions of the country. In 2012, a larger percentage of MSE owners were female than in previous years, although female ownership of enterprises remained very low at 13.0%. The educational composition of MSE owners has shifted upward somewhat since 1998, which is expected given population-level increases in educational attainment over the same period. The percentages of MSE owners with intermediate (secondary) or university degrees in particular have increased over the course of the three survey rounds. Finally, the age distribution of MSE owners has been shifting downward, with a higher percentage of MSE owners now under age 40 than in previous rounds. This trend corresponds with Egypt's 'youth bulge' entering the labor market, and perhaps with individuals in these younger generations looking to create opportunities for self-employment given the difficult job market that many face.

#### ***4.1 The Formality of MSEs***

Along with the declining ownership of MSEs, the 2012 ELMPS saw a reversal of the increase in formality of MSEs seen in 2006. Whereas the number of MSEs operating formally increased by nearly 17 percentage points between 1998 and 2006, through 2012 the

percentage operating formally decreased by about seven percentage points. This was primarily a result of a decline in the percentage of MSEs that were licensed or commercially registered, practices which had increased substantially between 1998 and 2006 but have since become less common (Table 3). What is not clear from this descriptive analysis is whether existing MSEs became informal between 2006 and 2012, or whether there were differences in the exit and entry rates of formal and informal MSEs during this period.

As shown in Table 4, overall rural MSEs and enterprises operated by women are more likely to be informal. Both rural and urban enterprises became more informal between 2006 and 2012, although this trend was somewhat greater among the urban MSEs. Enterprises owned by both men and women were more likely to be informal in 2012 than in 2006. The increase in informality was smaller among female-owned enterprises that saw a substantial increase in formality rates between 1998 and 2006.

In terms of education, there is a clear pattern of higher levels of formalization among more educated MSE owners. The gap in formality rates across education become more pronounced between 1998 and 2006, but shrank somewhat between 2006 and 2012 with the general trend towards being informal. As of 2012, about 70% of MSEs operated by individuals with more than a secondary degree were formal, compared to under 30% among illiterate owners. In 1998 and 2006, enterprises owned by younger individuals (age 20 – 29) were the most likely to be operating informally, with formalization rates generally increasing across subsequent age groups, with the exception of the 65+ age group, among whom formality rates again declined. In 2012 this changed, with youngest age group becoming the most likely to be operating their enterprises formally. It is important to note, however, that cell sizes for this youngest age group are relatively small.

One category of MSEs that has become progressively less formal since 1998 is enterprises based in an establishment, i.e. that are located in a home, shop, office, workshop or other indoor space. At the same time, the formalization rate among enterprises that are not based in an establishment, including mobile vendors or workers, kiosks and other outdoor selling spaces, or forms of transportation, has remained at around 25% (Figure 3). As the overall percentage of MSEs that are operated in an establishment has remained fairly consistent from 1998 to 2012, at around two-thirds, this indicates that the de-formalization of the group of enterprises that are operated in an establishment has contributed to the lower rate of formal MSEs seen in 2012.

Looking at the more detailed breakdown of formalization rates among those enterprises that are located in an establishment indicates that this decline has been largely attributable to change in enterprises located in shops. Whereas enterprises located in the owner's own home have been predominantly informal since 1998 (at around 85% in all three rounds), enterprises located in a shop have become progressively less likely to operate formally. Ninety percent of enterprises located in a shop in 1998 operated formally, but in 2006 this had declined to 80% and in 2012 to 68%. Another trend that is likely to be associated with the informality of shops has been the informality of enterprises operating in the wholesale and retail field. Whereas approximately three-quarters of such enterprises have been located in establishments in every round of the ELMPS, the percentages that are formal have declined from 63% in 1998 to 54% in 2006 and finally to 46% in 2012.

#### ***4.2 Employment Creation through MSEs***

The majority of household enterprises in Egypt continue to be very small, with 91.8% in 2012 having between one and four workers, only a small change from 2006 and 1998 (Table 5). As expected, given the small average size of MSEs, under a third (31.4%) of these enterprises hire individuals from outside the household. There was no change in the overall percentage of MSEs hiring outside individuals between 2006 and 2012. However, the



percentage of MSEs reporting that they had hired a new employee in the past year was nearly halved, to 10.2% (Table 4). This may indicate that the January 25 revolution and the subsequent economic downturn had a slowing effect on employment growth in MSEs, in that MSEs that already hire outside labor may have been less likely to bring on additional workers.

A smaller percentage of MSEs reported an employee leaving the enterprise within the past year than in 2006. Whether these employees left the enterprise voluntarily or not is unknown. The percentage of MSEs that reported a decrease in their total number of employees over the previous three years, in contrast, was much higher than in past rounds of the ELMPS, with 17.9% of enterprises reporting overall reduced employment in 2012 compared to only 7.9% in 2006. This large increase, given that reports of losing an employee in the past year did not change substantially, suggests that there may have been a longer-term trend of declining workforce size among MSEs even prior to the revolution.

#### ***4.3 The Financial Viability of MSEs***

An important factor that may limit MSEs capacity for growth—and thereby their potential to provide employment—is their financial viability. As noted above, improving access to finance among MSEs has received particular attention in international development literature, particularly in light of the high levels of informality that pervades the sector in many countries. Egypt, like many other countries, has followed this trend by implementing public sector programs to improve MSEs' access to finance, in addition to the civil society and NGO programs that operate in this area. Other aspects of MSEs financial practices are also likely to be important for their long-term sustainability and potential for growth, yet they have been less studied.

The question on enterprise financing in the ELMPS 2012 indicates that despite the institution of programs and funds to promote small enterprise development, the overwhelming majority of MSEs are primarily financed by personal sources. The first source of start-up financing for over two-thirds of MSEs in 2012 was household savings, while an additional 10.8% used an inheritance (Table 7). Loans from personal contacts or proceeds from a Rotating Savings and Credit Association (ROSCA) were the only other primary sources of financing for more than two percent of MSEs. Secondary sources of finance, while more evenly distributed among these four top categories, were likewise almost entirely personal. As the 2006 questionnaire included a question on receipt of a loan during the past year, not at start-up, the data are not comparable.

The combined percentage of MSEs reporting having received financial support from a formal institutional source (Nasser Social Bank, the Social Fund for Development (SFD), another public bank, a private bank, NGO or religious institution) as a primary source of finance was 3.0%. Use of one of these methods of formal support as a secondary source of financing was slightly higher (4.5%). As expected given the lending requirements of many banks and other institutions, formal MSEs were more likely to have received financial support, with 3.9% of formal MSEs receiving such support as the primary source of start-up finance and 5.2% as a secondary source. The comparable figures for informal MSEs were 1.9% and 3.4%, respectively. In sum, both formal and informal enterprises were heavily reliant on personal financing (Table A1).

The expanded household enterprise module in the ELMPS allows for a detailed analysis of other aspects of the financial status of MSEs, including capital, assets, expenditures and earnings. The current capital of the enterprise is the one financial variable that has been collected by the ELMPS since 1998. As in previous years, the 2012 round indicated that there is wide variance in the reported current capital of MSEs (Table A2). However, informal MSEs are concentrated at the lower end of the range, with 73% reporting current

capital of less than LE5,000, whereas formal MSEs are concentrated at the higher end of the range, with 70% reporting over LE5,000 in current capital. One notable change in the distribution of MSEs by capital since 2006 was the increase in formal MSEs reporting current capital of over LE50,000.

Asset holdings of household enterprises turned out to be quite limited. The only two items held by more than ten percent of MSEs were a form of machinery, equipment or tool (39.8%), and buildings (17.7%). Among MSEs holding each item, the reported current market values of those items also varied widely (Table A3). The total average asset holdings of MSEs in 2012 was about LE7,300 with formal MSEs owning, on average, assets equal to nearly four times the value of assets held by informal MSEs (Table 6). Formal MSEs have substantially more valuable asset holdings than informal enterprises regardless of number of employees, although the gap in asset holdings narrows among MSEs with 10-24 employees. Micro enterprises with fewer than five employees also have much less valuable asset holdings than small enterprises. The relatively low value of assets seen among enterprises with 25-49 employees may be due to the small number of observations in this category. In terms of owner characteristics, MSEs owned by males have more valuable assets than those owned by females, with a particularly large gap among informal enterprises. Overall, informal MSEs owned by women had the lowest reported asset holdings.

The reported average monthly net earnings of MSEs over the previous year also varied very widely, ranging from no net earnings to over LE0.5 million. Overall, MSEs reported average monthly net earnings of LE5,500, with formal MSEs consistently reporting substantially higher net earnings than informal MSEs (Table 6). Just under two-thirds (63.3%) of MSEs reported no change in their net earnings in the year since the January revolution. Most of the remaining enterprises reported a decline in net earnings of less than 25 percent (21.3% of the enterprises) or more than 25 percent (11.6% of the enterprises). About four percent of MSEs reported an increase in net earnings since the revolution.

There were no differences in reported change in net earnings between informal and formal MSEs. However, MSEs that reported decreased net earnings over the past year were more likely to have decreased the size of their workforce over the past three years, and were more likely to have been new enterprises that were less than three years old (Table 7). Meanwhile, MSEs that experienced no change or an increase in net earnings were more likely to have had a stable workforce size. Due to the small percentage of MSEs that reported increased net earnings though, the cell sizes for these categories are quite small. These tabulations suggest that multivariate analysis of the association between change in net earnings and employment size may be useful in understanding the growth potential of MSEs.

## **5. Conclusions**

Our aim in this chapter was to analyze change in the MSE sector across the three rounds of the ELMPS, in order to identify challenges facing the sector and interventions that may help relieve some of these challenges. New data from the 2012 round of the ELMPS indicates that although MSEs play an important role in the Egyptian economy, the sector continues to face a number of constraints that limit its potential for growth. First of all, the percentage of households owning an MSE has been declining since 1998, and particularly in rural areas and Upper Egypt, where poverty rates are highest. The MSE sector also continues to be dominated by micro enterprises with fewer than five workers.

The 2012 round of the ELMPS also saw a reversal of the trend towards the formalization of MSEs that was observed between 1998 and 2006. Even when using a broad definition of formality that considers any enterprise that is licensed, commercially registered or keeps books to be formal, fewer than half of MSEs were identified as formal and there has been a slight decline in the percentage of formal MSEs since 2006. As indicated by new data on the

financial status of enterprises, informal MSEs consistently reported lower current capital and asset values and lower monthly net earnings than formal MSEs. This suggests that, in general, informal MSEs are not able to support households at levels of income as high as formal MSEs, that their potential for expansion is more limited, and that the likelihood of enterprise failure may be greater. That substantial financial differences were observed between formal and informal MSEs using the broadest definition of formality possible further indicates that even an incomplete degree of formality may have a substantial impact on MSEs' sustainability.

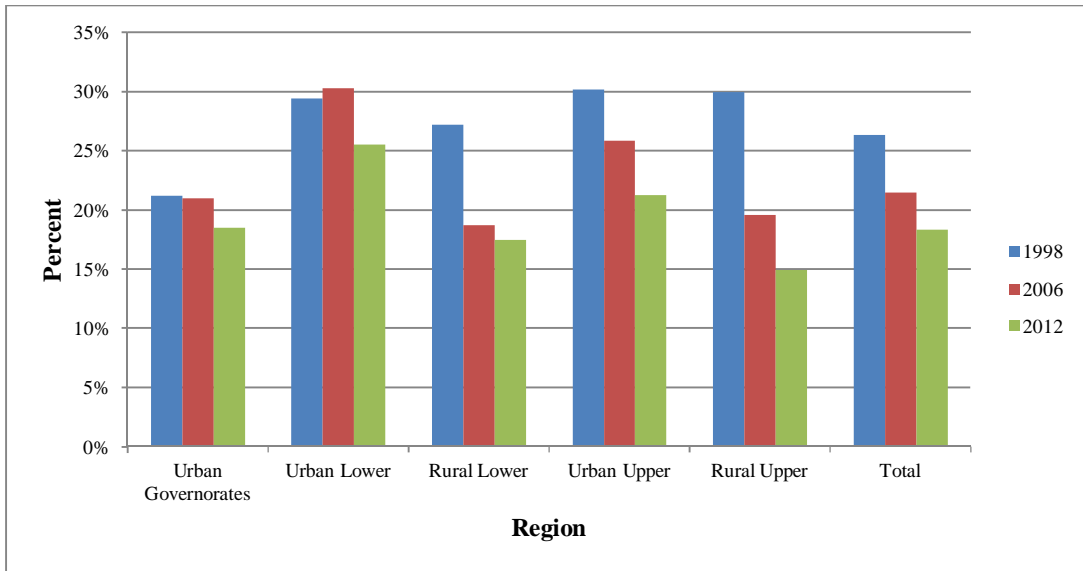
As has been highlighted in many other contexts, access to financing is an important barrier to MSEs' development in Egypt. Despite the institution of programs and initiatives designed to support small enterprise development, MSEs are heavily self-financed, with very few receiving loans to fund start-ups. This reliance on personal sources of finance likely limits both the number of households that can start an MSE and the size and complexity of the enterprise that they can found. Lack of financing may also limit the diversification of MSEs in terms of economic activity and the ability of existing MSEs to expand.

Overall, the findings from the 2012 household enterprise module suggest that the growth and development of the MSE sector has at least stalled, if not reversed, in the difficult economic climate following the 2008 global financial crisis and the January 25 revolution. In this context, it is important that initiatives to support MSE start-ups and expansion continue, including initiatives to alleviate regulatory constraints and barriers to formality. The national strategy for improving financial access among MSEs also needs to be revisited and reinvigorated, given the continued reliance of the sector on personal sources of funds. Finally, although the new section on enterprise earnings provides valuable information on the financial status of MSEs, the amount of missing data in this section emphasizes the challenges presented by the low prevalence of bookkeeping in the MSE sector. Business skills, trainings and other programs to teach MSE owners how to manage the finances of their enterprises is an important tool towards improving MSEs' ability to obtain loans—and to make sure that they can repay those loans—as well as a measure that would facilitate more accurate assessment of the financial challenges facing the sector.

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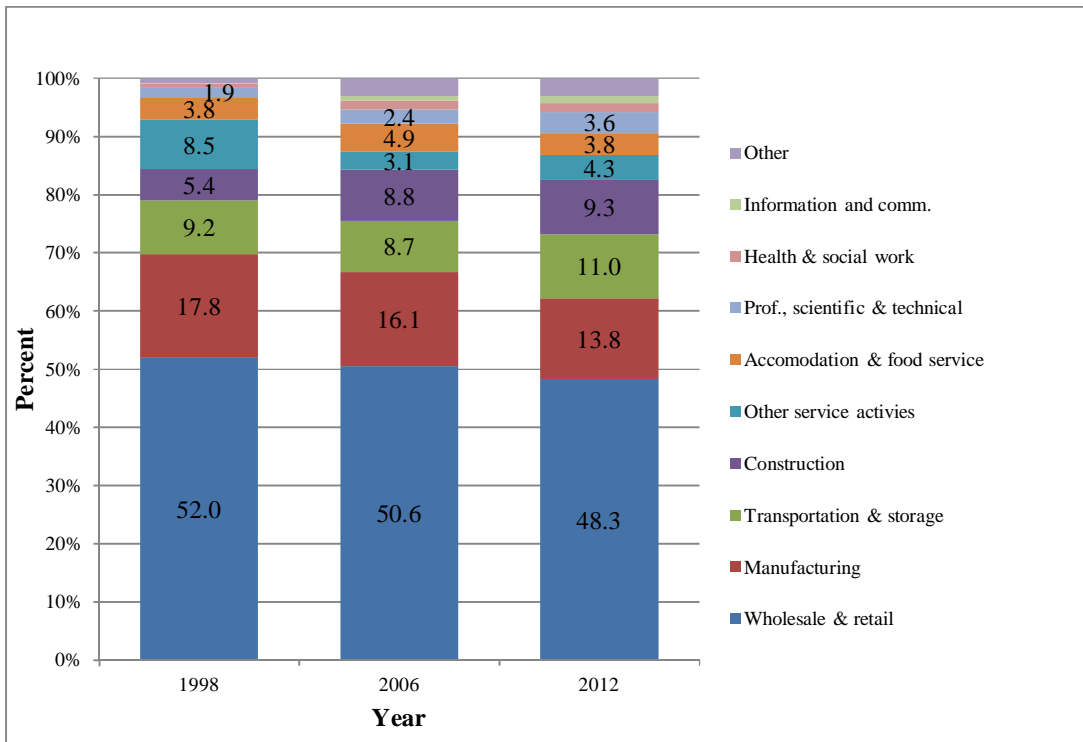
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**Figure 1: Percentage of Households Reporting Ownership of a Non-Agricultural MSE, by Region and Year**



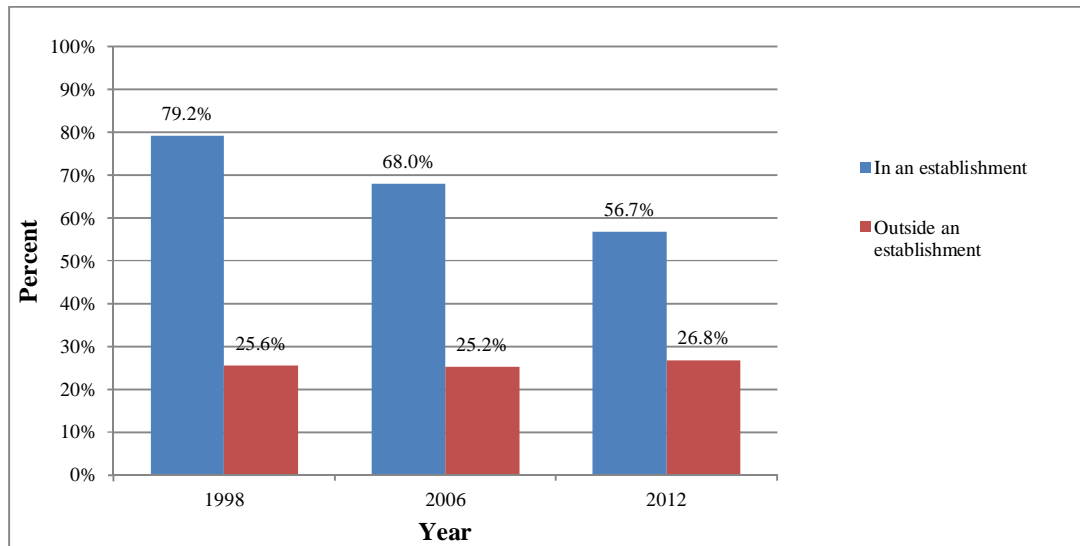
Source: ELMS 1998, ELMPS 2006 and ELMPS 2012 raw data files.

**Figure 2: MSEs by Area of Economic Activity and Year**



Source: ELMS 1998, ELMPS 2006 and ELMPS 2012 raw data files.

**Figure 3: Percent of MSEs Inside and Outside an Establishment that are Formal**



Source: ELMS 1998, ELMPS 2006 and ELMPS 2012 raw data files.

**Table 1: Percentage Distribution of MSE's by Establishment Date of Surveyed MSEs, by ELMPS Round**

	1998	2006	2012
2007-2012	--	--	30.1
2000-2006	--	25.0	26.3
1990-1999	35.2	34.4	22.9
1980-1989	31.5	21.9	11.6
1970-1979	17.5	11.1	4.2
1960-1969	7.7	4.3	1.2
1952-1959	5.8	1.5	0.6
Before 1952	2.3	1.2	0.2
Don't know	0.0	0.7	3.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: ELMS 1998, ELMPS 2006 and ELMPS 2012 raw data files.

**Table 2: Percentage Distribution of MSE Owners' Characteristics, by Round**

	1998	2006	2012
<b>Location</b>			
Urban	48.5	57.2	51.9
Rural	51.5	42.8	48.1
<b>Gender</b>			
Male	91.6	93.2	87.0
Female	8.4	6.8	13.0
<b>Education</b>			
Illiterate	31.1	28.5	23.6
Read & Write	18.7	12.6	7.8
Less than Intermediate	18.9	19.8	19.6
Intermediate	15.7	21.8	27.4
Above Intermediate	4.2	4.6	4.6
University & Above	11.5	12.6	17.0
<b>Age</b>			
20-29	3.0	8.1	14.4
30-39	21.1	23.3	32.5
40-49	33.1	31.1	24.4
50-59	22.9	22.1	16.9
60-64	7.3	7.0	4.5
65+	12.6	8.5	6.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: ELMS 1998, ELMPS 2006 and ELMPS 2012 raw data files.

**Table 3: Trends in the Formality Status of MSEs, 1998 - 2012 (percent)**

	1998	2006	2012
<b>Informal (meets no criteria)</b>	63.4	46.5	53.8
<b>Formal (meets at least one criteria)</b>	36.6	53.5	46.3
License	35.8	51.7	44.6
Registration	28.4	39.9	32.1
Bookkeeping	10.2	18.0	16.6

Source: ELMS 1998, ELMPS 2006 and ELMPS 2012 raw data files.

**Table 4: Formality Status of MSEs by Owner Characteristics and Round (row percent)**

	1998		2006		2012	
	Formal	Informal	Formal	Informal	Formal	Informal
<b>Location</b>						
Urban	50.9	49.1	63.4	36.6	55.5	44.5
Rural	23.1	76.9	40.3	59.7	36.3	63.7
<b>Gender</b>						
Male	39.0	61.0	55.6	44.4	49.9	50.1
Female	9.9	90.1	24.5	75.5	21.7	78.3
<b>Education</b>						
Illiterate	23.9	76.1	32.9	67.1	28.4	71.6
Read & Write	37.9	62.1	51.4	48.6	41.1	58.9
Less than Intermediate	47.7	52.3	57.5	42.6	43.7	56.3
Intermediate	38.2	61.8	56.7	43.2	45.9	54.1
Above Intermediate	42.2	57.8	72.6	27.5	69.4	30.6
University & Above	46.0	54.0	83.7	16.3	70.6	29.4
<b>Age</b>						
20-29	25.5	74.6	44.5	55.5	65.1	34.9
30-39	36.6	63.4	49.7	50.3	56.8	43.2
40-49	37.8	62.2	53.7	46.4	51.2	48.8
50-59	37.3	62.7	56.2	43.8	46.8	53.2
60-64	45.2	54.8	66.3	33.7	43.9	56.2
65+	29.5	70.5	60.5	39.5	46.3	53.8
<b>Total</b>	36.6	63.4	53.5	46.5	53.8	46.3

Source: ELMS 1998, ELMPS 2006 and ELMPS 2012 raw data files.

**Table 5: Percentage distribution of MSEs by Number of Employees (by round)**

	1998	2006	2012
1 – 4	91.3	93.4	91.8
5 – 9	5.5	5.1	6.4
10 – 24	2.0	1.1	1.5
25 – 49	0.4	0.3	0.3
50 – 99	0.3	0.1	0.0
Don't know	0.5	0.0	0.0
	100.0	99.9	100.0

Source: ELMS 1998, ELMPS 2006 and ELMPS 2012 raw data files.



**Table 6: Percentage distribution of short-term changes in the workforce size of MSEs (by round)**

	1998	2006	2012
<b>Enterprise hired a new employee in the past year</b>			
Yes	15.0	19.4	10.2
No	84.1	80.2	89.8
DK	1.0	0.4	0.0
<b>Enterprise lost an employee in the past year</b>			
Yes	11.3	16.0	12.3
No	87.8	82.6	87.7
DK	1.0	1.3	0.0
<b>Reported change in number of employees in the past three years</b>			
Increased	5.7	11.4	5.4
Decreased	5.8	7.9	17.9
No change	83.1	78.5	72.4
Enterprise is less than 3 years old	5.4	2.2	4.3
Total	100.0	100.0	100.0

Source: ELMS 1998, ELMPS 2006 and ELMPS 2012 raw data files.

**Table 7: Main Sources of Start-Up Financing for MSEs, 2012**

	First Source		Second Source	
	Percentage	N	Percentage	N
Household savings	68.9	1,399	16.4	83
Inheritance	10.8	220	20.4	103
Loans from relatives/friends	7.1	145	26.8	136
Proceeds from a ROSCA ( <i>gameiya</i> )	4.7	96	16.8	85
Loans from other public sector banks	1.3	26	2.0	10
Income from family property	1.1	23	3.8	19
Proceeds from family farm	0.6	13	1.2	6
Loan from NGO	0.5	10	0.9	5
Loan from Nasser Social Bank	0.5	10	0.4	2
Social Fund for Development	0.4	8	0.4	2
Remittances from abroad	0.2	3	2.0	10
Loan from local money lenders	0.2	3	0.7	4
Loan from private bank	0.2	3	0.8	4
Proceeds from non-farm family enterprise	0.1	2	0.3	1
Loan from religious institutions	0.1	1	0.0	0
Other	2.7	54	5.6	29
Don't know	0.6	12	1.7	9
	100.0	2,028	100.0	508

Source: ELMPS 2012 raw data files.

**Table 6: Asset Holdings and Monthly Net Earnings of MSEs in 2012, by Gender of Owner and Size of Enterprise (LE1000)**

	Asset holdings (current LE)			Average monthly net earnings (current LE) during past year		
	Informal	Formal	Total	Informal	Formal	Total
<b>Gender of owner</b>						
Male	3.1	11.8	7.7	2.4	8.8	5.5
Female	1.0	9.8	3.7	2.2	14.1	5.7
<b>Number of employees*</b>						
1 - 4	2.5	9.6	6.0	2.3	5.9	3.8
5 - 9	11.8	28.3	25.0	7.8	24.1	20.7
10 - 24	19.6	30.5	28.3	3.2	12.9	10.8
25 - 49	NA	13.8	12.6	NA	180.1	180.1
Total	2.8	11.6	7.3	2.4	9.1	5.5

Notes: \*There were no observations for firms with more than 50 employees.

Source: ELMPS 2012 raw data files.

**Table 7: Percentage Change in MSEs' Reported Net Earnings by Change in Number of Employees, 2012**

Change in net earnings	Change in number of employees			< 3 years old	Total	Row N
	Increased	Decreased	No change			
Increased by more than 25%	3.7	6.9	89.4	0.0	100.0	22
Increased by less than 25%	8.3	13.6	76.1	2.0	100.0	22
Decreased by less than 25%	10.8	22.6	65.0	1.6	100.0	152
Decreased by more than 25%	5.0	25.8	58.6	10.6	100.0	92
No change	3.3	15.1	77.5	4.2	100.0	386

Source: ELMPS 2012 raw data files.

## Appendix

**Table A1: Main Source of Start-up Financing for MSEs in 2012, by Formality Status**

	First Source			Second Source		
	Formal	Informal	Total	Formal	Informal	Total
Household savings	65.6	72.1	68.9	16.0	17.0	16.4
Inheritance	16.0	5.9	10.8	22.5	17.0	20.4
Loans from relatives/friends	5.7	8.6	7.1	26.7	26.8	26.8
Proceeds from a ROSCA ( <i>gameiya</i> )	3.0	6.4	4.7	12.9	23.0	16.8
Loans from other public sector banks	2.2	0.4	1.3	2.7	0.9	2.0
Income from family property	1.4	0.8	1.1	5.2	1.7	3.8
Proceeds from family farm	1.1	0.2	0.6	1.0	1.4	1.2
Loan from NGO	0.4	0.6	0.5	0.1	2.2	0.9
Loan from Nasser Social Bank	0.6	0.4	0.5	0.6	0.0	0.4
Social Fund for Development	0.5	0.3	0.4	0.7	0.0	0.4
Remittances from abroad	0.2	0.1	0.2	1.5	2.8	2.0
Loan from local money lenders	0.0	0.3	0.2	0.0	1.9	0.7
Loan from private bank	0.3	0.1	0.2	1.1	0.3	0.8
Proceeds from non-farm family enterprise	0.2	0.0	0.1	0.0	0.6	0.3
Loan from religious institutions	0.1	0.1	0.1	0.0	0.0	0.0
Other	2.3	3.2	2.7	6.6	4.1	5.6
Don't know	0.6	0.6	0.6	2.5	0.4	1.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: ELMPS 2012 raw data files.

**Table A2: Percentage distribution of MSEs by Estimated Value of Current Capital, by Year and Formality Status (column percentage)**

	1998			2006			2012		
	Formal	Informal	Total	Formal	Informal	Total	Formal	Informal	Total
None	0.8	2.0	1.5	6.6	11.7	9.6	2.6	12.0	7.6
1 – 99 LE	5.4	19.5	13.6	10.3	23.5	18.1	3.6	26.7	16.1
500 – 999 LE	10.7	9.0	9.7	9.5	13.5	11.9	5.9	12.4	9.4
1,000 – 4,999 LE	20.1	11.5	15.1	17.2	19.4	18.5	14.0	21.9	18.2
5,000 – 9,999 LE	12.3	5.9	8.6	18.2	13.6	15.5	18.7	13.8	16.1
10,000 – 49,999 LE	48.7	47.5	48.0	25.3	11.6	17.2	27.7	9.7	18.0
50,000 +				8.4	3.3	5.4	23.5	2.6	12.3
DK	1.9	4.7	3.5	4.5	3.3	3.8	4.1	0.9	2.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: ELMS 1998, ELMPS 2006 and ELMPS 2012 raw data files.

**Table A3: Asset Holdings of MSEs, 2012**

	Percent of MSEs owning asset	Value		
		Mean*	SD*	N
Machinery/equipment/tools	39.8	6,246	14,558	887
Buildings	17.7	38,613	51,112	384
Land	6.2	40,717	85,271	151
Small truck/pick-up	5.1	60,248	42,873	108
Construction tools	4.7	6,914	14,958	121
Car	4.2	44,971	24,977	92
Other vehicles	3.2	9,752	18,022	77
Motorcycle	2.6	5,894	10,802	61
Chairs, fridge, other misc. items	0.3	11,030	19,014	8
Boat	0.2	16,321	51,450	20
Rental of machinery	0.2	29,057	51,880	4
Horse or donkey cart/hand cart	0.1	4,542	5,020	6
Tuk-tuk	0.1	13,026	3,472	2

Notes: \*In Egyptian pounds.