

Micro and Small Enterprises in Egypt

Access to Finance and Job Creation Dynamics

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Abstract

More than 90 percent of enterprises in Egypt are micro or very small, employing fewer than five employees. Micro and Small Enterprises (MSEs) provide almost 60 percent of jobs and three quarters of the national value added (AfDB, 2016). This paper is based on a recent Economic Research Forum (ERF) survey on the key characteristics of MSEs and the constraints facing their development carried out in Egypt in 2014. The purpose of this paper is to contribute to the literature by addressing two interrelated issues. The first is to understand the factors that make some MSEs more likely than others to have access to formal finance. The second issue is to assess to what extent access to finance matters for job-creation. With respect to the literature, our results seem counterintuitive. A further investigation of the findings reveals most formal loans captured by the survey are provided by the Social Development Fund and seem to act as social assistance scheme for “survivalist” or “necessity-driven” entrepreneurs. Conversely, those growth-oriented firms benefit less from such funding schemes, most probably because they do not match their needs either in terms of their amount or duration. Ultimately, the paper seeks to contribute to the timely policy discussion on MSEs’ role in economic growth and job creation and highlight the government’s need to tailor its supportive schemes to different classes of MSEs to make them more formal, larger and more productive.

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1. Introduction

More than 90 percent of enterprises in Egypt are micro or very small, employing fewer than five employees. Micro and Small Enterprises (MSEs) provide almost 60 percent of jobs and three quarters of the national value added (AfDB, 2016). Such figures on MSEs' sector magnitude exceed those of most countries in the MENA region and compare with those of East and Southeast Asia and Sub-Saharan Africa. In terms of policymaking, such figures indicate that micro and small enterprises need to be at the heart of any national strategy for poverty alleviation and job creation.

Two main broad strands of the literature investigate factors behind MSEs' proliferation in developing countries. The first attributes the driving force behind MSEs' development to excess labor supply (Lewis, 1955), which cannot be absorbed in the public sector or in large- and medium-sized private enterprises. The MSEs sector serves, for jobseekers, as a last resort option in response to high unemployment and scarce formal job opportunities. Accordingly, the size of the MSEs sector has been argued to exhibit a countercyclical relationship with the state of the formal economy (Bosch and Maloney, 2008). The MSEs sector would expand in "bad economic times" and shrink in "good economic times" playing the role of "shock absorber" or "security buffer" used by households in the absence of alternative formal social protection mechanisms. Most of those who establish MSEs are driven by necessity not by opportunity and the bulk of the jobs created tend to be of low quality with low productivity and meagre income.

The second strand of the literature attributes MSEs sector's hypertrophy to the lack of a proper business environment conducive to firms' growth and mobility from their initial state of micro and small informal businesses to medium-sized and, ultimately, large formal enterprises. For De Soto (2014), Egyptians, Brazilians, Tunisians and others from the informal sector want to migrate to Europe or North America searching for laws and regulations that work for them. Yet, they avoid the laws in their countries, because they are bad. De Soto argues that small entrepreneurs desire to grow and become big businesses but they are held back by laws and regulations that do not work for them. From this perspective, the MSEs' burgeoning transcends the cyclical factors and lies beneath the structural features of the economy.

Each one of the two streams of the literature has profound implications on the design and implementation of policies for MSEs. The lack of detailed data, over a sufficient period of time to control for the economic cycle, and take into account MSEs' demographics, their motivations, and their major internal and external constraints, has limited the scope and the depth of research. Existing studies by El-Mahdi (2006), Hendy and Zaki (2012) and El-Hamidi and Başlevent (2010) provide interesting insights on the key characteristics of the informal sector in Egypt and the main determinants of informality.

This paper is based on a recent Economic Research Forum (ERF) survey on the key characteristics of MSEs and the constraints facing their development carried out in Egypt in 2014 (OAMDI, 2016). The survey highlights the lack of access to adequate finance as the most striking constraint facing MSEs

The purpose of this paper is to contribute to the literature by addressing two interrelated issues. The first is to understand the factors that make some MSEs more likely than others to have access to formal finance. Different factors might potentially be at play. Some of them are owner-specific such as education, gender, age, and experience. Others factors are firm- or project-specific such as the size of the project, its life, and the nature of its business. The second issue is to assess to what extent access to finance matters for job-creation.

Although most MSEs complain about lack of access to finance as a major barrier to their growth, the literature remains ambiguous on the relationship between MSEs access to finance and their ability to create jobs (Reeg, 2015). One explanation could be that access to finance is a necessary but not sufficient condition and needs to be combined with more general reforms of supply- and demand-side conditions (Hampel-Milagrosa et al., 2015). The second explanation relates to the nature of financial products designed to support MSEs. Access to finance is more likely to lead to additional jobs if the financial schemes offered have a long-term focus and can safely be used to invest and expand MSEs production capacity (Banerjee et al. 2013). Yet, most of the many micro-finance products tend to be directed to smoothen consumption rather than for business growth (Berner, Gomez & Knorringa, 2012).

The rest of the paper is organized as follows. The second section of the paper presents a literature review that summarizes the key lessons learned from past research. The third section provides an

overview of the ERF survey and the key descriptive statistics of the relevant variables. The fourth section puts emphasis on the empirical analysis and discusses the main econometric findings. This section tests different hypotheses on the role of entrepreneurs' attributes and firm-level characteristics in shaping the behavior of MSEs with a specific focus on access to "formal finance". This same section investigates to which access to formal finance correlates with job-creation dynamics. Finally, the fifth section of the paper seeks to contribute to the timely policy discussion on MSEs' role in economic growth and job creation and identify, based on the empirical findings, a tentative agenda of policies and actions that would strengthen MSEs by making them more formal, more productive and growth-oriented.

2. Literature review

A large body of the literature shows that micro and small enterprises (MSEs), especially in low- and middle-income countries, represent the major portion of private-sector businesses and account for the largest share in terms of job creation. Berner, Gomez and Knorringa (2012) and others have identified two main classes of entrepreneurs. The largest one is made by "survivalist" or "necessity-driven" entrepreneurs who generally operate within overcrowded market "niches", face predatory government representatives, and embed in family and kin networks with some obligation to share income generated with less privileged members of the network. The second category is made by "growth-oriented" entrepreneurs who want to grow and scale up their production. Each class has its own logic that needs to be accounted for in the design and implementation of public support interventions. The purpose of this section is to understand the factors that make some MSEs more likely than others to have access to formal finance. Theoretically, one would expect access to formal finance be more correlated to attributes of "growth-oriented" entrepreneurs such as education, experience and nature of their business. In the same vein, one would expect that those entrepreneurs who have access would also manage to grow, create jobs, or at least improve working conditions of their employees.

Access to formal finance

There is an extensive literature that investigates the key determinants of access to finance in Micro and Small Enterprises in developing countries. Some of the determinants are owner-specific such as age, gender, education and experience. Others are firm- or project-specific such as the size of the project, the age, and the nature of its business.

Irwin and Scott (2010) argue that the personal characteristics of the owner or the manager of a MSE make a difference to the firm's ability and likelihood of accessing external finance. Yet, the exact nature of the relationship between personal attributes and access to finance remains often ambiguous. Anthony et al. (2013) showed the existence of a positive relationship between the age of MSE operator and access to credit. More specifically, they found that those micro and small entrepreneurs aged between 35 and 50 years appear to have more chance than the rest to access external loans. Sabopetji and Belete (2009), however, argue that there is negative and significant influence of age on access to finance.

Regarding gender, Rebel and Hamid (2009) showed that female-owned firms are significantly more likely to be credit-constrained and more often dissuaded from applying for credit compared to male-owned firms. Moreover, the educational background of the MSE owner or manager matters to the firm's access to formal finance (Coleman, 2007). Overall, it appears that those entrepreneurs with higher education tend to achieve higher performance, develop good reputations and become more successful in having access to external finance compared to entrepreneurs with a lower or less human capital (Charles, 2009).

The literature has also shown that access to finance by micro and small enterprises tends to be conditional on the value of their fixed assets. Anthony et al. (2013) used the value of owned fixed assets as a proxy for collateral and showed a positive relationship with access to loans. Odit and Gobardhun (2011) corroborate such finding by revealing that those firms with a lower portion of tangible assets in their total assets are more likely to encounter barriers when requesting external finance because of the inability to provide the collateral needed.

As far as firms' age is concerned, Abor and Biekpe (2009) suggest that a firm which has operated for long has reputation that it has built up over the years. Conversely, startup firms are likely to

face more financial constraints because they lack credit history that can be used by lenders to assess their credit worthiness. In the same vein, Fatoki and Asah (2011) observed that those firms established more than five years have generally a far better chance to be see credit applications accepted compared with those created for less than five years. In addition, more recently-established firms may lack the necessary connections with the formal providers of finance and tend to be more reliant on informal finance.

Different studies have also emphasized the role of firms' size in accessing external finance. Gebru (2009) found that compared to large firms, MSEs are perceived to have higher financial risk and as consequence tend to be disadvantaged to raise finance from formal institutions. Cassar (2004) argues that it may be relatively costly for smaller firms to resolve information asymmetries with debt providers. Petersen and Rajan (1994) argue that as firms grow, they develop a greater ability to enlarge the circle of financial institutions from which they can borrow. The same view is also supported by Musamali and Tarus (2013). They explain the empirical relationship between size of the business and its ability to access finance by the fact that larger firms are more likely to have collateral that can be used to secure finance.

Empirical research has found that business sector in which the enterprise operates matters for access to external loans. For instance, Musamali and Tarus (2013) suggest that the industry to which the business belongs have an implication on its ability to access to finance. Overall, businesses with mostly tangible assets such as construction and manufacturing tend to borrow more because of the collateral provided by their assets. This point of view is corroborated by Gebru (2009) who emphasizes that banks tend to focus their attention on the value of collateral available rather than assessing income generated by investment projects.

Access to finance and job creation

Although most MSEs complain about lack of access to finance as a major barrier to their growth, the literature remains ambiguous on the relationship between MSEs access to finance and their ability to create jobs

On one hand, lack of access to finance has been identified as constraint to small enterprises' growth (Beck and Demirguc-Kunt, 2006). Firms that have access to finance tended to have higher job growth rates than firms without it (Dinh et al., 2010). Dinh et al. also found that, besides informal sector competition, access to finance is the obstacle that matters the most for growth, and that this result is robust for all regions and all sectors.

On the other hand, there is some skepticism as expressed in Reeg (2015) who argued that despite the fact that most MSEs report lack of access to finance as a major constraint to growth and business expansion, there is no clear-cut empirical evidence on the positive impact of access to micro-finance on employment of MSEs. For instance, Hampel-Milagrosa et al. (2015) and World Bank (2008) advocate that access to finance is only going to develop MSE business and lead to sustainable process of job creation if governments address more general bottlenecks in demand-side and supply-side conditions. Such bottlenecks may be related to the lack of access to adequate infrastructure, the presence of unfriendly business regulations and complex labor laws, or the lack of an effective representation and inclusion of small firms in the policy-process. A second source of skepticism stems from the fact that many micro-finance schemes targeted to MSEs tend to be concerned much more with smoothing consumption instead of aiming at increasing productive capacity and achieving business growth (Berner, Gomez & Knorringa, 2012).

3. MSEs survey and Descriptive Statistics

The survey conducted by the ERF covered about 450 MSEs located in two Egyptian governorates: Gharbiya (51 percent) and Bani Suef (49 percent). Both of them are about 100 km from Cairo but have different characteristics. Gharbiya is north of Cairo, in the Delta area (Lower Egypt) and is known for its textile industry. Bani Suef is south of Cairo (Upper Egypt); its agricultural land represents 12 percent of the governorate's area, and three quarters of its population live in rural areas.

The MSEs covered operate in four economic sectors: 49 percent of them are commercial, 22 percent industrial, 15 percent operate in services and 14 percent in agriculture. One third of the MSEs have been around for less than five years, which means that they have created after the 2011

revolution. Half of the enterprises are formal and have an activity license and 49 percent have registered with tax authorities. The majority of MSEs surveyed do not keep regular accounting books; only one fifth of the MSEs do. Unregistered micro and small entrepreneurs invoke high registration costs, multiple and time consuming procedures as the key factors pushing them to remain informal. Three quarters of them argued that temporary tax exemption would help them transit into the formal sector and about 35 percent claimed that easier access to finance from formal institutions would encourage them to become formal. In addition, 95 percent of the businesses are operated the whole year, as opposed to having a seasonal activity.

Interestingly, the majority of the MSEs owners are males (85 percent). Most of them are aged above 30; only 13 percent of them are under 30. This means that a large portion of the small and micro entrepreneurs are not newcomers into the labor market. In addition, most of them (85 percent) are married and in charge of supporting their families. Only one out of ten among those surveyed is single.

As far as education of micro and small entrepreneurs is concerned, only one quarter of them has a “below intermediate” education. The rest of entrepreneurs have either been to high school or attended university (22 percent of them). In terms of business location, 55 percent of MSEs operate from a shop, 20 percent from their own home and 11 percent operate from a workshop or a factory.

The average value of the initial capital in the MSEs is roughly US \$3700. This average dissimulates, however, wide disparities. The data show that half of MSEs started with an initial capital that is below US \$1000 and only 10 percent of the firms had an initial capital of more than US \$ 7,200.

The primary source for small and micro firms is self-financing (75 percent of enterprises surveyed). It originates generally from personal savings in 90 percent of the cases and in few instances from family heritage. When external finance is used, it generally takes the form of informal credit such as ROSCAs (Rotating savings and credit associations) – known as “*Gamias*” in Egypt. Less than 20 percent of MSEs have ever used formal loan financing either from banks or from Social Development Fund (SDF) and its network of NGOs.

Regarding employment, 97 percent of micro and small business owners work themselves in the project. The number of MSEs' employees ranges between one and 20. However, only one fifth of the projects have more than three employees including the business-owner.

Those findings corroborate those of Rashed and Sieverding (2014) who reported based on Egypt Labor Market Panel Surveys (ELMPS) conducted in 2012 that the majority of "household enterprises" in Egypt continue to be very small with less than four employees in nine cases out of ten. They also argued that the situation has not changed compared to labor surveys conducted in 1998 and 2006.

Employment conditions and benefits granted to employees are not the same across all the firms covered by the survey. However, most of the MSEs do not offer formal job contracts to their employees. As a consequence, less than 20 percent of firms provide medical insurance and less than 10 percent of employees benefit from paid sick and annual leaves or even maternity leaves. Six MSEs out of ten attribute the absence of formal contracts and medical insurance to their financial burdens. They suggest that the government implements some supportive schemes through temporary exemptions from taxes and insurance fees so they can be able to offer those benefits to their employees.

4. Empirical results and discussion

The paper uses the data collected by the ERF survey to estimate the impact of project- and owner-specific characteristics on access to credit and the correlation between access to finance and job creation. The independent variables will be the owner and the project-related information. The dependent variables will be access to formal credit as well as the size and change of employed labor.

4.1 Determinants of access to finance by MSEs in Egypt

We expect to uncover the correlations between access to finance and entrepreneurs' attributes such as gender, age and level of education and firms' characteristics such as size, number of years of

existence, and business sector. Based on our literature review, such characteristics seem to have an impact on the probability of the firm having access to formal finance. We use the following model:

$$\mathbf{AFF} = \text{Constant} + b_1*\text{Age_Group1} + b_2*\text{Age_Group2} + b_3*\text{Gender} + b_4*\text{Education_1} + b_4*\text{Education_2} + b_5*\text{Size_1} + b_6*\text{Size2} + b_7*\text{Mature} + b_8*\text{Old} + b_9*\text{Commercial} + b_{10}*\text{Services} + b_{11}*\text{Agriculture} + b_{12}*\text{Financial literacy}$$

Where AFF is a binary variable that takes 1 if the MSE had or is having access to formal finance and 0 otherwise. We estimate this model using the logistic regression. The survey defines formal finance as the loan provided through a formal channel that could be by banks or by the Social Development Fund (SDF) directly or indirectly via its network of NGOs. MSEs that got loans from their friends and relatives or from their business partners are not counted as having access to formal finance. The same applies for those using rotating savings and credit associations (ROSCAs).

We divided entrepreneurs into three different groups based on their age. The younger group is made of those under 40 is the reference group. The Age_group1 is made of entrepreneurs aged between 40 and 55. The Age_Group2 contains entrepreneurs 55 years and above. The gender variable takes 1 if the entrepreneur is male and 0 otherwise. Regarding education, entrepreneurs are also divided in three groups. The reference group is made of those entrepreneurs who are illiterate or can read and write. The Education_1 refers to entrepreneurs with less than intermediate and intermediate education and Education_2 refers to those with more than intermediate education. The age of the project is also incorporated in the regression. The group of MSEs with less than five years of existence is taken as the reference group. MSEs with less than fifteen years are referred to as “mature” and those with more than fifteen years of existence as old.

One important missing variable in our model is the value of the MSE fixed assets that has been used by Anthony et al. (2013) and others as a proxy for collateral and showed that it has a positive relationship with access to loans. Unfortunately, such data is not available in our database.

Table 1 displays the results by using only the owner-specific variables such as age, gender, education and training. The gender coefficient is significant, with the likelihood of getting a formal loan decreasing by half for male compared to female entrepreneurs. The education coefficients are also significant, and highlight that acquiring more education decreases the likelihood of getting a formal loan.

Table 1. Owner-Specific				
Log likelihood = -176.82 Number of obs = 440 Wald chi2(5) = 157.27 Prob > chi2 = 0.00				
	Odds Ratio	z	P> z	
Gender	0.51	-2.38	0.02	
Age				
<i>Ref. group: <40</i>				
40 to 54	0.68	-1.42	0.16	
55-	0.51	-1.68	0.09	
Education				
<i>Ref. group: Illiterate & Read and write</i>				
Less than int. & int.	0.36	-3.70	0.00	
Above intermediate	0.21	-4.14	0.00	
Financial awareness or training	2.90	1.66	0.10	

Note: Estimation of the logistic regression with Access to formal finance (AFF) as the dependent variable.

The age coefficients are only marginally significant, with the likelihood of having access to formal loan decreasing with age. The aforementioned results seem to indicate that formal loans tend to be extended more often to younger, female, less educated owners. Meanwhile, owners who received a financial awareness or training were three times more likely to get a formal loan.

Table 2 presents the econometric results we using the project-specific variables such as the number of years of existence (project life), size, and the business sector.

Table 2. Project-Specific			
Log likelihood = -179.05			
Number of obs = 445			
Wald chi2(7) = 154.30			
Prob > chi2 = 0.00			
	Odds Ratio	z	P> z
Project Life			
<i>Ref. group: <5</i>			
Mature	0.42	-2.96	0.00
Old	0.23	-4.19	0.00
Size of employment			
<i>Ref. group: Employer only</i>			
2 to 4	0.55	-2.28	0.02
More than 4	0.68	-0.89	0.37
Sector			
<i>Ref. group: Industrial</i>			
Commercial	0.42	-3.54	0.00
Services	0.41	-2.21	0.03
Agriculture	0.42	-1.98	0.05

Note: Estimation of the logistic regression with Access to formal finance (AFF) as the dependent variable.

The results show that the new projects tend to be more likely to get access to a formal loan. Moreover, projects operating in the primary and tertiary sectors seem less likely to have access to formal finance, which may be due to the absence of collateral, relative to those operating in the secondary sector. The size of the firm, as measured by the number of employees, does not appear to be significant except for micro firms with less than five employees for which the likelihood of getting access to formal finance decreases, compared to projects where the owner works alone.

Table 3 provides estimates when both owners' attributes and firms' characteristics included in the regression. The results show that entrepreneurs' education and firms' age appear as strong determinants of access to formal finance in Egypt. There is seems to be a large and statistically significant difference in terms of access to formal finance between new MSEs with less than five years of existence and older ones. With other factors held constant, new firms are roughly twice

more likely to have access to formal finance compared “mature” MSEs and four times more likely compared to “old” ones. Such finding seem unexpected with regard to the findings in the literature that usually highlight the role of reputation built up over the years in easing access to external finance such as Abor and Biekpe (2009).

Paradoxically, our results also reveal that access to formal finance is negatively correlated with the level of the entrepreneur’s education. With other factors held constant, illiterate entrepreneurs tend to be much more likely to have access to formal finance than those with intermediate or above intermediate education. Such outcome is also at odd with the previous literature than uncovered a positive and significant relationship between entrepreneurs’ education and their likelihood to have access to external finance.

On the other hand, entrepreneurs’ age and gender do not seem to matter with statistically insignificant coefficients. The effect of the business sector in which MSEs operate, although not statistically significant, tends to show that the likelihood of getting access to finance is much lower in Agriculture, commerce and services compared to manufacturing. Such finding lends support to Odit and Gobardhun (2011) who showed that firms with less tangible assets encounter more barriers when requesting external finance due to their inability to provide the needed collateral. Finally, the size of the MSE, as measured by the number of its employees does not seem to matter for access to formal finance. This finding is not consistent with Gebru (2009) who found that MSEs tend to be disadvantaged due to their perceived financial risk.

Table 3. Owner- and Project-Specific			
Log likelihood = -167.79			
Number of obs = 439			
Wald chi2(13) = 155.71			
Prob > chi2 = 0.00			
	Odds Ratio	z	P> z
Gender	0.66	-1.23	0.22
Age			
<i>Ref. group: <40</i>			
40 to 54	1.04	0.12	0.91
55-	1.02	0.05	0.96
Education			
<i>Ref. group: Illiterate & Read and write</i>			
Less than int. & int.	0.45	-2.30	0.02
Above intermediate	0.26	-2.94	0.00
Financial awareness or training	3.88	2.04	0.04
Project Life			
<i>Ref. group: <5</i>			
Mature	0.54	-1.93	0.05
Old	0.26	-3.24	0.00
Size of employment			
<i>Ref. group: Employer only</i>			
2 to 4	0.87	-0.45	0.66
More than 4	1.70	1.04	0.30
Sector			
<i>Ref. group: Industrial</i>			
Commercial	0.95	-0.16	0.87
Services	0.76	-0.62	0.53
Agriculture	0.49	-1.49	0.14

Note: Estimation of the logistic regression with Access to formal finance (AFF) as the dependent variable.

With respect to the literature, some of our results seem counterintuitive and differ from those revealed in the literature. A further investigation of the findings, however, reveals that most formal loans captured by the survey are provided by the Social Development Fund either directly or through its network of NGOs. The amounts of those loans tend to be relatively modest with less

than US \$800 in 60 percent of the cases. In addition, those loans are extended for an average duration that tends to be short with 50 percent of the loans due in one year and less three quarters of them due in less than two years. More strikingly, three quarters of the loans are used to start business and 20 percent to cover operating expenses. Only 5 percent are directed by entrepreneurs towards expanding their productive capacity.

In other words, it appears that formal loans, captured by the Egyptian survey, benefit in a higher proportion the category of vulnerable entrepreneurs, those that have not yet built market reputation and have poor educational level. They also tend to have limited personal funding and much less connections that would allow them to be part of ROSCAs. Those formal loans are of short duration and cannot be safely used for investment purposes and to expand MSEs production capacity. Previous work done by Banerjee et al. (2013) as well as Berner, Gomez & Knorringa, (2012) mentioned that external funding in the form of micro-finance products tends to be directed to smoothen consumption rather than for business growth. It is very likely that formal loans granted by the SDF act as a social assistance scheme for “survivalist” or “necessity-driven” entrepreneurs. Conversely, those growth-oriented firms benefit less from such funding schemes most probably because they do not match their needs either in terms of their amount or duration. The survey data indicate that more than four firms out ten expressed the need for financial support but for amounts that are on average higher than the average amount granted by the SDF.

4.2. Access to finance and labor

The purpose of this part is to investigate the potential impact of access to finance on the firms’ labor. While it is difficult to attribute job creation entirely to access to finance, theoretically, three potential effects could be expected. First, access to finance could lead to firms’ growth and an increase in the number of jobs it provides. Second, access to finance could result in an improvement in the quality of jobs that is reflected in stable contracts, more benefits and access to social insurance. Finally, access to finance can also have indirect employment effects in the supply chain of firms served when they expand their operations. Karlan and Zinman (2010) evaluated the impact of consumer lending in South Africa, and found that access to microcredit increases the probability of employment.

Our empirical findings reveal that funding schemes available to micro and small enterprises in Egypt, by the size of the loan and their duration, might not be conducive to significant job creation. Ideally a proper investigation of the effect of access to finance on employment would require data on the number of employees before and after access to formal loans. Unfortunately, such data is not available. The survey only provides information on the change in the number of employees compared to 2011 regardless of the timing of access to the formal loan. Among the 32 firms that had access to a formal loan and created before 2011, only one third of them changed the number of their employees. Moreover, the results of the survey show that most of those firms recorded a net decrease in the size of their employment. A proper investigation of the relationship between access to finance and job creation needs systematic data over a period of time, which is not available to us. This could be an interesting issue for further research.

5. Conclusions and Policy Recommendations

Access to external finance is an important barrier to MSEs' development in Egypt similarly to many other contexts. Despite the institution of programs designed to support small enterprise development, such as the Social Development Fund, those initiatives tend to target for "survivalist" or "necessity-driven" entrepreneurs and do not match the needs of "growth-oriented firms". The latter category remains heavily dependent on self-finance and informal schemes such as ROSCAs. The lack of adequate financing limits the ability of existing MSEs to expand, and thus create jobs. More broadly, the government needs to design a consistent policy framework for MSEs. First, it needs to provide a business environment friendly to MSEs in terms of regulations and the way they are implemented. Regulations need to be reviewed with the objective to reduce informality and extend social protection for informal entrepreneurs as well as their workers. Second, the government needs to develop infrastructure and access to markets to open opportunities for small and micro entrepreneurs. Third, the government needs to tailor its supportive schemes to better fit different classes of MSEs, which entails redefining the way in which the Social Fund for Development (SFD) operates by raising the ceiling of its loans and their duration as well as by developing a performance-based system for allocation of funds. Fourth, some initiatives need to be further strengthened and their implementation monitored. For instance, a recent initiative by the

Central Bank of Egypt stipulates that public and private banks should extend credit to MSEs, in coordination with microfinance institutions and other NGOs.

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Table A1. Summary Statistics						
Variable	Obs.	Mean	Median	Std.Dev.	Min	Max
Owner's age	443	42.9	42	11.5	19	69
<i>Project description</i>						
Project life (in years)	446	11.5	8	12.4	0	81
<i>Sources of project financing</i>						
Value of initial capital (in US\$)	447	3,737	1,000	16,157	3	314,386
Loan finance; Value (in US\$)	87	3,859	714	16,962	29	142,857
Loan finance; Duration (in years)	82	2.2	1.3	1.8	0.5	7.0
Formal loan finance; Interest rate (%)	65	9.1	7.0	9.0	0.0	35.0
Value of support needed (in US\$)	181	4,412	2,857	7,065	143	71,429
<i>Project labor</i>						
Number of employees (including the employer)	446	2.8	2	2.4	1	20
Number of waged workers from outside the household	179	2.7	2	2.9	1	19

Source: Based on the ERF survey (2014)

Table A2. Frequency Table

	Frequency	Percent	Cumulative
<u>Project-specific</u>			
Governorate (447)			
Gharbiya	228	51.0	51.0
Bani Suef	219	49.0	100.0
Project sector (447)			
Commercial	218	48.8	48.8
Industrial	99	22.1	70.9
Services	69	15.4	86.4
Agriculture	61	13.6	100.0
Project life (in years) (446)			
≤4	150	33.6	33.6
4<≤12	144	32.3	65.9
>12	152	34.1	100.0
Formality status (447)			
Formal	228	51.0	51.0
Informal	219	49.0	100.0
Project has (447)			
Project has an activity practice license	224	50.1	
Project is registered at Taxes authorities	218	49.0	
Project has a commercial/industrial register	209	46.9	
Project keeps regular accounting books	88	19.8	
If the project does not have an activity practice license or does not have commercial/industrial register,			
License/register cost is too high for the project	115	45.5	
Too many procedures/approvals from different authorities	103	40.6	
Too long licensing process which might delay starting the project	89	35.0	
Project has just started and will be registered upon success	75	29.5	
Other reasons	108	42.7	
To encourage licensing (434)			
Temporary tax exemption	320	74.1	
Temporary insurance exemption	256	59.1	
Reduce employer and employee share in social insurance	200	46.1	
Facilitate financing from banks	154	35.5	
Share big projects to reduce production and market costs	27	6.2	
Other facilities	64	14.8	
Periodicity of work (447)			
All year	424	94.9	94.9
Seasonal	23	5.1	100.0

Table A2. Frequency Table

	Frequency	Percent	Cumulative
<u>Owner-specific</u>			
Owner's gender (447)			
Male	379	84.8	84.8
Female	68	15.2	100.0
Owner's age (443)			
≤29	59	13.3	13.3
29< ≤49	243	54.9	68.2
>49	141	31.8	100.0
Owner's marital status (445)			
Married	376	84.5	84.5
Single	43	9.7	94.2
Widowed	19	4.3	98.4
Divorced	7	1.6	100.0
Owner's education status (444)			
Illiterate	38	8.6	8.6
Read and Write	39	8.8	17.3
Less than intermediate	29	6.5	23.9
Intermediate	199	44.8	68.7
Above intermediate	40	9.0	77.7
University & above	99	22.3	100.0
<u>Other</u>			
Project workplace (447)			
Shop	247	55.3	55.3
Own home	91	20.4	75.6
Workshop or factory	49	11.0	86.6
Other	60	13.4	100.0
Value of initial capital (in US\$) (447)			
≤1000	229	51.2	51.2
1000< ≤7200	176	39.4	90.6
>7200	42	9.4	100.0
Financing sources (Primary or Secondary) (447)			
Self-financed	370	82.8	
Loan finance	88	19.7	
RoSCA-financed	65	14.5	
Other financing sources	19	4.3	
Loan finance; Source (87)			
<i>Formal</i>	66	75.9	
Bank	29	26.9	26.9
NGO	20	18.5	45.4
SFD	9	8.3	53.7
Others	8	7.4	61.1
<i>Informal</i>	21	24.1	
Relatives and friends	20	18.5	79.6
Business partners	1	0.9	80.6

Table A2. Frequency Table

	Frequency	Percent	Cumulative
Other			
Loan finance; Value (in US\$) (87)			
≤800	54	62.1	62.1
800<≤2000	14	16.1	78.2
>2000	19	21.8	100.0
Loan finance; Duration in years (82)			
≤1	40	48.8	48.8
1<≤2	22	26.8	75.6
>2	20	24.4	100.0
Formal loan finance; Interest rate (%) (65)			
≤5	22	33.8	33.8
5<≤10	21	32.3	66.2
>10	22	33.8	100.0
Formal loan finance; Field in which it is used (65)			
Start business	48	73.8	73.8
Operating expenses	13	20.0	93.8
Expansion	3	4.6	98.5
Others	1	1.5	100.0
Needs financial support (425)			
Yes	182	42.8	42.8
No	243	57.2	100.0
Employer works in the project (447)			
Yes	433	96.9	96.9
No	14	3.1	100.0
Number of employees (including the employer) (446)			
≤1	123	27.6	27.6
1<≤3	234	52.5	80.0
>3	89	20.0	100.0
Number of employees changed compared to 2011 (446)			
Yes	59	13.2	13.2
No	387	86.8	100.0
Type of change (increased/decreased) (48)			
Increased	15	31.3	31.3
Decreased	33	68.8	100.0

Table A2. Frequency Table

	Frequency	Percent	Cumulative
<u>Other</u>			
Employees benefit from employment contracts (446)			
Yes, all	32	7.2	7.2
Yes, but not all	27	6.1	13.2
No one	387	86.8	100.0
Employees benefit from medical insurance (443)			
Yes, all	38	8.6	8.6
Yes, but not all	34	7.7	16.3
No one	371	83.7	100.0
Employees benefit from paid sick leaves (446)			
Yes, all	13	2.9	2.9
Yes, but not all	17	3.8	6.7
No one	416	93.3	100.0
Employees benefit from paid annual leaves (446)			
Yes, all	13	2.9	2.9
Yes, but not all	14	3.1	6.1
No one	419	93.9	100.0
Employees benefit from maternity leaves (444)			
Yes, all	3	0.7	0.7
Yes, but not all	3	0.7	1.4
No one	438	98.6	100.0
No contract/insurance, why? (426)			
Financial burden on the project	266	62.4	
Lack of commitment to work	246	57.7	
High turnover once employees get training	135	31.7	
Refused by workers to avoid salary reduction	108	25.4	
Amounts insured are less than actual amounts	58	13.6	
Other reasons	70	16.4	
To provide contract/insurance; (432)			
Temporary tax exemption	283	65.5	
Temporary insurance fees exemption	294	68.1	
Reduce employer/employee share in insurance	203	47.0	
Other facilities	56	13.0	

Source: Based on the ERF survey (2014)