

Household Micro and Small Enterprises in Egypt: Overview and Developments through 2023

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HOUSEHOLD MICRO AND SMALL ENTERPRISES IN EGYPT: OVERVIEW AND DEVELOPMENTS THROUGH 2023

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Abstract

We use household enterprise data from the Egypt Labor Market Panel Surveys (ELMPS) in 1998, 2006, 2012, 2012 and 2023 to track the state of household micro and small enterprises (MSEs), particularly considering the enactment of the new micro, small, and medium enterprise (MSME) law in 2020. In 2023, we find that the sector continues to be dominated by informal, male-owned microenterprises. It also exhibits limited diversification and sophistication. There has been a trend toward informalization. Despite numerous initiatives and reforms in the institutional and regulatory environment, MSEs remain heavily self-financed. These characteristics suggest that the sector functions more as a 'survival sector' or a last-resort employer rather than as a competitive, high-tech and high-value one. With the challenges facing the sector and barriers to entry into the formal sector, this sector is the only way to earn a living for many people.

Keywords: Enterprises, MSEs, Informality, Survival Sector, Egypt.

JEL Classifications: D2, E26, O17, P42.

ملخص

نستخدم بيانات المسح التتبعي لسوق العمل في مصر- (ELMPS) في أعوام 1998 و 2006 و 2012 و 2012 و 2023 لتتبع حالة المشاريع الصغيرة والمتناهية الصغر للأسر المعيشية (MSEs)، لا سيما بالنظر إلى قانون الشركات الصغيرة والمتناهية الصغر والمتوسطة الجديد (MSME) الذي تم تشريعه في عام 2020. في عام 2023، وجدنا أن القطاع لا يزال يهيمن عليه المشاريع الصغيرة غير الرسمية المملوكة للذكور. كما أنه يُظهر تنوعًا وتعقيدًا محدودًا. كان هناك اتجاه نحو إضفاء الطابع غير الرسمي. على الرغم من المبادرات والإصلاحات العديدة في البيئة المؤسسية والتنظيمية، لا تزال الشركات الصغيرة والمتناهية الصغر والمتوسطة مموله ذاتيًا بشكل كبير. تشير هذه الخصائص إلى أن القطاع يعمل كقطاع بقاء أو رب عمل بدلاً من كونه قطاعًا تنافسيًا وعالي التقنية وعالي القيمة. مع التحديات التي تواجه القطاع والحواجز التي تحول دون الدخول إلى القطاع الرسمي، فإن هذا القطاع هو السبيل الوحيد لكسب القوت اليومي لكثير من الأشخاص.

1. Introduction

Micro, small, and medium-sized businesses (MSMEs) play a significant role as a catalyst for innovation and job development. (Haltiwanger et al. 2010, for the Middle East and North Africa (MENA) see Diwan et al. 2014). In 2023, MSMEs accounted for 73 percent of all private sector wage employment inside establishments, in Egypt. (Assaad and Mahmoud 2024). They have been disproportionately affected by the series of shocks of COVID-19 and declining oil prices in 2020, and later by the Russian war on Ukraine and Egypt's debt and foreign exchange crises. (Assaad et al. 2019, El-Haddad and Zaki 2023a).

Worldwide evidence during COVID-19 shows that MSMEs have been disproportionately affected as they suffered lower productivity, lost previous productivity gains and have seen their sales and profits shrink (e.g. Bloom et al. 2020; Bosio et al. 2020; and more generally on survival during crises. (Bourletidis 2014; Leininger et al. 2021). This also applies to the Arab world, where MSMEs experienced increased liquidity constraints, closures, layoffs, and wage reductions. (Assaad et al. 2024a; El-Haddad et al. 2021; Ministry of Planning and Economic Development 2022). In Egypt, COVID-19 pandemic has generally underlined the vulnerability of private, informal and smaller firms (El-Haddad and Zaki 2022; 2023b).

Recent literature has explored the 'missing middle' phenomenon in MENA. This phenomenon refers to the fact that the distribution of firms has a concentration of a small number of *very* old, mostly large firms on the one hand and very large numbers of very small, younger firms on the other (Schiffbauer et al. 2014, Diwan et al. 2014 and 2016). This phenomenon is very marked in the MENA region in general, especially in Egypt. With an average age of 21 years, MSMEs in MENA oil importing countries are about 10 years older than either their East Asia and Pacific or their Europe and Central Asia comparators (El-Haddad et al. 2021). Egypt has the oldest firms (23 years on average), while average firm age is 20 years in Tunisia and Morocco. Additionally, with an average age of 18, 23 and 26 years for small, medium and large enterprises respectively (*ibid.*) the larger the enterprise the older it is likely to be. More recently, Assaad and Mahmoud (2024) have indicated a small reversal of this trend in 2023 compared to 2018, with wage employment inside medium enterprises increasing by two percent from 5 to 7 percent. Despite this improvement, the missing middle remains a problem in Egypt implying that markets in Egypt are non-contestable, lacking free entry and exit which drive competitive pressures and in turn efficiency. Household enterprises, however, may share different characteristics, as they are inherently micro and small.

In this paper, we use the household enterprise module of the Egypt Labor Market Panel Survey (ELMPS) 2023 to track the state of the household enterprise sector. We discuss household enterprise region, location, size, age, employment dynamics as well as sector of economic activity

and owner characteristics, especially in comparison to earlier waves of the survey (1998, 2006, 2012 and 2018).

Access to finance is commonly identified as the most important obstacle to MSME growth, formality and survival (e.g. Kara, Zhou and Yifan Zhou 2021; Kersten et al. 2017; Amer and Selwaness 2021, Rashed and Sieverding 2015). Thus, in addition to describing the sector, this paper examines the evolution of access to finance. There have been numerous initiatives by the Central Bank of Egypt (CBE) as early as 2015 and following the COVID-19 pandemic, as well as extensive regulatory and institutional reforms directed specifically at improving access to finance for the small and medium sector in Egypt. Among the most important reforms is the enactment of the new MSME Law 152/2020, which regulates the development of MSMEs. The law adopts a unified definition of micro, small and medium enterprises and makes available tax and non-tax incentives for small and medium enterprises and for small and medium lending institutions (Amer and Selwaness 2021, Shehata Partners 2020; Official Gazette 2020). Earlier initiatives have hardly improved access to finance for the sector (Amer and Selwaness 2021, El-Haddad and Zaki 2023a, Freund 2021, El-Haddad et al. 2021). We thus examine whether there has been a structural break in formal access to finance channels in the 2023 wave of the ELMPS in response to the law, which would indicate the success of the new initiatives. We also evaluate any changes in formality and firm size since the law was enacted and examine the correlates of household enterprise informality.

We find that the share of households (HH) with enterprises increased in the 2023 wave, reversing the earlier declining trend. An increase in HH enterprises is only a positive development if it brings with it greater sophistication, innovation, value in production, and additional or higher-quality employment. The evolution of the characteristics suggests that this has not been the case. In the 2023 round, HH MSEs have exhibited limited diversification with a very limited presence of information and communication, professional, scientific and technical activities, indicating a lack of complexity. In fact, low value-added activities such as construction and real estate are on the rise.

The sector continues to be dominated by micro-enterprises (96 percent) which are mostly informal. In fact, HH microenterprises are increasingly concentrated in the one-worker enterprise category. The sector is exclusively dominated by micro and small enterprises (99.7%). About three quarters of all HH enterprises in 2023 are informal, an increase of 15 percentage points since 1998. There is an evident trend of informalization throughout the ELMPS waves. This change has taken place despite the new MSME law and regulatory reforms. Moreover, all five waves show that enterprise informality is greater in rural than urban areas, the smaller the enterprise size and the younger it is. Furthermore, informality is more widespread among female, younger and less educated enterprise owners.

Although there have been minor improvements since 1998, enterprise ownership continues to be male dominated with only 8 percent female ownership. Over time, the level of education of HH enterprise owners has shifted upward. This is because there are population-level increases in educational attainment. Limited formal, private sector wage employment opportunities force young people into the HH enterprise sector. Our findings indicate that HH enterprises are primarily and heavily self-financed. Very few receive loans to fund their capital. This pattern is despite the numerous initiatives and reforms in the institutional and regulatory environment to date.

Overall, the sector has limited diversification and sophistication and a high degree of informality, which suggests that the HH enterprise sector is a ‘survival sector.’ This argument supports the dual economy model, which divides the economy into a modern productive sector and a traditional less productive one (Lewis 1954). With barriers to entry into the modern formal sector of the economy, the HH enterprise sector becomes an important, and perhaps the only alternative way to earn a living.

2. Access to finance: finance initiatives, institutional and regulatory reforms³

Egypt faces significant challenges for MSMEs, particularly in terms of the business environment, access to finance, which hinders their formality, innovation, growth, job creation, and overall survival. (e.g. Kara, Zhou and Yifan Zhou 2021; Kersten et al. 2017; Amer and Selwaness 2021, Rashed and Sieverding 2015; Ayadi and Sessa 2017; Hampel-Milagrosa et al. 2015; Reeg 2013; Kumar 2017; Ayyagari et al. 2016; Dao and Liu 2017). MSMEs are unable to access finance that is otherwise available to larger firms for many reasons. First, being often informal, they are unable to access finance from formal funding sources (Stein et al. 2013). Second, MSMEs, even if formal, are considered high risk from the point of view of the formal banking system on account of their smaller revenues, inefficiencies, instability, limited records, fewer guarantees, and lack of documents and financial statements (El-Said et al. 2014 for the case of Egypt; Banerjee and Duflo 2014; World Bank 2012). In fact, in 2016 the value of collateral in Egypt stood as high as 158 percent of the loan value (World Bank 2016). Financial literacy in bookkeeping, in the preparation of financial statements, in setting strategy and business plans is also a problem, hindering MSMEs’ ability to meet banks’ loan requirements (Amer and Selwaness 2021; Plakalovic 2015; Hampel-Milagrosa et al. 2015). Fourth, the complex legal and bureaucratic requirements of banking loans constitute an obstacle (Houssien 2014).⁴

³ This section draws heavily on Amer and Selwaness (2021).

⁴ Some Arab countries, such as Jordan, have introduced credit registries, which cater the informational requirements of commercial lenders.

2.1. Finance initiatives, institutional and regulatory reforms⁵

There have been numerous initiatives by the Central Bank of Egypt (CBE), as well as profound regulatory and institutional reforms directed specifically at improving access to finance to the SME sector in Egypt. In 2016, 20 percent of the total lending of banks was supposed to be directed to SMEs. In 2017, the CBE injected LE30 billion into the banking system to encourage lending to microenterprises at just 5 percent interest. It also became a 20 percent shareholder of the Credit Guarantee Company and injected LE2 billion in the same year toward financial assurance, serving as a trust fund to encourage banks to lend to SMEs with limited or no collateral. In 2018 the CBE allocated LE200 billion to finance 350 thousand SMEs at competitive interest rates (OECD 2018 in Amer and Selwaness 2021). Moreover, in 2019 it dedicated LE100 billion to support finance for medium-sized enterprises. To alleviate pandemic effects on SMEs the National Bank of Egypt conducted an agreement with the European Investment bank for EUR800 million for SME financing (Enterprise 2019).

In terms of institutional and regulatory reforms, in 2015 the government of Egypt adopted a business strategy for SME lending. It established the Micro, Small, Medium Enterprises Development Agency (MSMEDA⁶) in 2017, enacted the new investment law 72/2017, enacted the leasing and factoring law 176/2018, issued the executive regulation of the movable collateral law 115/2015 also in 2018. Most importantly it enacted the new MSME law 152/2020.

MSMEDA has become the main entity responsible for introducing SME policies in addition to their implementation (OECD 2018). It oversees several microcredit programs. It is in charge of the duties of the Social Fund for Development, the Industrial Training Center (ITC) and the Industrial Modernization Center (IMC) (Assaad et al. 2019). The new investment law 72/2017 gives a 30 percent reduction in investment cost in micro and small enterprises but is predominately geared to the manufacturing sector.

The Financial Regulatory Authority (FRA) is the entity supervising all non-banking transactions, replacing the Capital Market Authority, the Insurance Supervisory Authority, and the Mortgage Finance Authority. The FRA aims to increase small and medium enterprises' access to other non-banking-based forms of funding. It grants licenses to non-banking companies such as leasing and factoring companies.⁷ The 176/2018 law sets the conditions under which financial leasing and factoring work. The work of the FRA excludes the microenterprise category, but it is still relevant at least for small HH enterprises.

⁵ This section draws heavily on Amer and Selwaness (2021).

⁶ Formerly known as the Social Fund for Development

⁷ Factoring is a financial management technique, whereby invoices are transferred to a factoring company, which then allows small and medium enterprises to receive advance payment of their receivables (such as customer invoices) *before* the due date. Leasing allows SMEs to rent assets (e.g. capital equipment) from a lessor (the leasing company).

The Movable Collaterals Law 115/2015 allows banks to accept moveable/intangible assets and securities as collateral, instead of only accepting real estate and other immovable collateral such as factories, which HH enterprises typically lack. In Egypt, one of the greatest obstacles to SME formal finance is lack of adequate collateral. According to the World Bank, the value of the collateral in Egypt represented 158 percent of the loan value in 2016 (World Bank 2016). Thus, allowing moveable assets as collateral may enable microenterprises to access credit otherwise inaccessible to them.

On top of the regulatory reforms is the enactment of the new MSME Law 152/2020. The law regulates the development of MSMEs. It has adopted a unified definition of micro, small and medium enterprises and has offered tax and non-tax incentives for SMEs and for SME-lending institutions (Amer and Selwaness 2021, Shehata Partners 2020; Official Gazette 2020). Thus, it extends incentives to financial institutions, incubators and accelerators that assist SMEs to grow. In order to encourage SMEs to formalize the law levies a flat tax rate for three years irrespective of revenue. It also exempts them from license and land registration fees. Under this law, once registered at the commercial registry, SMEs will be eligible for five-year credit eligibility agreements (*ibid.*; UNEP 2020; Egypt Today 2019, 2020; Enterprise 2019).

Despite all of these positive steps to improve SME access to finance, there has been no evidence of any increased access (Amer and Selwaness 2021). This is partly because *the definition* used by the CBE and other funding agencies targets larger firms than that employed based on enterprise number of workers. This discrepancy resulted in the *exclusion* of small firms in favor of larger ones from the majority of funding opportunities (*ibid.*). This is also true of the COVID support package. Government support helped mitigate the effects of COVID-19, with a significantly larger, favorable impact on smaller, younger and private firms. Nevertheless, although these firms made better use of that support, they received a disproportionately smaller share of it (El-Haddad and Zaki 2023a; for the international evidence see Freund 2021, and for the Arab World post-COVID evidence see El-Haddad et al. 2021).

The 152/2020 law has brought the definition of MSMEs closer to that of the CBE, where the size is based on three main criteria, namely annual business turnover; paid up or invested capital depending on length of activity; and activity, that is industrial or non-industrial (Table 1). Enterprise number of workers is still not a criterion.

Table 1. New MSMEs unified enterprise size definition

Years of activity	Criteria		Firm Size		
	Annual business turnover/paid or invested capital		Micro	Small	Medium
> two years	Annual business turnover		< LE1 million	LE1-50 million	LE50=200 million
<= two years	Paid/invested capital	Industry	< LE 50,000	LE50,000-5 million	LE 5-15 million
		Non-Industry	< LE 50,000	LE50,000-3 million	LE 3-5 million

Source: Shehata and Partners 2020, Official Gazette 2020, Amer and Selwaness 2021.

It is thus important to examine whether the new law will induce any different results on MSMEs access to finance and on formality in the most recent round of the ELMPS compared to the earlier four rounds extending from 1998-2018.

3. Data and methods

We use the non-farm household enterprise module of the ELMPS for the years 1998, 2006, 2012, 2018 and 2023⁸ to report on all household members involved in a non-agricultural enterprise. Any household in which a household member is self-employed is an employer who hires others to work in his/her enterprise, or is him/herself an unpaid family worker engaged in production for the market in the individual questionnaire must report at least one household agricultural or non-agricultural enterprise. Households can also report having a non-agricultural enterprise even if they do not report an individual meeting these criteria in the individual questionnaire. The non-farm household enterprise module captures the characteristics and details of up to three household members participating in the enterprise.

The 2023 wave captures 17,784 households of which 4,141 have non-farm HH enterprises. We define micro household enterprises as those with less than five workers, small as those with 5 to 19 workers and medium as between 20 and 99 workers. Almost all the enterprises are micro (96.1%) and small (3.6%) and just 0.3 percent are medium enterprises, so henceforth we refer to them as MSEs. The analysis in this paper is based on ELMPS sampling weights.⁹ For each identified enterprise the ELMPS has collected data on a few areas, such as ownership, sector of economic activity, location of operation, employment and formality status, and MSE financing.

We focus on the formality status of the enterprise. To be consistent with the definition of formality used in the 152 law, we consider an enterprise that is commercially registered to be formal. We use simple descriptive statistics in tracking the changes that occurred to MSEs in Egypt - if any. We also keep an eye open for any changes either in financing or in the formality status of the

⁸ Public use microdata from all these surveys are made available through ERF's Open Access Microdata Initiative (OAMDI) one year after data collection is completed. Data are available as a set of pooled cross-sections from various waves as well as in the form of a panel. A dataset that harmonizes and integrates selected variables across all countries and waves, the Integrated Labor Market Panel Survey (ILMPS) is also available. See <http://www.erfdataportal.com/index.php/catalog/LMPS>.

⁹ For more information on survey design and sampling weights see Assaad and Krafft 2024b, OAMDI 2023.

enterprise that may have occurred based on the recent regulatory and institutional changes, particularly the MSME law 152/2020.

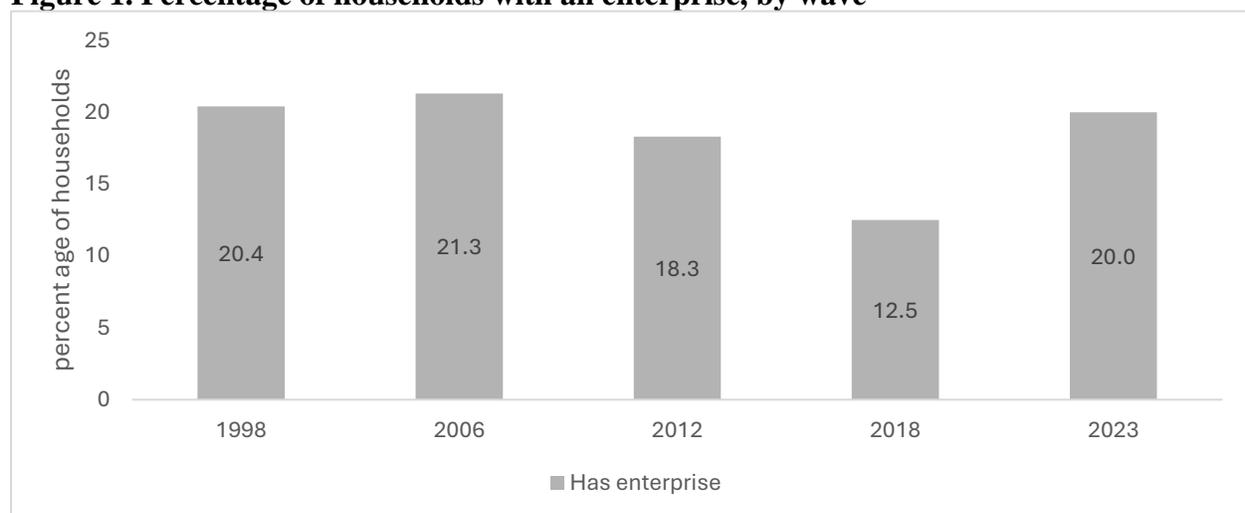
4. Overview of HH MSEs in Egypt

This section presents an overview of MSEs in Egypt in terms of enterprise and owner characteristics. Enterprise characteristics include location and ownership, size, formality status, and capital. Ownership characteristics refer to the gender, age and educational attainment of the enterprise owner(s) and other features. The owner is identified as the individual in HH who spends the most time in the enterprise. We additionally look at enterprise employment and correlates of enterprise informality. The latter a very typical and ingrained characteristic of Egyptian MSEs.

4.1. Incidence of HH enterprises, their location and economic activity distribution

In 2023, 20 percent of households reported a non-agricultural enterprise (Figure 1), reversing the declining MSE trend observed between 1998 (20%) and 2018 (13%). Household ownership of MSEs has increased by almost 8 percentage points in 2023 compared to 2018. This may represent the repercussions of the COVID-19 pandemic and associated rise in informality (El-Haddad and Zaki 2023b). It can also reflect the poor performance of the Egyptian economy in the decade since the Arab Spring of 2011 that pushes individual towards the mostly informal HH enterprise sector.

Figure 1. Percentage of households with an enterprise, by wave

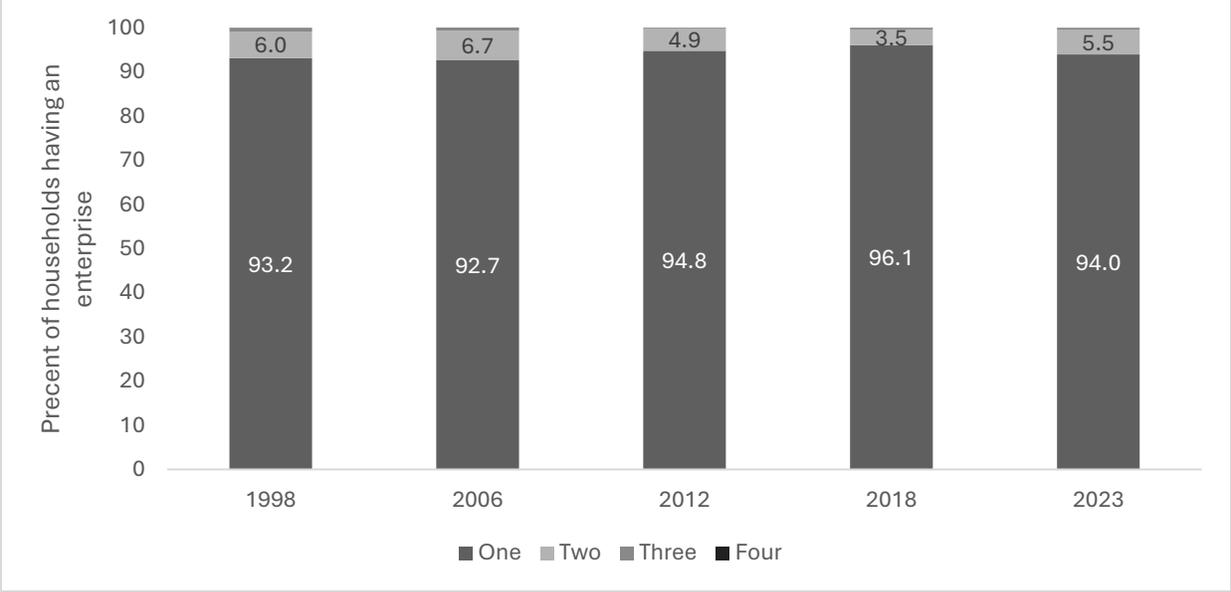


Source: Authors' calculations based on ELMPS 1998, 2006, 2012, 2018 and 2023.

The rise in HH enterprises is also evident in households engaging in multiple enterprises, a second or a third for example as opposed to just one. For example, there is an increase from 3.5 to 5.5 percent between 2018 and 2023 in HHs with enterprises reporting two enterprises (Figure 2). The

most general trend, however, is household engagement in just one enterprise, for example 94 percent of all households with enterprises had just one enterprise in 2023.

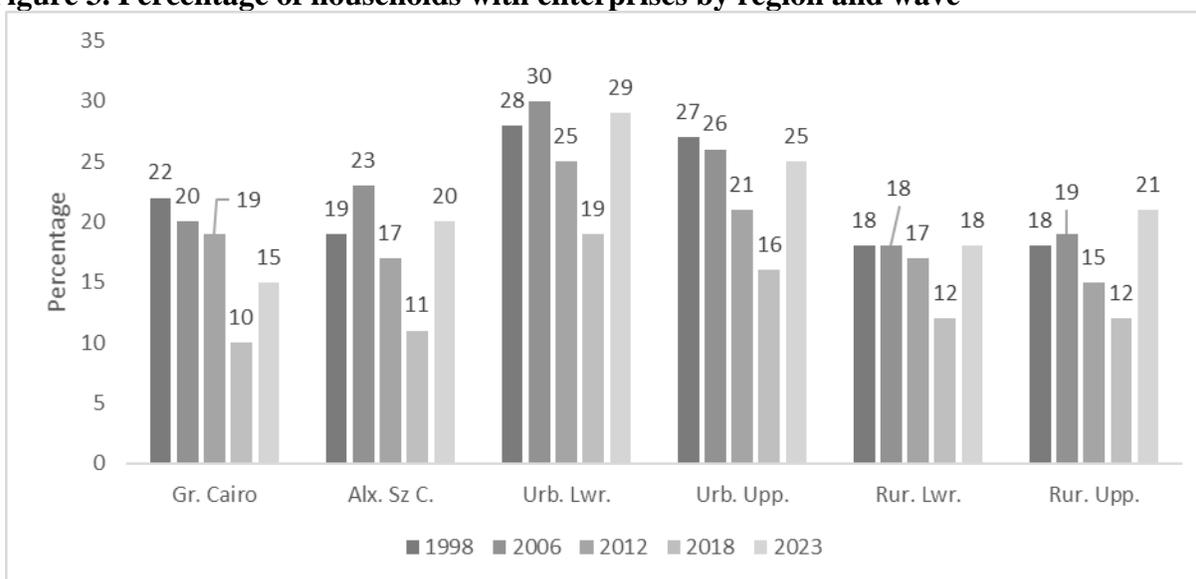
Figure 2. Number of enterprises per household – by wave (percentages of households with enterprises)



Source: Authors' calculations based on ELMPS 1998, 2006, 2012, 2018 and 2023.

Urban Lower Egypt consistently shows the highest share of households with non-farm household enterprises. In 2023, about a third (29 percent) of households in Urban Lower Egypt had household enterprises compared to just half of that (15 percent) in Greater Cairo (Figure 3). Urban Lower Egypt governorates like Damietta, Qaliubia and Ismailia are agglomerations with plenty of firms, which household enterprises maybe linked to. Greater Cairo is the region that has experienced a relatively large decline from 22 to 15 percent of households having enterprises between 1998 and 2023.

Figure 3. Percentage of households with enterprises by region and wave



Source: Authors' calculations based on ELMPS 1998, 2006, 2012, 2018 and 2023.

The household enterprise sector continues to be dominated by wholesale and retail activities, although 2023 witnessed a sharp drop in this industry's share by 15 percentage points compared to 2018 representing just 37.7 percent of all economic activities in 2023 (Table 2). The percentage of HH enterprises engaged in manufacturing only slightly increased to a small share of 12.2 percent in 2023 compared to 2018 but a decline of almost 4 percentage points from 1998. This is consistent with the national trend of de-industrialization (Amer and Selwaness 2021). The trend is magnified when looking at manufacturing employment, which almost halved in just one decade between 1996 and 2017 from 46 to 24 percent (*ibid.*). Similarly manufacturing in medium-sized firms dropped from 51 to 28 percent between the same years (Assaad et al. 2019). In our dataset, where microenterprises are dominant, manufacturing in small-sized firms has declined by over 3 percent but increased by just above 1 percent for microenterprises between 2018 and 2023,¹⁰ potentially indicating a shrinkage in manufacturing HH enterprise size.

¹⁰ We don't report on medium-sized enterprises since they are not sufficiently represented in the sample.

Table 2. Household enterprise economic activity by wave (percentage of HH enterprises)

	1998	2006	2012	2018	2023
B: Mining and quarrying	0.1	0.7	0.0	0.0	0.1
C: Manufacturing	16.5	15.5	13.5	11.6	12.2
D: Electricity; gas, steam and air conditioning supply	0.0	0.1	0.0	0.0	0.9
E: Water supply; sewage; waste management	0.0	0.0	0.0	0.1	0.7
F: Construction	5.3	8.6	9.1	5.5	7.1
G: Wholesale and retail trade and accommodations and hotels	51.3	50.9	48.6	52.8	37.7
H: Transportation and storage	7.8	8.4	11.2	13.1	18.5
I: Accommodation and food service activities	3.8	4.6	3.8	3	5.7
J: Information and communication	0	1.3	1.4	0.4	0.7
K: Financial and insurance activities	0	0.1	0.2	0.1	0
L: Real estate activities	2.4	0.2	0.3	0.3	0.8
M: Professional, scientific and technical activities	0	2.7	3.6	3.2	1.1
N: Administrative and support service activities	0	0.3	0.4	1.1	0.2
O: Public administration and defense	0	0.1	0.0	0.2	0.5
P: Education	2.0	0.8	1.0	0.9	4.0
Q: Human health and social work activities	2.3	1.6	1.4	1.4	1.1
R: Arts, entertainment and recreation	0.3	0.6	0.5	0.5	0.6
S: Other service activities	0.3	3.5	4.3	5.2	6.7
T: Activities of households as employers	7.8	0.2	0.7	0.7	1.5

Source: Authors' calculations based on ELMPS 1998, 2006, 2012, 2018 and 2023.

The decline in wholesale and retail is matched by an increase in transportation and storage (by over 5 percentage points from 13.1 percent in 2018 to 18.5 percent in 2023), construction, education, and other services. Overall, economic activities continue to exhibit limited diversification with wholesale and retail, transportation, and manufacturing representing around 68.4 percent of all activities in 2023. A disappointing trend remains, in addition, the very limited presence of information and communication, professional, scientific and technical activities,¹¹ indicating the lack of sophistication¹² in such enterprises. In fact, the share of professional activities in household enterprises has declined substantially from 3.2 percent in 2018 to just 1.1 percent in 2023. The negligible increase in information and communication is from 0.4 percent to 0.7 percent over this period. Education on the other hand exhibits an increase from 0.9 percent in 2018 to 4.0 percent in 2023, along with the real estate sector, although it remains less than 1 percent.

4.2. Enterprise and owner characteristics

Owner Characteristics

Looking across the four ELMPS waves indicates some shifts in the characteristics of enterprise owners (Table 3). The owner is identified as the individual in the household who spends the most time working in the enterprise.

¹¹ These are within the other services category.

¹² Only 4% of all MSEs have a page on the internet and just 1.5% have a mobile program to sell in 2023.

Table 3. Enterprise owner’s characteristics – by wave (percentage of enterprises)

	1998	2006	2012	2018	2023
Sex					
Male	94.5	93.3	94.3	93	91.7
Female	5.5	6.7	5.7	7	8.3
Education					
Illiterate	30.4	28.4	22.7	18.9	18.3
Less than Intermediate	37.9	32.3	28.2	25.5	21.7
Intermediate	18.7	26.8	31.8	37.4	38.2
University & Above	13	12.6	17.3	18.2	21.8
Age					
<30	3.2	9.8	10.8	6.8	7.2
30-49	59.7	56.2	57.9	59.8	58.7
50+	37.1	34	31.4	33.4	34.1
Total	100	100	100	100	100

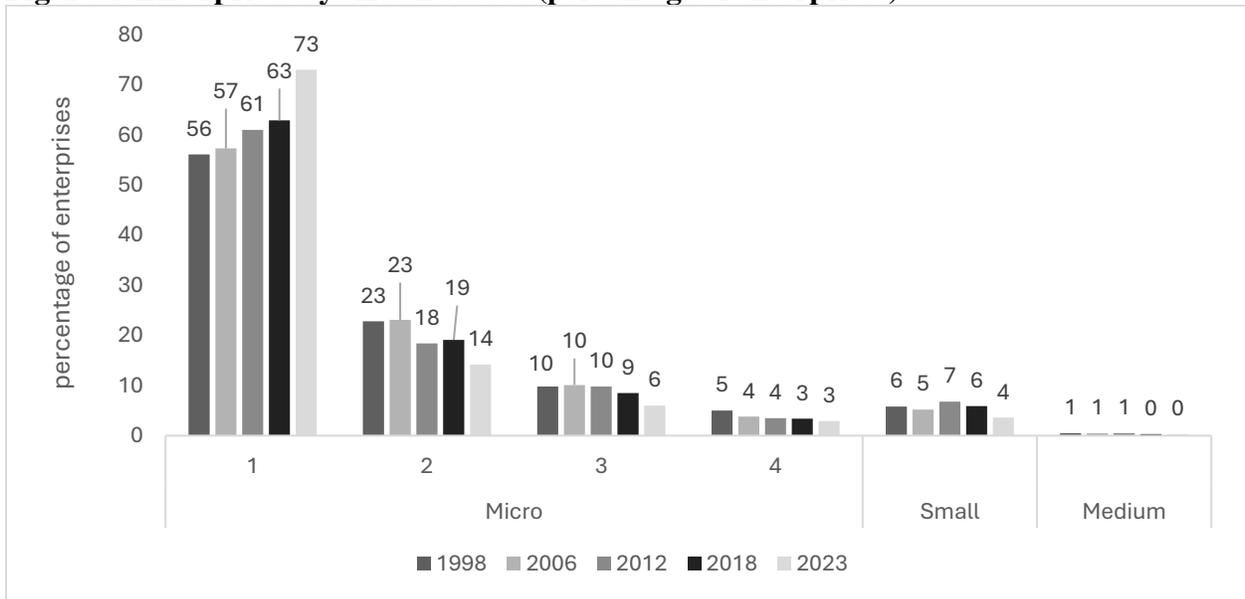
Source: Authors’ calculations based on ELMPS 1998, 2006, 2012, 2018 and 2023.

In 2023, a larger percentage of HH enterprise owners were female compared to all previous rounds, although female ownership of enterprises remains very low at just 8.3 percent in 2023 (5.5 % in 1998). The educational composition of HH enterprise owners has shifted upward somewhat since 1998, which is expected given population-level increases in educational attainment over time (Krafft, Assaad, and McKillip 2024) but also on account of the limited formal private sector employment opportunities for graduates in the country. The percentages of HH enterprise owners with intermediate and university degrees in particular have doubled increasing gradually but substantially throughout the rounds, from 31.7 to 60.0 percent between 1998 and 2023. Correspondingly, the share of illiterate owners or those who can just read and write has dropped. Finally, the age distribution of HH enterprise owners has remained stable with around 66 percent in the under 49 years of age category.

Enterprise characteristics: enterprise size

As mentioned above, HH enterprises are predominately micro, employing between just 1-4 people (Figure 4). In 2023, microenterprises accounted for 96 percent of all HH enterprises, with small enterprises (5-19 workers) being less than 4 percent, leaving a tiny 0.3 percent to medium-sized (20-99 workers) enterprises. A one-worker pattern dominates the HH enterprise sector in general and the micro enterprise category in specific (Figure 4). This pattern has become stronger between 2018 and 2023, where 73 percent of all HH enterprises occupied the one worker category in 2023, an increase by 16 percentage points from 63 percent in 2018.

Figure 4. Enterprises by size and wave (percentage of enterprises)



Source: Authors' calculations based on ELMPS 1998, 2006, 2012, 2018 and 2023

Note: Micro (1-4 workers), Small (5-19 workers) and Medium (20-99 workers)

Enterprise characteristics: location and ownership

The most common location of HH enterprises is shop-based, though this location has been of declining importance from 40 percent in 1998 to 30 percent in 2023 (Table 4). Instead, transport based¹³ enterprises have nearly tripled, rising from just 5 percent in 1998 to 15 percent in 2023. The least common location in general is working in a workshop or a factory, alternating in importance with street vendors. Legal ownership may be shared in some cases between the household head and other individuals, however for the large majority of the enterprises identified in the ELMPS (90-96% across waves), enterprises are solely owned rather than in partnership, with the highest rate of sole partnership in 2023.

Enterprise characteristics: capital

The first four smaller categories of current capital (<1000 pounds) have been experiencing a decline over time matched by an increase in the 1,000 to 4,999 and the 5,000 to 9,999 pound categories (Table 4). Nearly half of all HH enterprises in 2023 have a value of capital between five and ten thousand pounds. This is no indication of greater capital over time since the effects of inflation and devaluation are not taken into account here yet. It is in all cases evident that HH micro and small enterprises fall entirely outside the range of 'practiced' definitions of the MSME 152/2020 law (counter to the official definitions, see Table 1 above). Whilst the paid up or invested capital range for micro enterprises is officially given as less than 50,000 pounds (Table 1), in practice banks use this figure as a minimum amount. This means that HH microenterprises fall

¹³ This category is similar to the street vendor category but a vendor on a van/truck/pick-up truck.

entirely outside the range of definitions used in practice by the MSME 152/2020 law (interview material #1, CIB credit unit, August 22nd 2024).

Table 4. Enterprise characteristics (percentages of enterprises), by wave

	1998	2006	2012	2018	2023
Ownership					
HH alone	91.2	91.6	89.1	89.6	95.5
With others	8.8	8.4	10.9	10.4	4.5
Location					
Shop	40.3	39.8	37.3	35.5	29.7
Mobile worker	15.4	15.7	13.4	17.1	21.4
Own home	16.1	15.2	14.5	15.2	16.0
Transport based	5.0	6.2	9.7	12.6	14.8
Office/flat/building/rooms	6.0	5.6	7.0	9.9	7.6
Workshop/factory	6.6	7.1	6.8	6.5	5.3
Street and similar vendors	10.6	10.4	11.2	3.2	5.2
Current capital					
None	15.1	10.2	8.1	7.2	7.7
less than LE 100	13.7	18.2	16.5	9.5	5.3
LE 100-499	12.0	12.1	9.6	9.1	8.3
LE 500-999	18.1	18.7	18.1	16.2	13.9
LE 1000-4999	10.1	15.0	16.1	14.7	15.5
LE5000-9999	27.5	21.8	29.5	38.8	46.8
LE10 000 or more	3.6	3.8	2.2	4.5	2.6

Source: Authors' calculations based on ELMPS 1998, 2006, 2012, 2018 and 2023.

Enterprise characteristics: employment in household enterprises

Table 5 shows the number of workers in household enterprises, household enterprise workers as a percentage of total employment and distribution of workers in household enterprises in Egypt. Overall, in 1998 there were almost 16.5 million workers in household enterprises¹⁴ and 40 percent of all workers were engaged in a household enterprise. The share had dropped to around a third (to 32 percent) in 2006 and 2012. Only 22 percent of total employment came from household enterprises in 2018, at which time household members accounted for 14 percent and outside employment for 8 percent of total employment. This distribution between in and outside the enterprise reflects the nature of household enterprises, relying more heavily on household employment.

With the increase of household enterprises presented above (Figure 1), the share of HH enterprise employment in total employment in Egypt increased from 22 to just 34 percent between 2018 and 2023. Table 5 also shows the number of workers added and lost in the past year. Although there is some variation over time up to 2018, additions and losses are generally similar. In 2023 more workers were added (320 thousand) than lost (146 thousand).

¹⁴ Estimates of number of workers based on ELMPS expansion weights.

Table 5. Employment and employment dynamics in enterprises by wave

Thousands of workers						
	Total employment in Egypt	Total employment in HH enterprises	HH member employment in HH enterprise	Outside employment in HH enterprises	Workers added in the past year in the HH enterprises	Workers lost in the past year in the HH enterprises
1998	16483	6552	3394	3158	478	404
2006	22467	7214	4097	3117	547	326
2012	24258	7582	4207	3375	236	287
2018	26435	5758	3567	2191	203	179
2023	28529	9818	6580	3238	320	146
As a percentage of total employment						
	Total employment in Egypt	Total employment in HH enterprises	HH member employment in HH enterprises	Outside employment in HH enterprises	Workers added in the past year in the HH enterprises	Workers lost in the past year in the HH enterprises
1998	100.0	39.8	20.6	19.2	2.9	2.5
2006	100.0	32.1	18.2	13.9	2.4	1.4
2012	100.0	31.3	17.3	13.9	1.0	1.2
2018	100.0	21.8	13.5	8.3	0.8	0.7
2023	100.0	34.4	23.1	11.4	1.1	0.5
Percentage of household enterprises' employment						
	Total employment in HH enterprises	HH member employment in HH enterprises	Outside employment in HH enterprises	Workers added in the past year in the HH enterprises	Workers lost in the past year in the HH enterprises	
1998	100.0	51.8	48.2	7.3	6.2	
2006	100.0	56.8	43.2	7.6	4.5	
2012	100.0	55.5	44.5	3.1	3.8	
2018	100.0	62.0	38.0	3.5	3.1	
2023	100.0	67.0	33.0	3.3	1.5	

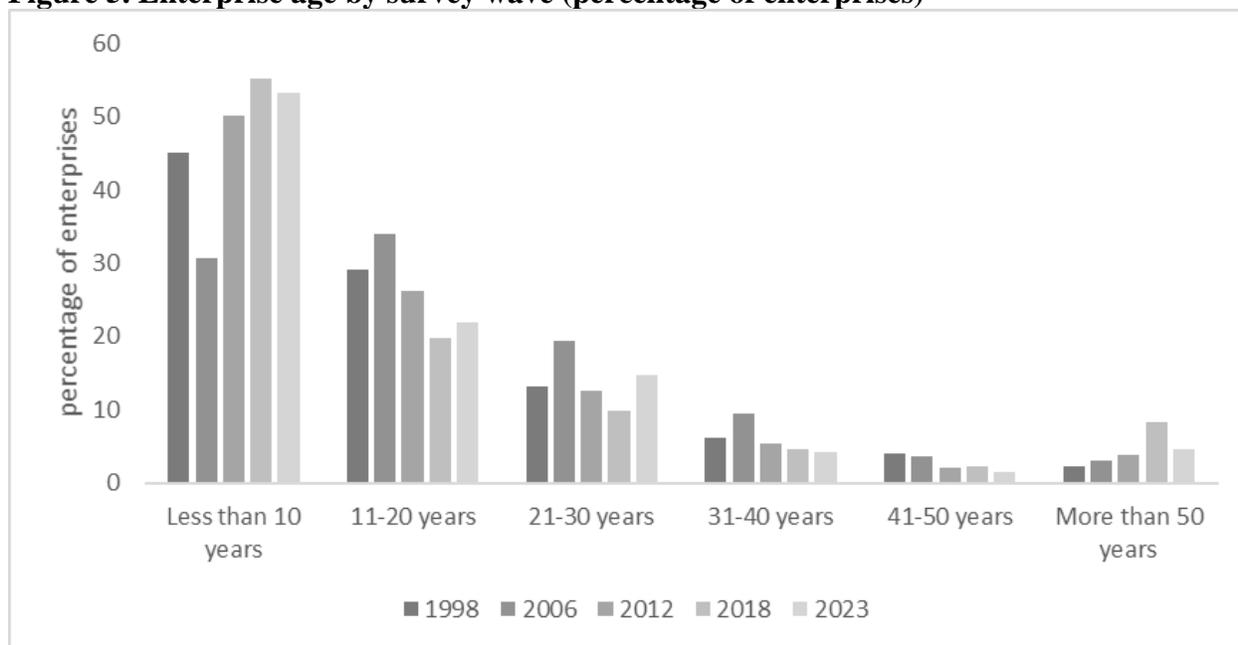
Source: Authors' calculations based on ELMPS 1998, 2006, 2012, 2018 and 2023.

Notes: Total employment numbers based on ELMPS expansion weights. Workers added and lost refer to outside employment

Enterprise characteristics: household enterprise age

Figure 5 shows enterprise ages, organized into 10-year intervals. All survey waves show the same pattern of predominantly young firms in each wave. For example, in 2012, 50 percent of firms surveyed started in the last ten years and so are less than 10 years old, 26 percent are between 11 and 20 years old, and 12.5 percent are between 21 to 30 years old. Only 11 percent of enterprises are more than 30 years old. A similar pattern is seen from all other survey waves. The dominance of younger firms reflects the fact that in Egypt, as across the world, most firms go out of business – and generally do so sooner rather than later – and new firms form.

Figure 5. Enterprise age by survey wave (percentage of enterprises)



Source: Authors' calculations based on ELMPS 1998, 2006, 2012, 2018 and 2023

High failure rates are consistent with the stylized facts of market entry and exit, namely that 60 percent of new entrants exit within just 5 years of entry (Pepall et al. 2008). Starting a business is challenging. Statistics in Europe, for example, show that half of all small enterprises will fail within the first 3 years (Flair 2024). Only 10 percent of enterprises survive for a substantial period of time. These stylized facts and statistics come from the developed world, which is characterized by high rates of market entry and exit. Such high levels of exit and entry are indicative of freer, dynamic and mostly formal markets. These are markets which benefit from well-functioning risk-spreading institutions, such as insurance companies, and high levels of financial deepening, which mean lower barriers to entry (*ibid.*).

Using the ELMPS panel sample, Krafft (2024) calculated that 51.4 percent of HH enterprises which started in 1998 had closed by 2006. This is a lower closure rate than the stylized facts of market exit in Europe. This difference may be explained by the fact that HH enterprises in Egypt are a subsistence sector for survival rather than high-tech, high-value creating, highly competitive enterprises. For later survey rounds Krafft (2024) reports higher closure rates,¹⁵ which could potentially be indicative of the sector displaying more dynamism over time.

¹⁵ Closure rates are 60.9% between 2006-2012 and 70.5% between 2012-2018 (Krafft 2024).

4.3. Informality and correlates of enterprise informality

We devote this section to enterprise informality as an important characteristic of HH enterprises. We then turn to looking at some relevant correlates of informality in the HH enterprise sector. We define enterprise formality based on whether the enterprise is commercially registered. Formality has been steadily declining for HH enterprises, from 42.0% in 1998 to 30.2% in 2018 and then 26.5% in 2023 and so about three quarters (73.5%) of all HH enterprises in 2023 are informal (Table 6).

Table 6. Enterprise formality by wave (percentage of enterprises)

	1998	2006	2012	2018	2023
Formal	41.7	35.5	31.1	30.2	26.5

Source: Authors' calculations based on ELMPS 1998, 2006, 2012, 2018 and 2023.

The relation between the formal and informal sectors is counter-cyclical: contraction of the formal sector expands the informal one as an alternative path to earning a living (cf. El-Haddad and Zaki 2022). Tansel and Ozdemir (2019) and El-Haddad and Gadallah (2021) demonstrate the insights of this relation for the Egyptian case. Thus, the enterprise sector is segmented along formal-informal lines. The informal sector in Egypt is labor intensive and the productivity of its participants is too low to allow them to operate in the formal sector with the additional costs of formalization (cf. La Porta and Shleifer 2014, Assaad et al. 2024a). Barriers to entry to the formal sector are well documented in the literature, most notably political economy driven ones (Schiffbauer et al. 2014, Diwan et al. 2016, El-Haddad 2020). With relatively fewer barriers to entry, the informal sector becomes more appealing (Ulyessea 2010). Similarly, the Egyptian labor market is segmented along formal-informal lines; workers participate in informal work to escape unemployment as they are forced out of formal employment (El-Haddad 2020).

Correlates with enterprise characteristics

Enterprise informality is greater in rural than in urban areas, the smaller the enterprise size and the younger its age (Table 7). Over time, informality has increased steadily in both rural and urban areas, though at a higher rate in urban areas. Informality has increased in rural areas from 68 percent of HH enterprises in 1998 to 77 percent in 2023. In contrast, the increase in urban areas was from 44 percent to 62 percent. Informality has also increased overtime for both micro and small enterprises. With a 24 percentage points rise in informality for micro (from 61% to 75%) and 17 percentage points for small enterprises (from 20% to 37%) between 1998 and 2023, the rate of increase for small-sized enterprises has been nearly four times that of the micro-sized. This indicates an alarming trend of informalization of even the relatively larger sizes of enterprises. Generally, informality is higher the younger the HH enterprise, despite there being exceptions from the oldest enterprises (Table 7). In 2023, whilst 79 percent of all HH enterprises are less than 10 years of age informal, only 55 percent in the age category 31-40. This percentage has increased

for all age categories between 1998 and 2023, with the highest increases in the youngest (Less than 10 years of age: 27 percentage point rise from 62 to 79 percent) and second youngest age categories (from 11-20 years of age: 31 percentage point rise from 55 to 72 percent).

Table 7. Percentage of enterprises that are informal by enterprise and owner characteristics and wave

	1998	2006	2012	2018	2023
Enterprise Characteristics					
Location					
Urban	44.2	49.7	56.5	61.8	62.4
Rural	67.8	74.6	76.7	71.4	76.7
Enterprise Size					
Micro	61	66	72.3	72.2	75.1
Small	19.7	41.3	27.1	35.7	37.4
Medium	13.9	18.7	0	2.5	8.4
Enterprise Age					
Less than 10 years	62.2	71.3	72.2	74.9	78.8
11-20 years	55	64.4	68.4	64.7	72
21-30 years	54.4	59.7	64.2	66.1	64.5
31-40 years	53.2	59.5	60.4	55.2	54.7
41-50 years	59	50.5	52.3	55.2	60.8
More than 50 years	59.8	59.1	64.7	64.5	69.1
Owner Characteristics					
Sex					
Male	52.1	59.1	65.1	65.6	67.8
Female	89.2	79.1	81.6	83	89.9
Education					
Illiterate	72.8	74.5	79.4	81.7	81.4
Less than Intermediate	53.3	60.6	72.5	77.6	72.2
Intermediate	38.1	56.2	60.6	63.1	68.9
University & Above	36.9	37.1	47.9	44.1	58.6
Age					
<30	64.4	67.7	81.1	80	80.4
30-49	58	62.7	66.8	67.3	71.4
50+	47.1	54.5	59.4	63.2	64.2

Source: Authors' calculations based on ELMPS 1998, 2006, 2012, 2018 and 2023.

Correlates with owner characteristics

Table 7 also shows that informality is substantially more widespread among female HH enterprise owners than men and that this trend has persisted over time at almost 90 percent of all female owned enterprises. Moreover, whilst men are less likely to own informal enterprises compared to women in general, informality among male enterprise owners exhibits an upward trend by 16 percentage points from 52 percent in 1998 to 68 percent in 2023.

In terms of education, there is a clear pattern of higher levels of formalization among more educated HH enterprise owners (Table 8). But the gap in informality rates between illiterates and the less than intermediate educated has shrank from 20 percentage points in 1998 to just 7 percentage points in 2012 to 4 percentage points in 2018 with a widening of the gap to 9 percentage points in 2023. Likewise, the gap between the less than intermediate and intermediate levels has declined from 15 percentage points in 1998 to just 3 percentage points in 2023. Similarly, the gap in informality has contracted between the least educated and the most educated from a gap in

informality of 36 percentage points in 1998 to just 23 percentage points in 2023. Finally, informality is greater the younger the HH enterprise owner. Informalization over time occurred the most for the 50+ age category, where informality increased from 47 percent to 64 percent between 1998 and 2023, followed by the youngest category of owners of less than 30 years old (from 64% to 80%). The smallest increase in informality was for the category of owners between 30 and 49 years of age (from 58% to 72%).

4.4. Access to finance

Despite all the microfinance initiatives and institutional and the regulatory reforms discussed above, the main sources for capital finance to HH enterprises remain exclusively based on self-finance. Table 8 gives answers to the question: what was the main source of capital for this project? The table shows that self-finance only slightly declined from 96 percent in 1998 to 94 percent in 2023. The 94 percent self-finance in 2023 includes savings (66.2%), inheritance (10.7%), rotating credit and savings association (ROSCA) proceeds (6.1%), loans from friends and relatives (6%), proceeds from non-farm family enterprises, and a negligible part from other self-finance sources such as remittances and gifts (Table 9). Loans from public and private banks and other public institutions such as the Social Fund for Development altogether amount to a trivial 2.1 percent of all capital finance. Loans from NGOs (1%) are equivalent to those from private banks (1%). Moneylenders and market credit sources shares are equal and together amount to 1.8 percent of all finance.

Table 8. Main source of capital finance by wave (percentage of enterprises)

	2012	2018	2023
Self-Finance	96.3	92.3	93.8
Total public & private banks loans	2.5	3.6	2.1
Loans from NGOs	0.7	0.8	1
Other	0	0.9	1.8
Don't know	0.6	2.4	1.3

Source: Authors' calculations based on ELMPS 2023

Table 9. Main source of capital finance, detailed – 2023 (percentage of enterprises)

Self-Finance Sources	
Household savings	66.17
Inheritance	10.70
Proceeds from ROSCA (gam3eya)	6.04
Loans from relatives/friends	5.74
Income from family property	3.27
Proceeds from non-farm family enterprise	0.69
Proceeds from family farm	0.59
Remittances from abroad	0.40
Gift - Grant	0.2
Total Self Finance	93.8
Loans from banks and Social Fund for Development	
Loans from private banks	1.0
Loans from Nasser Social Bank	0.6
Loans from other public sector banks	0.4
Social Fund for Development	0.1
Total public and private loans	2.1
Loans from NGO's	
	1.0
Market money lenders and on credit	
Loans from local money lenders	0.9
On credit	0.9
Total other private market sources	1.8
Don't know	1.3
Total	100

Source: Authors' calculations based on ELMPS 2023

5. Conclusion

In this paper, we have argued that the household enterprise sector in Egypt displays the characteristics of a subsistence sector, which households use for survival. Household micro and small enterprises in Egypt, as in other developing countries, display limited diversification and sophistication. They are mostly and increasingly very small in size, informal, show relatively low enterprise closure rates, and remain heavily self-financed. This can be regarded as a segmented or dual economy, with a modern, more productive sector and a traditional less productive one for survival.¹⁶

This paper has focused on access to finance as the most important obstacle to enterprise growth, formality and survival. However, access to finance is not the only barrier to micro and small enterprise development. Other challenges are limited access to markets due to competition from larger firms, limited access to modern technology and poor managerial skills (Reeg 2013). Other constraints include inadequate infrastructure, such as poor transportation and communication networks that can significantly affect their operations, bureaucratic obstacles and unstable political environments and lack of skilled labor within their circles. All these constraints restrict HH enterprises' productivity, efficiency and competitiveness (cf. Assaad et al. 2024).

¹⁶ Note that agricultural HH enterprises are excluded from this analysis.

There are also political economy driven barriers to entry into the formal more modern sector of the economy which reinforces the persistence of the HH enterprise sector in its over time limited static state (Schiffbauer et al. 2014, Diwan et al. 2016, El-Haddad 2020, Eibl and Malik 2016, Sfakianakis 2004). These barriers limit competition in the formal sector to protect the networks of privilege or the cronies in the formal market (*ibid.*). These stand in stark contrast with developed world markets that are characterized by high rates of entry and exit, which are an indication of free, dynamic contestable markets (cf. Ray 1998 Gillis et al. 1992). These are also markets with well-functioning risk-spreading institutions such as insurance companies and high levels of financial deepening and a transparent and efficient rule of law, all of which reduce barriers to entry (*ibid.*).

With the variety of barriers to entry into the more modern and formal sector of the economy, the HH enterprise sector becomes, and remains, an important and perhaps the only alternative way to earn a living: an employer of last resort. In such a case, easing barriers to entry into the formal sector, and reducing the costs of being formal,¹⁷ are more effective measures to reduce the size of the predominately informal HH enterprise sector which puts people in a ‘low productivity trap’ (cf. Ulyssea 2010, 2020).

New financial initiatives and institutional and regulatory reforms since 2015 have not produced any substantial change in access to finance over time. Enterprises remain heavily and predominately self-financed. Whilst the new MSME law 152/2020 is an attempt to reduce the cost of formality and improve access to finance its targeting criteria benefits enterprises with greater capital than the levels available to most HH enterprises. Measures and initiatives to improve access to finance and reduce informality employ the definition used by the Central Bank of Egypt and other funding agencies which target larger firms than typical HH enterprises (Amer and Selwaness 2021). Hence the exclusion of small firms from the majority of funding opportunities (*ibid.*). If the government intends to address the constraints of the HH enterprise sector then a suitable definition of enterprise size should be employed to allow these firms to benefit from such initiatives.

¹⁷ as opposed to increasing the cost of being informal.

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