

# ERF Policy Brief

## Household Enterprises in Egypt: Between Survival and Vulnerability

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### About the authors

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### In a nutshell

- 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 in light of the enactment of the new micro, small, and medium enterprise (MSME) law in 2020.
- The sector continues to be dominated by informal, male-owned microenterprises.
- 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.

We acknowledge the financial support of the International Labour Organization through the Government of the Netherlands and the Swedish International Development Cooperation Agency, the World Bank Poverty and Equity Global Practice supported by the UK-funded Strategic Partnership for Egypt's Inclusive Growth trust fund (SPEIG TF), and World Bank MENA Chief Economist office, Agence Française de Développement (AFD), Ministry of Planning, Economic Development and International Cooperation, Egypt, and UNICEF for the Egypt Labor Market Panel Survey 2023, on which this brief is based.

## Overview of household enterprises

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, in Egypt, MSMEs accounted for 73 percent of all private sector wage employment inside establishments (Assaad and Mahmoud 2024). MSMEs in Egypt 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.

This brief uses the household enterprise module of the Egypt Labor Market Panel Survey (ELMPS) 2023 to track the state of the household enterprise sector, based on El-Haddad and Zaki (2025).<sup>1</sup> We find that the share of households (HH) with enterprises increased in the 2023 wave, reversing the earlier declining trend since 1998. 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 of HH enterprises suggests 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; and professional, scientific and technical activities, indicating a lack of complexity. In fact, low value-added activities such as construction, transportation and real estate are on the rise.

The sector continues to be dominated by microenterprises (96 percent) which are mostly informal. In fact, HH microenterprises are increasingly concentrated in the one-worker enterprise category. 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 (152/2020) 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.

Access to finance remains a serious issue for household MSMEs despite different measures and initiatives to improve SME access to finance. Our findings indicate that HH enterprises are primarily and heavily self-

financed. Very few receive loans to fund their capital. This pattern is in spite of the numerous initiatives and reforms in the institutional and regulatory environment to date. Indeed, 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. The lack of access to finance is partly because the definition used by the Central Bank of Egypt (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 (Amer and Selwaness 2022). This is also true for 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 2023; for the international evidence see Freund 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). However, the number of employees at an enterprise is still not a criterion.

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.

Thus, the sector has limited diversification and sophistication and a high degree of informality, which suggest that the HH enterprise sector is a 'survival or a subsistence sector' rather than a high-tech, high-value creating, highly competitive one. In fact, 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. These findings on poor diversification, limited sophistication, informality and low closure rates support 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

<sup>1</sup>Note that agricultural HH enterprises are excluded from this analysis.



*Table 1. New MSMEs unified enterprise size definition*

Criteria		Firm Size		
Years of activity	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	< LE 50,000	LE50,000-5 million	LE 5-15 million
	Industry	< LE 50,000	LE50,000-3 million	LE 3-5 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 2022

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.

### The way forward

Improving access to finance is necessary for MSME growth, formality and survival. Yet, 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.

A new definition is needed to improve the status of MSMEs access to finance. 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 CBE and other funding agencies which target larger firms than typical HH enterprises. Hence the exclusion of small firms from the majority of funding opportunities. 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.

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 substantially affect their operations, bureaucratic obstacles, unstable political environments, and the lack of skilled labor within their circles. All these constraints restrict HH enterprises' productivity, efficiency, and competitiveness (cf. Assaad et al. 2024). There are also political economy driven barriers to entry into

the formal more modern sector of the economy which reinforce the persistence of the HH enterprise sector in its over time static state. These barriers limit competition in the formal sector to protect the networks of privilege or the cronies in the formal market. 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,<sup>2</sup> 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).

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<sup>2</sup> as opposed to increasing the cost of being informal.





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