OECD Studies on SMEs and Entrepreneurship

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BETTER POLICIES FOR BETTER LIVES

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Foreword

This publication presents an OECD country review of small and medium-sized enterprise (SME) and entrepreneurship policy in Egypt. It was prepared as part of the OECD-Egypt Country Programme and forms part of the series of OECD Country Reviews on SME and Entrepreneurship Policy undertaken by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities.

These reviews provide governments from participating countries with a tool for assessing the design and implementation of their SME and entrepreneurship policies and their alignment with the OECD Council Recommendation on SME and Entrepreneurship Policy. In addition to Egypt, this series of country reviews has covered countries including Brazil, Canada, Indonesia, Ireland, Israel, Italy, Kazakhstan, Mexico, Poland, the Slovak Republic, Thailand and Viet Nam.

The reviews are developed using a standard methodology. This includes a diagnostic questionnaire completed by national government authorities, a fact-finding mission by an OECD team to hold detailed interviews with policy and business stakeholders, and discussion of a draft report at a peer review session in the OECD Committee on SMEs and Entrepreneurship (CSMEE).

The country reviews typically includes a thematic chapter on issues of special relevance for the reviewed country, as agreed between the OECD and the country concerned. This review has two thematic chapters, one focusing on SME digitalisation and the other examining the role of fintech in promoting SME and entrepreneurship development in Egypt.

The report shows that Egypt is making strides in advancing the SME and entrepreneurship economy. It has a strong entrepreneurial spirit, a growing start-up scene and a large population of micro, small and medium-sized enterprises (MSMEs) and entrepreneurs. Priorities are to grow more medium-sized, innovative and export-oriented SMEs, boost productivity and increase business formalisation.

The government has a strong policy agenda in place to achieve these aims. It has recognised the importance of SMEs and entrepreneurs to the future development of the country, and made a number of important policy reforms, including the introduction of Law Number 152 of 2020 on the Development of Micro, Small and Medium Enterprises, which sets out the definition of the sector, the eligibility for policy supports, the budget effort to be applied to SME and entrepreneurship development and the main financial and non-financial support efforts to be used.

The Micro, Small and Medium Enterprises Development Agency (MSMEDA) has the lead responsibility for MSME and entrepreneurship development in the country and has developed a range of effective support instruments. It works in collaboration with other key agencies in this area including the General Authority for Investment and Free Zones (GAFI) and the Egypt Entrepreneurship and Innovation Centre (EEIC). MSMEDA plays a key role in policy co-ordination, alongside the Central Bank of Egypt and other public actors.

In order to reinforce these positive developments, future policy development priorities include further easing of the regulatory burden, improving access to financing, strengthening R&D exploitation, improving

policy monitoring and evaluation, and strengthening business advice. There are also new opportunities in SME digitalisation and using fintech to improve financing opportunities for small business.

The report offers policy recommendations to help achieve these ambitions. The recommendations fall across a number of areas. From the perspective of creating a more conducive business environment, it is important to expand the use of SME Tests and regulatory impact assessments, which can be facilitated by increasing the capacity of the Egyptian Regulatory Reform and Development Activity (ERRADA). The policy framework could be enhanced through the establishment of more effective governance structures and co-ordination mechanisms, while MSMEs and entrepreneurs would benefit from the scaling up of existing programmes such as the credit guarantee scheme as well as from the introduction of new programmes, for example in the areas of internationalisation and skills upgrading. It is also important that the policy framework provides sufficient autonomy to local policy actors to tailor supports to the widely varying conditions and challenges that MSMEs and entrepreneurs face in different parts of the country. Moreover, creating incentives for MSMEs to adopt digital technologies and developing a more flexible regulatory framework to streamline the development of fintech products and services represent promising avenues for supporting MSME and entrepreneurship development in Egypt.

Acknowledgements

This review was undertaken by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) led by Lamia Kamal-Chaoui (Director), as a part of the activity on “Tailored support to countries for SME policy making and implementation”, under the Programme of Work and Budget of the OECD Committee on SMEs and Entrepreneurship (CSMEE).

The review was prepared as part of Activity 1.4 of the OECD-Egypt Country Programme, which is coordinated by the OECD Global Relations and Coordination Directorate’s Middle East and Africa (MEA) Division led by Carlos Conde. Charlotte Goemans of GRC/MEA supported the project as coordinator of the overall OECD-Egypt Country Programme.

The review study was directed by Jonathan Potter (Head of the Entrepreneurship Policy and Analysis Unit, CFE), and coordinated by Pablo Shah (Policy Analyst, CFE). The report was drafted by a team of Pablo Shah, Madison Lucas, Marija Kuzmanovic, Helen Shymanski, David Halabisky, and Roberto Crotti, all of OECD/CFE, Lois Stevenson, external expert, Canada, and Andrew Pike, University of Newcastle, United Kingdom.

Hans Koger and Monserrat Magaña Ocaña (OECD/CFE) provided research and written contributions to the fintech chapter. Lucia Cusmano, Acting Head of the SME and Entrepreneurship Division, CFE, and Marco Bianchini (OECD/CFE) provided comments.

A steering group of CSMEE delegates provided important inputs and guidance, namely Timotheos Rekkas, Ministry for Development, Greece; Murat Şükrü Soykan, KOSGEB Small and Medium Enterprises Development Organisation, Türkiye; Salvatore Zecchini, Chair of the OECD Informal Steering Group on SME and Entrepreneurship Finance, Italy; and Karel Lember, Ministry of Economic Affairs and Communications, Estonia. The report was discussed at a peer review session of the CSMEE in November 2024 and declassified by the CSMEE by written procedure.

As the OECD’s counterparts in Egypt for the review study, Marwa Ahmed Abdel Tawab Ahmed, Micro, Small and Medium Sized Enterprises Agency (MSMEDA), Egypt and Maged Bahaa, Ministry of Planning, Egypt, facilitated completion of the fact-finding questionnaire, organisation of the stakeholder interviews and comments on the report from stakeholders in Egypt.

The report benefitted from discussions, interviews and information provided by a large range of ministries, agencies, SME support organisations, entrepreneurs and other stakeholders in Egypt.

Table of contents

FIGURES

TABLES

BOXES

Executive summary

Egypt is the most populous country in the Middle East and North Africa (MENA) region, with a population of more than 110 million people. Egypt has also been the MENA region's fastest growing economy over the past five years, despite facing an array of economic headwinds. Key to maintaining this momentum into the future will be increasing the private sector's role in the economy, and in particular, the role of SMEs and entrepreneurs. This is recognised in the Egypt Vision 2030 national strategy, which places an emphasis on enabling the growth of existing SMEs and supporting innovative, high-impact start-ups.

This report examines how to strengthen micro, small and medium-sized enterprises (MSMEs) and entrepreneurship in Egypt. It covers the characteristics and performance of MSMEs and entrepreneurs, the business environment, the framework for policy design and delivery, national programmes for MSMEs and entrepreneurs, the role of local bodies and interventions in tailoring policy to spatial differences, and the roles of digitalisation and fintech in fostering MSME and entrepreneurship development.

The foundations for a more productive, export-oriented and innovative population of MSMEs and entrepreneurs are certainly in place, including a young and entrepreneurially-minded population, geographical advantages with respect to international trade, and an increasing focus on supporting MSMEs and entrepreneurs across many public entities. However, the report also identifies a number of challenges for policy, such as promoting the formalisation of enterprises, enabling micro and small businesses to scale up and become more productive, and expanding access to financing opportunities. A number of recommendations are provided to help meet these challenges.

Key findings

There is strong potential to boost MSME and entrepreneurship performance by supporting formalisation, scaling and diversification

Egypt's business population is dominated by MSMEs, and its MSME population is dominated by retailers. There are strong opportunities to raise the productivity of the MSME population by fostering a shift towards more productive sectors, reducing the size of the informal sector and increasing innovation and export performance. In terms of entrepreneurship, Egypt has a healthy stream of high potential start-ups as measured by the number of new businesses that are successful in obtaining venture capital investment. However, outside of these top performers, there is a large gap between entrepreneurial intentions and entrepreneurial actions, suggesting more can be done to enable Egyptians to create and sustain new businesses.

Lowering the cost of regulatory compliance can significantly enhance the business environment for MSMEs and entrepreneurs

Despite the young and skilled population, rising public investments in education and research, and a burgeoning venture capital industry, the realisation of Egypt's considerable entrepreneurial potential is

being limited by bottlenecks in the business environment. Reducing the cost of regulatory compliance is key to encouraging the creation of new businesses and the formalisation and growth of existing businesses. It is also important to acknowledge the difficulties that current macroeconomic challenges are bringing to MSMEs and entrepreneurs. Other priorities for policy include further reducing the role of state-owned enterprises to enable more competition and private sector development, building on the government's state ownership policy, and deepening and diversifying financial markets to enhance MSMEs' and entrepreneurs' access to finance. It is important to note that the public authorities are taking steps to address these issues, for example through the government's state ownership policy, as well as the continued efforts of the Central Bank of Egypt (CBE) and the Financial Regulatory Authority (FRA) to support access to finance for MSMEs and entrepreneurs.

There is considerable scope to increase alignment and co-ordination in the design and implementation of MSME and entrepreneurship policy across government entities

Many public entities in Egypt are active in supporting MSMEs and entrepreneurs. The overall effectiveness of this support provision can be improved by establishing governance structures that increase alignment and co-ordination in the design and delivery of SME and entrepreneurship policies. A Ministerial Group for Entrepreneurship has recently been established with a mandate to co-ordinate government efforts to implement supportive policies for start-ups, assist start-ups in accessing international markets, and link innovative solutions provided by new businesses to sectoral challenges. However, its mandate does not address SME policy issues, per se. Further emphasis on the policy agenda for start-ups was solidified by the establishment of the Permanent Entrepreneurship and Startup Unit in the Prime Minister's Office, chaired by the General Authority for Investment and Free Zones (GAFI). Additional efforts may be needed to ensure cross-government co-ordination on SME policy issues and to strengthen the effective realisation of MSMEDA's policy co-ordination role, given the horizontal nature of SME development policies across ministries, agencies and departments.

Egypt has an impressive range of programmes to support MSMEs and entrepreneurs

Egypt has introduced a range of different support programmes targeting MSMEs and entrepreneurs. In particular, there is an impressive number of initiatives and programmes to foster the innovation ecosystem and support innovative start-ups. However, in some areas, for example SME greening or workforce training, programme support could be further developed. The biggest overall area for improvement in most of the MSME programme areas is in co-ordination. Improved co-ordination could be achieved by designating umbrella organisations or encouraging the formation of industry and professional associations, such as an association of incubators and accelerators, or an association of SME business advisors, mentors and consultants. These associations can become important institutional partners with the government.

SME and entrepreneurship policy in Egypt can be made more effective through a more decentralised and locally-sensitive approach

The geographical size and diversity of Egypt results in widely varying conditions for SME and entrepreneurship development. This spatial differentiation warrants a locally-sensitive policy approach. MSMEDA's network of regional offices provides the potential framework for delivering policies and programmes that are more tailored to local conditions and potential, though they require greater autonomy and resources than they have currently in order to do this.

Egypt has a high digital readiness, bringing opportunities to enhance the performance and competitiveness of MSMEs and entrepreneurs

Egypt's digital readiness is commendable, especially compared to other countries in the MENA region. This can be attributed to advancements in internet speed, technology absorption by firms, and the expansion of government online services. However, the use of digital tools varies significantly among businesses. While a majority use computers and the internet for basic operations, more sophisticated uses like research and development or human capital development are less prevalent. This uneven digital readiness signals the need for strategic initiatives focused on specific sectors and regions.

Egypt has made considerable progress in strengthening the regulatory and policy environment for fintech and establishing measures to support the sector

Fintech products and services hold promise as an avenue for closing the SME financing gap in Egypt. The development of the fintech sector is accordingly a key priority for the CBE and the FRA, with the former having established a dedicated department for fintech and innovation. Fostering the expansion of the fintech sector will require a more adaptive and agile regulatory framework, which should take into account enterprises' size and contribution to system risk when defining their regulatory and licensing requirements. It is also important to grow the digital payments ecosystem in order to provide the data and digital footprint needed to facilitate the development and uptake of fintech solutions.

Selected recommendations

A broad range of recommendations are offered in the report. Some of the key recommendations from each of the chapters include:

- Develop reliable and recurring statistics on SME and entrepreneurship performance and characteristics, to be published on an annual basis.
- Introduce a mandatory "SME Test" to determine the impacts of proposed regulatory or legislative changes that could impact SMEs and entrepreneurs and reinstate the regulatory guillotine to review, eliminate and streamline the existing stock of business regulations.
- Increase the capacity of the Egyptian Regulatory Reform and Development Activity (ERRADA) to provide the required support to public entities in conducting SME tests and regulatory simplification.
- Establish an entity responsible for evaluating universities and research institutions, with "third mission" activities integrated into evaluation criteria and incentives, including promotion of entrepreneurship and knowledge transfer to SMEs.
- Create a mechanism for monitoring the implementation of the MSME Law and the take-up of its various incentives and prepare an annual implementation report with inputs from the relevant ministries and programme administrators.
- Enhance co-ordination in the design and delivery of MSME policy by establishing a system in MSMEDA for ensuring full co-operation of ministries and agencies in the implementation and monitoring of the new MSME strategy.
- Review the capitalisation base of the Egyptian Credit Guarantee Company (CGC) with a view to expanding access to credit guarantees among micro and small enterprises. Consult on diversifying the CGC's guarantee product offerings to align with government priorities, for example to stimulate innovative start-ups, SMEs in priority sectors, e-commerce or digitalisation.
- Introduce tax incentives to financial investors and venture capital firms to reduce their risks in investing in new start-ups and early-stage enterprises.

- Improve the competency levels of Egyptian incubators by working with experienced incubators to develop a set of standards and certification processes for incubators at different levels of development that ensures quality while still facilitating innovation within incubators.
- Develop a women's entrepreneurship strategy within the National MSME Strategy that is under development, outlining the related targeted actions under each pillar of the strategy. The targeted actions should include the digitalisation of women-owned/led MSMEs and the greening of their businesses. This should be done jointly by MSMEDA and NCW.
- Increase the number of branches, resources, and staff working within MSMEDA's regional offices. This increase in staff should be accompanied by training, particularly in the application of diagnostic skills to better understand the needs of local MSMEs and entrepreneurs.
- Introduce and evaluate a pilot capacity building programme to support less developed regional offices to improve their capabilities in supporting local MSMEs and entrepreneurs.
- Establish a national SME digitalisation strategy that can provide a comprehensive roadmap for SMEs in Egypt to embrace digital technologies effectively, led by MSMEDA.
- Provide incentives for traditional MSMEs to digitalise, including financial support programmes (digital vouchers) and tax incentives.
- Pilot a financial support programme to encourage MSMES to undertake advanced digitalisation projects and provide targeted financial assistance to MSMEs that are pursuing digitalisation initiatives with a higher level of risk or complexity.
- Improve the regulatory environment for fintech companies, including by implementing tiered regulatory and licensing procedures for fintech companies to facilitate market entry and enabling a lower regulatory burden for smaller financing providers.
- Foster the digital payments ecosystem, including by providing incentives for the use and acceptance of digital payments or the digital payment of utility bills, as well as digital financial literacy training or education programmes, particularly for women and MSMEs.

1 Overall assessment and recommendations

This chapter summarises the main findings and recommendations of the OECD SME and Entrepreneurship Policy Country Review of Egypt.

Basic statistics of Egypt

BASIC STATISTICS OF EGYPT, 2022 (Numbers in parentheses refer to the OECD average)[1] [2]					
LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	111.0		Population density per km² (2021)	110.8	(39.0)
Under 15 (%)	32.9	(17.2)	Life expectancy at birth (years, 2021)	70.2	(78.7)
Over 65 (%)	4.8	(18.0)	Men (2021)	67.9	(75.9)
International migrant stock (% of the population, 2019)	0.5	(13.2)	Women (2021)	72.6	(81.7)
Latest 5-year average population growth (%)	1.7	(0.4)	Latest general election	December 2020	
ECONOMY					
Gross domestic product (GDP)			Value added shares (%, 2022, OECD: 2021)		
In current prices (billion USD)	457.7		Agriculture, forestry and fishing	11.5	(2.8)
In current prices (EGP)	8 788.3		Industry including construction	34.6	(28.3)
Latest 5-year average real growth (%)	4.8	(1.7)	Services	53.9	(68.8)
Per capita (thousand USD PPP, 2021)	16.9	(50.9)			
GOVERNMENT ACCOUNTS[3]					
Expenditure (FY 2021/22)	23.4	(32.9)	Gross central government debt (FY 2021/22, OECD: 2022)	87.2	(108.6)
Revenue (FY 2021/22)	17.2	(37.4)	Net central government debt (FY 2021/22, OECD: 2022)	79.4	(79.6)
EXTERNAL ACCOUNTS					
Exchange rate (EGP per USD)	19.20		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	4.68		Mineral fuels, lubricants and related materials	37.8	
In per cent of GDP			Chemicals and related products	16.5	
Exports of goods and services	17.1	(33.4)	Manufactured goods	14.5	
Imports of goods and services	21.5	(34.9)	Main imports (% of total merchandise imports)		
Current account balance	-2.3	(-0.9)	Mineral fuels, lubricants and related materials	18.7	
Net international investment position (2021)	-50.3		Machinery and transport equipment	17.4	
			Chemicals and related products	16.7	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %, 2021)	39.8	(56.1)	Unemployment rate, Labour Force Survey (aged 15 and over, %, 2021)	7.4	(6.2)
Men (2021)	65.2	(64.2)	Youth (aged 15-24, %, 2021)	17.6	(12.8)
Women (2021)	12.9	(48.5)	Long-term unemployed (1-year and over, %, 2021)	1.8	(1.7)
Participation rate (aged 15 and over, %, 2021)	43.0	(60.2)	Tertiary educational attainment (aged 25+, %, 2017)	6.2	(28.5)
Mean weekly hours worked (2021)	43.0	(36.2)	Gross domestic expenditure on R&D (% of GDP, 2020)	1.0	(3.0)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2021)	0.9	(3.7)	CO_2 emissions from fuel combustion per capita (tonnes, 2020)	1.9	(7.9)
Renewables (%, 2021)	5.7	(11.8)	Renewable internal freshwater resources per capita (m^3, 2020)	9.3	(9 310.0)
Exposure to air pollution (over 10 µg/m³ of PM 2.5, % of population, 2019)	99.8	(61.7)			
SOCIETY					
Income inequality (Gini coefficient, 2019, OECD: latest available)	0.319	(0.315)	Education outcomes (PISA score)		
Poverty gap at USD 3.65 a day (2017 PPP, %, 2019)	3.4		Reading	NA	(486)
Public and private spending (% of GDP)			Mathematics	NA	(488)
Health care (2020)	4.4	(13.9)	Science	NA	(487)
Pensions (OECD: 2019)	NA	(9.5)	Share of women in parliament (%)	27.6	(32.5)
Education (% of GNI, 2021)	4.4	(4.4)	Net official development assistance (% of GNI, 2021)	2.0	

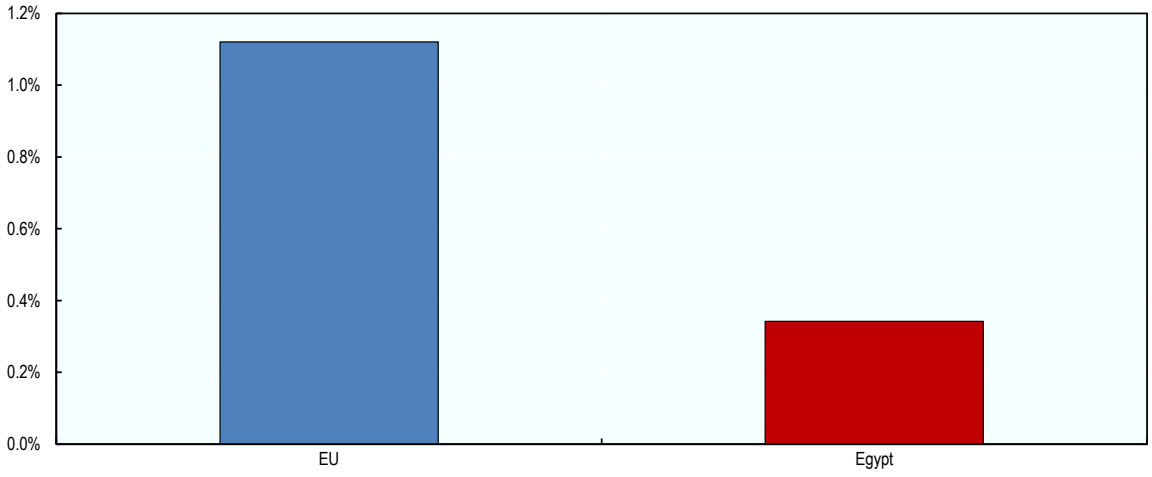
Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank, CEIC, Ministry of Economic Planning and Development, Ministry of Finance and Central Bank.

SME and Entrepreneurship Performance and Characteristics in Egypt

MSMEs play a key role in Egypt's economy, with micro-enterprises accounting for the large majority of businesses

A total of 3.7 million business establishments were active in Egypt in 2017 (CAPMAS, 2018[1]). Approximately 99.7% of this total had less than 50 employees, while 91.7% were micro-enterprises. The share of businesses with less than 50 employees is high in Egypt compared with high-income economies such as the European Union (Figure 1.1).

Figure 1.1. Share of businesses with at least 50 employees, 2017



Source: (CAPMAS, 2018[1]), (Eurostat, 2023[2])

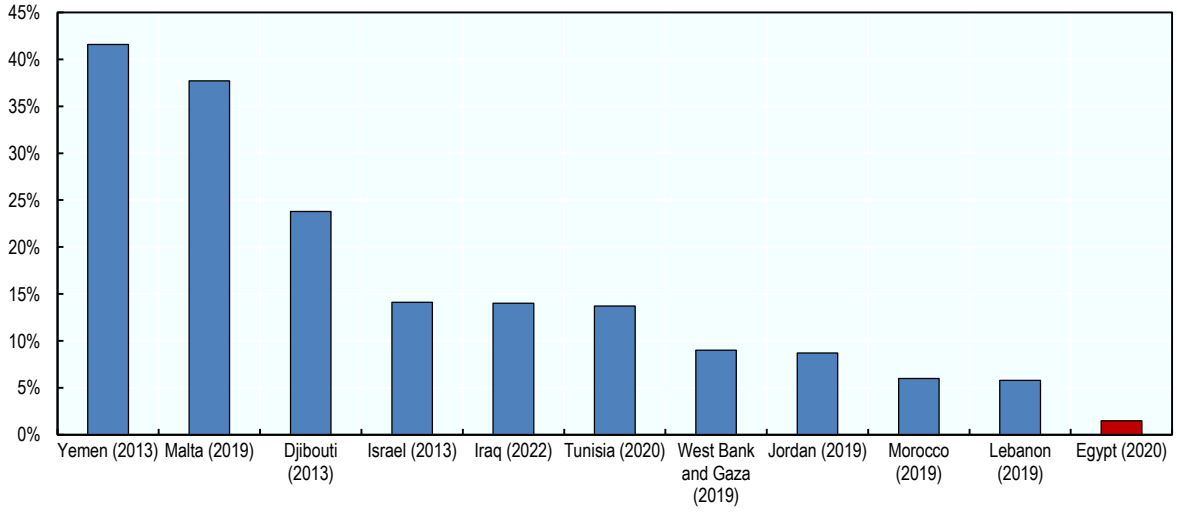
MSMEs in Egypt are relatively concentrated in lower productivity sectors. For example, wholesale and retail SMEs represent 57% of the total business population in Egypt.[4] Focusing just on the non-financial business economy, wholesale and retail businesses with less than 50 employees account for 60% of businesses in Egypt, compared with 23% on average in the OECD and 38% internationally (OECD, 2018[3]).

A priority for Egypt is to grow more medium-sized firms (above 50 employees) and to increase SMEs' representation in sectors with higher productivity, exporting and innovation performance, including manufacturing.

SME productivity and innovation performance are improving

The productivity and innovation performance of Egyptian SMEs has improved over the last 10 years, and there is scope to maintain or accelerate this trend. In particular, benefits could be obtained from increasing the share of small businesses that introduce new products or services, which appears to be lower than in some other countries in the region (Figure 1.2) despite Egypt's relatively high number of researchers per capita (Figure 3.4).

Figure 1.2. Share of businesses with 5-19 employees that introduced new products or services in MENA countries



Note: Survey year indicated in parentheses. Data for Egypt were collected in 2020 and responses may therefore be impacted by the COVID-19 pandemic.
Source: (World Bank Enterprise Surveys, 2023[4])

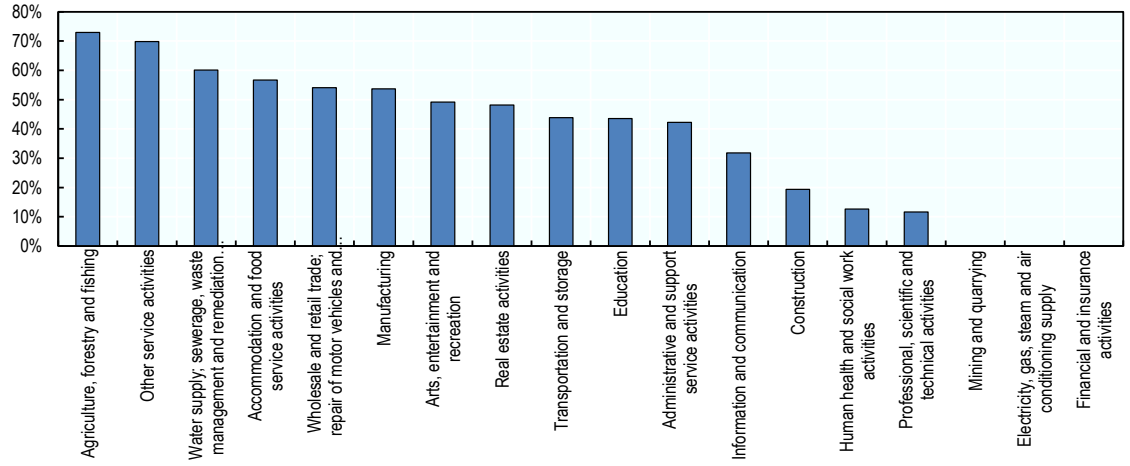
Exporting performance is still developing among Egyptian SMEs

Exporting can offer many benefits to businesses such as higher revenues, risk diversification, higher standards, and exposure to new technologies. Exporting performance is still developing among Egyptian MSMEs. In 2020, exports accounted for at least 10% of sales for approximately 4.7% of Egyptian businesses with 5-19 employees (World Bank Enterprise Surveys, 2023[4]). This is a higher share than in some countries in the region but below others, such as Tunisia.

Tackling informality is a challenge

An estimated 53% of establishments in Egypt were unregistered in 2017 (CAPMAS, 2018[1]), with this share varying by sector (Figure 1.3). Reducing informality would benefit the development of Egypt's MSME sector, since it is well-documented that informal business face severe restrictions in accessing finance, due to lack of documentation, collateral, and regulatory constraints, and are less likely to invest in skills, training, and technology (OECD, 2021[5]).

Figure 1.3. Share of unregistered establishments by sector, 2017

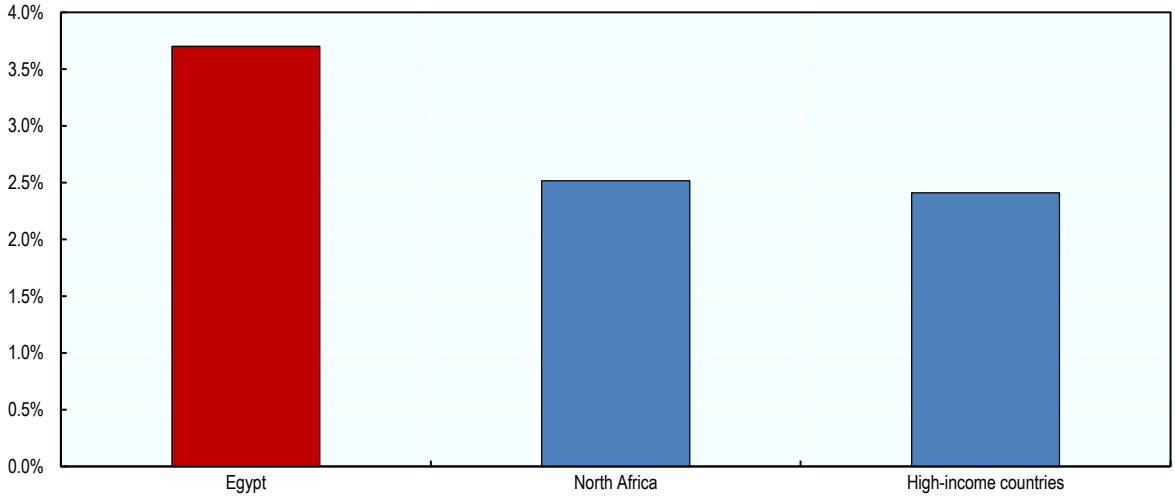


Source: (CAPMAS, 2018[1])

Egypt's has a culture conducive to entrepreneurship, with high rates of entrepreneurial intention

Egypt has a relatively high rate of productive entrepreneurship, as measured by the share of the working age population that are self-employed with employees (Figure 1.4).

Figure 1.4. Self-employed with employees as a share of working-age population, 2021



Source: (International Labour Organization, 2023[6])

There is also a strong entrepreneurial culture. In 2022, 47% of non-entrepreneur Egyptians expressed the intention to start a business within the next three years (Global Entrepreneurship Monitor, 2023[7]). This is the fifth highest share of the 49 countries for which data are available. In addition, 64% of adults saw good opportunities for starting a business, 78% agreed that successful entrepreneurs receive a high social status, and 71% agreed that most people consider starting a business to be a desirable career choice.

These figures are all above the global average and point to a strong potential pipeline of entrepreneurs with the ambition and the motivation to start new business ventures.

There is scope to increase the conversion of these positive intentions into actual entrepreneurial activity. The total early-stage entrepreneurial activity (TEA) rate measures the share of adults (18–64-year-old) that have set up a business or were the owner-manager of a firm less than 3.5 years old. In 2022, Egypt's TEA rate was 6.6%, lower than in most other countries covered by the GEM survey (Global Entrepreneurship Monitor, 2023[7]). Moreover, there is scope to increase the innovativeness of new entrepreneurs, with less than 1% of early-stage entrepreneurs in Egypt reporting offering products or services that were new to their area in 2022 (Global Entrepreneurship Monitor, 2023[7]).

Policy recommendations

Box 1.1. Key recommendations on SME and entrepreneurship performance and characteristics

Promote policy measures to:

- Develop reliable and recurring statistics on MSME and entrepreneurship performance and characteristics, to be published on an annual basis. As a starting point, data should be collected on i). the number of enterprises, ii). the number of persons employed, and iii). the value added of micro, small, medium, and large-sized businesses. These data should ideally be disaggregated by industrial sector. The European Commission's Annual Report on European SMEs is a good illustration of the scope of data on SMEs that should be aspired for (European Commission, 2024[8]).
- Accelerate the formalisation of MSMEs and entrepreneurs through outreach activities to raise awareness and uptake of the formalisation incentives in the MSME Law. The uptake and impact of these incentives should also be closely monitored to determine whether adjustments or additions are needed.
- Facilitate the transition of MSMEs towards higher productivity sectors and activities by taking steps to increase the role of the private enterprises in sectors of the economy and facilitating access to international markets (see Boxes 3.8 and 5.15).
- Encourage innovation and technological adoption among MSMEs and entrepreneurs, for example through financial support programmes (digital vouchers) and tax incentives to support SME digitalisation and the establishment of digital innovation hubs in rural areas (see Box 7.14).
- Address business creation bottlenecks that create gaps between entrepreneurial intention and action by introducing mandatory SME tests, ramping up regulatory impact assessments and simplifying business licensing systems (see Box 3.8).
- Develop actions to further support opportunity-based entrepreneurship and innovation in start-ups, including through measures to enhance the incubation and acceleration system and create stronger incentives for private and venture capital investors (see Box 5.15).

The Business Environment for SMEs and Entrepreneurship

The macroeconomic environment presents challenges for SMEs and entrepreneurs

Egypt's economy grew by an annual average of 5.5% between 2015 and 2019, outperforming other middle-income economies in the MENA region. This growth was boosted by commodities exports and state-led investments. Even during the COVID-19 pandemic, real GDP growth surpassed 3% in 2020 and 2021

(International Monetary Fund, 2023[9]). However, a range of macroeconomic developments since 2022 – including currency depreciation, high inflation and increases in the Central Bank's discount rate – have created more challenging conditions for SME and entrepreneurship development (International Monetary Fund, 2023[9]).

Recent policy developments are strengthening trade and FDI opportunities

Trade and investment opportunities for SMEs and entrepreneurs have been improved by a range of recent policy reforms, including the Prime Ministerial resolution to support SME exporters and the establishment of a new export department within MSMEDA. The Ministry of Investment and Foreign Trade's Export Development Authority (EDA) has created an information portal where SMEs can access information about exporting opportunities. It has also simplified export and import procedures, including through digitalisation and automation. To attract foreign direct investment (FDI), Law No. 72 of 2017 on Investment Guarantees and Incentives has exempted projects in free zones from custom taxes, sales tax and other fees. This opens up new possibilities for the integration of SMEs into global supply chains.

Egypt's participation in the African Continental Free Trade Area (ACFTA) agreement is poised to create a larger market for continental trade and FDI. The agreement, ratified by 47 African countries as of February 2024, is set to significantly lower tariff and non-tariff barriers to intra-African trade for Egyptian businesses (World Bank Group, 2023[10]). The Common Market for Eastern and Southern Africa is also important in this respect. Going forwards, it is important that SMEs and entrepreneurs are made aware of these potential benefits to enable them to exploit fully the opportunities offered by these agreements.

With respect to international trade, further reductions in red-tape and tariffs would benefit SMEs and entrepreneurs going forwards (World Trade Organization, 2023[11]). Similarly, there is scope to further increase FDI-openness. According to the OECD's FDI Restrictiveness Index, Egypt was less open to FDI in 2020 than the OECD average (OECD, 2020[12]). Only 1.3% of Egyptian businesses with 5-19 employees reported using technology licensed from foreign companies (World Bank Enterprise Surveys, 2023[4]). In this area, supplier development and matchmaking programmes could help to foster spillovers and linkages between foreign companies and domestic SMEs.

Egypt's regulatory environment is improving

The Egyptian Regulatory Reform and Development Agency (ERRADA) has been active in improving the regulatory environment for business. This is a long-running reform process that needs to be maintained and intensified, given ongoing regulatory challenges in areas such as tax compliance and property registration (World Bank, 2020[13]).

The Egyptian government has also been active in introducing measures to encourage firms to formalise, and MSMEDA and the International Labor Organization are in the process of developing a formalisation strategy. The MSME Development Law No. 152 of 2020 offers temporary 5-year licenses to enterprises that were operating informally before the law. After receiving the temporary license, any judicial proceedings are stopped and the enterprise is exempted from payment of taxes for previous years. New enterprises that began operating after the introduction of the law can obtain a temporary license for one year, which can be renewed for another year prior to the issuing of the final license. These measures are accompanied by incentives such as reduced corporate tax rates, the allocation of 30% of available space in industrial zones, touristic areas, urban communities and reclaimed agricultural land to MSMEs, suspension of lawsuits and penalties for five years, and forgiveness of previous unpaid taxes. There is also a requirement for at least 40% of public entities' contract allocations be made to MSMEs.

Law No. 19 of 2023 was issued regarding the regularisation of the status of unlicensed industrial facilities. The law allows, within a maximum period of 3 years from the date of its entry into force, the granting of temporary operating permits for a period of one year to existing unlicensed industrial facilities, after they

submit a declaration of the facility's commitment to environmental requirements, civil protection procedures, and all established controls.

Another important development is the establishment of the Permanent Unit in the Council of Ministers to propose policies, laws and regulations for Egyptian start-ups. The unit – which is headed by GAFI – is currently undergoing an internal review of policies, procedures and bottlenecks and is examining international practices in order to identify possible areas for intervention.

Access to financing has improved dramatically

Egyptian banks' MSME lending portfolio has grown drastically, expanding by 394% between December 2015 and March 2024. However, there is still scope to improve SMEs' access to traditional bank credit. In 2020, only 7.3% of investment in businesses with 5-19 employees was financed by banks in Egypt, lower than in Tunisia (12.9%) and Morocco (11.3% in 2019) (World Bank, 2020[14]). The low access to credit is explained by high transaction costs, a lack of bank tools and data to assess SMEs' credit risks, and high collateral requirements (ADB, 2019[15]). In addition, limited financial literacy lowers demand for bank finance, particularly outside of urban centres and among female-headed households and businesses (IFC, 2022[16]).

The Central Bank of Egypt (CBE) has adopted several measures to address these issues and encourage financial inclusion by bolstering MSMEs and start-ups' access to finance and non-financial services. These include a quota on the share of banks' lending allocated towards SMEs (increasing from 20% to 25% in 2021); requirements for banks to create departments dedicated to SME lending; an amendment to banking regulations that waives audited financial statement requirements for lending to firms with annual sales lower than EGP 20 million; instructions to banks to develop alternative tools to assess the risks of lending to small and/or informal enterprises; a data hub that collects credit information on Egyptian businesses and consumers; and a credit guarantees scheme delivered through the CBE-participated Guarantee Company Company (CGC). These are all very positive developments.

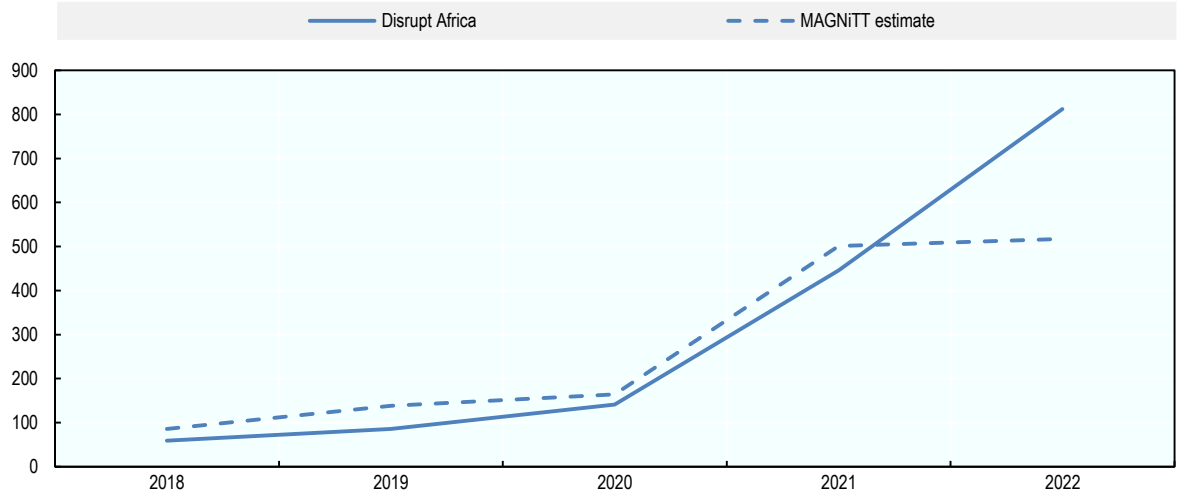
In addition, the CBE has issued simplified Know-Your-Customer regulations, which use only the National ID as means of identification for professionals and very small businesses opening an account. The CBE has also taken measures to ease and accelerate access to various banking products and services, while the Financial Regulatory Authority (FRA) has launched a registry of moveable collateral assets, which allows capital equipment and intellectual property to be used as collateral to support SME lending.

New regulations in the microfinance space could also ease SMEs' credit constraints. In 2014, Egypt passed its first law to regulate microfinance services. The lending ceiling for microloans was initially capped at EGP 100 000, although the FRA has since raised the cap to EGP 242 000. As a result, the value of the outstanding microfinance portfolio has increased dramatically, reaching EGP 93.4 billion in March 2024, across both banking and non-banking financial institutions. This growth was also supported by a 2017 CBE decision to allow banks' microfinance lending (direct or indirect) to contribute to their requirement for 20% and later 25% of their lending to be directed to SMEs. Moreover, the microfinance law permits non-banking institutions to lend to SMEs upon licensing, speeding up the application and approval process for non-bank lending to SMEs.

As shown in Figure 1.5, the value of venture capital funding received by tech start-ups in Egypt has increased considerably since 2020. By 2022, venture capital funding to tech start-ups was the second highest in Africa both in terms of the number of tech start-ups funded (131) and the volume of funding received (USD 812 million) (Disrupt Africa, 2022[17]). Public programmes such as MSMEDA's fund of funds scheme are helping to support this growth. Moreover, to encourage banks to support the capital of funds targeting SMEs and in particular start-ups, the CBE allows banks to include contributions to these funds as counting towards the 25% share of lending they are required to allocate to SMEs.

Other alternative sources of entrepreneurial finance are also developing in Egypt, including Rotating Saving and Credit Associations (ROSCAs), crowdfunding initiatives, leasing and factoring. In line with these developments, the Central Bank of Egypt, in co-operation with the Financial Regulatory Authority, are in the process of issuing a new law to regulate alternative finance activities that will cover areas such as peer to peer lending and crowdfunding platforms, ROSCAs, and digital savings. ROSCAs and lending-based crowdfunding are also currently within the scope of the CBE's regulatory sandbox.

Figure 1.5. Total venture capital funding received by Egyptian start-ups, 2018-2022

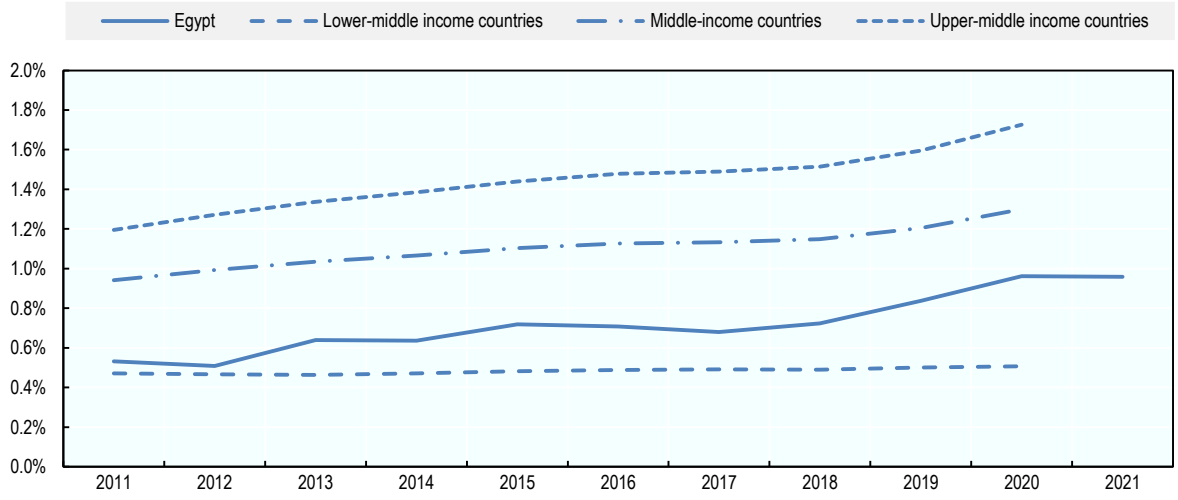


Source: (Disrupt Africa, 2022[17]), (MAGNiTT, 2022[18])

Growing research spending can be a trigger for more innovative start-ups

R&D expenditure in Egypt increased from 0.3% to 1% of GDP between 2008 and 2020, although this is still below the global average (2.6%) (Figure 1.6). The number of researchers nearly doubled from 2011 to 2021, reaching 854 per million inhabitants, a level above the average of middle-income countries. Furthermore, 8 of the 25 highest ranked universities in the MENA region in terms of citations are based in Egypt (Times Higher Education, 2022[19]), and in 2021, Egypt was ranked 26th in the world in the number of published documents and 25th in the number of citations (Scimago JR, 2021[20]).

Figure 1.6. Research and development expenditure as a share of GDP, 2011-2021



Source: (UNESCO, 2023[21])

The rise in research activity provides an opportunity to strengthen innovation-based entrepreneurship and transfer knowledge to SMEs. A key challenge for Egypt's innovation system is to direct research being conducted in higher education institutions (HEIs) towards the market. The level of patent applications submitted by Egyptian residents was 37th globally in 2021, behind Egypt's global ranking in the number of published documents (26th) and citations (25th) (Scimago JR, 2021[20]). Egypt's Strategy for Science, Technology and Innovation 2030 sets out a number of priority areas for better converting R&D capabilities into innovation outcomes through the actions of the Ministry of Higher Education and Scientific Research (MHESR), the Academy of Scientific Research and Technology (ASRT), and the Science and Technology Development Fund (STDF). They include: i). building linkages between academia and industry and creating mechanisms for marketing scientific research outputs to the private sector; ii). supporting researchers to gain the skills needed to commercialise their inventions and access programmes to help them create a start-up; iii). strengthening intellectual property policies in universities; iv). increasing co-ordination among public entities responsible for supporting innovation and entrepreneurship and building awareness among researchers of available support; and v). addressing legal impediments that limit universities in conducting research commercialisation activities. Another important scheme is the NilePreneurs initiative, which is led by Nile University with funding from the Central Bank of Egypt, a number of banks, the Ministry of Planning, and others.

Educational attainment has increased

Educational outcomes have been improving dramatically in Egypt. Between 1971 and 2018, secondary gross enrolment rates rose from 26% to 83%, while between 2011 and 2018 tertiary enrolment rates increased from 27% to 39%. Efforts are now focusing on improving the quality of education, including by reducing classroom density and increasing mathematical attainment. Skills overall are not reported as a major constraint to SME development. On the other hand, there are some specific gaps. In particular, SMEs report gaps in digital skills and foreign language skills (World Bank Enterprise Surveys, 2023[4]).

Tax has been perceived as burdensome, although the MSME Development Law No. 152 of 2020 has introduced a simplified tax system

At 22.5%, the corporate tax rate in Egypt is broadly in line with the MENA average. However, the corporate tax regime is often perceived as burdensome by MSMEs. Indeed, in 2020, 26% of Egyptian businesses with 5-19 employees stated that tax rates were the biggest obstacle they faced (World Bank Enterprise Surveys, 2023[4]), with back taxes for newly formalising enterprises being a particularly challenging issue. In addition, 8.5% of businesses with 5-19 employees reported that tax administration was their greatest obstacle, a share higher than the average for MENA countries (2.7%) (World Bank Enterprise Surveys, 2023[4]). However, the MSME Law 152 of 2020 includes a number of provisions to address these issues and reduce the burden of taxation for MSMEs.

The government is reducing the impact of state-owned enterprises on competition in markets

State-owned enterprises (SOEs) play a major role in the Egyptian economy. In 2019, the total value of Egyptian SOEs' assets represented almost half of Egypt's GDP. SOEs receive considerable public support in the form of subsidies and exemptions from public procurement rules. As a result, SMEs and entrepreneurs can find it difficult to compete in sectors where SOEs operate.

To open up more markets to private sector development, in 2022 the government created a Supreme Committee for the Promotion of Competition Policy and Competitive Neutrality and a new department within the Consumer Protection Agency (CPA) dedicated to the promotion of competitive neutrality. These bodies are active in identifying sectors from which the state will exit in the next 3-5 years and in improving transparency by providing open access to SOEs' financial data as well as data on the subsidies received.

The transport and energy systems are relatively strong

Transport infrastructure in Egypt is better developed than in many other middle-income economies. Egypt ranked 28th out of 141 countries in the WEF's 2019 Global Competitiveness Index in terms of the quality of road infrastructure, 40th in terms of airport connectivity and 18th in terms of liner shipping connectivity (World Economic Forum, 2019[22]). Moreover, the share of businesses with 5-19 employees that raise concerns about access to transport is much lower in Egypt (12.5%) than in most other MENA countries (World Bank Enterprise Surveys, 2023[23]).

Fuel subsidies amounted to approximately 10% of GDP in 2021, but there has been a gradual phase out since 2014 that should lead to a complete elimination of these subsidies by 2025 (IEA, 2023[24]). This energy transition is a double-edged sword for SMEs and entrepreneurs. On the one hand, subsidies have lowered energy costs for them, but, on the other hand, they have discouraged investments in energy efficiency that could improve their long-run competitiveness. As subsidies are phased out, the government could create initiatives that support SMEs and entrepreneurs in reducing their energy consumption.

Access to commercial premises can be a constraint for MSME and entrepreneurship development in Egypt. To help address this problem, the MSME Law stipulates that 30% of available space in industrial zones, touristic areas, urban communities and reclaimed agricultural land should be allocated to MSMEs. In addition, the Industrial Development Authority has established 13 industrial complexes, spread across 12 governorates, designed specifically for SMEs and providing them with working spaces and utilities.

Policy recommendations

Box 1.2. Key recommendations on the business environment

Reduce the regulatory burden on SMEs and entrepreneurs

- Introduce a mandatory SME Test to determine the impacts of proposed regulatory or legislative changes that could impact SMEs and entrepreneurs.
- Reinstate the regulatory guillotine to review, eliminate and streamline the existing stock of business regulations.
- Increase the capacity of ERRADA to support public entities in conducting SME tests and regulatory simplification, drawing from OECD Best Practice Principles for Regulatory Policy (OECD, 2020[25]).
- Streamline the business registration process, including by allowing companies to register without having a commercial address, providing model articles of incorporation and removing the need to use a lawyer. Consolidate the existing pool of business licenses into a smaller number of broader licenses, with a co-ordinating body acting as a single point of contact for license applicants and a centralised online platform for MSMEs to submit and track multiple applications for different licenses.
- Expand access to and eligibility criteria for the incentives in the MSME Law to ensure that start-ups can also benefit. Intensify outreach activities to raise awareness and uptake of the MSME Law incentives, including through the use of trusted entities as implementation partners.

Alleviate financing challenges

- Increase the provision of capacity building and training to commercial banks to better understand and serve the needs of SMEs, building on the initiatives of the Egyptian Banking Institute.
- Launch the e-Know-Your-Customer platform (currently under development by the CBE) in order to streamline banking procedures.
- Strengthen R&D exploitation through SMEs and entrepreneurship.
- Establish an entity responsible for evaluating universities and research institutions, with “third mission” activities integrated into evaluation criteria and incentives, including promotion of entrepreneurship and knowledge transfer to SMEs.
- Remove legal obstacles faced by researchers in commercialising research, including restrictions on enterprise creation and the lack of a clear intellectual property framework.

Address skill shortages

- Expand mentoring and advice to SMEs and entrepreneurs to support them in identifying skills gaps and appropriate training offers to address these gaps., building on the entrepreneurship training, mentoring, and consulting services offered by MSMEDA as well as other initiatives such as the CBE’s NilePreneurs programme.

Level the competitive playing field

- Implement a comprehensive competitive neutrality framework, with concrete methodologies and mechanisms to calculate and fully offset the regulatory, tax, pricing and financing advantages that SOEs benefit from. The provisions in the framework should regulate all commercial activities conducted by government entities, including those conducted by government entities that are not registered as enterprises.

The Strategic Framework and Delivery Arrangements for SME and Entrepreneurship Policy

Egypt's policy framework for SME and entrepreneurship development is guided by Egypt Vision 2030 and the MSMEs Development Law of 2020

SME and entrepreneurship policy in Egypt is guided by the Egypt Vision 2030 National Development and Sustainability Plan and the Micro, Small and Medium Enterprises (MSMEs) Development Law Number 152 of 2020 (the MSME Law).

The Egypt Vision 2030 plan presents the key objectives and strategies for the development of the national economy. It includes several actions for SME and entrepreneurship policy, such as encouraging innovation and entrepreneurship, promoting e-commerce and export activity among SMEs and developing SME-inclusive industrial clusters. These actions are to be implemented through a range of activities by different ministries and agencies of government and other partners in co-ordination with MSMEDA. The vision is a very effective document in setting the high-level strategy into which SME and entrepreneurship policy fits.

The MSMEs Development Law entered into force in July 2020, replacing Law No. 141 of 2004. It improves the legal framework along multiple lines. This includes tightening the definition of micro, small, and medium enterprises, newly established enterprises (start-ups), entrepreneurial enterprises, and informal economy enterprises. This clarifies eligibility for various policy supports. In addition, the Law mandates that the public budget allocated to SME and entrepreneurship policy support should be between EGP 1.5 billion and 0.3% of GDP. This sets a clear guideline for the overall policy effort that should be devoted to this area. In addition, the MSMEs Development Law provides a set of tax and non-tax incentives for micro enterprises and SMEs, simplified licensing procedures for new-established MSMEs, quotas and financial incentives for land allocation for MSMEs, quotas and procedures for government procurement from micro, small and medium enterprises, and temporary licensing for formalising enterprises.

The Law advances SME and entrepreneurship policy on many fronts, yet some aspects could be further strengthened. For instance, the source of funding to be allocated to SME support could be specified more explicitly, and a monitoring or tracking system could be established. Better definitions of the governance mechanisms to enforce the Law's implementation and an annual reporting system could also be included.

Building on Egypt Vision 2030 and aligning with the sustainable development goals, MSMEDA is currently working with all concerned parties on developing a new National MSME Strategy (replacing the 2017-2022 national strategy), which will provide a road map for the healthy development of the sector.

It is important to finalise and implement this new strategy and in doing so to take account of key new issues that have emerged since the previous strategy, such as changes in the domestic and international context, the updated Egypt 2030 plan. This strategy should also have an expanded thematic focus, including a stronger emphasis on the twin green and digital transitions, innovative start-ups and SMEs' export activity. It should also align policy measures with the various identified target groups, and outline the specific mechanisms for co-ordinating implementation of the strategy and operational plan.

Policy co-ordination can be further reinforced

MSMEDA is the designated entity responsible for MSME development in Egypt and plays a key role in the co-ordination of SME policies across government. Established in 2017 (replacing the Social Fund for Development established in 1992), MSMEDA is under the direct supervision of the Prime Minister with the mandate to design, execute and co-ordinate SME and entrepreneurship support programmes, monitor and evaluate the MSME sector's performance, and implement the MSME Law 152/2020. It also has oversight of regulations affecting MSMEs and entrepreneurship. MSMEDA is not funded by the government budget. Its operational funding is based on the revenue from its one-stop-shop services and interest earned from

its lending activity. Its programme funding is dependent on grants and credit lines from international co-operation partners.

A Permanent Entrepreneurship and Start-ups Unit, established in the Prime Minister's Office in 2023 to improve conditions for start-up companies and their growth, also has important responsibilities for SME and entrepreneurship policy. The Permanent Unit, led by the General Authority for Investment and Free Zones (GAFI), and involving representatives from a range of ministries and agencies, including MSMEDA, is tasked with proposing appropriate policies, laws, and regulations to create a conducive environment for start-ups in Egypt.

The horizontal nature of the MSME and entrepreneurship policy, however, implies that multiple other institutions also take part in at least some aspects of policy design or implementation. In Egypt, these include the Ministry of Communications and Information Technology (MCIT), the Ministry of Higher Education and Scientific Research (MHESR), the Ministry of Education and Technical Education, the Ministry of Planning, Economic Development and International Co-operation, the Ministry of Manpower, the Ministry of Social Solidarity, the Central Bank of Egypt (CBE), the Financial Regulatory Authority, the Ministry of Finance, the Egyptian Regulatory Reform and Development Activity (ERRADA), the National Council for Women (NCW), the Ministry of Industry, the Ministry of Investment and Foreign Trade, GAFI, the Ministry of Local Development, and also the private sector. The activities of the Egypt Entrepreneurship and Innovation Centre (EEIC), within the Ministry of Planning, Economic Development and International Cooperation, which work towards building an integrated and inclusive entrepreneurial ecosystem in the national economy through education and training, entrepreneurship awareness campaigns, business incubators, and capacity building for government officials, must also be considered.

Given the large number of entities involved in MSME and entrepreneurship development, cross-government co-ordination is necessary. It is also important to strengthen consultation with private sector and non-government sector stakeholders for policy development purposes. MSMEDA has a dual role of both policy delivery and policy co-ordination in the Egyptian SME policy system. However, to date, its organisational structure reflects a much stronger emphasis on the former than on the latter. MSMEDA Head Office is well-structured for delivering its own corporate strategy and implementing policy measures over which it has organisational control (e.g. programmes and services of the MSMEDA Regional Offices and one-stop shops). However, its capacity to fulfil a policy co-ordination role is still developing, and it is currently limited by resource constraints. The leadership and co-ordination of SME and entrepreneurship policy in Egypt can be further strengthened by reinforcing MSMEDA's policy co-ordination and policy monitoring functions.

SMEs need guidance in identifying relevant programmes

Different agencies are responsible for the delivery of SME and entrepreneurship support programmes in Egypt:

- Business support services are delivered by the MSMEDA regional offices and one-stop shops, the CBE's network of Business Development Support Hubs, the Women Business Development Centres, GAFI's Investor Services Centre and one-stop shops, and the Industrial Modernization Centre (IMC).
- Innovation and technology supports are delivered by the Technology and Innovation Centres of the Ministry of Industry, the Technology Innovation and Entrepreneurship Centres of the Ministry of Communications and Information Technology, and the Academy of Scientific Research and Technology, the Science, Technology and Innovation Funding Authority and the Innovators Support Fund of the Ministry of Higher Education and Scientific Research.
- Support for SME exporters is delivered by the Export Development Authority. This is complemented by the activities of the Egyptian Exporters Association (EEA), the Foreign Trade

Training Centre of the Ministry of Investment and Foreign Trade and MSMEDA, which has recently established an Export Department.

- Financial supports to SMEs and entrepreneurs are delivered by the Credit Guarantee Company, MSMEDA, Egypt Ventures (an investment arm of the Ministry of Planning, Economic Development and International Cooperation), the NCLUDE Venture Fund, and other venture capital funding initiatives such as the MSMEDA Fund-of-Funds programme.
- Support for incubators and accelerators is mainly delivered through the Technology Innovation and Entrepreneurship Centres (MCIT) and the Academy of Scientific Research and Technology (ASRT) under the Ministry of Higher Education and Scientific Research (MHESR), which supports a number of university-based incubator programmes. There is scope to expand their coverage across the country and increase their networking.

This represents a relatively fragmented system of support. MSMEDA is therefore in the process of expanding its online portal (www.msme.eg) beyond its own services and programmes to include information on all authorities offering financial and technical assistance to SMEs, including government bodies, banks, and NGOs. This is an important first step, yet more must be done to increase awareness among SMEs and entrepreneurs and to improve the targeting of existing programmes.

MSMEDA's policy monitoring capacity of its programmes is well developed but more impact evaluations are needed

MSMEDA undertakes relatively sound and systematic monitoring of its own SME and entrepreneurship programmes, especially when conducted through its regional offices. It collects output performance indicators regularly, such as the number of programme participants and budget expenditures. Programme-level results are also reported to the central office of MSMEDA on a weekly, monthly and quarterly basis, depending on the programme. Findings are also communicated to the MSMEDA Board of Directors and to the Prime Minister by way of summarised annual achievement reports.

There is, however, less centralised information available on SME and entrepreneurship policy expenditures and activities across the different ministries and government agencies. A portfolio analysis of policy expenditures and activities, which shows the policy effort across different types of firms and types of policy intervention would be very useful in helping to steer policy towards national strategic objectives.

Furthermore, policy impact evaluations have so far taken place on a limited scale, and have been put in place mainly for programmes delivered by international donors. Impact evaluations are rare for interventions managed by the Egyptian government.

Policy recommendations

Box 1.3. Key policy recommendations on the strategic policy framework

SME and entrepreneurship policy framework

- Establish a mechanism for monitoring the implementation of the MSMEs Law and the take-up of its various incentives.
- Finalise and implement the new National MSME Strategy, with full consultation and input from other ministries and agencies on policy objectives and targets and reflecting new challenges and priorities including digitalisation and greening, and evolving developments in innovation, trade, and technological opportunities for start-up entrepreneurs and growth-oriented MSMEs.

Policy co-ordination and monitoring mechanisms

- Ensure appropriate staffing and resources within MSMEDA's new Central Sector for Policies and Legislation for policy co-ordination, policy monitoring, and annual reporting on implementation of the new MSME strategy.
- Establish a system in MSMEDA for ensuring full co-operation of ministries and agencies in the implementation and monitoring of the new MSME strategy, such as formation of a Technical Working Group, or assignment of SME and entrepreneurship "focal points" in each of the implicated ministries and agencies.

Policy dialogue with the private sector and stakeholders

- Establish an MSME Advocacy Group that is inclusive of SME associations, such as the Young Entrepreneurs Network, the Federation of Egyptian Chambers of Commerce and the Federation of Egyptian Industries, in order to formalise and regularise dialogue with the private sector.

Policy portfolio analysis

- Adopt a policy portfolio analysis approach in budgeting and monitoring of MSME and entrepreneurship policy measures and actions.

Policy delivery arrangements

- Achieve complementarities and synergies in delivery of business support by co-locating BDS Hubs in the MSMEDA Regional Office locations.
- Develop a national business incubator and accelerator policy that seeks to provide guidance on government-operated or supported incubator programmes and encourage the establishment of incubators in Egypt's regions.
- MSMEDA to continue to work co-operatively with other ministries and agencies to fully develop a comprehensive and all-inclusive MSME policy and programme web portal.

Monitoring and evaluation

- Undertake monitoring and evaluation of the SME and entrepreneurship policy agenda.
- Implement a data collection system with harmonised definitions, indicators and reporting mechanisms, in order to improve data availability for monitoring and impact evaluations.
- Prepare an annual report on the implementation of the MSMEs Law, with inputs from the relevant ministries and programme administrators.

SME and Entrepreneurship Programmes

Financing programmes

The banking sector is a key source of financing for MSMEs. The ongoing regulatory efforts of the Central Bank of Egypt to induce Egyptian banks to lend more to MSMEs, as well as the influx of credit lines to banks from international financial institutions for on-lending to MSMEs, has led to increases in bank lending to MSMEs. Despite this, less than 10% of all Egyptian SMEs currently receive loans from banks and many MSMEs are not able to satisfy the requirements for bank financing (CGC Egypt, 2022[26]).

The main government initiative to increase MSMEs' access to credit is the loan guarantee programmes offered by the national Credit Guarantee Company (CGC). Medium-sized enterprises are currently in

receipt of approximately 70% of the outstanding CGC guarantees. To further support access to credit for smaller firms, the CGC has developed two programmes specifically targeting micro and small enterprises. First, the Small and Emerging Businesses programme offers wholesale guarantees to microfinance institutions (MFIs). The wholesale model provides a guarantee-umbrella for financial institutions lending to MFIs. This, in turns, enables MFIs to create a portfolio of microloans together with technical assistance. Second, the Small and Medium Enterprises (SME) programme provides loan guarantees to new and existing SMEs and uses a digital platform to connect SME borrowers with banks.

The microfinance sector has seen substantial growth in recent years. However, the vast majority of the microfinance entities lack operational efficiency, scale and sustainability. Upgrading of the Category C NGOs (the smallest microfinance entities) is underway, supported through a CBE programme that has been developed in collaboration with the IFC, the FRA and MSMEDA and delivered by the Egyptian Microfinance Federation (EMF). This aims to improve the capacities of Category C microfinance institutions by offering training and follow up support to improve their professionalism and governance structures.

MSMEDA is a source of lending to MFIs for relending to micro and small enterprises. MSMEDA also provides direct lending to unbanked and/or underserved formal MSMEs and start-ups, offering loans of up to EGP 30 million. As of 31 December 2022, MSMEDA reported an outstanding direct lending portfolio of EGP 2.1 billion, spread across 9 719 borrowers.

Egypt is home to a developing venture capital sector, the growth of which has been supported by government initiatives including the launch of Egypt Ventures in 2017 – a firm which invests in accelerators and co-invests in high-growth potential start-ups and smaller enterprises. In addition, a Fund of Funds scheme, launched by MSMEDA and sponsored by the World Bank, is attracting significant volumes of private venture capital investment to support start-ups and early-stage enterprises.

Angel investment is also present in the country, led by private initiatives or networks such as Cairo Angels, AUC Business Angels, Alexandria Business Angels and Hult Alumni Angels. There are currently no government programmes focused on this segment. However, MSMEDA is currently working on a set of programmes to support the scaling up of business angel investing in Egypt.

Access to leasing and factoring is also developing, and MSMEDA is providing credit lines to leasing and factoring companies to encourage them to expand their offer to MSMEs and entrepreneurs.

Innovation programmes

One of the main types of government programme to support SME innovation and innovative start-ups in Egypt is the development of innovation hubs and clusters, which offer a range of services in a single location. The Technology Innovation and Entrepreneurship Centre (TIEC) has been active in this space mainly through the Innovation Cluster Initiative (ICI) and the Community Innovation Hubs (CIH). The ICI aims to create a network of universities, private companies and entrepreneurship centres across technology parks in second tier cities. Two clusters have been created using this model so far: the Alexandria Innovation Cluster (Borg Al Arab Tech Park) and the Assiut Innovation Cluster (Assiut Tech Park). The CIH offers co-working spaces to test ideas and commercial potential, as well as mentoring, networking, workshops, venture demos, and product launch services.

Egypt also has a set of innovation funding programmes, which are delivered by three entities in the Ministry of Higher Education and Scientific Research (MHESR). The Academy of Scientific Research and Technology (ASRT) provides grants to support early-stage research up to Technological Readiness Level 3. The Science and Technology Development Fund (STDF) finances scientific research and technology development. The Innovators Support Fund (ISF) invests in scaling promising enterprises, with a special focus on supporting the commercialisation of R&D output and improving the entrepreneurship skills of researchers. It also works with universities' technology transfers offices to establish licensing or royalty agreements with researchers.

There are also technical support, training and capacity building programmes for innovation development. InnovEgypt is a 30-hour training programme initiated by the TIEC, directed at university students and graduates in ICT specialisations with aspirations of becoming future innovators and entrepreneurs. In addition, the Huawei Spark Programme was launched by the Information Technology Industry Development Agency (ITIDA) and offers opportunities for tech-driven start-ups to enter new markets and widen their client reach, providing training and knowledge in fields such as artificial intelligence, data management, gaming, and e-commerce. Another example is the MHESR's Researcher to Entrepreneur programme, which trains researchers in universities on the skills needed to turn their scientific and technical research into viable ventures. In addition, the NilePreneurs initiative has launched the "Innovation & Design Technologies" programme, which is an innovation consultancy and R&D as a Service entity that is supported by a consortium of sponsors. Through three different programmes, it provides a range of services, including consultancy, new product development, product re-engineering, prototyping, and production.

Overall, there is a range of different actors and programmes supporting SME innovation and innovative start-ups. More co-ordination could increase coherence and accessibility across the system. There is also scope to increase the emphasis on programmes to support innovation among typical SMEs, alongside the programmes directed more towards innovative start-ups.

Incubator and accelerator programmes

There are several government-sponsored incubators and accelerators. The largest system is the ASRT's National Programme for Technological Incubators (INTILAC). Launched in 2013, it provides financial support for the establishment of incubators and seed funding for start-ups working on a technological idea or innovation in incubators. The start-ups that are accepted onto the programme receive working spaces, entrepreneurship training, technology validation, prototype financing, technical support, ecosystem networking, and seed funding of up to EGP 200 000 per project. There are various other public-led incubators, for example those supported by the Technology Incubators Programme, under the STDF and those supported by the Ministry of Planning, Economic Development and International Cooperation. Meanwhile, the NilePreneurs Incubate Programme seeks to tap into the potential of young people to start innovative enterprises through pre-incubation programmes and full-scale business incubators in targeted areas of technology and innovation development.

There is also an important set of private sector accelerators and incubators targeting the technology sectors and a growing base of university incubators in Egypt. Some of the university incubators are quite strong, such as the Venture Lab (V-Lab) at the American University in Cairo's (AUC) School of Business, while many others lack know-how and are in need of capacity building to improve their performance and impact. To further stimulate the university and research incubator sector, Law No. 23/2018 enables universities, research centres and other public entities to obtain support to establish incubators or companies that promote innovation-based research. Under the Law, incubators are exempt from VAT, customs duties on the purchase of equipment and other taxes.

There are important potential benefits from increasing co-ordination in the incubator system. This can be achieved through the introduction of measures for sharing good practices across incubators, as well as capacity building supports to help develop the competencies, services and management methods of incubators and their staff.

Internationalisation programmes

The Ministry of Industry, the Ministry of Investment and Foreign Trade, the Export Development Authority (EDA), the IMC, MSMEDA, the Ministry of Finance, the NilePreneurs Initiative and sector Export Councils all contribute to the provision of export development and internationalisation support to Egyptian SMEs. A

notable example is the Ministry of Finance's Export Support (Rebate) Programme, which incentivises exporting by reimbursing certain expenses of exporting firms and offering an additional 1% to 2% rebate to SMEs that have signed commercial deals abroad.

A recent agreement between the Ministry of Planning, Economic Development and International Cooperation, the Egyptian Exporters Association, and the Foreign Trade Training Centre (FTTC) is strengthening cross-governmental co-ordination in this area. This agreement established the creation of the Export Academy, a unified entity for training exporters and providing export advisory services. However, there is still scope for further steps to strengthen co-ordination in this policy area.

Another recent development is the formalisation of a co-operation protocol agreement between the IMC and the Export Development Bank of Egypt (Ebank). Under the agreement, Ebank will support industrial exporters through financing programmes, with special attention to SMEs and green economy projects. Also important is the establishment of the Egyptian Export and Investment Guarantee Agency, under the Central Bank of Egypt, which will co-operate with banks and financial institutions to provide financial services and financing for Egyptian exports and investments abroad.

Business development services programmes

The delivery of business development services (BDS), including information, advice, consultancy and mentoring, is distributed across many public institutions in Egypt, each one targeting subgroups of the SME and start-up population, according to their particular mandate and objectives.

MSMEDA is a major BDS provider, leveraging its large network of regional offices to provide information, basic guidance and advice, entrepreneurship training, and technical support to SMEs and start-ups. In addition, the CBE supports a network of 116 NilePreneur BDS Hubs, which provide a wide range of information, advisory and counselling services. TIEC provides one-to-one consultancy services to registered start-ups and SMEs in the IT sector, while the IMC is a major BDS service provider to manufacturing enterprises.

Other prominent entities offering mentoring or advice include the Rowad 2030 Start-up and Business Clinics, GAFI's Entrepreneurship Development Unit, the IMC, the Ministry of Trade and Industry's Technology and Innovation Centres, and the NCW's Women Business Development Centres.

Digital platforms are increasingly offering online BDS. Although not yet fully developed in Egypt, online platforms can enable SMEs to match with and access remotely an appropriate advisory or training service. This helps to overcome problems of remoteness and strengthens the density of the support available. MSMEDA is taking the lead in enhancing the supply of digital BDS by creating an electronic platform that gathers information on all available SME support services and programmes provided by government agencies, institutions and supporting bodies.

The organic approach to developing the BDS system offers a large variety of alternatives, but comes at the expense of coherence, transparency, and inter-connectedness. It also reduces the visibility and therefore take-up of the BDS offer to SMEs. MSMEDA's new digital platform may help with bridging this awareness gap.

Entrepreneurship education and training programmes

The promotion of an entrepreneurial culture in Egypt is not yet well integrated in the school curricula. However, several new large-scale initiatives are starting to address this. The "Ebdaa Mustakbalak" (Start Your Future) project (which was part of the Rowad 2030 initiative) is one of the largest entrepreneurship awareness-raising campaigns. It has reached more than 300 000 school students in 27 governorates and trained around 1 250 teachers and public mentors in entrepreneurship.

Technical secondary education is also contributing to developing entrepreneurial mindsets and skills by exposing students to knowledge on starting an enterprise and by offering training to instructors in delivering the ILO's Know About Business (KAB) curriculum and providing career guidance for students.

At the higher education level, the MHESR's new strategy steers all universities to establish an entrepreneurship and innovation centre. Several universities have already integrated entrepreneurship courses as part of their curricula in certain faculties, and entrepreneurship-related extracurricular activities such as entrepreneurship clubs exist in most universities.

Progress has also been made on entrepreneurship training outside of formal education. NilePreneurs offers the Professionals programme, which is a technical and non-technical upskilling capacity building solution for university students, recent graduates, postgraduates, career builders and entrepreneurs. Meanwhile, programmes offered by international organisations such as the ILO and Egyptian public entities such as MSMEDA and the TIEC have reached tens of thousands of Egyptians over the years. The use of online platforms and Massive Open Online Courses (MOOCs), some of which are free, are further expanding the availability of training and entrepreneurship-related educational content.

SME skills upgrading programmes

Workplace-based training is limited in Egypt's SMEs and the government focuses mainly on supporting the employability of unemployed and marginally employable individuals. As a result, programmes for SME employees are confined to some forms of information and guidance and partial incentives to SMEs for training of their workers (provided for by the MSME Law). A national programme that supports SMEs in upgrading the skills of their workers is not in place. Only some narrower initiatives exist, such as the IMC's Creative Egypt Programme, which focuses on developing the skills of Egyptian artisans.

Public procurement programmes targeting MSMEs

Egypt's government expenditure on goods and services is a large market representing about 18% of GDP (Open Contracting Partnership, 2020[27]). It is, however, a market that MSMEs struggle to access. Some of their main challenges include difficulties in obtaining timely information about opportunities, high administrative costs for bid applications, large contract sizes, high standards requirements, and a bias in selection towards established large suppliers.

To help overcome some of these barriers, Egypt's New Public Procurement Law 182/2018 seeks to provide better conditions for SMEs to compete in the procurement process. It states that at least 20% of the value of procuring entities' purchases must be awarded to SMEs, and in addition, provides that local tenders below EGP 2 million are reserved for SMEs located in the governorate. The MSME Law 152/2020 builds on this by stating that 40% of public procurement contracts are to be awarded to SMEs (20% to micro and small enterprises and 20% to medium enterprises). However, experiences in other countries reveal that establishing targets for awarding procurement contracts tends to fall short of expectations. Better results can be achieved by making public procurement opportunities more accessible for SMEs, including by providing instructions for SMEs on how to access and prepare proposals for tender bids and by building the capabilities of SMEs to meet the requirements for becoming qualified bidders.

Inclusive entrepreneurship programmes

In general, business regulations and support programmes are gender-neutral in Egypt. However, the government has recently introduced specific programmes that support women entrepreneurs, sometimes in collaboration with international donors. One example is NilePreneurs, which offers a bundle of financial and non-financial supports for women entrepreneurs. Several ministries and agencies also support women entrepreneurs, notably MSMEDA, the National Council for Women (NCW), the Ministry of Communications

and Information Technology and the Central Bank of Egypt. These supports include training schemes, financial support, matchmaking with angel investors, and exhibitions to showcase products and services. To meet the objectives on gender and inclusion of the Egypt Vision 2030, these initiatives could be reinforced by introducing an overarching women entrepreneurship strategy and by strengthening the role of MSMEDA in monitoring gender equality in entrepreneurship and entrepreneurship programmes. Moreover, support for other under-represented groups of entrepreneurs could be strengthened by, for example, building a network of youth and women's entrepreneurship champions to raise awareness and create a more positive perception of entrepreneurship.

Green entrepreneurship and SME greening programmes

To contribute to the strategic objectives of the Egypt National Climate Change Strategy (NCCS) 2050, MSMEDA is supporting young people to establish environmentally-friendly enterprises in innovative sectors through its Environmental and Social Conservation Strategy. The strategy promotes MSMEs that contribute to mitigating or adapting to climate change impacts in the industrial, commercial, water conservation, energy efficiency and agriculture sectors.

While there are important ongoing efforts to improve SME regulations in Egypt, there remain certain regulatory barriers that hinder the development of green enterprises. For instance, it can be challenging for SMEs to obtain licenses to operate in the recycling or biofertilizer sectors. Moreover, an inadequate enforcement of environmental regulations tends to reduce the competitive advantage of green SMEs and entrepreneurs vis-à-vis other, less sustainable firms operating in the market (Euro-Mediterranean Economists Association, 2023[28]). Regulations in this area need to be developed in a way that is sensitive to MSMEs.

There is not yet a systematic policy in Egypt that supports and incentivises SME greening and green entrepreneurship, although some programmes are in place. For instance, the Inclusive Green Growth in Egypt (IGGE) initiative provides technical assistance to service providers and financial institutions that support green SMEs in agriculture, food production, waste management, and sustainable energy sectors in the governorates of Luxor and Qena. In the financial sector, some of the largest banks in Egypt offer green financing facilities to all firms, including SMEs and entrepreneurs. The reach of these types of initiatives needs to be expanded across the country. New measures such as a digital diagnostic tool for SMEs on their greening and energy efficiency should also be implemented.

Policy recommendations

Box 1.4. Key policy recommendations on SME and Entrepreneurship Programmes

Financing programmes

- Review the capitalisation base of the Egyptian Credit Guarantee Company (CGC) with a view to considering how an increase could increase the supply of credit among micro and small enterprises.
- The CGC to hold consultations with MSMEDA, GAFI, the banking institutions and other relevant stakeholders to discuss diversification of its guarantee product offerings to better align with the special financing needs of innovative start-ups and SMEs and better match government priorities to stimulate innovative start-ups, SMEs in priority sectors, e-commerce/digitalisation, SME greening etc.
- The CBE to advance its work on studying the issuance of licensing of Tier II banks as MSME Banks and to deliberate further with the FRA to deliberate on the merits of allowing conversion

of microfinance companies to deposit-taking MicroBanks.

- MSMEDA to create more awareness among SMEs of the merits of leasing options for the purchase of capital equipment and of factoring services to improve their cashflow, and create awareness among leasing and factoring companies of the growth potential from targeting SME clients.
- The CBE and FRA to continue with the next phase of improving efficiencies of more of the Category C microfinance NGOs through capacity building and oversight on their ability to meet regulatory requirements.
- Introduce tax incentives to private investors and venture capital firms to reduce their risks in investing in new start-ups and early-stage enterprises.
- Support the establishment of a network platform to create linkages between angel investors and venture capital firms to foster the flow-through of investee enterprises from the seed stage (angel investment) to the next stage of investments from venture capital funds. These actions would aid in addressing gaps in access to equity financing and the ability of start-ups and young firms to move more readily to the larger rounds of financing.

Innovation programmes

- Improve cross-government co-ordination of innovation support programmes.
- Increase the focus on the innovation activities of existing SMEs.
- Establish comprehensive support to spin-offs in universities and research centres, including entrepreneurship training and mentoring and support in the areas of IP, legal procedures, accounting, and market research, potentially drawing inspiration from the Leuven R&D programme in Belgium (OECD, 2025[29]).

Incubation and acceleration programmes

- MSMEDA to collaborate with the ASRT, the CBE, the Ministry of Planning, Economic Development and International Cooperation, the MCIT, NilePreneurs, and the AUC Venture Lab on the formation of an Egyptian Business and Technology Incubator and Accelerator Association/Network.
- MSMEDA to partner with the key ministries and agencies to begin the process of mapping the various incubator programmes and making this information publicly available in order to create more transparency about the availability of these programmes to aspiring entrepreneurs.
- Improve the competency levels of Egyptian incubators by working with experienced incubators to develop a set of standards and certification processes for incubators at different levels of development that ensures quality while still facilitating innovation within incubators.
- Promote greater awareness of the NilePreneurs Incubator Management Bootcamp programme as a vehicle for building the capacity of incubator managers and staff.

SME internationalisation programmes

- Improve the level of co-ordination between the numerous entities supporting export development activity and the focus on SME exporters by creating an integrated Support Centre for SME Exports with an online presence and links to the programmes and services of all export support agencies.
- Improve the hand-off of SMEs participating in export training programmes to other programmes to assist them in achieving their export goals.
- Design and implement special export and supply chain financing schemes for SMEs to be delivered through the banking system.

Business development services programmes

- MSMEDA to adopt and implement a BDS Strategic Action Framework, with specific priority given to:
  - Conducting a demand survey of MSMEs regarding their use of business advisory and training services to foster a better understanding of the demand for and use of BDS services and the barriers to access.
  - Implementing an initiative to increase the supply of qualified consultants/advisors who are able to deliver basic consulting services to MSMEs and to otherwise build the capacity of BDS providers, such as a training and certification programme.
  - Implementing a national BDS platform to promote matching of BDS providers and MSMEs (to include a locational map of BDS providers and the services offered).
  - Promoting the use of an online diagnostic tool, such as the Business Lens, to help MSMEs identify their critical BDS needs and areas for improvement.
  - Establishing a cost-shared voucher scheme to augment MSME demand for consultancy services.
  - Creating an organisational structure within MSMEDA to carry out its functions as a facilitator and co-ordinator of quality BDS services.
- MSMEDA to work with Regional Offices to design and implement a roster of qualified business advisors and trainers for use in the provision of local BDS services.
- Expand the CBE qualification of business advisors beyond its use for the BDS Hubs, in co-operation with the Egyptian Banking Institute and the ILO.
- MSMEDA to work co-operatively with the CBE BDS Hubs to encourage the formation of a national association of MSME business advisors and consultants.

Entrepreneurship education and training programmes

- Give due consideration to integrating an entrepreneurship curriculum as a component of all TVET programmes.
- The MHESR to commission a baseline study of the state of entrepreneurship education in all universities in Egypt.
- Expand opportunities for Egyptians to gain entrepreneurship skills through availability of online training programmes, with appropriate follow-up support to persons completing the training.

SME skills upgrading programmes

- Implement a skills training network addressing the training needs of SMEs and their workers.
- Introduce a training voucher to be used by SMEs to secure training to upgrade the skills of their workers from training providers.
- MSMEDA to negotiate a partnership with the ILO to implement the SCORE Programme to larger small and medium enterprises through co-operation with other government entities, such as the Industrial Modernization Centre.

Public procurement for SMEs

- Apply the Public Procurement Law regarding SME procurement to state-owned enterprises.
- The General Authority for Government Services (GAGS) to implement more conducive procurement rules to facilitate the participation of MSMEs in the procurement process, such as dividing contracts into smaller lots to make tenders more accessible to MSMEs, implementing

an advance payment system for a certain percentage of the contract value, negotiating partnerships with public banks to provide loans to MSMEs so they are more able to fulfil the contract requirements, and meeting with MSMEs on a regular basis to provide information on public procurement opportunities and how to comply with the tendering and bidding processes.

- MSMEDA to adopt more proactive approaches to prepare SMEs for the public procurement process, which could include a programme to build their capacity to compete as qualified suppliers.

Inclusive entrepreneurship programmes

- Develop a women's entrepreneurship strategy within the renewed national MSME development strategy that is under development, outlining the related targeted actions under each pillar of the strategy. The targeted actions should include the digitalisation of women-owned/led MSMEs and the greening of their businesses. This should be done jointly by MSMEDA and NCW.
- Provide training to MSMEDA senior managers, policy officers and programme managers on gender issues so that all new initiatives are designed to be gender-sensitive.
- Introduce more business development support for high-potential women entrepreneurs as the current support system is predominantly aimed at lower-income businesses. This should include, for example, leadership training and networking.
- Build networks of women's and youth entrepreneurship champions to help increase awareness about the potential of entrepreneurship to shift social attitudes, notably among important role models such as teachers and parents.

Green entrepreneurship and SME greening programmes

- Introduce a digital diagnostic tool for SME greening as part of MSMEDA's supporting offering, and added to the MSMEDA online platform. The tool should allow SMEs to benchmark their environmental performance against peers and identify concrete actions that can be taken to improve performance, with links to available supports.
- Include specific policy measures (with objectives, targets, KPIs and responsible entities) relating to the promotion of SME greening and green entrepreneurship in the new National MSME Strategy (potentially including the green transition as a separate thematic pillar of the strategy).
- MSMEDA to work with ERRADA to map i) regulations that inhibit SMEs' and entrepreneurs' activities in the green economy, and ii) environmental regulations where more effective enforcement is needed, identifying actions for facilitating more green activities and achieving greater enforcement of environmental regulations.

The Local Dimension of SME and Entrepreneurship Policy

Conditions for MSME and entrepreneurship development vary spatially within Egypt

There are significant differences in conditions for MSME and entrepreneurship development across the governorates of Egypt. Some 46% of business establishments are in the five most populous governorates (Cairo, Giza, Dakahliya, Alexandria and Sharqeia), while the five least densely populated regions (South Sinai, North Sinai, New Valley, the Red Sea and Matrouh) host only 2% of Egypt's establishments.

Among the urban centres, Greater Cairo accounts for over 42% of Egypt's GDP. There is a high degree of variation in economic structure within Egypt. Cairo and Giza are the only governorates where the services

sector makes up more than half of the economy (Ministry of Planning and Economic Development, 2023[30]). In the Suez governorate, the manufacturing sector makes up 33% of economic output, while in North Sinai and Matrouh, 77% and 72% of local GDP are related to the extraction and refinement of petroleum. Meanwhile, in Kafr El Sheikh, the New Valley and Beheira, the agriculture sector accounts for about 50% of local GDP.

Standards of living also vary significantly between governorates, ranging from EGP 530 779 per capita in South Sinai to EGP 19 416 in Sohag. There are also marked economic disparities within governorates. For instance, in the prosperous South Sinai, the oil production and coastal tourism activities benefit only a relatively small share of the population, while 34% of residents are unemployed and 52% live below the poverty line. Even in the capital, Cairo, the unemployment rate is 13.7%, almost twice the national average of 7.4%.

The availability and costs of sites and premises also vary. In some Industrial Zones (IZ), such as Dakahliya, limited space and rises prices prevent existing SMEs from expanding and new companies from locating in the IZs. Business development services are also unevenly distributed across the country, with Cairo being one of the better served areas with respect to business development services for SMEs (Mansour et al., 2018[31]). In terms of available data, the three areas with the most conducive regulatory conditions for starting a business are Alexandria, Cairo and Giza (World Bank, 2014[32]). MSMEDA has also signed protocols to support MSMEs within some of the economic zones, for example the Suez Canal.

MSME and entrepreneurship development policies should be sensitive to local differences

The differences between the governorates imply different barriers to MSME and entrepreneurship development and a need for differentiated priorities in policy interventions.

One of the issues is the distribution of the effect of inflation, interest rates, currency devaluation, and other macroeconomic factors across regions. For example, rising energy costs are problematic for all SMEs, but the impacts are greater for industrial SMEs. The impacts of these macroeconomic changes therefore tend to be greater in governorates where the industrial sector constitutes a larger share of the economy.

Informality also affects regions unevenly. The incidence of informality is greater in sectors such as agricultural and food products or handicrafts, which also tend to be geographically dispersed. At the same time, the strength of local entrepreneurial culture varies across regions. In some places, such as agricultural regions, people prefer to work for a relatively large public sector employer that provides stable incomes, rather than being self-employed or working in the riskier private sector. There are also important skills divides between regions. In low skilled regions, these differences can affect the local capacity to innovate or even copy new business models in low value-added services trade activities, such as cafes or mobile phone outlets.

A further challenge for the local implementation of SME and entrepreneurship policies is the political economy of resource allocation. For instance, upgrading and moving SMEs and entrepreneurs into higher value-added economic activities may contribute to national economic objectives and growth, but it could favour the relatively more dynamic areas of the country. In less economically vibrant areas, instead, SMEs policies are less likely to be cost-effective, but there can be political reasons to sustain low value-added activities that generate job opportunities and incomes for local households. Striking a balance between national priorities and local social needs presents political trade-offs that hinder regional SMEs' development.

Achieving inclusive and sustainable growth and balanced regional development is one of the key pillars of the National Sustainable Development Strategy: Egypt Vision 2030, which is based on the principle of "leaving no one or place behind". This means that sustainable development must include all groups and places without any discrimination. In 2019, the Egyptian government, represented by the Ministry of Planning, Economic Development and International Cooperation, in partnership with the United Nations

Population Fund (UNFPA), prepared a report to localise the sustainable development goals (SDGs) for each governorate, with a total of 27 reports covering all governorates. Targets were set at the governorate level for 32 SDG indicators, helping to ensure that local authorities can participate actively in the delivery of the SDGs based on their current situation. Levelling up economic activity across regions is also an objective of the national Decent Life initiative, which aims to develop the 1 400 poorest villages in 20 governorates. MSMEDA currently heads the employment committee within this initiative and contributes to activities to support local industry, stimulate the development of upper Egypt, and accommodate refuges, among other things.

Key for MSMEDA is ensuring that the local dimension of SME and entrepreneurship development is integrated into governorate strategies and plans and having mechanisms that give local areas the flexibility to design policies that are tailored to overcoming local business development challenges to contribute to the wider goals.

National government ministries and agencies commonly have governorate level offices and these can play a role in supporting the incorporation of local priorities and sensitivities in national policies by feeding back information to the central level, although this is currently not a major aspect of their activities.

Local responsiveness of SME and entrepreneurship policies can be achieved through more differentiation across MSMEDA regional offices

SME and entrepreneurship policy is largely formulated at the national level in Egypt. The MSME Law 152/2020 provides the national legal framework for policy with no reference to the geographical dimension. However, MSMEDA is one of the most important players in delivering financial and non-financial SME and entrepreneurship support programmes and it has structures that in principle enable local policy differentiation of its policy interventions in terms of their nature, mix and budgets. This reflects the fact that MSMEDA operates a network of 33 regional offices in the 27 governorates and sets up delivery agreements with each of them.

In practice MSMEDA's SME and entrepreneurship interventions are currently relatively standardised across the regional offices, but there is potential for greater differentiation to address local conditions and potential. Regional office plans and targets are negotiated and agreed between the MSMEDA regional offices and the MSMEDA head office in Cairo. These plans are focused on the share of the national targets on specific programmes to be delivered in each place, with important elements reflecting the regional offices' past delivery volumes and their population and economy size. Thus, the margins of manoeuvre for regional offices to vary their programme offer according to their judgements on local conditions and potential are currently limited but could be relatively easily changed.

Another constraint is that the capabilities of individual regional offices to deliver against national targets differs. Relatively more efficient regional offices are better positioned to negotiate larger budgets and different policy mixes with head office. Capacity building of regional office staff in economic strategy development could help weaker offices to both improve their performance and their ability to propose local adjustments to national policy targets.

To some extent, local flexibility is also held back by delays in the process of obtaining approval for deviations from plans. For instance, it can take some time to answer on a requested adaptation from a regional office. It would be beneficial to speed up these procedures to facilitate the process of making ongoing adjustments to plans to better reflect local circumstances.

Monitoring and evaluation should be considered as an important tool for local policy development, enabling planning ahead on what interventions are needed based on an assessment of local needs and information on what has been working well in terms of activities and impacts. To date, there is good emphasis on programme monitoring in terms of expenditures and activities at the regional office level, but much more limited information is available on programmes' outcomes and impacts.

Going forward, increasing the autonomy and resources of MSMEDA and its regional offices is necessary to enhance location-sensitive delivery of SME and entrepreneurship policy.

One specific area where stronger regional structures could foster national strategies is FDI-SME linkages. Although some MSMEDA regional offices are supporting large firm-SME matchmaking, they seldom involve foreign investors because this does not fall within their role and mandate. Local knowledge and contacts can be better leveraged to identify FDI potentially interested in local supply chain development and to match with and upgrade suitable local partner SMEs.

Policy recommendations

Box 1.5. Key recommendations on the local dimension of SME and entrepreneurship policy

- Increase the number of branches, resources, and staff working within MSMEDA's regional offices. This increase in staff should be accompanied by training, particularly in the application of diagnostic skills to better understand the needs of local SMEs and entrepreneurs. Many of such services are in use internationally, for example Enterprise Ireland's Innovation Diagnostic Tool that aims to identify weaknesses in SME innovation management capacity and potential responses guided by the ISO 56000 Series of guidance standards on Innovation Management.
- Introduce and evaluate a pilot capacity building programme to support less developed regional offices to improve their capabilities in supporting local SMEs and entrepreneurs.
- Assign focal points for the Central Sector for Policies and Legislation in MSMEDA's regional offices to build local capacities to support the tailoring of national programmes and, over time, local policy design.
- Improve monitoring and evaluation of the activities of MSMEDA's regional offices, engaging guidance and advice from international monitoring and evaluation good practice to move from a monitoring-oriented counting of inputs, outputs, and activities towards more evaluative assessments of outcomes and impacts. International good practice examples include the UK government's 'What Works Network' that aims to improve the way evidence is used in policy making.
- Strengthen the engagement and collaboration of MSMEDA's regional offices with local development partners, including regional government actors, business associations, universities, colleges and other business development services providers. This could be facilitated by mapping regional entrepreneurial ecosystems. Numerous good practice approaches are available, for example the Deutsche Gesellschaft für Internationale Zusammenarbeit's (GIZ) guide.
- Increase the staff and resources of the governorate level offices of the national government ministries and agencies, in order to support the development of a more decentralised and locally-sensitive approach, facilitate better co-ordination at governorate and national levels, and strengthen feedback channels to national ministries.
- Foster innovation hubs and incubators that connect SMEs with research institutions.

SME Digitalisation

Digital infrastructure and basic digital skills are good

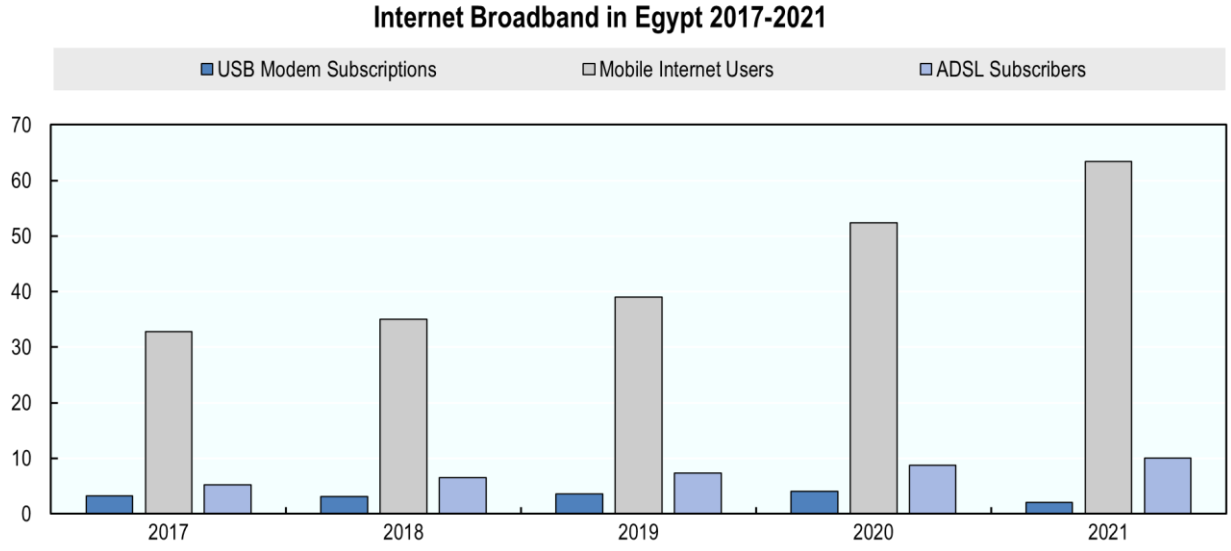
SMEs can benefit from digitalisation in supply chain optimisation, inventory management, collaboration with suppliers and partners, and customer engagement (OECD, 2021[33]). In addition, the use of online platforms, e-commerce, and digital marketing enhances SMEs' access to larger domestic and international markets. Moreover, social media, online reviews, and customer relationship management (CRM) systems allow SMEs to understand customer preferences, and consequently tailor their offerings, and provide personalised or differentiated goods and services.

Overall, the digitisation agenda is well advanced in Egypt. Egypt ranked 73rd out of 131 countries in 2022 on the Network Readiness Index, a composite index combining measures of internet speed, firm-level technology absorption, government online services, and businesses' internet usage (Portulans Institute and World Information Technology Services, 2023[34]). This performance is above most other countries in the MENA region. About 70% of the population used the internet in 2021, in line with the upper-middle income country average. Egypt also boasts a mobile phone penetration rate of 94.2%. As shown in Figure 1.7, the numbers of mobile and mobile internet and USB modem subscriptions continue to grow.

Egypt's fixed and mobile broadband connection download speeds are also relatively advanced. With a median speed of up to 47 Megabits per second, mobile connections are faster than in most other North African countries (Ookla, 2023[35]). This is an important advantage of Egypt's digital base, as fast and reliable connections are essential to enabling the uptake of advanced tools, such as cloud services (OECD, Forthcoming[36]).

Figure 1.7. Internet broadband use in Egypt has increased significantly

Change of rate of internet broadband users in Egypt 2017 – 2021



Source: (Ministry of Communications and Information Technology, 2022[37])

Egypt's public sector has also made significant strides in adopting digital technologies. In 2022, Egypt was categorised as a "Group A" country in the World Bank's GovTech Maturity Index, which indicates a high level of digital maturity in government services (The World Bank, 2023[38]).

One more element contributing to Egypt's healthy ICT environment is the relatively strong penetration of basic digital skills. More than 75% of the occupations listed on LinkedIn Egypt report the utilisation of digital literacy skills, implying that a substantial proportion of professionals possess essential digital competencies (Zhu, 2019[39]).

Future priorities are addressing advanced skills, affordability, and regional divides

In Egypt, more sophisticated digital skills in frontier technologies such as AI, robotics, genetic engineering, cloud computing, cybersecurity, nanotechnology and data science are only in line with those of other developing countries. According to LinkedIn data, large gaps in the availability of these skills separate OECD countries and less developed economies (Zhu, 2019[39]). Highly skilled individuals often leave Egypt to find better opportunities elsewhere, especially in Gulf countries. SMEs thus struggle to find personnel with the skills needed to engage with these advanced technologies and transform their business models.

Another factor holding SMEs' digitalisation back is the affordability of advanced ICT services and hardware. For instance, the fees charged by cloud service providers are too high for the average Egyptian SME. At the same time, well-known difficulties in access to capital limit SMEs' investments in hardware and software, and training of their workforce in digital skills.

Regional digital divides further restrain the digitalisation of SMEs in areas where ICT infrastructure is less developed. Whereas in urban areas, about 86% of people used the internet in 2020, this share was only 60% in rural Egypt. Similarly, the geographical coverage of mobile 4G+ broadband networks and fixed fibre optic broadband access are not homogeneous across the country (ITU, 2020[40]).

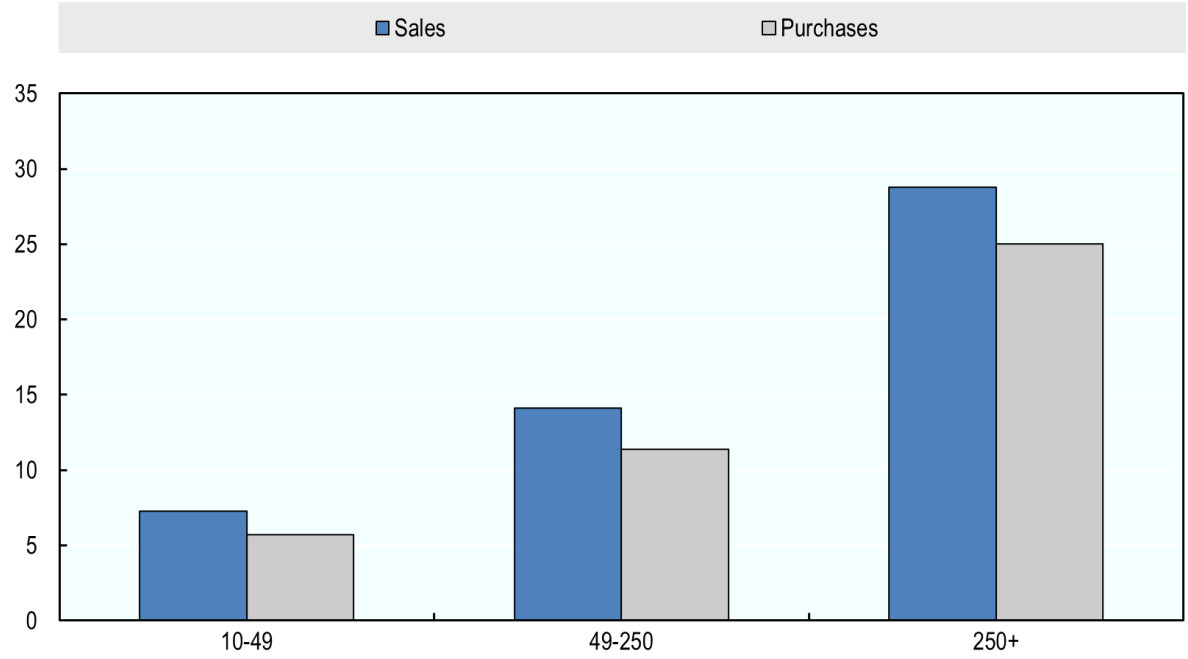
Digital innovation hubs could play a role in reducing these regional divides. Innovation hubs connect players in the digital ecosystem and provide accessible and high-speed broadband connection to SMEs. These centres can also serve as information and resource centres for SMEs in rural areas, providing access to mentoring, funding opportunities, digital tools, training programmes, and resources for business development, such as diagnostic tools (European Commission, 2023[41]).

The use of e-commerce and social media among smaller Egyptian SMEs can be further expanded

The government could also promote the further use of e-commerce platforms by MSMEs. Egypt has the potential to become an important e-commerce player in the region, yet, according to 2019 data, it was ranked 102nd out of 152 countries on the B2C E-Commerce Index, behind Tunisia (70th), Jordan (87th) and Morocco (95th) (UNCTAD, 2019[42]).

The use of social media among SMEs and entrepreneurs is growing but has not yet reached its potential. To date, social media are used by 70% of Egyptian firms with more than 250 employees but only by approximately 40% of firms with 10-49 employees (Figure 1.8).

Figure 1.8. Percentage of enterprises dealing with e-commerce according to enterprise size. Size defined by number of employees.



Note: "Survey of ICT usage in government and public sector enterprises," conducted by the Ministry of Communications and Information Technology (MCIT) in co-operation with the Central Agency for Government and Public Mobilization and Statistics (CAPMAS), 2019-2020
Source: (Ministry of Communications and Information Technology, 2020[43]), https://mcit.gov.eg/Upcont/Documents/Publications_2332022000_ICT_Indicators_Report_2017_2021_23032022.pdf.

Digital marketing and social media advertising services are often too expensive for SMEs and entrepreneurs. This is a problem that SMEs face even in OECD countries, where 74% of businesses express the need for financial support to facilitate their entry into the online marketplace (OECD, 2023[44]), but it is even more challenging an issue in Egyptian context.

Other more structural issues that should be addressed to develop e-commerce faster are the large size of the informal economy – which uses cash rather than digital payment systems – and the uneven access to internet across the country. Despite relatively good ICT readiness, a significant part of the population is still unbanked and unconnected. Resolving these bottlenecks is important for generalising SME digitalisation.

Policy recommendations

Box 1.6. Key policy recommendations on SME digitalisation

- Establish a national SME digitalisation strategy that can provide a comprehensive roadmap for SMEs in Egypt to embrace digital technologies effectively.
- Enhance SME access to high quality and affordable broadband internet and data centres.
- Improve collaboration with non-government bodies such as Chambers of Commerce, sector associations and private sector actors in the SME ecosystem.
- Establish digital innovation hubs across the country to provide rural areas with reliable and high-speed broadband connection, provide access to digital tools and training programmes on digital skills, and resources for business development such as diagnostic tools.
- Provide targeted support for SMEs in their early stages of digitalisation through support to develop digital skills and business development services. This can be achieved through the implementation of training programmes, workshops, and capacity building initiatives aimed at bridging the skills gap and fostering a digital culture.
- Provide incentives for traditional SMEs to digitalise, including financial support programmes (digital vouchers) and tax incentives. Pilot a financial support programme to encourage SMEs to undertake advanced SME digitalisation projects. Provide targeted financial assistance to SMEs that are pursuing digitalisation initiatives with a higher level of risk or complexity compared to traditional projects, e.g. projects that involve emerging technologies, innovative business models, or significant changes to operational processes.
- Develop a more coordinated and coherent effort on fostering ecommerce and digital trade, including removing regulatory barriers for SMEs selling online, improving access to finance for ecommerce and increasing the awareness of programmes to enable SMEs to sell online.
- To ensure wider adoption of Industry 4.0 and Agro 4.0 technologies, extend digitalisation support (e.g. training and investment support and institutions for technology diffusion) to firms across all sectors of the economy and strengthen the elements of digitalisation support within existing business development services and supports.

Fintech for SME and Entrepreneurship Development

Fintech could improve SMEs' access to finance

Fintech describes any technology that delivers financial services through software, including, online banking, mobile payment apps and cryptocurrency (US Chamber of Commerce, 2020[45]). Fintech solutions can ease the financing constraints of MSMEs and entrepreneurs in several ways:

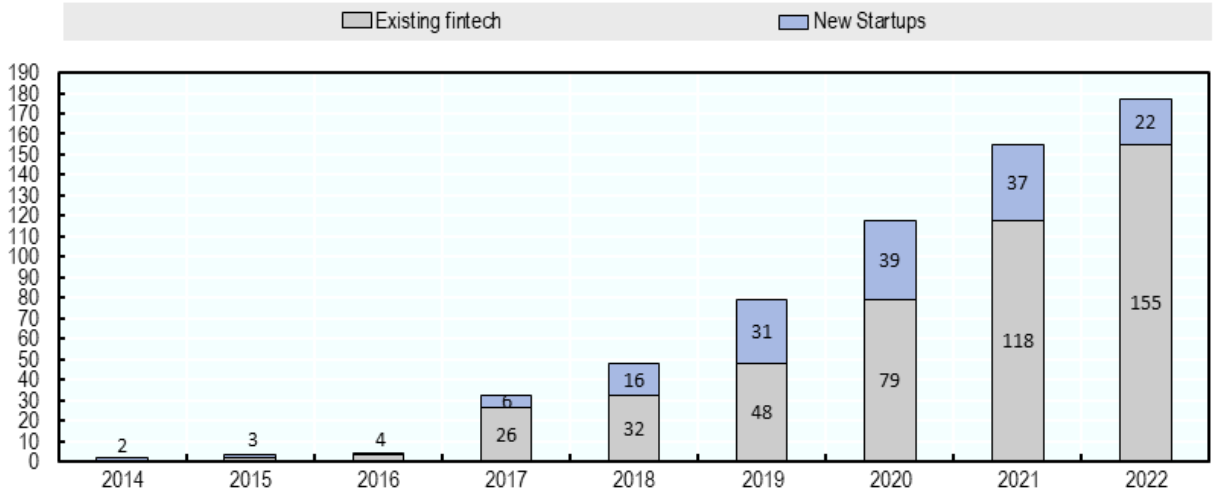
- The automation of services such as client onboarding, credit analysis, due diligence and payment collection can lead to faster and more cost-effective client acquisition, credit provision and monitoring.
- The digitalisation of sales, purchasing, billing and consumer engagement can improve the productivity and performance of SMEs while also creating a digital footprint that financial institutions can use to better assess the credit risks of small clients and develop tailored financial products.

- Fintech can offer a wider range of new funding solutions for SMEs such as peer-to-peer lending platforms, crowdfunding, tokenised assets, and digital versions of factoring services (ADB, 2019[15]).
- Data, analytics, and algorithms based on artificial intelligence can make it easier for banks to assess the credit worthiness of SMEs and verify information provided in financing applications, reducing collateral requirements and shortening credit processing and approval times.
- Technologies such as blockchain can be particularly useful for Islamic finance by improving the transparency and traceability of assets and cashflows (IMF, 2020[46]).

Fintech is growing rapidly in Egypt

Egypt's fintech sector is a new but rapidly growing sector, as measured for example by the number of fintech and fintech-enabled start-ups (Figure 1.9), which has increased by 5.5 times from 32 in 2017 to 177 in 2022 (Central Bank of Egypt, 2023[47]). Today, Egypt is one of the largest fintech markets in the MENA region, second only to United Arab Emirates, and accounting for 14% of fintech solutions in the region (CGAP, 2020[48]).

Figure 1.9. Growth in the number of fintech firms in Egypt



Note: The figure refers to enterprises classified as fintech and fintech enabled start-ups
Source: (Central Bank of Egypt, 2023[49])

Egypt's fintech sector is dominated by two major sub-sectors: payments and remittances (36%) and lending and financing (11%), while business administration, personal finance, "insuretech", and "investtech" are less developed (Central Bank of Egypt, 2022[50]). Due to regulatory and operational constraints, most fintech solutions are currently business-to-business (B2B) and business-to-business-to-customer (B2B2C) solutions, with fewer business-to-customer solutions (B2C) (CGAP, 2020[48]).

The use of digital payments is also increasing and thus enabling the growth of the fintech sector. In a 2022 survey, 88% of Egyptians reported having used at least one digital payment method in the previous year, including smartphone mobile wallets (35%), money transfer applications (27%) and QR codes (24%), and over 60% of Egyptian consumers feel safe using digital applications for sending money through their mobile phones (Mastercard, 2022[51]).

Cash-dominance, digital financial literacy, and workforce skills gaps should be addressed to achieve full potential

The role of fintech in supporting MSME and entrepreneurship development in Egypt could be reinforced by measures that further increase the use of digital payments across the country. In 2022, 95% of Egyptians still made everyday payments and received salaries in cash, and 30% did not know what mobile wallets are. In addition, informality also causes merchants not to accept electronic payments, resulting in only about 18% of retail payments at SME merchants being made electronically (World Bank, 2020[52]).

Financial literacy could also be improved, especially in some segments of the population. Recent data show that 22% of people are not aware of basic financial products such as loans or savings accounts (IFC, 2022[16]), and women's usage of digital payments is 12% lower than men's.

Digital skills also need to be strengthened overall to enable the growth of fintech. In 2021, approximately 45% of fintech companies identified "difficulties accessing talent" as a major operational challenge (Central Bank of Egypt, 2022[50]). Digital skills gaps also affect the demand for fintech companies' products and services. Few MSMEs and entrepreneurs are aware of or use fintech solutions.

Major policy reforms are reinforcing Egypt's fintech sector

The development of the fintech sector is a key priority for the Central Bank of Egypt (CBE) and the Financial Regulatory Authority (FRA). Indeed, in 2019, the CBE launched its Fintech and Innovation Strategy and established a dedicated department for fintech and innovation.

The recently proposed Fintech Act regulates robo-advisory, nano-finance, insuretech, and tech-enabled consumer finance. The Law designates the FRA as the regulator of all non-banking fintech activities. Accordingly, the FRA is established as the sole entity that can license and regulate non-banking fintech companies. The Law also sets out standards for transparency, governance and the protection of consumer rights (MAGNiTT and ITIDA, 2022[53]). The FRA has further issued several regulations for fintech with respect to IT governance, electronic know-your-customer, digital signatures, e-contracts, e-registers, and outsourcing services. In addition, the FRA facilitates the establishment and licensing of financial institutions to practice non-banking financing activities such as microfinance, SME finance and consumer financing, leasing and factoring. The CBE and the FRA are also currently working on issuing new laws to regulate alternative finance activities, including peer-to-peer lending, crowdfunding platforms, ROSCAs, and digital savings. In addition, the government has recently passed the Egyptian Banking Law, which includes provisions to promote financial innovation, and new regulations that cover mobile payments, e-money, and digital remittances.

Another domain where Egypt is progressing is Open Banking, which is the use of API technology to allow banks' clients to share their financial data with third-party financial services providers – including fintech companies – remotely and safely. In 2022, the CBE launched a new open banking system that enables immediate transfers and payments between account holders and participating banks, while the Cybersecurity Law of 2018 and the Consumer Finance Law of 2020 defined the contours of a new open banking law.

A further innovation has been the establishment of regulatory sandboxes, which provide a live testing environment for fintech businesses before they enter the market. The CBE's regulatory sandbox was launched in 2019, and is open to start-ups, established institutions, and registered fintech providers, including international participants. The sandbox operates in cohorts with specific start dates (Central Bank of Egypt, 2022[50]). The 2019 cohort, for example, focused on innovations for e-Know Your Customer (KYC) and the remote opening of mobile wallet accounts. Meanwhile, 2020's cohort was open-themed and 2023's was on lending-based crowdfunding (Cambridge Centre for Alternative Finance, 2021[54]).

Two more instruments introduced by the CBE to foster fintech in Egypt are a dedicated Fintech Fund and a Fintech and Innovation Hub. The Fintech Fund Nclude is led by three commercial banks (Banque Misr, National Bank of Egypt, and Banque du Caire), in co-operation with the Egyptian Banks Company (EBC), the E-finance Investment Group and Mastercard. The fund aspires to become the largest fintech fund in the MENA region with a target capital of USD 150 million dedicated to supporting early and growth stage fintech start-ups (Central Bank of Egypt, 2023[55]).

The Fintech and Innovation Hub is a 2022 initiative by the CBE to develop a unified platform for fintech innovation by bringing together fintech start-ups, financial institutions, regulators, technology and service providers, and investors. It also provides co-working and office spaces, conference rooms, and auditoriums in Cairo to host fintech start-ups from Egypt and across the region (Central Bank of Egypt, 2023[56]). The Fintech Egypt Portal was launched in 2019, and acts as a complementary online gateway for the hub, through unifying fintech companies and facilitating matchmaking between different stakeholders.

The government has also introduced measures to promote digital payments which are key to generating data for fintech. The Egypt Cashless Transaction Law, which has been in effect since 2021, requires that public entities and private entities exceeding a specified size threshold pay salaries, loans, donations, subsidies, rent or land expenses, governmental payments, and insurance premiums by digital means. Failure to comply results in a fine of 2-10% of the total value of the cash payment (capped at EGP 1 million). Digital payments are also promoted through the Meeza card, which is available to any Egyptian with a national ID and access to a bank branch. The Egyptian government has also introduced the farmer smart card for the agricultural sector (IFC, 2022[57]).

The improvements introduced in Egypt's fintech regulations have been strong, but they have not yet resolved all the regulatory gaps. In particular, there are certain areas that are still not regulated, meaning that companies that wish to operate in these fields cannot obtain operating licenses. The CBE and the FRA are currently working on issuing new laws to regulate some of these alternative finance activities, including peer-to-peer lending, crowdfunding platforms, ROSCAs, and digital savings. Additionally, ROSCAs and lending-based crowdfunding, are currently being tested in the CBE's regulatory sandbox.

Open banking also has considerable untapped potential. The establishment of a national payment infrastructure through Instapay provides an important basis for open banking. However, it is important to ensure the competitiveness of the open banking environment and reduce delays in the issuance of APIs for financial institutions and fintech companies wishing to operate in the business-to-consumer (B2C) space.

Policy recommendations

Box 1.7. Key policy recommendations to strengthen the role of the fintech sector in SME and entrepreneurship development

Improving the regulatory and policy environment for fintech companies

- Develop a National Fintech Strategy to underpin the comprehensive reform agenda in the sector.
- Implement tiered regulatory and licensing procedures for fintech companies to facilitate market entry and reduce the regulatory burden for smaller financing providers.
- Implement a cohort-free model of the regulatory sandbox or otherwise open more cohorts to enable a greater number and a more diverse set of solutions to gain access to the Sandbox services, including ideas at earlier stages of development.

- Ensure complementarity between the CBE sandbox and the newly-established FRA sandbox.
- Create a regulatory framework for revenue-based financing and other financing solutions that fintech companies can tap into to close the financing gap for MSMEs and entrepreneurs.

Foster the digital payments ecosystem

- Provide incentives, such as cashback or discount programmes, for the use and acceptance of digital payments among consumers and merchants, including mobile wallets.
- Provide incentives for digital payment of utility bills through, for example: cashback or discounts, waiving of processing fees, awards for consumers, and tax incentives for utility companies.
- Provide digital financial literacy training or education programmes, particularly for women and SMEs.

Foster a conducive business environment for Fintech companies wishing to operate in the B2C space

- Provide incentives (e.g. tax breaks or regulatory exemptions) for financial institutions that partner with fintech companies.
- Promote more competition in the B2C space and issuance of APIs for financial institutions and fintech companies wishing to provide financial services to SMEs.

Support fintech education and skills

- Upgrade the digital skills of the existing workforce through trainings, such as ICT bootcamps, possibly provided in collaboration with the private sector.
- Strengthen the quality of STEM education and encourage more students, especially women, to pursue STEM education.

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Notes

[1] The year is indicated in parenthesis if it deviates from 2022.

[2] Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

[3] The figures for expenditure and revenue relate to the Budget sector, which comprises central administrative units, local administrative units, and public service authorities. These figures are from the Ministry of Finance, Egypt. For the OECD countries, the figures relate to the general government.

[4] The term MSME refers to Micro, Small and Medium Sized Enterprises whereas the term SME refers to Small and Medium Sized Enterprises. However, micro enterprises are included within the standard definition of SME used by the OECD. Hence there is no technical difference between SME and MSME. The term MSME is sometimes used to emphasise the micro size band but the MSME and SME terms are interchangeable in this report.

2 SME and Entrepreneurship Performance and Characteristics in Egypt

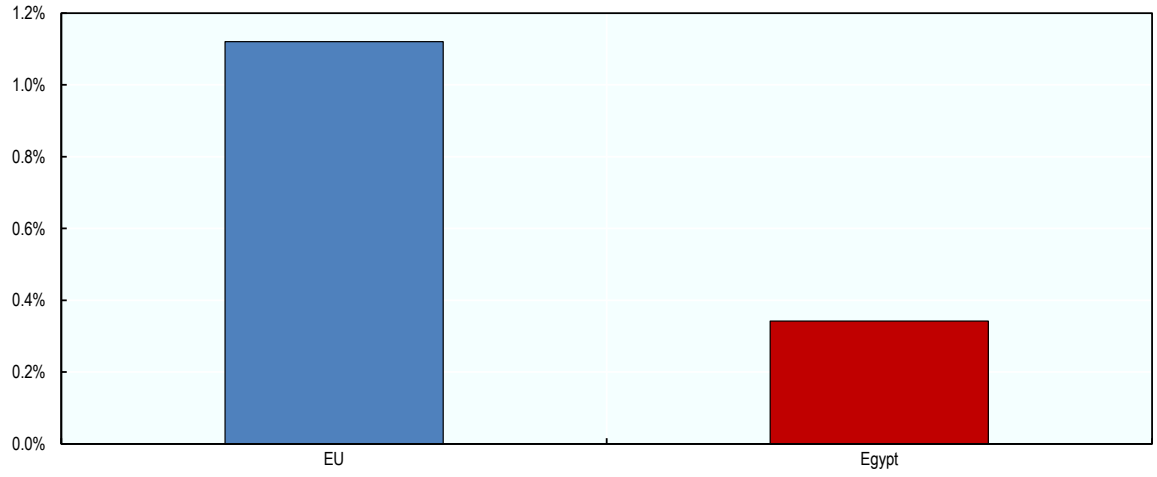
This chapter examines the performance and characteristics of SMEs and entrepreneurs in Egypt. It analyses data on the structure of the business economy and the performance of SMEs with respect to productivity, growth, innovation and exporting. It also assesses entrepreneurship performance in Egypt, analysing business creation, business ownership and self-employment rates and presenting data on entrepreneurial attitudes and venture capital investment flows.

Structure of the business economy

SME population

Egypt's business population stands out internationally as one that is particularly dominated by small businesses.[1] According to the fifth economic census in Egypt, there were 3.7 million economic establishments (including registered and unregistered establishments) in Egypt in 2017, of which the vast majority (89%) had fewer than 5 employees (CAPMAS, 2018[1]). A further 8% had between 5 and 9 employees, 2% had between 10 and 19 employees and 0.7% had between 20 and 49 employees. This means that 99.7% of Egyptian establishments had fewer than 50 employees in 2017, as shown in Figure 2.1. For comparison, 98.9% of businesses in the European Union (EU) had fewer than 50 employees in 2017 (Eurostat, 2023[2]). This means that the share of businesses with at least 50 employees in the EU economy (1.1%) is more than three times as large as the share in Egypt (0.3%). On the one hand, this highlights the great importance of the small business population to the Egyptian economy. However, given the generally greater productivity, exporting and innovation levels of medium sized firms with at least 50 employees in the economy, it also signals the importance of developing a more substantial medium-sized firm sector in Egypt.

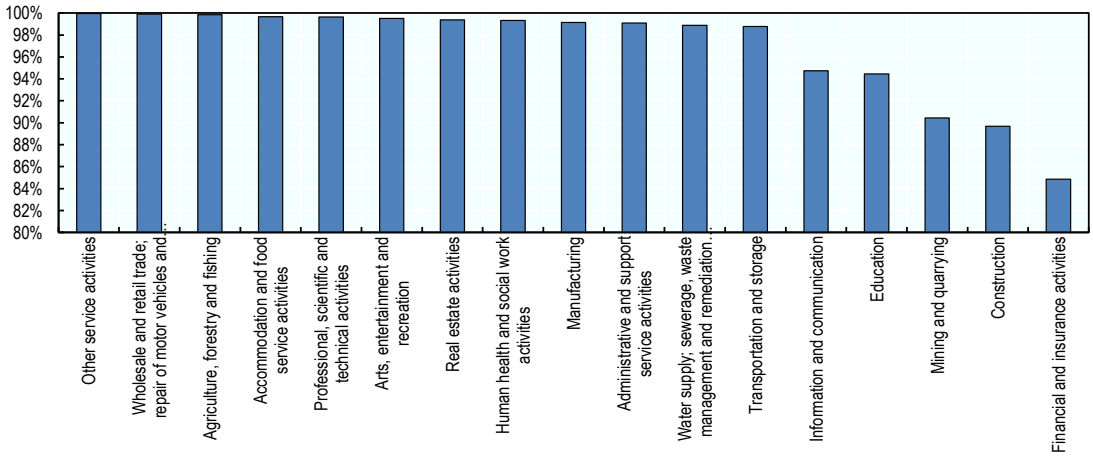
Figure 2.1. Share of businesses with at least 50 employees, 2017



Source: (CAPMAS, 2018[1]), (Eurostat, 2023[2])

Across most sectors of the Egyptian economy, businesses with fewer than 50 employees account for at least 90% of total businesses (Figure 2.2). The exceptions to this are the construction sector, the financial and insurance activities sector and the electricity, gas, steam and air conditioning supply sector. The sectors most dominated by businesses with less than 50 employees are other service activities (100.0%), wholesale and retail trade (99.9%) and agriculture, forestry and fishing (99.9%).

Figure 2.2. Share of establishments with fewer than 50 employees, by sector, 2017



Note: For visualisation purposes, the Electricity, gas, steam and air conditioning supply sector has not been included in the chart. In this sector 39.0% of establishments had fewer than 50 employees in 2017.
Source: (CAPMAS, 2018[1])

Box 2.1. Available data on MSME and entrepreneurship activity in Egypt

The definition for MSMEs set out in the MSMEs Law is based on capital and annual turnover thresholds and varies by sector, as outlined in Table 2.1.

Table 2.1. Definition of micro, small and medium-sized enterprises in Egypt

	Annual turnover	Newly established enterprise capital – manufacturing	Newly established enterprise capital – non-manufacturing
Micro	Up to EGP 1 million	Up to EGP 50 million	Up to EGP 50 million
Small	EGP 1 million – 50 million	EGP 50 000 – 4 999 999	EGP 50 000 – 2 999 999
Medium	EGP 50 million – 200 million	EGP 5 million – 14 999 999	EGP 3 million – 4 999 999

Note: Definition specified in MSME Development Law No. 152 of 2020

There are not currently data available on the performance or economic contribution of MSMEs in Egypt, as defined by the turnover and capital thresholds outlined in Table 2.1. However, the development of statistics on SMEs' performance and characteristics as defined by the MSME Law is underway.

At present, data from Egypt's Fifth Economic Census, which was carried out in 2017 and 2018, are the most recent source of data on the structure of the Egyptian economy and the economic contribution of small businesses. While the data in the census are not broken down according to the definitions set out in the MSME Law, there is information on the number of establishments in different sectors, broken down by the employment level of the establishment. There are two key limitations of the economic census that should be taken into consideration when analysing the data:

1. The census was conducted in 2017 and 2018, meaning that the results do not provide the most recent picture.[2] This may be particularly significant given the potential impact of the COVID-19 pandemic on the structure of the economy. With that being said, the figures analysed in this

chapter, such as the share of businesses in different sectors and the economic contribution of small businesses, are generally relatively stable over time and the 2017-18 data can be expected to provide a reasonably accurate representation of the current situation in Egypt. The sixth census covering 2022 and 2023 is currently being completed, the results of which will provide a more up-to-date picture with a more accurate representation of current economic activity in Egypt.

2. The census only covers establishments, which are defined as fixed locations held by natural or legal persons where economic activities are carried out. This coverage excludes much of Egypt's agricultural sector, which employs a significant share of the population. The International Labour Organization (ILO) estimates that the total number of people in employment in Egypt was 26.0 million in 2017, of which 6.5 million were agriculture workers and 19.5 million worked outside the agriculture sector (International Labour Organization, 2023[3]). The ILO also estimates that there were 5.5 million people employed in the public sector in 2017. Under the assumption that public sector workers are not in the agriculture sector, subtracting the number of public sector workers (5.5 million) from the total number of workers outside of the agriculture sector (19.5 million) provides an estimate of the total number of private sector employees working in non-agriculture sectors in 2017. This calculation yields a figure of 13.0 million, which is consistent with the number of employees in establishments covered by the Fifth Economic Census, excluding the agriculture, forestry and fishing sector (CAPMAS, 2018[1]). Therefore, while the census data do not comprehensively cover the private economy of Egypt, they are representative of the business economy, which comprises businesses in industry, construction and services.

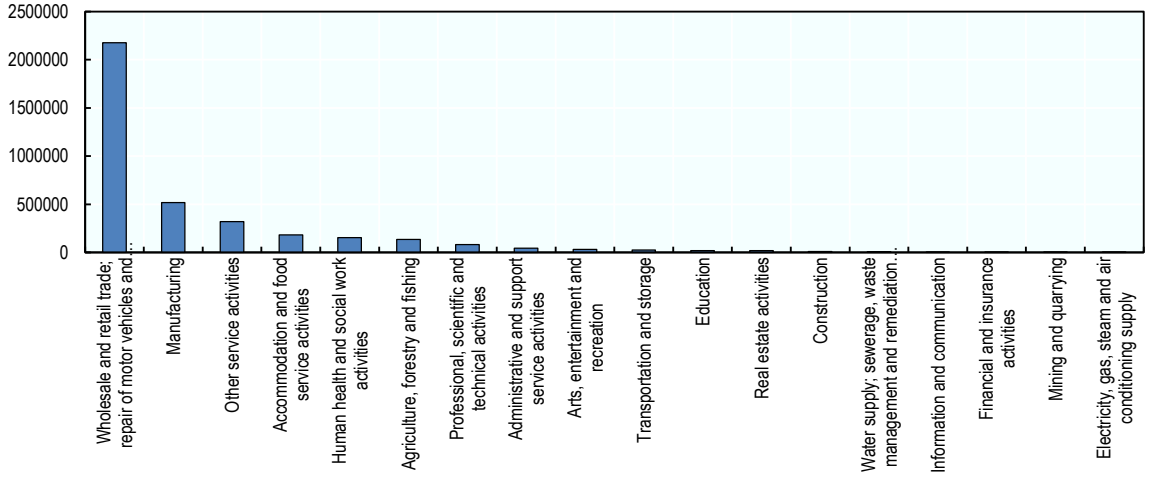
Sectoral distribution of the SME population

Egypt's population of small businesses is dominated by the wholesale and retail trade sector, which accounted for 58% (2.2 million) of all Egyptian establishments with fewer than 50 employees in 2017 (Figure 2.3). The large majority (86%) of establishments in this sector are retail businesses.

The next largest sector by establishment count is the manufacturing sector, with 518 557 establishments with fewer than 50 employees in 2017. This figure includes 136 392 furniture manufacturers, 89 890 manufacturers of food products and 76 149 manufacturers of fabricated metal products. Other important activities within the manufacturing sector include the manufacture of wood and wood products (66 311 establishments with fewer than 50 employees) and clothing (65 453 establishments with fewer than 50 employees).

The other service activities sector had 319 273 establishments with fewer than 50 employees in 2017, most of which (213 397) were in the other personal service activities sub-sector. The accommodation and food service activities sector was the next largest sector by establishment count. In 2017, there were 182 086 establishments with less than 50 employees in this sector, of which 179 933 were food and beverage services businesses.

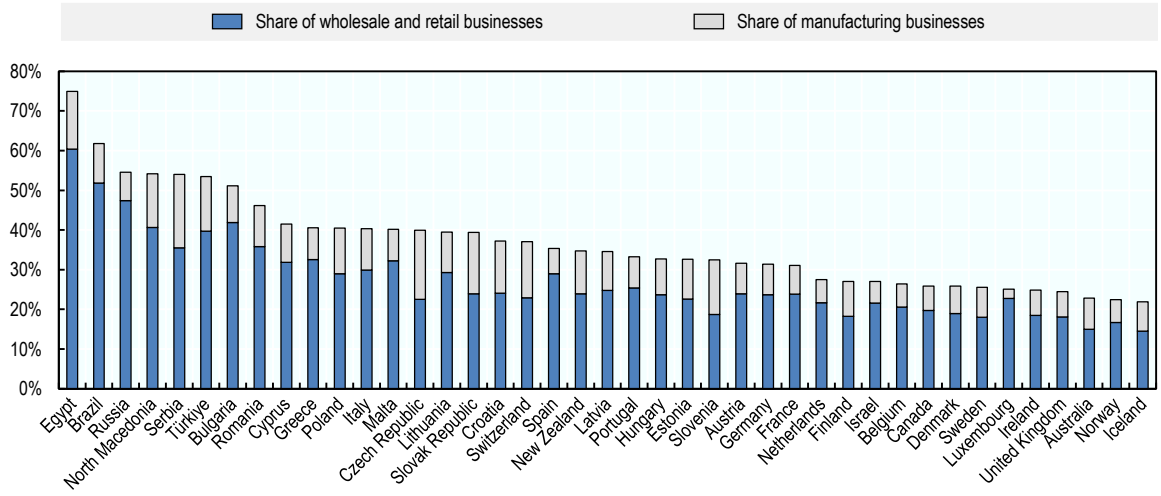
Figure 2.3. Total number of establishments with fewer than 50 employees in Egypt by economic sector, 2017



Source: (CAPMAS, 2018[1])

Figure 2.4 shows that Egypt's business population is significantly more skewed towards the wholesale and retail sector than is typical for an economy. Across OECD countries, an average of 23% of enterprises in the business economy (excluding financial and insurance activities) were in the wholesale and retail sector in 2017 (OECD, 2018[4]). This is less than half the share (60%) observed in Egypt. In non-OECD countries for which data are available, the share of wholesale and retail businesses is higher on average (38%) than in OECD countries but still significantly below the share observed in Egypt (OECD, 2018[4]). This points to a need to diversify the sectors of the Egyptian small business economy towards more productive sectors, especially those that generate income through exporting rather than depending on existing domestic markets. One of the key sectors to develop in this respect is the manufacturing sector, which has a far higher export-intensity than the retail sector, particularly in Egypt. Although at 15%, the share of manufacturing businesses in Egypt in the non-financial business economy is already above the OECD average of 9% of firms and the average of 11% in non-OECD countries, there is further scope to develop the manufacturing sector as an income-generator for the Egyptian economy, as well as activities in knowledge-intensive services.

Figure 2.4. Share of enterprises in the wholesale and retail sector and manufacturing sector, by country, 2017



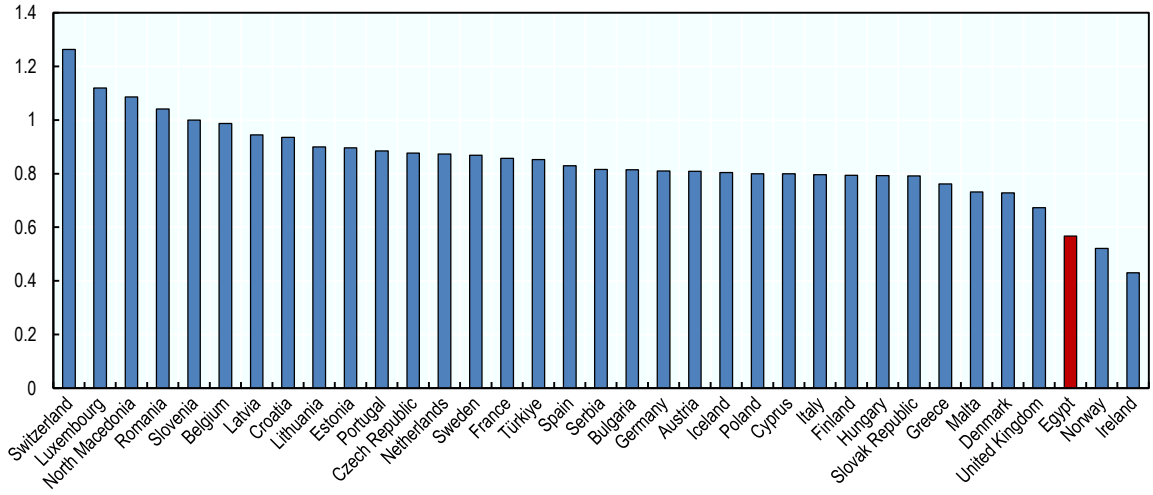
Note: Share of enterprises in the business economy (excluding financial and insurance activities)
Source: (OECD, 2018[4]) (CAPMAS, 2018[1])

SME performance

Productivity

The number of SMEs operating in traditionally less productivity sectors of the economy points to significant productivity challenges in Egypt. The large majority of SMEs operate in the wholesale and retail sector. On average in OECD countries, the gross value added (GVA) per employee in the wholesale and retail sector is just slightly below the average for the non-financial business economy (Figure 2.5). By contrast, in Egypt, at EGP 89 436, the average GVA per employee in the wholesale and retail sector was less than two-thirds the figure (EGP 157 767) for the non-financial business economy as a whole in 2017 (CAPMAS, 2018[1]). Egypt's larger than average and less productive than average wholesale and retail sector is a key factor influencing the overall productivity of the SME population, and the economy as a whole. There is considerable scope to raise SMEs' average productivity by enhancing the performance of existing wholesalers and retailers while also in parallel supporting a shift towards more productive sectors.

Figure 2.5. Ratio of labour productivity (gross value added per employee) in the wholesale and retail sector to labour productivity in the business economy (excluding financial and insurance activities), 2017

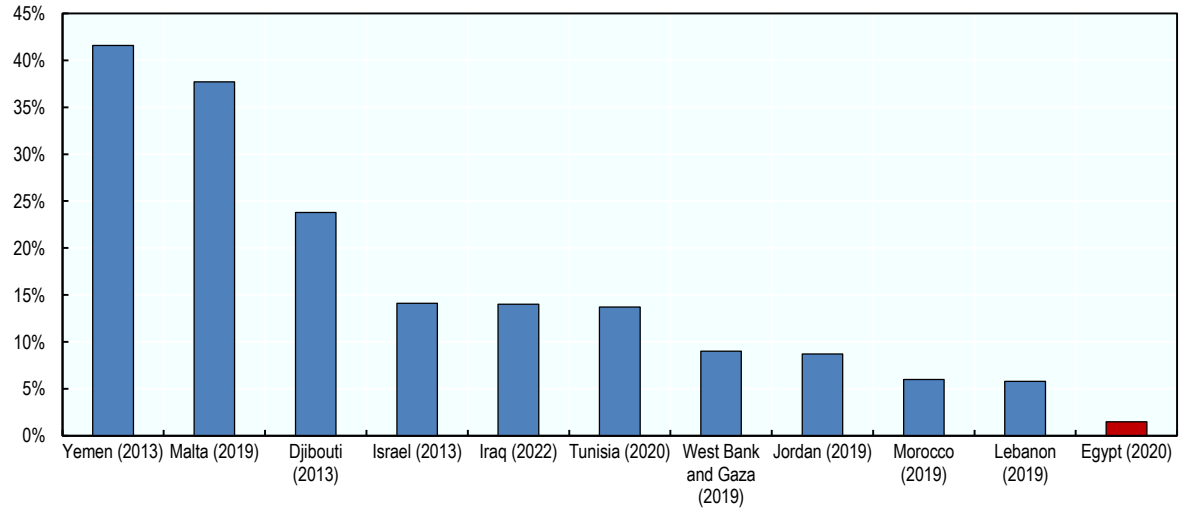


Note: Data include companies of all sizes (SMEs and large companies)
Source: (OECD, 2022[5]), (CAPMAS, 2018[1])

Innovation

Another factor that has an important impact on productivity is SMEs' performance in the area of innovation. The World Bank Enterprise Survey (WBES) reveals a large innovation gap between SMEs and large companies in Egypt (World Bank Enterprise Surveys, 2023[6]). Just 1.5% of businesses with 5-19 employees reported introducing new products or services in 2020. This compares to a figure of 4.4% for Egyptian businesses with at least 100 employees. The share of Egypt's small businesses that have reported introducing new products or services is also below the corresponding share among small businesses in other countries in the Middle East and North Africa (MENA) region. The WBES also indicates that the extent of technology spillovers from foreign companies in Egypt is fairly limited, with just 1.3% of businesses with 5-19 employees using technology licensed from foreign companies in 2020, as illustrated in Figure 2.6. This implies an opportunity to draw more productivity and technology enhancing spillovers from foreign direct investment attracted to Egypt with appropriate supply chain development programmes around these investors.

Figure 2.6. Share of businesses with 5-19 employees that introduced new products or services in MENA countries

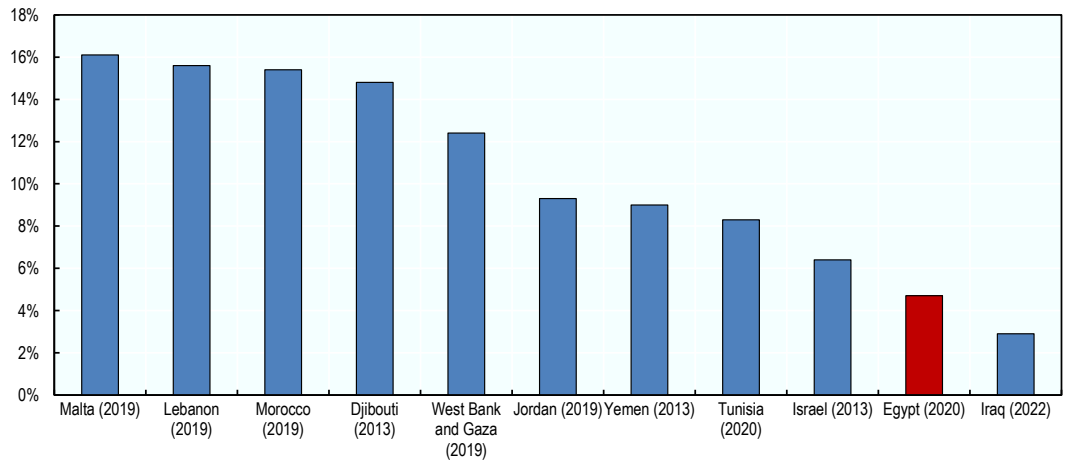


Note: Survey year indicated in parentheses
Source: (World Bank Enterprise Surveys, 2023[6])

Exports

Exporting can deliver many benefits to businesses, including an enlarged revenue base, risk diversification, technology transfer and an improvement in standards and efficiency. However, SMEs in Egypt export less than in other MENA countries, limiting the degree to which they can enjoy these benefits of internationalisation. The World Bank Enterprise Survey found that in 2020, 4.7% of Egyptian businesses with 5-19 employees had exports accounting for at least 10% of sales (World Bank Enterprise Surveys, 2023[6]). This is below the average for small businesses in the MENA region (Figure 2.7). Some of the contributing factors are discussed in the Business Environment chapter of this report. Both business environment improvements and policies targeting specific SMEs with strong export potential are required to address this issue.

Figure 2.7. Share of businesses with 5-19 employees for whom exports account for at least 10% of sales

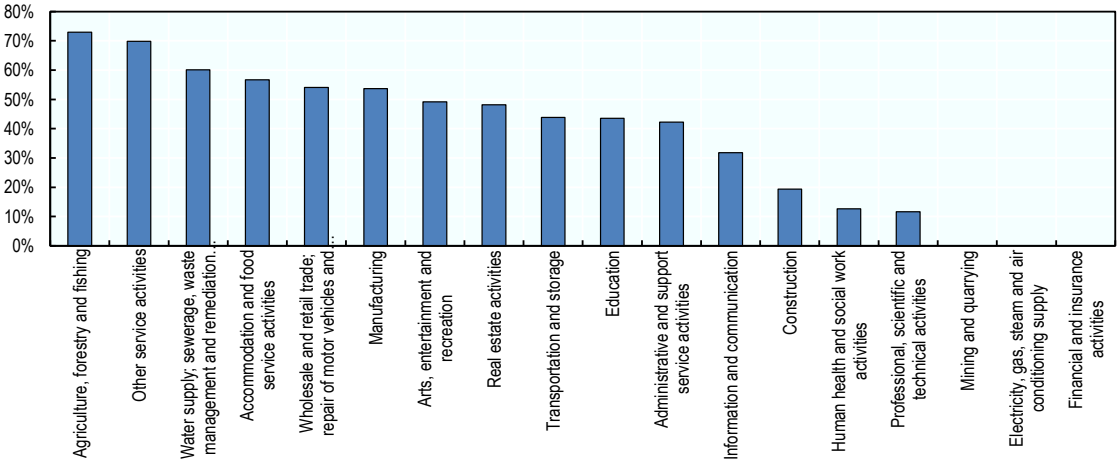


Note: Survey year indicated in parentheses
Source: (World Bank Enterprise Surveys, 2023[6])

Informality

A defining characteristic of the population of Egyptian SMEs and entrepreneurs is the high rate of informality. According to the 2017-18 economic census, 53% of establishments in Egypt were unregistered in 2017 (CAPMAS, 2018[1]). This figure would likely be far higher when considering the large number of agricultural enterprises not included in the census. Figure 2.8 shows that informality rates are particularly high in the agriculture, forestry and fishing sector (73%), the accommodation and food services activities sector (57%), the wholesale and retail sector (54%) and the manufacturing sector (54%).

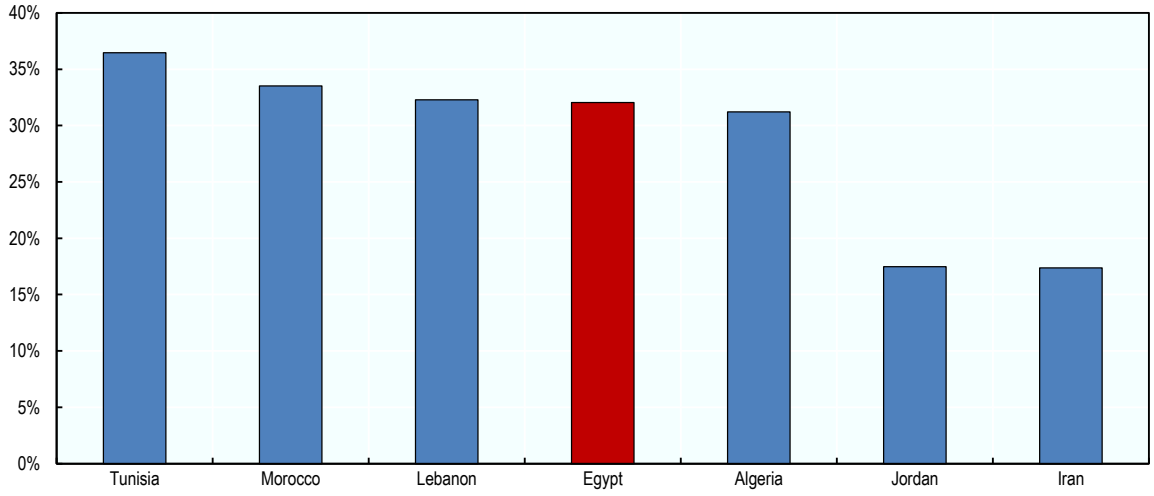
Figure 2.8. Share of unregistered establishments by sector, 2017



Source: (CAPMAS, 2018[1])

In terms of economic output, the World Bank estimates that the informal sector accounted for just under a third (32%) of Egypt's GDP in 2018 (Elgin et al., 2021[7]). This figure is similar to that in other middle-income countries in North Africa (Figure 2.9) but significantly higher than in most OECD countries, where the informal economy typically accounts for less than 20% of economic output.

Figure 2.9. Size of informal economy as share of GDP, 2018



Note: Figures based on the average of the World Bank's estimates of informal output in middle-income countries in the MENA region
Source: (World Bank Enterprise Surveys, 2023[6])

Informal enterprises represent an integral part of the Egyptian economy, providing the opportunity for millions of Egyptians to participate in the labour force (OECD, 2021[8]). However, the prevalence of informal enterprises has significant implications for the overall performance of SMEs and entrepreneurs. Informal businesses are in general less likely to invest in skills, training and technology, weighing on productivity and innovation. Many informal enterprises are also excluded from the banking sector, restricting their access to finance and slowing the transition to cashless transactions (OECD, 2021[8]). Informality also creates an uneven playing field, with formal enterprises often struggling to compete with informal enterprises that do not face the same financial and administrative costs associated with regulatory compliance. Furthermore, high informality rates erode the tax base of the Egyptian economy, contributing to macroeconomic imbalances and reducing the government's capacity to invest in the infrastructure and facilities needed for SME and entrepreneurship development. Another issue is that informal enterprises may not always provide a safe working environment for employees, including women and people with disabilities. Working conditions in informal enterprises also tend to be weaker, with employees having more limited access to medical and social insurance, overtime reimbursement, training opportunities and rights surrounding their working hours.

These factors imply the need for a range of measures to promote the formalisation of informal businesses, such as through fiscal incentives, deterrence measures and training and capacity building support for formalising entrepreneurs. Progressing in this area represents a strong opportunity for Egypt to enhance its alignment with the OECD Recommendation on SME and Entrepreneurship Policy, which emphasises the importance of policy and regulations in facilitating the transition from the informal economy to the formal economy.

Entrepreneurship performance

Self-employment and business ownership

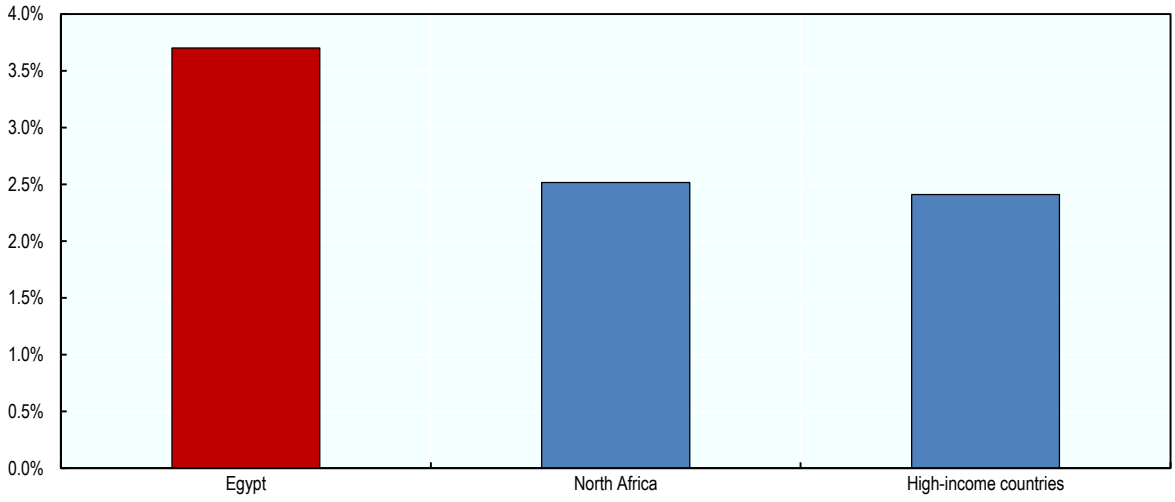
The International Labour Organization (ILO) estimates that, in 2021, 27% of those in employment in Egypt were self-employed (International Labour Organization, 2023[3]). This is a very high self-employment rate relative to most OECD countries. However, self-employment rates are typically higher in developing economies due to a variety of factors including higher rates of informality and fewer opportunities in the labour market. A more representative comparison can be made to other countries in North Africa, with Egypt's self-employment rate falling slightly below the North African average of 35% in 2021 (International Labour Organization, 2023[3]).

It is important to note that the category of self-employment contains a very diverse range of enterprise-types, from those involved in traditional, relatively unproductive sectors to highly productive and innovative businesses with a high potential for growth and positive economic spillovers. This distinction is conceptualised by the notion of productive entrepreneurship, which refers to entrepreneurial activities that generate wider economic benefits, for example through job creation or innovation (OECD, 2020[9]).

One indicator of productive entrepreneurship rates is the number of employer enterprises. In Egypt, a third (33%) of self-employed people had employees that were not family members in 2021 (International Labour Organization, 2023[3]). This means that 9% of those in employment in Egypt in 2021 were self-employed with employees, equating to 3.7% of working-age (15–64-year-old) adults (Figure 2.10). This figure is high by international standards. The average share of working-age adults that were self-employed with employees in North African countries in 2021 was 2.5%, while the corresponding figure for high-income countries globally was 2.4%.

Overall, the high rates of self-employment in the Egyptian economy can be taken as an indicator of entrepreneurial dynamism, at least in terms of the stock of existing, as opposed to new, entrepreneurs. However, for this potential to be truly realised it is important that informality rates are reduced, that the share of self-employed with employees is increased further, and that the sectors of activity are skewed more towards tradable sectors.

Figure 2.10. Self-employed with employees as a share of working-age population, 2021

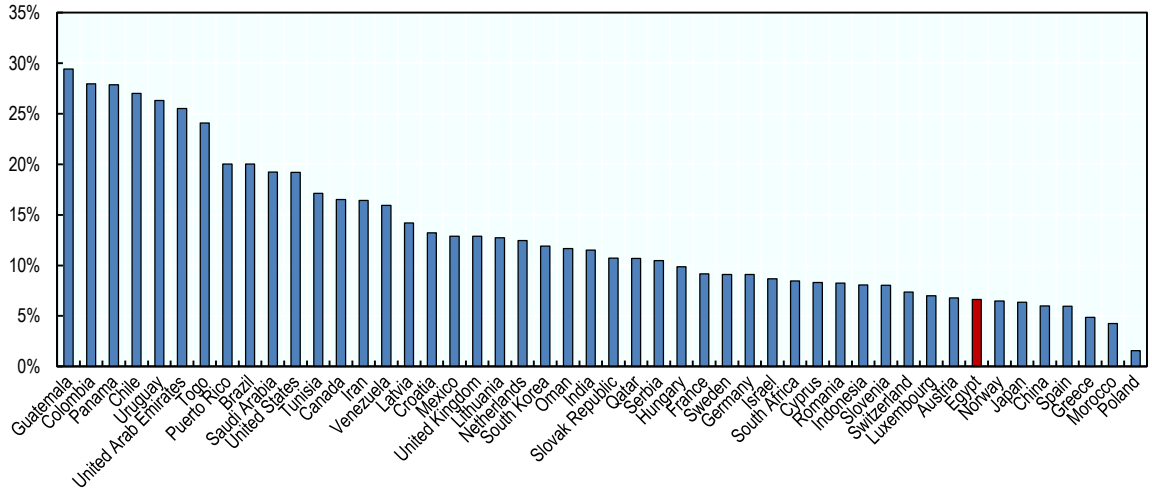


Source: (International Labour Organization, 2023[3])

Business creation

Business dynamism, and in particular the entry of new firms to the market, is an important driver of productivity, innovation and competition in an economy. In Egypt, there is a need to increase the rate of new start-up creation. Indeed, the Global Entrepreneurship Monitor (GEM) 2022 Adult Population Survey (APS) found that less than 7% of 18-64 year old Egyptians were involved in total early-stage entrepreneurial activity (TEA), meaning that they were either involved in setting up a business or were the owner-manager of a firm less than 3.5 years old, as shown in Figure 2.11 below (Global Entrepreneurship Monitor, 2023[10]). Egypt's TEA rate of 7% in 2022 was the lowest it has been since data collection began in 2008.

Figure 2.11. Share of 18–64-year-olds engaged in early-stage entrepreneurial activity, 2022



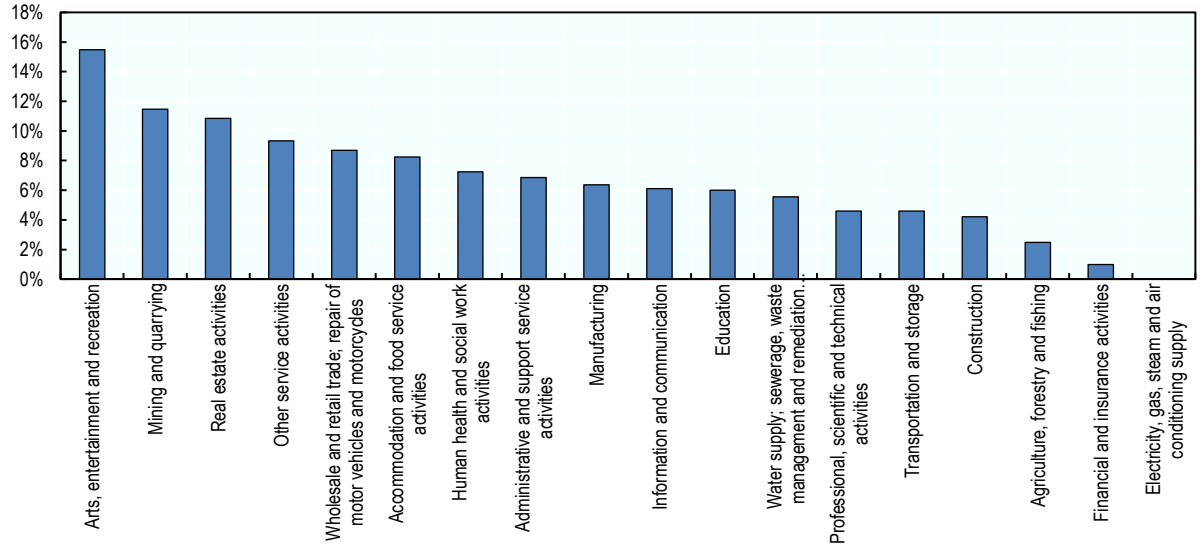
Source: (Global Entrepreneurship Monitor, 2023[10])

A significant portion of new business creation in Egypt appears to be driven by necessity rather than opportunity. Indeed, the most commonly cited motivation for starting a business in Egypt is to generate income due to a scarcity of job opportunities. In 2022, around 85% of Egyptians involved in early-stage entrepreneurial activity indicated that a lack of employment opportunities was a contributing factor to them engaging in this activity (Global Entrepreneurship Monitor, 2023[10]). In more developed economies, this share is generally less than 50%, pointing to a larger portion of entrepreneurs that are creating businesses due to market opportunities rather than out of economic necessity.

The 2017-18 economic census provides an insight into rates of business creation in different sectors, illustrated in Figure 2.12 below. In the wholesale and retail sector – Egypt's largest economic sector by establishment count – 9% of establishments in the 2017/18 economic census started their operations in 2017 (CAPMAS, 2018[1]). This is above the all-economy average of 8%. Meanwhile, the business creation rate in the manufacturing sector – Egypt's second largest economic sector by establishment count – was below the all-economy average, at 6%. The sectors with the highest rate of business creation in 2017 were the arts, entertainment and recreation sector (15%), the retail estate activities sector (11%) and the mining and quarrying sector (11%). There were very low rates of business creation in the agriculture, forestry and fishing sector (2%) and the financial and insurance activities sector (1%) in 2017.

The overall picture is one of a need to increase start-up rates in Egypt, particularly with respect to opportunity-oriented business starts. This will help to increase the dynamism of the Egyptian economy and foster improvements in many priority areas such as innovation, productivity, exports and competition.

Figure 2.12. Share of businesses in the 2017/18 economic census that started their operations in 2017

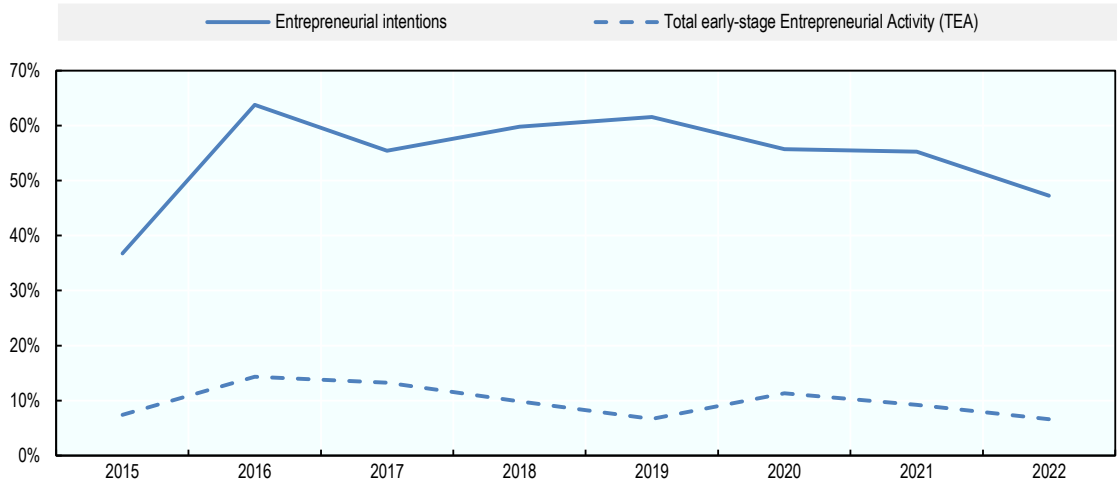


Source: (CAPMAS, 2018[1])

Entrepreneurship culture

The findings are more encouraging for Egypt when it comes to entrepreneurial intentions, suggesting that there is start-up potential to build on. In 2022, 47% of Egyptians not currently involved in entrepreneurial activity indicated that they were intending to start a business within the next three years (Global Entrepreneurship Monitor, 2023[10]). This is the fifth highest share out of the 49 countries for which data are available, pointing to a strong pipeline of entrepreneurs with the potential (or at least the ambition) to start new business ventures in the short to medium term. With that being said, entrepreneurial intentions in Egypt were lower in 2022 than in 2021, when 55% of Egyptians intended to start a business within the coming three years (Figure 2.13).

Figure 2.13. Share of 18–64-year-olds who intend to start a business within the next three years, 2022

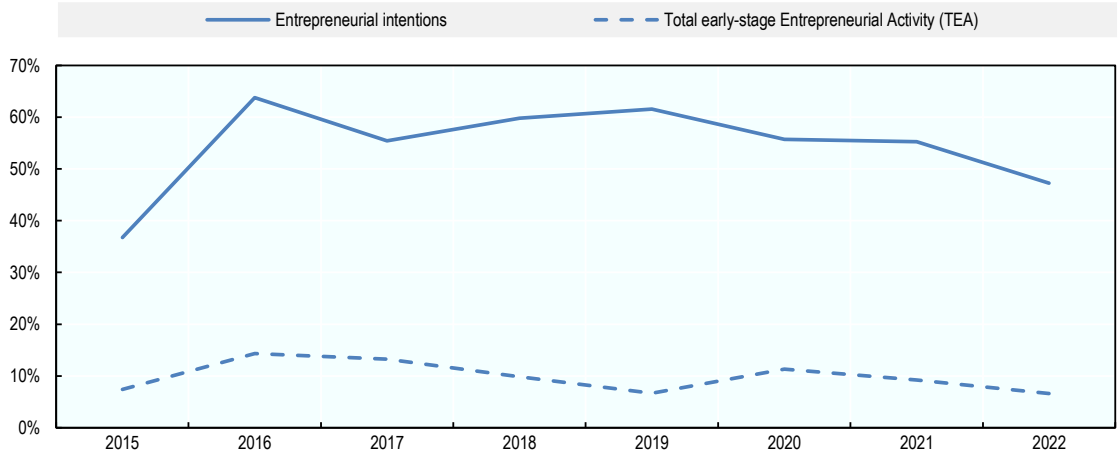


Note: Excluding those already involved in entrepreneurial activity
Source: (Global Entrepreneurship Monitor, 2023[11])

The high rates of entrepreneurial intention in Egypt are underpinned by a culture and outlook that is conducive to entrepreneurship. Indeed, nearly two-thirds (64%) of respondents in the GEM's 2022 Adult Population Survey agreed that they see good opportunities for starting a business in their area (Global Entrepreneurship Monitor, 2023[11]). This compares to an average of 55% across the 49 countries covered by the survey. Furthermore, 78% of adult Egyptians agree that in Egypt, successful entrepreneurs receive a high status, while 71% agree that most people consider starting a business to be a desirable career choice. Both of these shares are above the global average.

The status afforded to successful entrepreneurs, the high share of Egyptians that see opportunities to start a business and the large numbers that are intending to do so all indicate that Egypt has a culture that embraces entrepreneurship and recognises entrepreneurial opportunities. However, Egypt has persistently registered a high rate of entrepreneurial intentions alongside low rates of early-stage entrepreneurial activity (Figure 2.14), relative to other countries. This gap between entrepreneurial intentions and entrepreneurial activity indicates that many budding entrepreneurs encounter barriers to creating and operating a business that results in an overall weaker rate of enterprise creation. Moreover, the established business ownership rate in Egypt, defined by the GEM as the share of people aged 18-64 who are an owner-manager of an established business that has paid salaries, wages, or any other payments to the owners for more than 42 months, was 2.6% in 2022. This figure is considerably lower than the share of Egyptian adults engaged in early-stage entrepreneurial activity (6.6%), highlighting that even among those that initiate early-stage entrepreneurial activity, most do not remain involved in the venture on a longer-term basis. An important policy challenge therefore is to seek to translate greater shares of those with entrepreneurial intentions into active opportunity-exploiting entrepreneurs. Key to this is the provision of supports to develop the entrepreneurship skills required to establish and grow an innovative business, which requires a combination of expertise in both technical areas and business management (OECD, 2025[12]).

Figure 2.14. Share of 18–64-year-olds who intend to start a business within the next three years and share who are involved in entrepreneurial activity, 2022



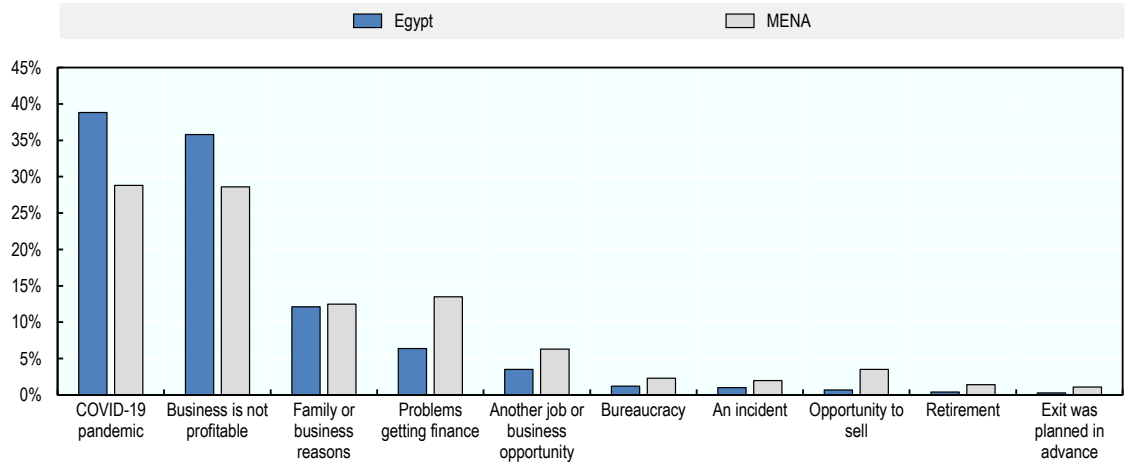
Source: (Global Entrepreneurship Monitor, 2023[11])

Business exit

In 2022, nearly 10% of Egyptian adults surveyed in the GEM's Adult Population Survey had exited a business over the past 12 months (Global Entrepreneurship Monitor, 2023[10]). While the COVID-19 pandemic will have likely impacted this figure, it was nonetheless the eighth highest business exit rate among the 49 countries covered by the study. While business exit can be a healthy feature of business dynamism when coupled with high business creation rates, it leads to a decline in the stock of enterprises and employment if exit substantially exceeds entry. Other countries with a high business exit rate, such as Brazil, Saudi Arabia and the United Arab Emirates, typically also have a high rate of early-stage entrepreneurial activity (TEA). Such cases point to a high level of business dynamism with large flows of enterprises entering and exiting the market. By contrast, Egypt is unusual in having a high rate of business exit twinned with a relatively low TEA rate.

Figure 2.15 shows that in Egypt, as was the case in many countries, the COVID-19 pandemic has been a major driver of business exit. A more entrenched difficulty is low profitability. In 2021, 36% of people who exited a business in Egypt said that unprofitability was a reason for doing so (Global Entrepreneurship Monitor, 2022[13]). This compares to an average figure of 29% in the MENA region as a whole and an average figure of 25% among middle-income countries. The large share of entrepreneurs closing their business due to unprofitability is symptomatic of the significant macroeconomic challenges facing the Egyptian economy. These challenges are reported by stakeholders to be placing a considerable strain on the business population, including many otherwise promising Egyptian start-ups. Actions to improve the business climate for entrepreneurship as well as capacity building support to entrepreneurs to increase the value added and profitability of their enterprises are needed to address this challenge.

Figure 2.15. Reasons for existing a business, 2021



Source: (Global Entrepreneurship Monitor, 2022[13])

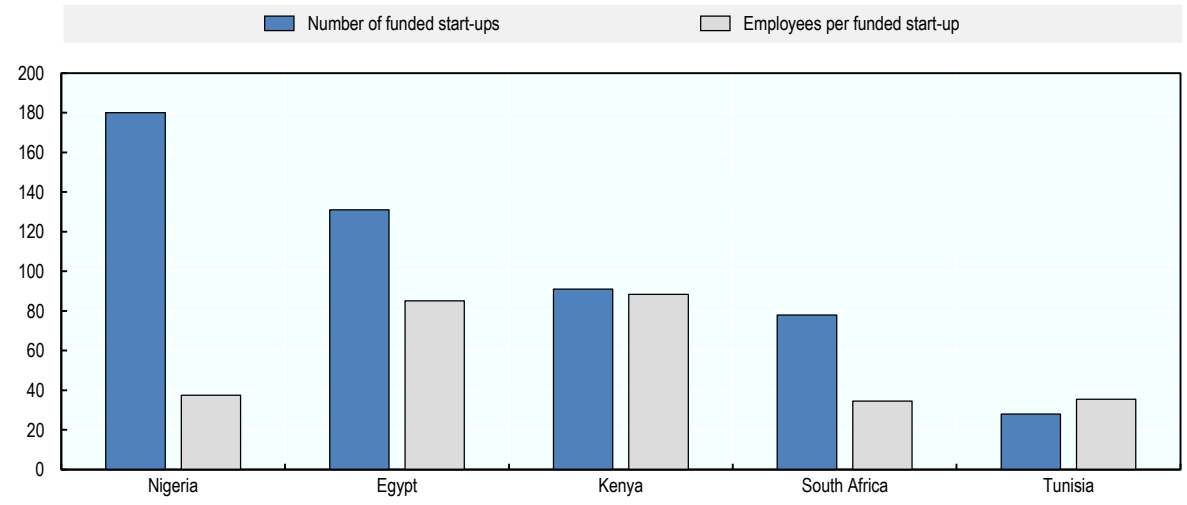
Innovation in early-stage entrepreneurship

In the GEM's 2022 Adult Population Survey (APS) less than 1% of early-stage entrepreneurs in Egypt reported offering products or services that were new to their area (Global Entrepreneurship Monitor, 2023[10]). In terms of technology adoption, 29.3% of early-stage entrepreneurs in Egypt made use of new technologies in 2020, which is below the average in MENA countries of 33.1% (Global Entrepreneurship Monitor, 2021[14]). A key policy priority is therefore to support more start-ups in Egypt to adopt and also to innovate and develop new technologies, products and services.

Venture capital-backed start-ups

At the top end of the performance spectrum, Egypt has a healthy and growing population of innovative tech start-ups with success in obtaining funding and expanding. According to a study by Disrupt Africa, 131 Egyptian tech start-ups received venture capital funding in 2022 (Disrupt Africa, 2022[15]). This was the second highest number of funded start-ups in Africa, behind only Nigeria, as shown in Figure 2.16. The total amount of venture capital funding received in 2022 by these Egyptian start-ups was USD 812 million, equating to an average of USD 6.2 million per start-up. This compares to a figure of USD 446 million in 2021. Meanwhile, these 131 Egyptian tech start-ups employed 11 153 people in 2022 – an average of 85 employees per start-up. For comparison, the average Nigerian tech start-up that received funding in 2022 employed 38 people, while in Kenya the corresponding figure was 88 employees per start-up. Egypt was also home to 13 acquisition deals for tech start-ups in 2022 – a higher figure than in any other African country. These data indicate that, despite the many challenges facing the broader population of SMEs and entrepreneurs, Egypt does possess a healthy crop of high potential start-ups that are succeeding in securing funding from investors. It suggests potential for further development of these high impact businesses, which is being supported by initiatives such as MSMEDA's venture capital programme, discussed further in Chapter 5 of this report.

Figure 2.16. Number of venture capital-funded start-ups and average number of employees per funded start-up, 2022



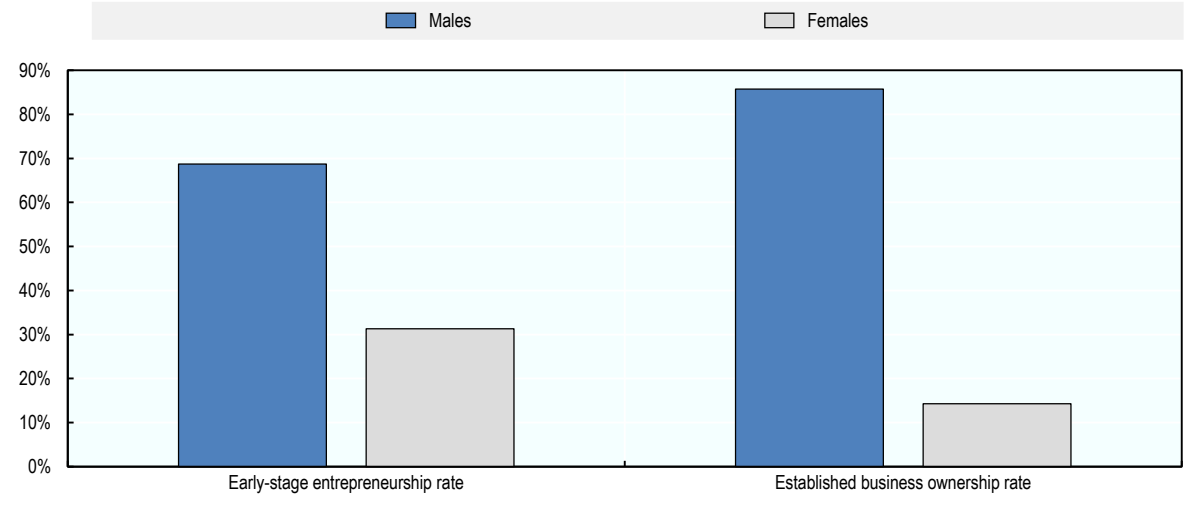
Source: (Disrupt Africa, 2022[15])

Diversity and inclusion

Women entrepreneurship

In 2021, 31% of Egypt's early-stage entrepreneurs were women (Global Entrepreneurship Monitor, 2022[13]). The gender gap is even wider in terms of ownership of established businesses, with women accounting for just 14% of established business owners (Figure 2.17). For countries in the MENA region, women make up on average 41% of early-stage entrepreneurs and 31% of established business owners.

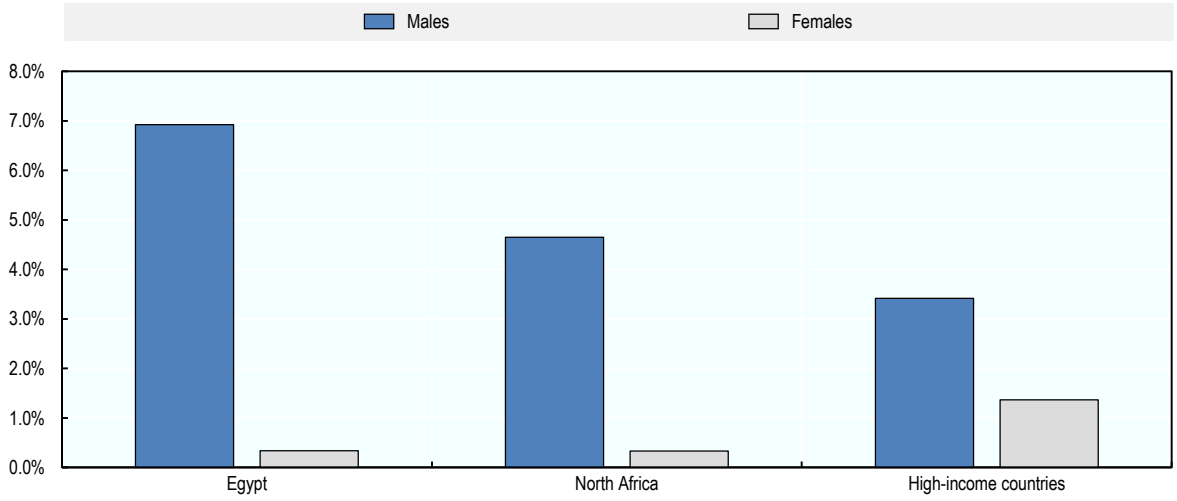
Figure 2.17. Early-stage entrepreneurship and established ownership rate by gender, 2021



Source: (Global Entrepreneurship Monitor, 2022[13])

While the share of working-age women that are self-employed with employees in Egypt (0.3%) is in line with the average for North Africa, Figure 2.18 illustrates that the gender gap is larger due to the higher than average share of working-age men in Egypt that are self-employed with employees (6.9%) (International Labour Organization, 2023[3]).

Figure 2.18. Share of self-employed with employees in the working-age population by gender, 2021



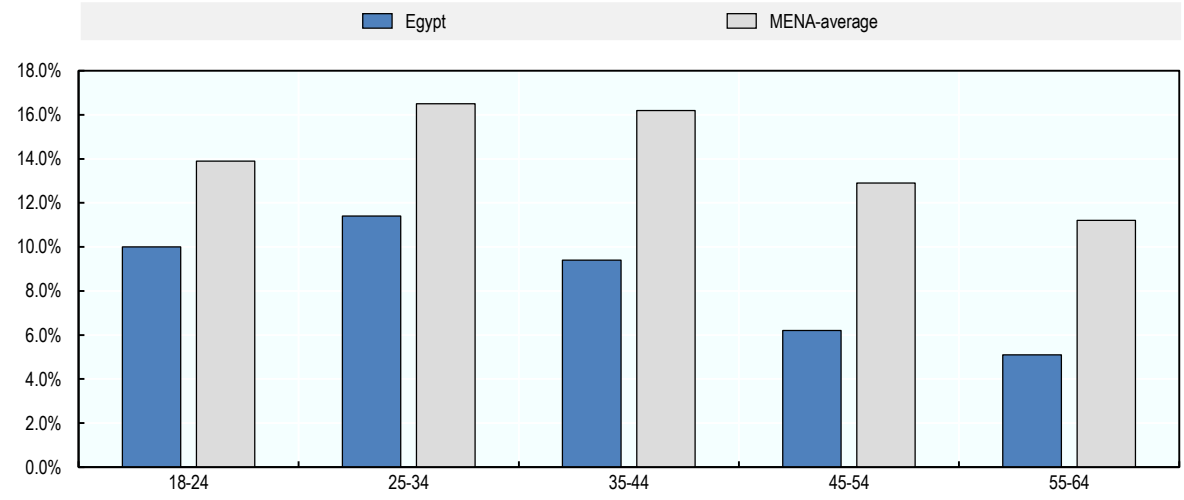
Source: (International Labour Organization, 2023[3])

The underrepresentation of women in early-stage entrepreneurship in Egypt represents an important challenge but also an opportunity to foster more impactful entrepreneurial activity by tapping into the potential of women entrepreneurs. Chapter 4 of this report discusses further these issues surrounding the participation of women in entrepreneurship activities and proposes potential policy approaches that could be deployed in Egypt to address them. These include the development of a women's entrepreneurship strategy, the provision of training to MSMEDA policy officers on gender issues, and the expansion of business development supports for women interested in creating a business.

Youth entrepreneurship

As is the case across the MENA region and globally, young people in Egypt are more likely to be involved in early-stage entrepreneurship than older age groups. In 2021, 10% of Egyptians aged 15-24 were involved in early-stage entrepreneurship according to the GEM study (Figure 2.19). This share rises to 11.2% among those aged 25-34. Only 5.1% of Egyptians aged 55-64 are involved in early-stage entrepreneurship, which is less than half the share of younger age groups.

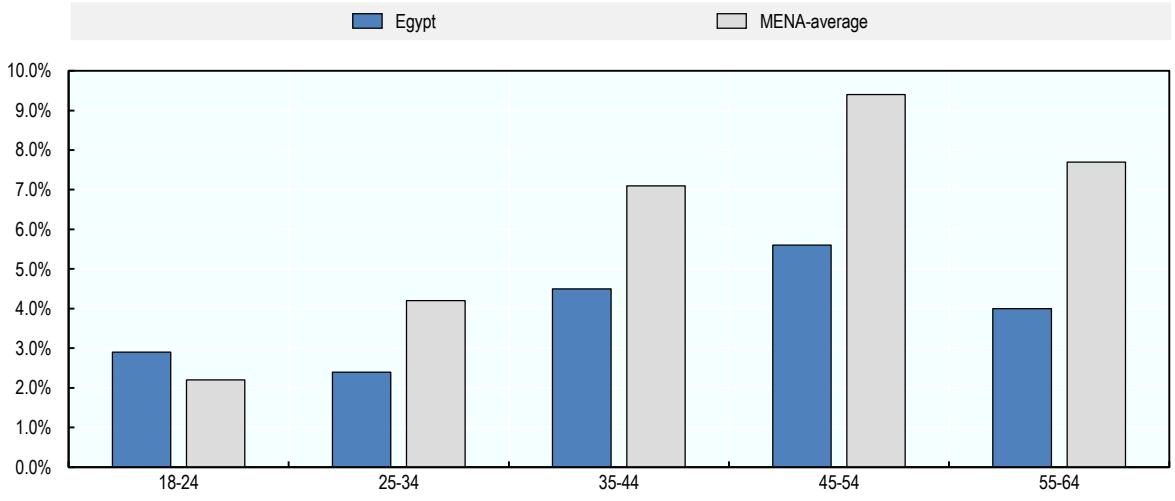
Figure 2.19. Share of adults involved in early-stage entrepreneurship by age group, 2021



Source: (Global Entrepreneurship Monitor, 2022[13])

Figure 2.20 shows that the share of young people that own established businesses in Egypt is below the share among older age groups. This is consistent with the pattern observed internationally. However, in Egypt the difference in the established business ownership rate between the 15-24 age group and the 45-54 age group (2.7 percentage points) is significantly lower than the average for the MENA region (7.2 percentage points). This suggests a strong baseline of entrepreneurial interest and capabilities among young people in Egypt. There are good opportunities to tap into this potential further in order to stimulate more widespread and impactful entrepreneurship among youth in Egypt.

Figure 2.20. Established business ownership rate by age group, 2021



Source: (Global Entrepreneurship Monitor, 2022[13])

Conclusions and policy recommendations

Egypt's business population is dominated by MSMEs, and its MSME population is dominated by firms in the wholesale and retail sector. There are strong opportunities to raise the productivity of the SME population by fostering a shift towards more productive sectors, reducing the size of the informal sector and increasing innovation and export performance. In terms of entrepreneurship, Egypt has a healthy stream of high potential start-ups as measured by the number of new businesses that are successful in obtaining venture capital investment. However, outside of this narrow group of top performers, overall rates of early-stage entrepreneurial activity are lower in Egypt than in other countries. Moreover, the economic challenges that Egypt has faced in recent years have contributed to a high rate of business exit. SMEs and entrepreneurs – including some of Egypt's most promising new businesses – need a range of supports to help them to weather the challenging macroeconomic climate.

Box 2.2. Key policy recommendations on SME and entrepreneurship performance and characteristics

Promote policy measures to:

- Develop reliable and recurring statistics on SME and entrepreneurship performance and characteristics, to be published on an annual basis. As a starting point, data should be collected on i). the number of enterprises, ii). the number of persons employed, and iii). the value added of micro, small, medium, and large-sized businesses. These data should ideally be disaggregated by industrial sector. The European Commission's Annual Report on European SMEs is a good illustration of the scope of data on SMEs that should be aspired for (European Commission, 2024[16]).
- Accelerate the formalisation of SMEs and entrepreneurs through outreach activities to raise awareness and uptake of the formalisation incentives in the MSME Law. These uptake and impact of these incentives should also be closely monitored to determine whether adjustments or additions are needed.
- Facilitate the transition of SMEs towards higher productivity sectors and activities by taking steps to increase the role of the private enterprises in sectors of the economy and facilitating access to international markets (see Boxes 3.8 and 5.15).
- Encourage innovation and technological adoption among SMEs and entrepreneurs, for example through financial support programmes (digital vouchers) and tax incentives to support SME digitalisation and the establishment of digital innovation hubs in rural areas (see Box 7.14).
- Address business creation bottlenecks that create gaps between entrepreneurial intention and action by introducing mandatory SME tests, ramping up regulatory impact assessments and simplifying business licensing systems (see Box 3.8).
- Develop actions to further support opportunity-based entrepreneurship and innovation in start-ups, including through measures to enhance the incubation and acceleration system and create stronger incentives for private and venture capital investors (see Box 5.15).

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World Bank Enterprise Surveys (2023), *Enterprise Surveys*. [6]

Notes

[1] Egypt's Micro, Small and Medium-Sized Enterprises (MSME) Development Law No. 152 of 2020 establishes a unified definition for micro, small and medium-sized enterprises in Egypt, based on turnover and capital thresholds (see Box 2.1). However, this chapter therefore primarily analyses SME performance and characteristics based on the employment-disaggregated data available in the economic census, which, at the time of the analysis, is the main source of data available on MSME activity in Egypt.

[2] The economic census is implemented periodically and the new results are expected to be published in 2025,

3 The Business Environment for SMEs and Entrepreneurship in Egypt

This chapter examines the main strengths and weaknesses of the business environment for SMEs and entrepreneurs in Egypt. It assesses macro-economic conditions, the regulatory environment, the innovation system, educational attainment and skills, infrastructure and energy, taxation, access to finance, competition, and trade and foreign direct investment. The chapter concludes with a series of policy recommendations for improving the business environment for SMEs and entrepreneurs.

Introduction

The performance and development of SMEs and entrepreneurs is strongly influenced by the wider business environment in which they operate. This reflects a variety of factors including overall macroeconomic conditions, regulatory frameworks, the accessibility of markets, and the availability of finance, skills and innovation resources. In order to support SME and entrepreneurship development, policy makers must consider the conduciveness of the wider business environment. The importance of this is reflected in the following elements of the OECD Recommendation on SME and Entrepreneurship Policy:

- Recommendation 2: Ensuring that implications for SMEs and entrepreneurs are considered across the diverse policy areas that influence their prospects and outcomes in order to enhance policy synergies, address potential trade-offs and reduce administrative burdens, including through increased attention to their specificities and circumstances in policy and regulatory design, SME tests and evaluations, consultation mechanisms, streamlined processes and user-centric approaches in implementation.
- Recommendation 8: Enabling entrepreneurship by reducing barriers to entry, exit, business transfer and business succession, and by easing possibilities to re-start for entrepreneurs who fail; and ensuring that policies and the regulatory environment support competition and provide incentives and support for innovative entrepreneurs to scale up.
- Recommendation 10: Facilitating the transition from informal to formal entrepreneurship, easing access to resources where needed; and ensuring a level playing field and enabling conditions for productive employment and decent work for the self-employed and for all kinds of entrepreneurship, including in the platform economy.
- Recommendation 12: Providing adequate incentives for SMEs and entrepreneurs to innovate and fostering their capacity to benefit from innovation diffusion, through conducive market conditions; robust and inclusive innovation ecosystems, local networks and infrastructure; and appropriate targeted measures, where necessary.
- Recommendation 13: Enhancing SMEs and entrepreneurs' access to a diverse range of financing instruments, sources and channels that are adapted to their needs in terms of development, growth and sustainability, by implementing evidence-based policies and regulatory approaches conducive to transparent and resilient SME finance markets; leveraging the role of new technologies; encouraging timely payments; and strengthening SME financial skills and vision.

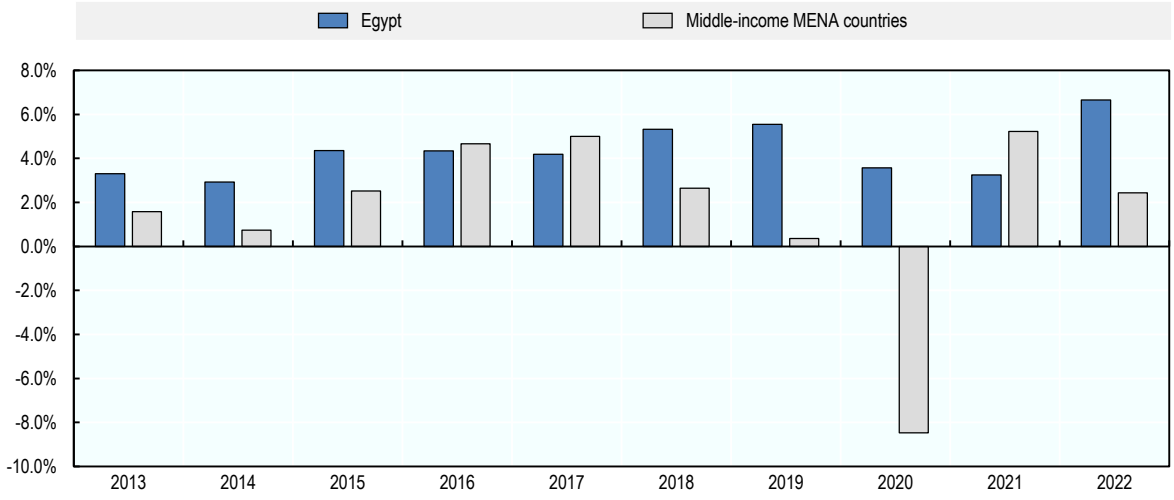
The review of Egypt's business environment presented in this chapter covers each of the above elements of the OECD Recommendation, in addition to a range of other features of the business environment that have a bearing on SME and entrepreneurship development in Egypt.

Macroeconomic conditions

Over the past 15 years, Egypt's economy has demonstrated resilience and recorded solid growth in the face of recurrent periods of disruption associated with the global financial crisis, the political transition and most recently the COVID-19 pandemic. Between 2015 and 2019, annual real GDP growth averaged 5.5% (International Monetary Fund, 2023[1]). This compares to an average of 3.1% among other middle-income economies in the Middle East and North Africa (MENA) region (Figure 3.1).[1] The Egyptian economy also weathered the COVID-19 induced shock better than most countries in the region, recording real GDP growth of 3.6% in 2020 and 3.3% in 2021. In 2022, GDP growth bounced back to 6.7%, which was the second highest growth rate among middle-income countries in the MENA region. The strength of Egypt's economy during this period supported sustained declines in the unemployment rate, from 13.4% in 2014 to 6.4% in 2022 (International Labour Organization, 2024[2]).

Economic growth during this period has been boosted significantly by increases in commodities exports and state-led investments, for example in housing and infrastructure. This level of state-led investment risks crowding out private investment, both domestically and from abroad. Looking ahead, it will be necessary for the private sector to play a more prominent role in driving economic growth if Egypt is to enjoy sustained economic growth in the medium to long term.

Figure 3.1. Annual GDP growth rate, 2013-2022



Source: (International Monetary Fund, 2023[11])

The Egyptian economy currently faces a number of macroeconomic challenges that are slowing growth and creating difficulties for SMEs and entrepreneurs (OECD, 2024[3]). The COVID-19 pandemic brought about a major fall in tourism revenues, which are a key source of foreign currency inflows for the Egyptian economy. Meanwhile, Russia's war of aggression against Ukraine twinned with a tightening of global financial conditions triggered significant capital outflows, as foreign investors exited emerging markets. These factors have led to considerable foreign currency shortages. The depletion of foreign reserves has been compounded by significant increases in the price of imported goods, which has driven up the annual rate of inflation to 36% in February 2024 (Central Bank of Egypt, 2024[4]). The rising cost of inputs is placing a considerable strain on SMEs and entrepreneurs in Egypt.

In order to help to restore Egypt's foreign currency reserves, a USD 3 billion arrangement was approved by the International Monetary Fund under its Extended Fund Facility in late 2022 (OECD, 2024[3]). As part of this arrangement the Egyptian government committed to a permanent shift towards a flexible exchange rate regime. This has led to a significant depreciation of the Egyptian pound, which has fallen in value from around USD 25 at the end of 2022 to approximately USD 48 as of March 2024. The short-term effect of this depreciation is a substantial increase in the cost of imports, adding to Egypt's inflationary challenges. However, the depreciation of the local currency will also bolster exports and increase resilience to external shocks. The effect of the depreciation on SMEs and entrepreneurs will therefore be mixed, depending on their import- and export-intensity. However, the improved macroeconomic stability associated with the flexible exchange rate will benefit the broad population of Egyptian SMEs and entrepreneurs in the longer-term.

To contain inflationary pressures, the Central Bank of Egypt has embarked upon a path of monetary contraction, progressively raising its discount rate from 8.25% in February 2022 to 27.25% by March 2024. Meanwhile, state-owned banks have issued high-interest certificates of deposit in order to increase savings

rates. This is likely to make SME borrowing more difficult. The measures will also weigh on demand in the Egyptian economy, with significantly slower GDP growth forecast between 2023 and 2025 (OECD, 2024[3]). This will have significant implications for the markets and revenues of SMEs and entrepreneurs and could also affect rates of business creation and closure.

Trade and foreign direct investment

International trade

Access to international markets is important to SME and entrepreneurship development. In Egypt, there are opportunities to significantly expand SMEs' participation in international markets. Tapping into these opportunities would enable more SMEs to experience the rich assortment of benefits that exporting can deliver, including an enlarged revenue base, risk diversification, technology transfer and an improvement in standards and efficiency.

Currently, trading frictions, particularly surrounding importing, are a challenge for businesses in Egypt (World Bank, 2020[5]). From an administrative perspective, the documentary and border compliance times associated with importing were among the highest in the world in 2020 (World Bank, 2020[5]). From a financial perspective, the rate of tariffs applied to goods entering Egypt are also high, particularly in the case of agricultural goods. In 2021, the simple average tariff applied on agricultural goods was 91% in Egypt (World Trade Organization, 2023[6]). Meanwhile, the documentary compliance costs of importing procedures in Egypt was the second highest in the world in 2020 (World Bank, 2020[5]). These obstacles to trade reduce businesses' access to important inputs and diminish their ability to compete in international markets. There are also wider macroeconomic impacts of the large import barriers in Egypt, including an allocation of resources towards less efficient sectors that are shielded from international competition by the import restrictions. Simplifying and reducing the costs of importing and exporting would help to increase the share of Egyptian SMEs that trade internationally. An important element of this is boosting transparency in trading procedures to reduce the need for established networks and contacts.

SMEs and entrepreneurs' access to international markets is being supported by a range of government measures to raise awareness and understanding of export opportunities and processes and promote SMEs' exports in overseas markets. The Ministry of Investment and Foreign Trade's Export Development Authority (EDA) has produced an information portal where SMEs can access information about exporting opportunities. The EDA further works to promote Egyptian products in key overseas markets, although the effectiveness of these efforts is inhibited by the EDA's lack of a physical presence outside of Egypt. MSMEDA has also established a new Export Department to support SMEs in exporting. Other important measures to facilitate trade are the creation of the National Single Window ("Nafeza") and the Advanced Cargo Informatiosystem.

In addition, in April 2019, Egypt became the 18th country to ratify the African Continental Free Trade Area (ACFTA) agreement. The agreement, which had ratified by 47 African countries as of February 2024, is set to significantly lower tariff and non-tariff barriers to intra-African trade for Egyptian businesses (World Bank Group, 2023[7]). The Common Market for Eastern and Southern Africa is also important in this respect. Going forwards, it is important that SMEs and entrepreneurs are made aware of these potential benefits to enable them to exploit fully the opportunities offered by the agreement.

On the regulatory side, steps are being taken to simplify export and import procedures, including through digitalisation and automation. Many public and private sector entities are involved in the process of regulatory reform in Egypt. However, the rate of change is limited by capacity constraints within key entities. In particular, the Egyptian Regulatory Reform and Development Activity (ERRADA) does not have the level of staffing, information or networks needed to perform systematic regulatory impact assessments and

develop strategies for regulatory simplification with respect to international trading procedures. These issues are discussed further in the next section on the Regulatory Environment.

Foreign direct investment

Foreign direct investment (FDI) is a key channel through which domestic economies can integrate into the global economy, facilitating the exchange of knowledge and supporting local enterprise development (OECD, 2020[8]). Egypt benefits from a healthy level of foreign direct investment, although the spillovers to SMEs can be strengthened. Net inflows of foreign direct investment to Egypt rose steadily from -0.2% of GDP in 2011 to 3.3% of GDP in 2018, before falling back to 1.3% in 2021. The United Kingdom stands out as the largest source of FDI for Egypt, with the United States, Belgium and the United Arab Emirates also important investors (OECD, 2020[8]). Much of Egypt's FDI is concentrated in the hydrocarbons sector, although financial services, real estate and manufacturing are also important sectors.

Zones are an important element of Egypt's strategy for attracting FDI (OECD, 2020[9]). Egypt currently has nine public free zones (Alexandria (Amrya), Cairo (Nasr City), Port Said, Suez, Ismailia, Damietta, Shebeen ALKoum, Qeft, and Media Zone), with investment incentives and infrastructure designed to attract investors. A major reform of investment incentives in Egypt was instituted through Investment law No. 72 of 2017, which aims to:

- Increase Egyptian exports.
- Attract foreign capital.
- Introduce new technology.
- Provide employment opportunities.

The Law exempts projects in free zones from custom taxes, sales tax and other fees. It also introduced investment zones with the objective of integrating business clusters in various fields. Developers of the cluster provide lands and industrial units for the investors either through rent or sale. Egypt currently has 10 investment zones, which play an important role in supporting investment projects and companies.

Each type of zone provides the investors with certain benefits, depending on their goals. If the objective of establishing the business is to export, the public free zone is the most suitable option. If the investor is looking for easier procedures and ready-made facilities without a focus on exporting, then the investment zone is the most suitable option. Generally, these free zones are not sector specialised, with the exception of Cairo's MediaZONE.[2] Egypt also has a system of private free zones for investment projects that need to be situated in a specific location outside of a public free zone. These private free zones offer the same benefits to investors as the public free zones. There are currently 204 private free zones in Egypt.

In addition to the public and private free zones and investment zones, Egypt also has a number of technological zones, special economic zones, industrial zones and qualified economic zones that involve numerous public entities. This complex system of zones can be difficult to navigate for businesses and investors and can also lead to issues of overlap and duplication (OECD, 2020[9]). Several OECD countries have introduced collaboration networks in order to help to manage the complex institutional arrangements of investment promotion activities (OECD, 2022[10]). Examples include the Netherlands' "Invest in Holland' network – which is a collaborative group formed by the Netherlands Foreign Investment Agency, the regional economic development offices, local governments and the Holland International Distribution Council – and Portugal's National Economic Internationalisation Programme, which promotes inter-institutional action to increase FDI flows and achieve a balanced distribution of investment across the country. A similar approach could be considered in Egypt to enhance co-operation between the different entities involved in operating the different types of zones across the country.

It would be beneficial to focus on promoting further the development of higher value-added manufacturing activities within Egypt's zones, for example in the logistics, food, chemicals and automotive sectors. More

can also be done to enhance positive spillovers from foreign companies operating in Egypt, with just 1.3% of small businesses (5-19 employees) reporting using technology licensed from foreign companies (World Bank Enterprise Surveys, 2023[11]). To enhance linkages between foreign companies and domestic SMEs, supplier development and matchmaking programmes and incentives could be strengthened.

While the various zones offer more attractive conditions for foreign investors, restrictions on FDI inflows for the country as a whole can be substantial. The value of the OECD's FDI Restrictiveness Index (which considers foreign equity restrictions, discriminatory screening or approval mechanisms, restrictions on key foreign personnel and operational restrictions) for Egypt in 2020 was 0.12, indicating that Egypt is less open to FDI than is average for OECD countries. The contrast in investment conditions and incentives between the free zones and the rest of the country brings a risk that the free zones have an excessively distortive impact on the economy by creating an uneven playing field between firms inside and outside of the zones (OECD, 2020[9]). This can be addressed in part by reducing regulatory burdens and trade barriers for inland companies.

Egypt is currently working on many reforms regarding FDI restrictions, with the aim of gradually increasing FDI inflows. For example, businesses can now import and export without having to be registered with the importers or exporters register, while foreign workers have the right to transfer all or some of their income abroad. Non-Egyptian investors are also granted residence in Egypt throughout the duration of their project, and the limit on the proportion of foreign workers in the project has been increased from 10% to 20%. Strategic projects may be exempted from the foreign worker cap altogether.

Regulatory environment

The activities of SMEs and entrepreneurs take place within a framework of regulations and legislation that stipulates how they must conduct their operations. By enforcing property rights, enabling contracts and limiting negative externalities, legal and regulatory frameworks are essential facilitators of businesses' operations (OECD, 2020[12]). However, regulations can also hinder businesses by prohibiting certain activities and/or imposing a considerable administrative burden. The costs of complying with regulations are proportionally higher for SMEs than for larger businesses, who often have fewer resources to devote to understanding and complying with regulations (OECD, 2020[12]). Recommendation 2 of the OECD Recommendation on SME and Entrepreneurship Policy highlights these specific circumstances and needs of small and new businesses and calls for legal and regulatory frameworks that accommodate these.

Regulatory burden

Numerous stakeholders identified the regulatory environment as the most important bottleneck for SME and entrepreneurship development in Egypt. This perception is seemingly validated by the results of the World Bank's Ease of Doing Business study, which ranked Egypt below many other middle-income countries in the MENA region in 2020 (World Bank, 2020[13]). The regulatory environment is a principal driver of the high rates of informality described in Chapter 1 of this report. The informational, administrative or financial barriers to obtaining a license induce many businesses to conduct their activities without a license, while the time and cost of regulatory compliance creates a further disincentive for businesses to operate in the formal economy.

Some specific areas where there are opportunities to reduce the regulatory burden on Egyptian SMEs and entrepreneurs include:

- **Business licensing:** the cost of starting a business amounted to 20.3% of per capita income in 2020 (World Bank, 2020[13]). By contrast, the cost of starting a business is below 1% of per capita income in many OECD countries. Registering a limited liability company with the General Authority for Investment & Free Zones (GAFI) requires a bar association endorsement fee equal to 1% of

the issued capital of the company. This is in addition to a number of other fees associated with obtaining the necessary licenses, certifications and registrations necessary to commence operations. A positive development is that, since 2023, GAFI has launched its services to establish and register businesses online through its website (www.gafi.gov.eg), including the payment of charges and the electronic signing of documents. Meanwhile, MSMEDA's One Stop Shop has created an online service to apply for project classification and benefits certificates.

- **Tax payments:** Egyptian businesses were required to have visits from or meetings with tax officials 2.6 times per year, which is higher than the frequency of visits in comparable countries. Egyptian businesses also make 27 tax payments per year, which is nearly double the number seen in the MENA region (16 tax payments per year). As a result, the average amount of time taken to prepare and pay taxes in Egypt is 370 hours per year (equating to more than two months of a full-time employee's time).
- **Enforcement of contracts:** There is scope for Egypt to streamline the enforcement of contracts, with court processing times slower than in some other MENA countries (World Bank, 2020[5]).
- **Property registration:** In 2020, it took an average of 76 days to register a property in Egypt, compared to an average of just 38 days among middle-income countries in the MENA region (World Bank, 2020[5]). It should be noted, however, that the MSME Development Law No. 152 of 2020 includes provisions to address this.
- **Insolvency recovery:** In 2020, the insolvency recovery rate was just 23 cents on the dollar, which was among the lowest in the MENA region (World Bank, 2020[5]). This weighs on SMEs and entrepreneurs' access to finance by adding uncertainty among investors surrounding credit recovery.

One factor that contributes to the challenges described above is that businesses need to interact with a large number of government entities in order to conform with licensing and regulatory requirements. This results in high compliance costs that are difficult for micro and small businesses to manage. Other issues include a lack of transparency surrounding regulations and reported inconsistencies with the application of regulations.

Efforts to reduce the regulatory burden

The importance of reducing the regulatory burden on SMEs and entrepreneurs is well recognised within the Egyptian government, which has taken commendable steps in recent years to address this issue. These measures are very important and necessary steps towards increasing Egypt's alignment with the OECD Recommendation on SME and Entrepreneurship Policy with respect to facilitating formal entrepreneurship. However, it is important to monitor the take-up and impact of these measures over time in order to assess implementation progress and determine whether further or different initiatives are needed.

MSME Development Law No. 152 of 2020

Egypt's MSME Development Law No. 152 of 2020 (referred to henceforth as the "MSME Law") includes a number of important measures to streamline licensing procedures and encourage the formalisation of enterprises:

- Temporary 5-year licenses are available to informal enterprises that are applying to formalise. These licenses allow informal enterprises to benefit from the range of incentives offered under the MSME Law, including reduced corporate tax rates and access to the 30% of available space in industrial zones, touristic areas, urban communities and reclaimed agricultural land that is set aside for MSMEs.[3] Furthermore, during the 5-year licensing period, lawsuits and penalties against the informal enterprises are placed on hold starting from the point at which the license is issued. By

March 2023, 24 670 temporary licenses had been issued to informal enterprises, with 9 200 informal enterprises having subsequently become formalised. While uptake of the temporary licenses is expected to grow significantly, the number of informal enterprises supported so far through the scheme represents only a small proportion of the nearly 2 million informal businesses across Egypt. Box 3.1 presents policy approaches to encouraging formal entrepreneurship in Morocco and Tunisia and discusses the lessons for Egypt as it implements measures to increase formality.

- Taxes will not be applied retroactively for informal enterprises that become formalised.
- One Stop Shops are to be created within the offices of MSMEDA and the General Authority for Investment and Free Zones (GAFI). The role of the SPUs would be to facilitate the issuance of approvals and licenses that are required under Egyptian law. The SPUs also issue temporary licenses valid for a period of 1-2 years.

Box 3.1. Encouraging formal entrepreneurship through "auto entrepreneur" laws – the cases of Morocco and Tunisia

Informality is widespread across North African economies. As is the case in Egypt, this informality is often driven by the complexity of licensing and registration procedures, as well as the wider regulatory compliance burden. In order to help informal enterprises and workers to formalise, Morocco adopted an "auto entrepreneur" law in 2015. The law included provisions to make it easier and simpler to register a business and pay taxes. Tunisia followed suit with a similar law in 2020, which provides the additional benefit for entrepreneurs of access to social security in exchange for a social contribution of 7.5% of annual turnover (with an exemption of the social contribution during the first year). In the case of both Morocco and Tunisia, the simplified tax regime involves income tax payments based on businesses' annual turnover. Informal enterprises in the manufacturing and services sectors are eligible for the programme in Morocco, while in Tunisia, the scheme is also open to the high number of informal agricultural enterprises.

Morocco and Tunisia's approaches bear a resemblance to the provisions laid out in Egypt's MSME Law, which also includes a simplified tax regime alongside other incentives for formalisation. Valuable lessons can therefore be drawn from the experience of these two countries. As Egypt seeks to widen the implementation of the MSME Law, it will need to reduce information gaps and overcome negative perceptions that informal enterprises often have towards government programmes through outreach and trust-building activities. In Morocco, this was achieved through forming partnerships with more trusted public institutions (in this case the post office) in the implementation of the programme, as well as through seminars and training sessions administered through Morocco's network of non-governmental organisations. Another lesson from the experience of Morocco is that, even with the newly registered status, auto entrepreneurs often struggle to obtain credit from banks due to concerns surrounding unreliable income streams or the lack of credit or trading history. To address this, it is necessary to complement formalisation incentives with a range of other supports for newly registered enterprises, including dedicated financial instruments.

Source: (OECD, 2018[14]), https://mena.fes.de/blog/e/informal-work-and-auto-entrepreneurship-laws-in-the-maghreb-what-can-tunisia-learn-from-morocco

Permanent unit at the Cabinet of Ministers on start-up policies, laws and regulations

On 4th June 2023, Prime Ministerial Decree No. (2136) of 2023 was issued, establishing a permanent unit at the Cabinet of Ministers, tasked with proposing policies, laws, and regulations suitable for the growth

and prosperity of startups in Egypt. This unit is headed by the CEO of the General Authority for Investment and Free Zones and includes members from relevant entities. The supports provided to start-ups through this unit include:

- Fast Track Office for Electronic Company Formation, which ensures the quick completion of formation procedures for entrepreneurs.
- Consultation and guidance, which provides responses to inquiries and various consultation and guidance sessions across different fields.
- Complaint handling, which receives and examines complaints from startups and entrepreneurs, referring them to the appropriate authority for study and resolution, in line with the agreed complaint committee mechanisms.
- Shared workspaces for start-up owners and entrepreneurs.

The Unit is currently undergoing an internal review of policies, procedures and bottlenecks and is examining international practices in order to identify possible areas for intervention.

Law No. 19 of 2023

Another relevant development is the issuance of Law No. 19 of 2023, which relates to the regularisation of the status of unlicensed industrial facilities. The law allows, within a maximum period of 3 years from the date of its entry into force, the granting of temporary operating permits for a period of one year to existing unlicensed industrial facilities, after submitting a declaration of the industrial facility's commitment to environmental requirements, civil protection procedures, and all established controls.

Egyptian Regulatory Reform and Development Activity (ERRADA)

In order to address the challenges surrounding the regulatory environment, the Egyptian Regulatory Reform and Development Activity (ERRADA) was launched in 2008. Between 2008 and 2012, an intersectoral advisory council oversaw a systematic review of regulations and laws in order to identify redundant regulations and streamline administrative procedures. This process involved eleven ministries and numerous other government agencies, and resulted in an inventory of all regulations and legislation affecting businesses in Egypt (OECD, 2014[15]). In the first year of ERRADA's operations, a large number of legislative and regulatory acts were reviewed, eliminated or modified. This process involved consultations with the private sector, co-ordinated through a business advisory council. Steps were also taken to introduce regulatory impact analysis in Egypt.

ERRADA's activities have been disrupted due to political instability, notably in 2012 when the programme was suspended altogether before eventually being reinstated in 2019. Today, ERRADA's mandate is to reform the Egyptian legislative and regulatory framework through regulatory impact assessments (RIAs), policy evaluations and stakeholder consultation. ERRADA currently has less than 20 full time employees, providing it with a capacity to conduct a limited volume of RIAs on an ad-hoc basis, often at the request of ministries or department. To facilitate the necessary volume of RIAs to sufficiently address the regulatory challenges that exist in Egypt, it is important to expand the capacity of ERRADA and take steps to increase information sharing and co-operation from public entities. Expanding the capacity of ERRADA would allow it to conduct more RIAs and also provide training to government departments and ministries on how to conduct their own RIAs, building on the current support that ERRADA provides in this area through the publication of guidance documents.

ERRADA also attends sessions of parliament relating to economic issues, conducts assessments of Egyptian laws and regulations with international comparisons and benchmarking, performs stakeholder consultations, and provides comments and recommendations on proposed new laws that are submitted to

legal experts in the prime minister's cabinet. However, ERRADA's recommendations are not mandated by law, which means that they are not always taken up by relevant government departments or ministries.

RIAs are not currently mandated by law and there are no legal requirements obliging government entities to simplify existing regulations. However, draft laws in these areas are under review by cabinet. Creating enforceable mandates for the streamlining of existing regulations and the impact assessment of proposed new regulations should be an important priority for improving conditions for SME and entrepreneurship development. ERRADA would have a key role to play in building the capacities within government necessary to implement these initiatives successfully, although it needs drastically more resources in order to fulfil its mandate of reducing the regulatory burden. Talent attraction is a challenge within ERRADA, since its activities require highly skilled workers in fields such as law and economics. Since the withdrawal of funding from USAID, ERRADA has struggled to offer competitive salaries to attract and retain skilled workers.

Box 3.2 describes the case of Portugal's Simplex programme, which provides relevant lessons for Egypt as it seeks to further reduce the regulatory burden on businesses. Box 3.3 presents Greece's approach to simplify the business environment through a shift from ex-ante to ex-post authorisations.

Box 3.2. Reducing regulatory burdens on businesses: the case of Portugal

Portugal is a good example of a country that has initiated a series of reforms to address the need to remove burdensome business requirements and to simplify its legislative and administrative procedures. In 2006, the first Simplex Programme (0 Simplex) was launched with the aim of:

- Providing prompt and effective responses to the needs of citizens and businesses;
- Increasing people's trust in public services and servants;
- Enabling businesses to quickly obtain permits and authorisations; and,
- Helping to reduce the costs of economic activities (Office of Public Services Reform, 2006[16]).

The programme was based on the principle that the government must foster a better business culture and environment, namely by accepting a basic level of risk and by reducing the level of regulatory interference in the economy. By 2008, the Simplex programme produced more than 750 reform initiatives, all of which targeted concrete problems identified through stakeholder consultation (OECD, 2008[17]). Many of these reforms were introduced to assess and improve the quality of regulations, for instance by eliminating the need to request and present certain certificates. This measure reduced the time and cost associated with requesting certificates – often from multiple government agencies – and streamlined the administrative process into an online permanent trade registry certificate.

In 2016, the Simplex Programme (Simplex+2016) was re-launched following the passing of Resolution 31/2014, which promoted Simplex to a national programme that covered all measures of de-bureaucratisation and administrative simplification (Simplex, 2022[18]). The programme is updated yearly to ensure that initiatives are being properly monitored and evaluated and objectives are being met. Moreover, each edition is based on certain policy axes and identifies areas in which to development measures. The Simplex 2020-2021 programme focussed on two axes: Better Public Service and More Modern Public Administration, which included a total of 158 measures. One particular regulatory issue that was identified through the 2016 programme cycle was that licensing procedures were particularly cumbersome and hard to navigate for MSMEs and start-ups in Portugal. As a response, more than 1 000 procedures had been de-materialised (i.e. made available online) through the revision of 163 laws and regulations by mid-2016 (OECD, 2020[12]).

The example of the Simplex programme in Portugal provides insights into how Egypt could introduce initiatives that would allow for the co-ordination and streamlining of regulations, programmes and policies, as well as for the monitoring and evaluation of these initiatives across public agencies and departments.

Box 3.3. Investment licensing and inspections reform: Simplifying the business environment in Greece

Description of approach

The reform of investment licensing and inspections in Greece aimed to simplify the business environment through a major shift from ex-ante to ex-post authorisations, focusing on efficiency and results-driven processes. The reform was structured around three key pillars:

- **Licensing Reform:** The core objective of the Licensing Reform, guided by Law 4442/16, is to create a unified approach to regulating the licensing of economic activities in Greece. Central to this is a new notification process replacing traditional licenses based on a risk-approach. Businesses can now notify the start of their operations without waiting for administrative approvals, provided they comply with existing legislation. This shift particularly benefits SMEs by removing delays and simplifying compliance processes. The success of the initiative is built on collaboration among ministries and agencies, organised through a phased strategy to ensure effective implementation.
- **Inspections Framework:** Following the licensing simplification, Law 4512/18 established a new legislative approach to inspections for economic activities and products. Historically, inspections in Greece suffered from inefficiencies due to fragmented planning, overlapping responsibilities, and inconsistent practices. The reformed framework addresses these issues by adopting modern tools such as risk-based inspections, standardised checklists, and improved co-ordination among authorities. This comprehensive strategy emphasises compliance over punitive enforcement, fostering a more cooperative and responsible business climate while protecting key domains of public interest: public health, consumer protection, products safety, food safety, environmental protection, public health, occupational safety, infrastructure safety.
- **OpenBusiness Management System:** OpenBusiness is a digital platform integrating the management of notifications, approvals, and inspections. The system aims to transform public administration by offering a transparent, reliable, and streamlined operational environment for businesses. Key features include the ability to access relevant data instantly, documentation of processes for increased transparency, and interoperability with other central digital systems in Greece. OpenBusiness reduces complexity and processing times for economic operators and public authorities, enhancing overall efficiency and collaboration. OpenBusiness also acts as a central hub for disseminating information on licensing and inspection procedures, empowering businesses and citizens with immediate access to necessary conditions for economic activities. Since 2017, a transitional system focusing solely on notifications has been operational, setting a precedent for the platform's anticipated full functionality.

Success factors

A significant factor in the success of the project has been the sustained commitment of the Greek government to simplify the business environment. The initiative started in 2016 with the simplification of licensing in the manufacturing sector and was subsequently extended to other sectors of the Greek economy such as tourism, restaurants and cafes, logistics, transport, education and training, social care, and convention and trade centres. The sustained and unwavering political commitment and the dedication of the relevant public services to achieving the goal have been the most important factors for its success.

Relevance for Egypt

The implementation of a similar approach to simplifying the licensing requirements for SMEs could contribute significantly to improving the business environment in Egypt and reduce the particularly widespread phenomenon of informal entrepreneurship. Furthermore, a digital business licensing platform will help reduce the licensing costs for SMEs, which are particularly high in Egypt, and contribute to promote and further support start-ups and small-scale entrepreneurship, therefore creating sufficient conditions for the improvement of competitiveness in the long term.

Co-ordination issues

The Egyptian government has taken a number of steps to alleviate regulatory obstacles to starting a business and improve the overall business environment. These include the aforementioned measures within the MSME Law to simplify registering and licensing procedures and the establishment of GAFI's online platform for business registration, as well as the creation of an integrated electronic platform for the Golden License and a reduction in GAFI's documentation requirements.[4] In addition, SMEs and entrepreneurs can obtain information on licenses and procedures through government representatives within MSMEDA's One Stop Shops. However, licenses are still issued by a high number of different government entities, and there is a lack of a centralised platform where MSMEs and entrepreneurs can apply for multiple licenses. The larger challenge for MSMEs and entrepreneurs relates to regulatory hurdles encountered once they have registered their business and begun operating. Currently, the high number of government institutions, each with a large, and often overlapping mandate, creates an operating environment in which SMEs and entrepreneurs are frequently required to liaise with a multitude of government actors. A consolidation of touch points for SMEs across different public entities is needed to reduce regulatory obstacles in the operating environment. Information on business licenses can be obtained through MSMEDA's website, while the Federation of Egyptian Industries has a one-stop shop that provides advice, registration, and tax services with a focus on MSMEs in industrial sectors. There is not currently, however, a centralised online platform where SMEs can go to submit and track their different license applications (see Box 3.4). Greater communication and co-ordination between public entities is also needed to ensure that the information and guidance provided to SMEs and entrepreneurs is up to date and accurate. A reduction in the overall cost of compliance should be a priority.

Box 3.4. Reforming business registration and licensing systems: the case of Singapore

Singapore is a country that has had success in reforming its business registration and licensing system. Today, Singapore is ranked as the fourth easiest country to start a business and has a high rate of new business registrations (World Bank, 2020[5]). However, in the late 1990s, starting a business involved a high number of onerous and complex procedures spanning multiple regulatory agencies (World Bank Group, 2019[19]). The Online Business Licensing Service project (OBLS) was introduced to address these issues by creating a one-stop shop for business registration and licensing. The OBLS project involved a review of existing business licenses across multiple regulatory agencies, in order to identify opportunities to remove or combine licenses where there was overlap or duplication. In other cases, licensing requirements were made less onerous, for instance by removing renewal requirements or switching from an approval requirement to a notification requirement. A review of each individual license was also conducted, based on the following considerations (Pelly Periasamy and Sia, 2007[20]):

- What is the rationale of the license?
- What are the requirements for approval of this license? Why?
- How often are these requirements waived? Why?
- Is there a need for physical check before the issuance of license? Why?
- What is the fee charged for the license? Why?
- Is there a need to meet the applicant in person? Why?
- How often is an application rejected? Why?
- How often is enforcement conducted? How often have violators been caught?

The OBLS programme culminated in the launch of an integrated online portal through which companies could apply for multiple licenses through a single application. The OBLS platform was subsequently replaced with the LicenseOne platform and later by the Go Business Licensing platform, which offer additional functionalities such as the ability for users to track their current and previous transactions.

A distinctive feature of Singapore's Go Business Licensing Platform is the ability to apply for numerous licenses with a variety of different regulators through a single application within the centralised portal. Although some licenses must be applied for through regulators' separate websites, data entry requirements have been reduced through the use of the Singpass login. This facilitates co-ordination and information sharing across different entities. License renewal requirements can also be tracked via the Go Business Licensing Platform portal, and there is often the option to pay for multiple years of renewals upfront.

Access to finance

The OECD Recommendation on SME and Entrepreneurship Policy emphasises the importance of governments supporting access to a diverse range of financing instruments. The Egyptian authorities have been very pro-active in taking steps to ensure that more Egyptian SMEs and entrepreneurs have sufficient access to a diversity of financing instruments. Further efforts are needed in this direction in order to address SME financing gaps, which currently mean that a majority of SMEs in Egypt rely on internal resources and informal sources to finance their investments and operations (World Bank, 2020[21]).

Bank finance

Bank lending to SMEs has historically been very limited, although recent policy interventions are helping to change this and Egyptian banks' MSME lending portfolio has grown by 394% between December 2015 and March 2024. According to the results of the World Bank Enterprise Survey, 80% of Egyptian businesses with 5-19 employees and 93% of businesses with 20-99 employees had a bank account in 2020 (World Bank, 2020[21]). However, the proportion of investment financed by banks among Egyptian businesses with 5-19 employees was, on average, 7.3% in 2020, compared to a figure of 12.9% in Tunisia in 2020 and 11.3% in Morocco in 2019.

While data are not available on the value of banks' lending to SMEs in Egypt, the data published by the Egyptian Credit Guarantee Company (CGC) provide some indication of the scale of activity. The CGC's portfolio of guaranteed loans amounted to 2.8% of GDP in the 2021-22 financial year and accounts for 43% of banks' total lending to SMEs. These figures imply that, even if hypothetically all of CGC's guaranteed loans were issued to SMEs, the value of the stock of outstanding bank loans to SMEs in Egypt would stand at just 6.5% of GDP. This figure is very much a theoretical maximum, since a significant portion of the CGC's guaranteed loans are in fact directed towards large companies. For comparison, the value of the outstanding stock of business loans was above 40% of GDP in South Africa and Türkiye in 2020.[5]

Table 3.1. Selected access to finance indicators

	Business size	Egypt (2020)	Colombia (2017)	Indonesia (2023)	Jordan (2019)	Malaysia (2019)	Morocco (2019)	Nigeria (2014)	South Africa (2020)	Thailand (2016)	Tunisia (2020)
Percent of firms that are partially credit constrained Small (5-19 employees)	Small (5-19 employees)	15.3	32.3	11.3	9.8	12.2	37.9		3.1	19.9	36.1
	Medium (20-99 employees)	14.2	13.6	15.6	22.7	5.4	36.9		4.1	16.3	35.2
Percent of firms with a checking or savings account	Small (5-19 employees)	79.5	99.1	75.7	69.3	96.5	57.9	66.4	95.2	88.2	97.6
	Medium (20-99 employees)	93.5	98.1	88.5	93.8	90.7	65.6	84.5	90.1	88.4	97.4
Percent of firms with a bank loan/line of credit	Small (5-19 employees)	3.6	50.3	19.1	13.3	36.2	18.6	12	5.6	11.2	33.4
	Medium (20-99 employees)	6.8	80.7	22.5	16	39.9	22.5	7.4	3.2	21.9	54.1
Proportion of loans requiring collateral (%)	Small (5-19 employees)	97.3	45.7	89.4	89.3		70.7	89	41.6	90.1	95.5
	Medium (20-99 employees)	91.7	57.2	98.6	83.4		68.7	85.5	26.8	96.6	97.2
Value of collateral needed for a loan (% of the loan amount)	Small (5-19 employees)	228.6	161.6	195.3	294.5		47	220.6	117.2	153.1	275.7
	Medium (20-99 employees)	168.9	179	137.4	258.8			234.1		436.7	354.4
Percent of firms whose recent loan application was rejected	Small (5-19 employees)	20.1	10.3	3.7	45	1.1	8.1	12		44.8	7.8
	Medium (20-99 employees)	18	1.9	0.9		0.7	1.1	61.4	32.6	0.6	3.1
Percent of firms using banks to finance investments	Small (5-19 employees)	11.8	44.1	23.4	30.7	38.5	53.3	5.1	4.4	15.8	19
	Medium (20-99 employees)	9.2	60.6	41.9	46.2	28.3	26.8	13.6	28.4	13	57.1
	Small (5-19 employees)	92.5	50.6	82.4	67.4	64.6	62.5	57.3	86.6	86	49

Proportion of investment financed internally (%)	Medium (20-99 employees)	88.1	44.8	68.7	52.7	73.4	40	39.8	76.8	88.9	43.9
Proportion of businesses' investment that is financed by banks (%)	Small (5-19 employees)	7.3	30.9	14.1	6.2	27.1	11.3	2.7	5.6	6.8	12.9
	Medium (20-99 employees)	7.1	44.8	16.1	22.1	19	3.2	5.1	13.3	9.8	25.8

Note: Data for Egypt were collected in 2020 and responses may therefore be impacted by the COVID-19 pandemic.
Source: (World Bank, 2020[22])

There are opportunities to improve MSMEs' access to bank finance by addressing the following supply side issues:

- **Lack of tools and data to assess MSMEs' credit risks:** Many Egyptian MSMEs lack (reliable) financial statements and have a limited credit history. This creates information asymmetries which make it more difficult for banks to assess the creditworthiness of smaller clients. In countries like Egypt, these challenges are compounded by the fact that many MSMEs operate in the informal sector, meaning they lack the appropriate documentation to seek financing from financial institutions. Stakeholders also report a lack of expertise and knowhow within banks regarding how to service the MSME sector, stemming in part from the fact that banks' interactions with MSMEs and entrepreneurs have historically been fairly limited. Another potential contributing factors is a lack of competition within the banking sector.
- **Collateral requirements:** In Egypt, a much larger share of loans require collateral than is the case in other countries in the region (Table 3.1). These collateral requirements represent a particular challenge for women entrepreneurs and women-owned SMEs, as their property ownership is considerably lower compared to men.[6] While Egyptian banks' lending decisions are primarily driven by historical and projected cash flow, collateral also has value in enabling access to finance if frameworks and institutions are in place that adequately measure, keep track of and enforce collateral. In Egypt, weaknesses in property rights registration, titling, and valuation poses a challenge for financial institutions. For example, even when properties are registered, the absence of valuations can make it difficult for banks to extend credit.

On the demand side, there is a need to build trust between MSMEs and banks in order to encourage greater engagement. Another bottleneck are know-your-customer (KYC) requirements, which impose sizeable compliance costs for both banks and their SME customers, although the Central Bank of Egypt (CBE) has taken important steps to address this issue, including the simplification of KYC requirements in 2021 which now allow for the opening of accounts for professionals and very small businesses with only a National ID as means of identification. Geographical factors could also play a role. Egypt has a lower density of bank branches than other MENA countries, which may contribute to MSMEs' low utilisation of bank finance. Limited financial literacy further constrains demand for bank finance, particularly outside of urban centres and among female-headed households and businesses. For example, only about 60% of women-headed households were aware about basic financial products (IFC, 2022[23]). These issues are considered in the CBE's financial inclusion strategy and upcoming financial literacy strategy.

The Central Bank of Egypt (CBE), which is the regulator of Egypt's banking system, has rightly emphasised the importance of expanding SMEs and entrepreneurs' access to bank credit. In recent years, it has been pro-active in taking a number of substantial measures designed to stimulate bank lending to SMEs:

- **SME lending quotas:** In 2016, the CBE directed banks to allocate 20% of their total loans to SMEs. This quota was increased to 25% of total loans in 2021, with at least 10% to be allocated to small companies. Progress is periodically monitored by the CBE, with the CBE also requiring that banks prepare integrated strategies with timelines and action plans to ensure that they meet these quotas.

- **Capacity building:** The CBE has obligated all banks to establish a dedicated MSME department with responsibility for SME lending. To ensure that these departments have the necessary expertise and skills to support SMEs, the CBE's training arm (the Egyptian Banking Institute) has also developed a certification programme in co-operation with the Frankfurt School of Finance that provides training and qualifications for dedicated SME staff within the banking sector. This is designed to provide banks' staff with the knowledge and capabilities required to serve the needs of SME clients
- **Regulatory easing:** In 2021, the CBE instituted a regulatory amendment which allowed banks to finance small businesses with annual sales less than EGP 20 million without having to obtain audited financial statements and to use alternative data to evaluate customers through digital evaluation models.
- **Credit assessment methodologies:** The CBE has directed banks to develop alternative tools to assess the risks of lending to micro, small and/or informal enterprises, making use of alternative data sources for credit assessment.
- **Data access:** The Egyptian Credit Bureau (i-Score) is in the process of developing a data hub with credit information on Egyptian businesses and consumers, which has the potential to be an important tool that addresses existing challenges surrounding credit risk assessment and SME lending. The CBE has obligated banks to report their data to i-Score in order to support the development of this platform. These efforts appear to be bearing fruit, with i-Score reporting that nearly 100% of credit data on SMEs and individuals from commercial banks in Egypt is now held in the database. Moreover, World Bank data indicate that the number of individuals or firms listed by the Bureau reached 31.3% of the adult population in 2019, which is nearly triple the average (11.3%) among non-high-income countries in the MENA region. However, the gap between the number of individuals and firms in the i-Score database and the total population of Egyptian individuals and firms, despite i-Score having nearly all credit data from commercial banks, highlights the relatively limited reach of the banking sector in Egypt.
- **Credit guarantees:** The CBE is and the main shareholder of the Credit Guarantee Company (CGC) Egypt. In the 2021-22 financial year, the value of the portfolio of loans guaranteed by the CGC was EGP 284 billion, of which EGP 195 billion was guaranteed by the CGC.[7] This credit portfolio was spread across 206 000 beneficiaries. The value of government guaranteed loans in Egypt amounts to approximately 1.9% of GDP, which is higher than in most OECD countries for which data are available with the exception of Korea, Portugal and Hungary (OECD, 2021[24]).
- By reducing the risks faced by banks in lending to SMEs, the CGC is a very important actor in the SME lending space. Indeed, 43% of banks' total lending to SMEs came via the CGC in the 2021-22 financial year. The CBE provided an initial support to the CGC by establishing a EGP 2 billion guarantee trust to cover part of the credit risk guarantee associated with bank lending to existing and newly-established SMEs and start-ups as well as by issuing regulations providing special treatment for CGC guarantees. However, the CBE's support to the CGC does not appear to be focused exclusively on SME lending, with a CBE initiative in 2020 making EGP 7 billion of funding available to the CGC for the issuance of guarantees to large companies.[8]
- **Know-your-customer requirements:** The CBE is seeking to ensure that businesses are only required to submit KYC documentation to a financial institution once, with this information subsequently made available to other institutions. This could be an important way of reducing the administrative burden that SMEs and entrepreneurs face in creating accounts with commercial banks.

Given the lack of engagement that commercial banks have historically had with the SME sector in Egypt, it is important that strong actions are taken initially to initiate a shift in approach. With that being said, the introduction of lending quotas alone may not tackle the underlying factors that are stifling bank lending to

SMEs, which could include a lack of credit data, high default risks, onerous loan recovery processes, or a lack of expertise and knowhow within commercial banks on the needs of the SME sector. For this reason, the other measures that are being taken, such as the efforts to increase the availability and reliability of SMEs' credit data and to reduce lending risks through risk-sharing arrangements will be key to achieving long-term and sustained increases in commercial banks' share of lending to SMEs. To accelerate progress in this area, there could be scope to scale up the support provided by the credit guarantee scheme, as described further in Chapter 4 of this report on SME and Entrepreneurship Programmes. The range of products offered by the of the CGC could also be diversified to include more tailored products that align with the specific financing needs of certain groups of businesses, for example innovative start-ups or SMEs in priority sectors.

The Financial Regulatory Authority (FRA) regulates activities within Egypt's non-banking financial sector. Under the umbrella its support for SME financing in the non-banking sector, the FRA has issued licenses to nine SME financing companies and one NGO.

The initiatives of the CBE and FRA have been effective in stimulating an expansion in the SME lending operations of public banks. Progress has also been made with respect to private banks, with most having achieved their mandatory ratios on the share of their lending to SMEs and many establishing dedicated SME units to better serve SME clients. Continued efforts to bolster the capacity and appetite of private banks to serve the SME market and at the same time raise awareness of and interest in bank financing opportunities among SMEs would help to maintain this positive momentum. The FRA is also supporting SME financing in the non-banking sector, with nine companies and one NGO having been granted licenses to finance SMEs.

Another important factor affecting access to bank finance is the ability of SMEs and entrepreneurs to leverage their assets as collateral. Stakeholders report that property registration issues are a significant problem in Egypt, with many properties unregistered due the complexity of the processes involved. In 2022, Egypt introduced a new real estate registration law that aims to streamline the property registration process. For example, the new law separates the processes of registering property and paying real estate excise taxes, and also removes the requirement for to provide evidence of a property's chain of custody.[9] These steps should improve access to finance by enabling more SMEs to register their properties and use these as collateral for loans. It will be important to monitor the implementation and impacts of the new registration law over time to ensure that it is having its intended effects on the share of properties being registered. Measures have also been taken to facilitate the collateralisation of moveable assets. In partnership with i-Score, the FRA launched a registry of moveable collateral assets in 2018, which allows capital equipment and intellectual property to be used as collateral in order to support SME lending.[10]

Microfinance

Microfinance often plays an important role in plugging financing gaps left by the banking sector. This is particularly relevant in the case of Egypt given the large number of unregistered and/or unlicensed enterprises. In 2014, Egypt passed its first law to regulate microfinance services.

The lending ceiling for microloans was initially capped at EGP 100 000, although the Financial Regulatory Authority (FRA) – which regulates microfinance activities in Egypt, as well as capital markets and non-bank financial institutions more broadly – has since raised the cap to EGP 242 000. The 2020 amendment to the microfinance law (Law No. 201 of 2020) also sets out provisions to increase the limit by up to 10% annually. The FRA issues licenses to practice in microfinance to non-governmental organisations (NGOs) and private companies. There are currently more than 1 000 NGO MFIs and 22 private companies that have been granted a license, operating across approximately 3 700 physical locations across Egypt.

The FRA designates three categories of microfinance organisations:

- Category A: NGOs with a portfolio of EGP 50 million or more (1.8% of the intermediaries in the three categories, but 87.9% of the total loan portfolio and 50.6% of the active clients)
- Category B: NGOs with a portfolio of EGP 10 million to EGP 50 million
- Category C: NGOs with a portfolio of less than EGP 10 million (under EUR 300 000)

Since the passage of the microfinance law in 2014, the value of the outstanding microfinance portfolio has increased dramatically, reaching EGP 93.4 billion in March 2024, across both banking and non-banking financial institutions. This growth of the microfinance sector is a side-effect of the CBE's SME lending quota, which initially permitted banks to meet their allocation either by financing SMEs directly or by investing in MFIs. Currently, banks continue to invest in MFIs, but the share of the SME lending quota that can be met through investing in MFIs is now capped at 2.5%.

To further expand the availability of microcredit, the 2020 amendment to the microfinance law permitted non-banking institutions to lend to SMEs (newly established small and medium enterprises that have been established, registered or active for no more than two years, and according to the relevant definitions for industrial and non-industrial SMEs as per the MSMEs Law 152/2020). Obtaining a license requires the institution to meet certain technical requirements and to have a credit risk rating system, which is assessed by the FRA during the licensing review process. As of March 2023, five MFIs (four private companies and one NGO) are licensed to issue finance to SMEs, with a portfolio size of EGP 2 billion spread across 2 000 SMEs. There is no ceiling on the amount that licensed lenders can issue to each borrower. The reported benefits of obtaining finance through this alternative channel include the speed of the application and approval process, less complex collateral requirements and better outreach relative to banks.

Efforts are underway to digitalise microfinance activities, with the FRA having mandated that all transactions between MFIs and banks be carried out through digital channels. There are many benefits that digitalisation can bring to both microfinance providers and customers, particularly in remote rural areas. These include the cost and time savings associated with reducing the number of required visits to physical branches. However, the use of cash remains deeply ingrained in the microfinance sector, and it will take time for microfinance customers to build the financial skills and experience necessary to switch from cash transactions. Another development that could make microfinance more accessible in the future would be the spread of e-signatures, which are not widely used in Egypt but could significantly lower transaction costs.

In order to strengthen the role of the microfinance sector in supporting access to finance for SMEs and entrepreneurs in Egypt, it is important to bolster the performance and efficiency of the large number of Category C microfinance organisations. This can be achieved through capacity building initiatives and support to help them meet regulatory requirements, as described further in Chapter 4 of this report. Consideration should also be given to creating a licence for microbanks, which would enable the most qualified microfinance institutions to become microbanks that are authorised accept deposits from clients. This could help the institutions to support their clients with larger loans and a wider service offering.

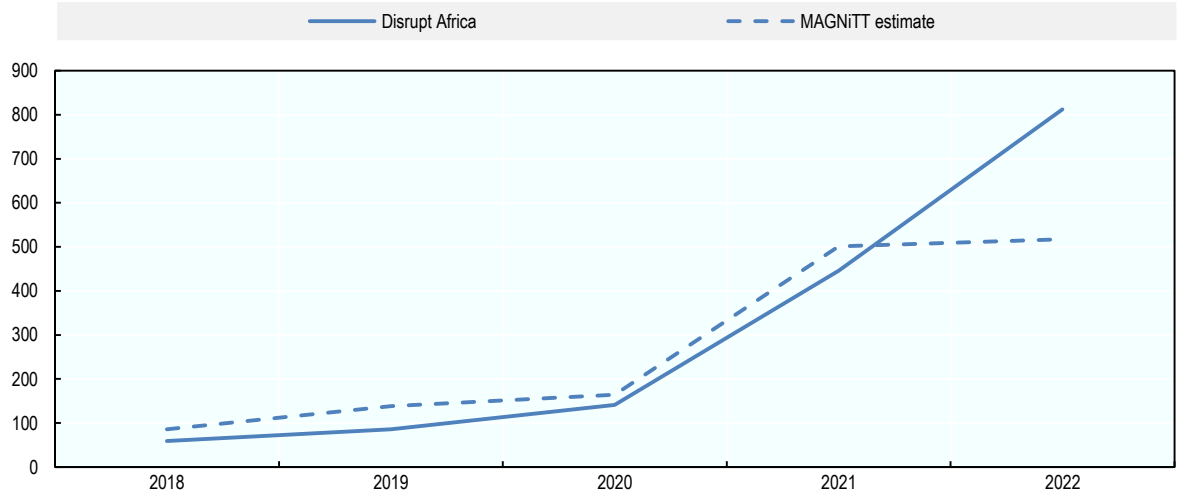
Equity finance

While there is no official data source for venture capital investment, with estimates varying depending on the definitions, information sources and methodologies, available estimates indicate that venture capital funding in Egypt has risen dramatically in recent years, as shown in Figure 3.2, with a number of private equity funds that invest primarily in larger-stage high-potential enterprises. A recent study by Disrupt Africa found that the amount of venture capital funding received by tech start-ups in Egypt in 2022 was the second highest in Africa both in terms of the number of tech start-ups funded (131) and the volume of funding received (USD 812 million) (Disrupt Africa, 2022[25]). Despite these impressive figures and promising trends, there remains considerable scope for further development of Egypt's venture capital market.

The top five sectors in terms of funding received were fintech, e-commerce, e-health, logistics and marketing. This includes the USD 150 million raised by Egyptian fintech platform MNT-Halan. These start-ups collectively employed 11 153 people in Egypt, highlighting the significant benefits they can bring to the wider Egyptian economy.

The growth of venture capital investment in Egypt has been supported by instructions issued by the CBE in May 2019 and later amended in February 2021 which allowed banks' investments into funds that aim to invest in SMEs and start-ups to contribute towards the requirement for 25% of their lending to be directed towards MSMEs.

Figure 3.2. Total venture capital funding received by Egyptian start-ups, 2018-2022



Source: (Disrupt Africa, 2022[25]), (MAGNiTT, 2022[26])

Angel investment also provides opportunities for innovative start-ups in Egypt. For example, the American University of Cairo (AUC) Venture Lab has an angel investment network comprising approximately 50 investors. Over the past three years, 26 investments have been made through this network. Other angel investment networks that are active in Egypt include Alex Angels, Mediterranean Angels, and Tiye Angels, which focuses on women entrepreneurs. However, the pool of angel investors is relatively small in Egypt, and those that are active are reportedly close to their investment capacity at present.

Although Egypt's start-up financing ecosystem is very competitive when compared to other start-up hubs in Africa, there remains considerable scope for progress. Indeed, the Global Entrepreneurship Monitor's 2022 National Expert Survey finds that the availability of funding for start-ups in Egypt is notably lower than in higher income countries (Global Entrepreneurship Monitor, 2023[27]). Many countries deploy special tax incentives in order to encourage private investors and venture capital firms to invest in new start-ups and early-stage enterprises by reducing the risks for investors. The introduction of tax incentives for private investors who provide funding to Egyptian start-ups could help to accelerate the growth of Egypt's start-up financing ecosystem and reduce its dependence on public backed initiatives. It is also important to increase co-ordination among different actors within the start-up financing ecosystem. In particular, creating a networking platform to connect angel investors and venture capital firms would help to create a more continuous pipeline of funding opportunities for start-ups in Egypt, from the seed stage to the growth stage.

An effective system for private investment in start-ups and high-growth potential SMEs also provides channels for investors to exit from through investments. For example, angel investors may seek to earn a return when the investee firm secures venture capital, while venture capital investors may desire

opportunities to cash out when the firm is acquired or obtains a listing on the stock exchange. The secondary listing on the Egypt Stock Exchange, NILEX, offers an option for firms to undertake an initial public offering with relaxed listing rules. However, there has been a low level of activity on NILEX since its launch in 2007, with only 17 listed SMEs in 2023. This indicates that SMEs continue to face barriers to listing on the stock market. Stakeholders identified the volatility of Egyptian capital markets as well as complex regulations as barriers to listing.

Alternative sources of finance

The remote nature of many parts of Egypt, in addition to Islamic finance rules that prohibit certain financial activities such as the payment of interest on loans, creates a space for alternative source of finance. These include Rotating Saving and Credit Associations (ROSCAs) and crowdfunding initiatives. The CBE and FRA are currently working together on a law that would facilitate these alternative financing models, which could alleviate funding gaps in many parts of the country. Pending the outcome of the ROSCA Regulatory Sandbox pilot, the regularisation of ROSCAs by the FRA may offer a viable option for informal enterprises and individuals who do not have access to the formal financial market.

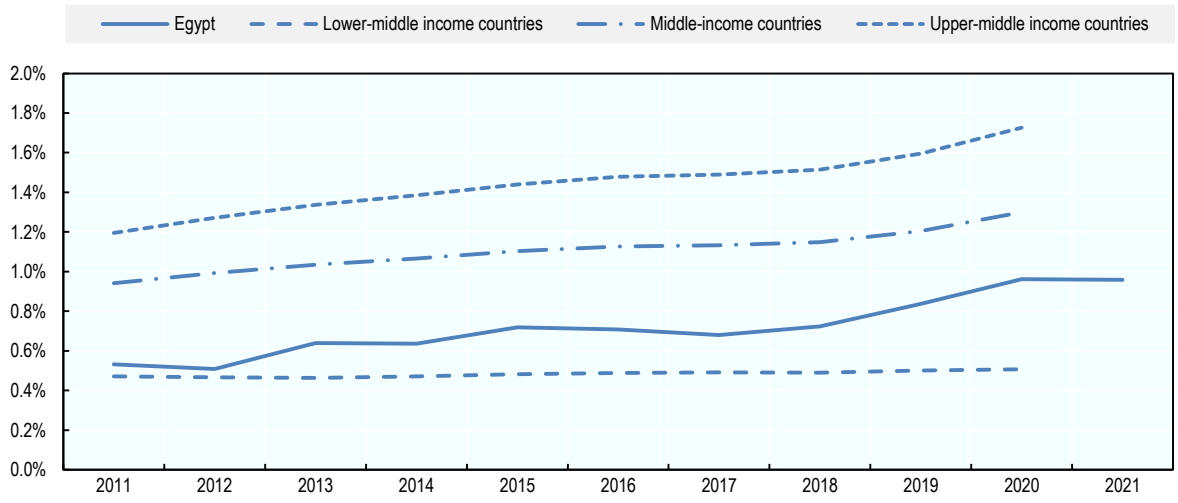
Leasing and factoring are another source of funding with a high amount of potential in Egypt. For example, “leaseback” products are being used by factories and services companies to provide fast access to working capital. With that being said, leasing and factoring activities are relatively new and underdeveloped in Egypt, and further growth is currently limited by high interest rates. MSMEDA can do more to raise awareness among SMEs of the merits of leasing options for the purchase of capital equipment and of factoring services to improve their cashflow. In parallel, it is also important to build awareness among leasing and factoring companies of the potential of the SME sector as a market for their products and services.

Innovation system

Research inputs

Egypt is allocating a growing share of resources towards innovation. A key metric that reflects the focus an economy is placing on innovation is the level of expenditure on research and development (R&D). This is an area where Egypt has improved significantly in recent years. In 2008, R&D expenditures amounted to just 0.3% of GDP, compared to a global average of 2.0%. To address this challenge, the Egyptian Constitution of 2014 mandated that the government allocates to scientific research an amount that is at least equal to 1.0% of GDP, with a commitment to gradually bring Egypt’s R&D expenditures as a share of GDP towards the global average. Egypt reached the targeted 1.0% of GDP R&D expenditure in 2020 (Figure 3.3). However, despite the improvement, further progress is needed to align with the global average figure of 2.6% in 2020 (UNESCO, 2023[28]).

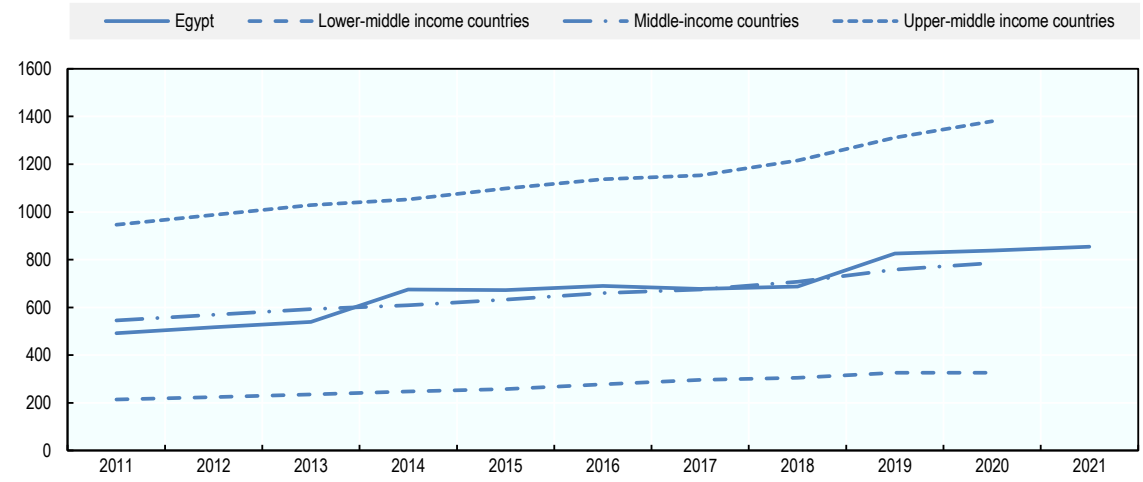
Figure 3.3. Research and development expenditure as a share of GDP, 2011-2021



Source: (UNESCO, 2023[28])

Egypt has made strong progress in increasing its number of researchers. Indeed, the number of researchers per million inhabitants has nearly doubled over the past 10 years from 492 in 2011 to 854 in 2021, as shown in Figure 3.4 below. This impressive growth trajectory has seen Egypt surpass the average for middle income countries, despite Egypt being classified as a lower-middle income country.

Figure 3.4. Number of researchers per 1 million inhabitants, 2011-2021



Source: http://data.uis.unesco.org/#

Research outputs

The growth in R&D spending and the rising population of researchers will have strengthened the research output of Egypt's higher education institutions. Eight of the 25 highest ranked universities in the MENA region in terms of citations are based in Egypt. Only Saudi Arabia has a higher number in the top 25 (Times

Higher Education, 2022[29]). Egypt is a heavy hitter in terms of its research output. In 2021, Egypt came 26th in the world in the number of published documents and 25th in the world in the number of citations (Scimago JR, 2021[30]). In certain fields, Egypt's ranking was even more impressive. For instance, Egypt is a top 20 ranked country in citations in chemical engineering (ranked 15th in 2021), chemistry (16th), energy (19th), dentistry (20th), engineering (17th), materials science (16th), mathematics (19th), pharmacology (14th) and veterinary science (9th). The high volume of research output being developed in Egyptian institutions provides strong foundations for the wider innovation system.

Research commercialisation

A key challenge for Egypt's innovation system is to direct research being conducted in higher education institutions (HEIs) towards the market. One way of measuring the conversion of scientific research into commercial outputs is patent applications. Data from the World Intellectual Property Organization show that Egypt had 9 resident patent applications per 1 million people in 2021. This figure is strong relative to other regional countries and countries with similar income levels. However, the strength of Egypt's research base suggests that there is the potential for Egypt to perform even better with respect to patenting activity. Indeed, in absolute terms, Egypt had the 37th highest number of resident patent applications in 2021, which, while impressive, is lower than Egypt's global ranking in terms of the number of published documents (26th) and citations (27th).

Researchers in Egypt appear to have a positive disposition towards entrepreneurship, with a commitment to applying their research in support of the country's economic development. There are also a range of high-profile awards and innovation competitions in Egypt, such as "Cairo Innovates", "Egypt First Innovator", and "Ebtaker". A key barrier to research commercialisation and the creation of university spin-outs is therefore not a lack of interest or opportunity but rather a lack of tailored support (OECD, 2025[31]).

The 2019 update to Egypt's Strategy for Science, Technology and Innovation 2030 identifies the creation of stronger linkages between academia and industry and clearer and more unified mechanisms for marketing scientific research outputs towards the private sector as areas for future improvement. While some major Egyptian universities have dedicated technology transfer offices in order to support research commercialisation, researchers need further skills and awareness in order to commercialise their research. The government could strengthen research commercialisation through policies to incentivise researchers to create their own start-ups, as well the creation of more funding opportunities (see Box 3.5).

Innovation and entrepreneurship is an important pillar of the Ministry of Higher Education and Scientific Research's (MHESR) strategy. Three entities within the MHESR that are working to promote entrepreneurship are:

1. The Academy of Scientific Research and Technology (ASRT), which acts as a compass for R&D in Egypt, conducting market research to identify what is needed from Egypt's innovation system. The ASRT also provides grants to support early-stage research (up to technological readiness level 3).
2. The Science and Technology Development Fund (STDF), which funds infrastructure and training on how to use research equipment, and also provides funding for early-stage businesses.
3. The Innovation Support Fund (ISF), which focuses on investing in promising enterprises in order to take them to the market. The ISF's activities are designed to address existing funding gaps for projects that are at a technological readiness level of 3 or higher, but are not yet mature enough to attract venture capital investment (the so-called "valley of death" that is observed in many countries). The ISF has two main programmes:
    a. **Improving the entrepreneurship skills of researchers.** This programme provides education awareness programmes for researchers to make them more business oriented and better understand commercial processes. The aims are to create a small number of potential

entrepreneurs and create a greater awareness of entrepreneurship among the wider population of researchers. The programme seeks to replicate a similar initiative overseen by the National Science Foundation in the United States. Efforts are being undertaken to tailor the programme to the Egyptian context, taking account of cultural factors and the more limited entrepreneurial experience and knowledge of Egyptian researchers.

b. **Funding for commercialisation of R&D output.** The ISF funds research commercialisation through two channels. The first is working with technology transfer offices (TTOs) in universities to establish licensing or royalty agreements with researchers. The second is to identify researchers with entrepreneurial potential and to invest in these researchers' start-ups.

This structure represents a good model for supporting the commercialisation of R&D in Egypt's innovation system at various different levels of technological and/or commercial maturity, although many of the initiatives are relatively new and are being conducted on a relatively small scale.

Box 3.5. Incentivising research commercialisation – the case of Italy

Efficient innovation ecosystems increasingly rely on collaboration between academia and industry. It is therefore important that Egypt incentivises academic institutions as well as individual academics to partner with the local business community and commercialise their research.

The approach of the Italian National Agency for the Evaluation of the University and Research Systems (ANVUR) provides a potential learning model for Egypt. Since its creation in 2006, ANVUR has endeavoured to analyse and evaluate activities that extend beyond peer-reviewed research and teaching. It classified third mission activities according to a broad definition, including activities related to the valorisation of research as well as activities that generate a spillover effect to the wider society.

After the classification exercise, the evaluation of third mission activities was formalised in an official manual with a set of criteria, indicators and evaluation questions. This allowed the collection of standardised and comparable data on all the universities involved in the evaluation exercise. This was conducted in partnership with the Ministry of Education, University and Research, and in a consultative process with a panel of experts. Some examples of the indicators outlined in the manual are:

- The number of assignments, licenses, or options contracts divided by the total number of university patents.
- The number of spin-out companies using university patents divided by the total number of university patents.
- Total revenues divided by the total number of university patents.

The collected information was then used as an input for the overall evaluation of the performance ofb HEIs in Italy (in a separate chapter and in an experimental manner). The broad, thorough, standardised and consultative approach ensured broad agreement among HEIs in Italy about their participation in third mission activities, and may be a stepping stone to take further action. So far, the evaluation of third mission activities has not been used in the funding formula of the ministry. However, there is still a demand among many participating organisations to link performance in third mission activities more explicitly and structurally with funding so as to provide financial incentives.

In addition, a wide variety of funding schemes have been introduced to encourage increased interactions between MSMEs and universities with TTOs typically playing a leading role in the implementation of these schemes. Both the number, size and activities of TTOs has increased substantially between 2008 and 2018. Over that period, Italian universities have spun-off about 110 research-based firms per year, on average.

There are also legal impediments to the commercialisation of research in Egypt. Before 2018, government employees – including researchers in public universities – were prohibited from leading a commercial entity. A law passed in 2018 now allows university researchers to work with the MHESR to create incubators or technology parks where they are authorised to conduct commercial activities. However, restrictions on the commercial activities of researchers remain more stringent than in countries such as the United States.

The ISF has been working to encourage universities to establish clear IP policies, including by creating an initial template for universities to refer to. As of March 2023, approximately 10 universities had engaged with the ISF to set up an IP policy. There is also a push to establish a legal requirement for universities to each have a vice president responsible for innovation and entrepreneurship. These measures are important since prior to 2023, most universities did not have functional policies, which represents a major bottleneck to the commercialisation of university research and the creation of university spin-off companies.

Co-ordination within the innovation system

Many public entities are involved in the provision of support for innovation and entrepreneurship. However, interviewed stakeholders reported that there is scope to improve communication and co-ordination between these different organisations. This would make it easier for researchers and entrepreneurs to understand the breadth of support options available and where they can go to access this support. At present, researchers and entrepreneurs who look for support will encounter a high number of potential government entities, without clear differences in the roles of these organisations. There is therefore a need for a central, responsible entity that works with all of these government actors to create a single platform that links the various policy initiatives underway in the innovation system. Co-ordination issues within the innovation system also create difficulties in the design and implementation of laws. For example, relevant entities are not always informed of legal changes initiated by other parts of government. Interviewed stakeholders also raised the issue that new laws are not always consistent with existing laws and regulations, for example in the case of legal changes to allow university researchers to open incubators. This creates challenges with implementation.

Educational attainment and skills

Educational attainment

Egypt has made vast progress in raising access to education in recent decades, with a transformational impact on workforce skill levels in the years that followed. The Egyptian Constitution guarantees the right to free and compulsory education to all Egyptian children aged 6 to 15 years. In the early 1970s, more than a third of primary school age children were not enrolled in primary school. Fast forward to the present day and this deficit has largely been eradicated, with a net primary school enrolment rate of 98% in 2018. Turning to secondary school education, only around a quarter (26%) of secondary school age children in Egypt were enrolled in secondary school in 1971. By 2018, this share had risen to 83%. This is above the average for the MENA region, whose net secondary school enrolment rate was 73% in 2018. However, further progress is needed to converge to the OECD average of 89% net secondary school enrolment.

Over the past decade, there has been a steep rise in the number of young Egyptians going into tertiary education. Indeed, the tertiary enrolment rate (TER) increased from 27% in 2011 to 39% in 2018, a trend which saw Egypt surpass many other countries in the region such as Tunisia and Jordan. Egypt is therefore on track to meet the targeted TER of 40% by 2030 that is set out in the National Strategy on Higher Education Development (published in 2016 by the Ministry of Higher Education and Scientific Research).

While Egypt has been successful in raising education participation rates, it is also important to ensure that the education provided within schools is of a high standard. An important metric here is the number of pupils per teacher, which is a proxy for the investment in and quality of education. In Egypt, the pupil-teacher ratio at the primary level was 24 in 2018, which is slightly above the MENA average of 21 pupils per teacher and the OECD average of 15 pupils per teacher. Egypt's pupil-teacher ratio at secondary level was 15 in 2018, in line with the MENA average and marginally above the OECD average of 14. In Egypt, the average classroom density (pupils per classroom) in public schools reached 51 in 2019/20, which brings about significant disruption to lesson scheduling and delivery (M. A. Zaki Ewiss, 2021[32]). These results indicate that further investment is needed to expand capacity. This need is reflected in Egypt's Sustainable Development Strategy, which targets a reduction in the average number of pupils per classroom to 35 by 2030 (Ministry of Planning, 2015[33]).

There is room for improvement in Egypt's performance on international metrics of educational achievement. According to the results of the 2019 edition of the Trends in International Mathematics and Science Study (TIMSS), mathematics achievement among grade 8 pupils was below that observed in other middle-income MENA countries such as Jordan, Lebanon and Iran (TIMSS & PIRLS International Study Centre, 2020[34]). While the mathematics achievement scores were broadly stable over time, Egyptian pupils' scores in the science component declined between 2003 and 2019.

The reduction in the number of out-of-school children has led to a significant increase in literacy rates in recent decades. Among those aged 15-24, literacy rates increased from 51% in 1973 to 92% in 2021. However, there remains a gap in youth literacy rates in Egypt and other comparable countries in the region such as Morocco and Tunisia, where the youth literacy rate was 98% in 2021. In 1976, the adult literacy rate in Egypt was just 38%. By 2012, this share had soared to 74%. However, progress in this area has since stalled, with the adult literacy rate dipping to 73% in 2021. Importantly, the gender gap in literacy rates has narrowed significantly, with the female adult literacy rate more than tripling between 1976 and 2021, when it reached 67%.

Workforce skills

Improvements to the education system twinned with a demographic dividend have boosted businesses' access to skills. Between 1988 and 2008, Egypt experienced a marked decline in the total fertility rate, due to strong investments in family planning and reproductive health. This means that Egypt is now benefitting from a so-called "demographic dividend", where a growing share of working-age people in the population increases national productivity and per capita income. In 1988, 46% of Egyptians were either aged below 15 or above 64. This compares to a figure of 38% in 2021. The growth of the working-age population provides greater opportunities for local SMEs to access the skills they need to succeed. There are also encouraging data on the skill level of the Egyptian workforce. According to the World Bank Enterprise Survey, only 10.2% of Egyptian businesses with 5-19 employees identify an inadequately educated workforce as a major constraint, compared to a figure of 29.2% in Morocco and 32.4% in Tunisia (World Bank Enterprise Surveys, 2023[35]).

Educational attainment levels primarily affect SMEs and entrepreneurs by shaping the ease with which these businesses can access the skills they need to succeed. Skills are identified as a weakness for Egypt in the World Economic Forum's (WEF) Global Competitiveness Report (World Economic Forum, 2019[36]), with Egypt ranked 99th out of 141 countries in this area. Egypt performs particularly poorly on the indicator assessing whether students leave school with the skills needed by businesses. On this metric, Egypt ranks 133rd out of 141 countries, pointing to important shortfalls in the ability of schools to prepare young Egyptians for the workplace. During stakeholder discussions, it was also reported that Egyptian SMEs face difficulties accessing key workforce skills, including digital and foreign language skills.

Another factor weighing on the availability of skills in the Egyptian workforce is the relatively low participation of women in the labour force. In 2021, women accounted for just 17.6% of the labour force.

For comparison, this figure was, on average, 44.5% in OECD member countries in 2021. Low female participation rates are attributable to cultural factors, particularly in certain parts of the country, as well as gender gaps in digital and financial literacy. It is also reported that female employment is concentrated in traditional sectors such as handicrafts where home working is prevalent, with women less active in other sectors of the economy that are not based on home working.

Only around one in twenty (5.2%) small businesses in Egypt offer formal training to their employees. This share rises to 14.9% among medium-sized businesses and 19% among large businesses (World Bank Enterprise Surveys, 2023[35]). This pattern is commonly observed internationally, with large companies generally more likely to have the resources and capacity needed to invest in improving the skills of their workforce. However, the rates of formal job training among Egyptian employers of all business sizes lags behind other countries in the region. This weighs on the overall skill levels of the Egyptian labour force, with ramifications for businesses of all sizes, including SMEs. Box 3.6 illustrates an approach that governments can use to identifying and addressing skills shortages affecting SMEs in a country.

Box 3.6. Supporting workforce training within SMEs – the case of Ireland

Skillnet Ireland is a national agency created by the government of Ireland that is dedicated to the promotion and facilitation of workforce capability development, with the aim to advance the competitiveness, productivity and innovation of Irish businesses, focusing mainly on SMEs. The agency is funded by the National Training Fund through the Department of Further and Higher Education, Research, Innovation and Science.

Skillnet Ireland supports businesses in identifying skills that need to be further developed to support their employees and grow their businesses. The agency provides support services that include leadership development and business mentoring, specialised sectoral upskilling, digitalisation programmes, and business network and cluster development. Businesses that are members of the Skillnet Ireland network work with experts to determine their training needs and plan the upskilling activities that best suit their employees. Overall, Skillnet Ireland has funded more than 22 500 companies and provided upskilling activities to more than 86 500 trainees.

The tailored and business-led approach to identifying and addressing skills gaps in specific businesses and sectors facilitates programme optimisation, allowing trained experts to provide individualised solutions and support in developing necessary workforce capabilities. In Egypt, the current lack of investment by SMEs in workforce training could stem from a combination of financial constraints, a lack of training offers, and information gaps on where skills shortages exist. A similar approach to that of Skillnet Ireland could address all of these issues by first helping SMEs to identify skills gaps and then supporting them in finding and funding appropriate upskilling programmes.

Taxation

The corporate tax rate in Egypt is 22.5%. This is broadly in line with the regional average corporate tax rate, although there are important differences between tax regimes. For example, Morocco has adopted a progressive corporate tax regime, with a tax rate of just 12.5% applied to companies' taxable income up to MAD 300 000 (EUR 27 521), rising eventually to 32% for taxable income above MAD 100 million (EUR 9.2 million). Meanwhile, in Tunisia, different corporate income tax rates are applied to specific sectors.

Although corporate tax rates are not excessively high in Egypt, they are nonetheless perceived as a burden by many SMEs. According to the World Bank Enterprise Survey (WBES), more than a quarter (26%) of

Egyptian businesses with 5-19 employees stated that tax rates were the biggest obstacle they faced. This compares to a figure of 11% across businesses of all sizes in the MENA region. Tax compliance also represents a significant administrative burden for SMEs and entrepreneurs in Egypt, as described in the Regulatory Environment section of this chapter.

The MSME Law 152 of 2020 includes a number of provisions to reduce the burden of taxation for MSMEs. Under the law, micro enterprises are subject to income taxes of EGP 1 000 to EGP 5 000, while small and medium enterprises are subject to corporate income tax of between 0.5% and 1%, depending on annual revenues. This means that, under the Law, businesses with a turnover below EGP 250 000 (EUR 7 419) are required to pay just EGP 1 000 (EUR 30) in income tax. The Law also provides SMEs with an exemption from stamp duty tax as well as exemptions from capital gains tax on the disposal of assets when gains are used for the purchase of new assets within a year. Importantly, these tax incentives are available to informal enterprises that have obtained a temporary 5-year license. Another important measure is the removal of the retroactive application of taxes for formalising enterprises, addressing a key disincentive for formalisation that existing previously. However, while the introduction of the MSME Law is an important step in easing the tax burden for SMEs and entrepreneurs, the greater challenge is ensuring the effective implementation and widespread uptake of the supports and incentives it offers. It appears that the implementation and uptake of some of the Law's measures have been limited to date.

MSMEDA is currently coordinating with the Ministry of Finance to amend tax incentives for start-ups and SMEs. The government has also announced a new tax reform package to ease the burden on taxpayers. This includes a simplified and integrated system for SMEs and freelancers and accelerated dispute resolution procedures.

Competition

For many decades, state-owned enterprises (SOEs) have played a major role across many different sectors of the Egyptian economy. Law Number 61 of 1963 provided for the formation of 53 economic authorities that operate across a number of different sectors, from transport to housing. While data limitations create challenges in measuring the footprint of SOEs, previous studies and estimates indicate that the size and scope of SOEs in Egypt is large by international and regional standards. In 2019, the total value of Egyptian SOEs' assets equated to nearly half of GDP (IMF, 2021[37]). This is a higher share than in most MENA countries but significantly lower than in some nearby countries such as Morocco, where the value of SOE's assets is greater than the GDP. Meanwhile, SOEs also account for nearly 4% of total formal employment in Egypt (IMF, 2021[37]). This employment share is significantly higher than in other middle-income MENA countries. For example, the SOE employment shares in Morocco and Jordan are around 1%, while in Tunisia the figure is around 2%. Many of Egypt's SOEs are in a difficult financial position, with an estimated 38% (107 out of 278) having incurred losses in the 2018-19 financial year. Moreover, a World Bank study estimates that total SOE losses equated to 5.8% of GDP in 2011. The weak performance of Egyptian SOEs can be driven by a range of factors including weak oversight measures, a lack of competition, as well as public mandates such as requirements to provide goods and services at below cost prices or requirements for universal service provision.

The presence of SOEs can negatively impact private sector activity and investment across a range of industries in Egypt (OECD, 2024[3]), thus representing a major obstacle to SME and entrepreneurship development. This is because the various state support mechanisms – which in Egypt include fiscal support, exemptions from public procurement rules and other favourable tax or regulatory treatment – mean that SOEs often operate on an uneven playing field to private sector companies. According to IMF estimates, the provision of fiscal support to Egyptian SOEs amounted to around 1% of GDP in 2019. This is below the MENA average but nonetheless represents a significant fiscal impact. What is particularly

striking about the IMF estimates is the lack of contribution that Egyptian SOEs make to budget revenues, meaning that on aggregate they represent a significant fiscal burden.

Actions to reduce the footprint of SOEs in the Egyptian economy would help to stoke competition and reduce entry barriers in many sectors, providing an opportunity for Egypt to increase its alignment with the 8th recommendation of the OECD Recommendation on SME and Entrepreneurship Policy, which focuses on enabling entrepreneurship by reducing entry barriers and fostering competition and growth. The Egyptian government's state ownership policy, published in December 2022, sets out a variety of relevant measures to improve the situation. Part of the policy includes the identification of economic sectors from which the state will exit in 3-5 years, as well as sectors where the state would maintain or reduce its presence and sectors where the state would maintain or increase its presence. Another important element of the policy is the commitment to promoting competitive neutrality in order to level the playing field between SOEs and private companies. Measures include the formation of a Supreme Committee for the Promotion of Competition Policy and Competitive Neutrality, to be chaired by the Prime Minister. A department dedicated to the promotion of competitive neutrality has also been formed within the Consumer Protection Agency (CPA), the role of which is to receive complaints from consumers or investors and monitor regulations that could harm competition.

The state ownership policy's implementation follow-up report establishes that the governments has exited from 19 economic sectors. There are 33 public entities owning companies (18 ministries, 9 governorates, the Central Bank of Egypt, the General Authority for Financial Supervision, the Radio and Television Union, the Unified Purchasing Authority, and the Upper Egypt Development Authority, and the Suez Canal General Authority).

It is also important to achieve greater transparency with respect to the performance of SOEs and the government support they receive. Positive measures have been taken in this area, with SOEs to be legally required to submit financial accounts to the Ministry of Finance, which in turn will provide open access to the financial data as well as data on subsidies received by the SOEs. With that being said, there is a concern that many state entities – including military agencies – that conduct large scale economic activities but are not formally registered as companies do not fall within the coverage of recent measures to boost competitive neutrality.

The ongoing efforts to reduce the economic footprint of SOEs and promote competitive neutrality can benefit SMEs and entrepreneurs by creating opportunities for them to become more active in sectors that were previously dominated by SOEs. However, the realisation of these benefits will require the effective implementation of the various measures set out under the state ownership policy. It may also be appropriate to introduce measures targeting SMEs specifically to make them aware of emerging opportunities in these sectors and support them in moving into these markets. Box 3.7 presents Australia's framework for promoting competitive neutrality, which is among the most comprehensive in the world.

Box 3.7. Promoting competitive neutrality – the case of Australia

Australia has one of the world's most comprehensive frameworks in place to promote competitive neutrality and ensure a level playing field between SOEs and the private sector. A key step was defining what constitutes a commercial activity being conducted by government entities, in order to establish which SOEs are covered under competitive neutrality framework. This definition is based on two key questions:

- Is the government entity conducting a business? This considers whether the entity charges for goods and services, could potentially compete with other businesses, and whether managers have some independence in production or pricing decisions.
- Is the business significant? All government business enterprises, commonwealth companies and business units are considered to be significant under the definition, as well as other business activities being conducted within government ministries or departments with a commercial turnover of at least AUS 10 million per year.

SOEs that are deemed to be conducting a significant business fall within Australia's competitive neutrality framework. Clearly establishing which Egyptian entities fall under competitive neutrality requirements should be an important priority, given the prevalence of commercial activities conducted by state entities that are not formally registered as enterprises.

After establishing which entities fall within the framework, a number of measures are applied with the aim of levelling the playing field between SOEs and private companies:

- **Debt neutrality adjustments** are applied in instances where SOEs would otherwise have access to credit on more favourable terms than equivalent private enterprises. The adjustments are made through credit evaluations of SOEs by credit rating agencies. These evaluations are made under the counterfactual assumption that the SOE is privately owned. Any calculated reduction in borrowing costs that SOEs benefit from relative to private enterprises are then deducted from their revenues via debt neutrality charges.
- **Regulatory neutrality adjustments** are applied in instances where regulatory advantages held by SOEs cannot be removed through mandating compensatory payments.
- **Tax neutrality** between SOEs and private enterprises is required under Australia's competitive neutrality guidelines. This can be achieved by ensuring that SOEs fall under the same regime as private enterprises or by mandating the calculation and payment by SOEs of the tax amount that an equivalent private enterprise would be required to pay.
- **Pricing** by SOEs must be such that they earn a commercial rate of return over a 5-year period, based on the weighted average cost of capital. This helps to prevent the undercutting of private sector enterprises.
- **Dispute resolution** is handled through Australia's Productivity Commission, which administers a complaints mechanism via a dedicated body – the Australian Government Competitive Neutrality Complaints Office (AGCNCO). AGCNCO investigates complaints, which can be submitted by any individual or organisation, on a range of matters including SOEs' non-compliance with competitive neutrality requirements. Complaints can also be lodged about the competitive neutrality requirements themselves if they are seen to be inadequate in preventing anti-competitive practices or do not cover the entities they should. The complaints office will initially seek to resolve the complaint through discussions with relevant parties. Failing this, a formal inquiry process is initiated, culminating in a public report with recommendations for the

government on how to proceed. The Minister responsible for the SOE that is subject to the complaint can then respond by implementing corrective actions.

The case of Australia can offer many transferable lessons and insights for Egyptian policy makers with respect to designing and implementing a competitive neutrality framework that addresses the major challenges associated with the uneven playing field between SOEs and private businesses.

Source: (OECD, 2012[38])

Egypt is also undergoing a divestment of state-owned assets through sales to regional partner countries. For example, in August 2022, minority stakes in four SOEs were sold to Saudi Arabia's Public Investment Fund for USD 1.3 billion, although overall sales to partner countries have been somewhat limited. Stakes in 32 SOEs are also to be listed on the Egyptian Exchange or offered within the Sovereign Fund of Egypt's pre-IPO fund. While these divestment measures can deliver benefits from a fiscal sustainability perspective, they will not necessarily address the adverse effect that SOEs are having on private sector development in Egypt.

Infrastructure and energy

Energy

Energy subsidies have historically played a large role in the Egyptian economy. Between the 2016-17 financial year and the 2020-21 financial year, oil, electricity and gas subsidies were reduced significantly from 11.1% of central government expenditure to 1.2% (OECD, 2024[3]). However, the subsequent surge in global energy prices has reversed this trend, with energy subsidies reaching 5.8% of central government expenditures in the 2022-23 financial year. The government plans for the full removal of subsidies by 2025. This transition away from energy subsidies will have important ramifications on SMEs and entrepreneurs. While on the one hand, Egypt's policy of high energy subsidies has lowered energy costs for SMEs and entrepreneurs, it has also discouraged necessary investments in energy efficiency. As subsidies are phased out, the government could create initiatives that support SMEs and entrepreneurs in reducing their energy consumption, in order to offset the higher costs of energy.

Transport

Basic infrastructure is a key pre-requisite for SME and entrepreneurship development. A relative strength of Egypt's business environment is its transport infrastructure. In the World Economic Forum's 2019 Global Competitiveness Index, Egypt ranks 28th out of 141 countries for the quality of its road infrastructure, 40th in the world for its airport connectivity and 18th in the world for its liner shipping connectivity (World Economic Forum, 2019[36]). Morocco is the only middle-income MENA country with a higher overall ranking for transport infrastructure. In the World Bank's Enterprise Survey (WBES), transportation is cited as a major constraint by just 12.5% of Egyptian businesses with 5-19 employees, which is a much lower share than in other MENA countries (World Bank Enterprise Surveys, 2023[35]). With that being said, transportation is a major constraint for more than two-fifths of businesses in Northern Upper Egypt and more than a quarter of businesses in the Suez region, highlighting that challenges do exist in more remote parts of the country.

Utilities

The results of the WBES suggest that nearly a third (30.3%) of small businesses with 5-19 employees experience electrical outages, with an average of nearly one outage per month lasting close to one hour.

Moreover, small businesses are less likely to have a standalone generator on site than larger businesses, meaning they are more exposed to power outages. Disruptions to water supply can also be a challenge, with 4.2% of small businesses (5-19 employees) and 5.9% of medium-sized businesses (20-99 employees) experiencing water insufficiencies. These results show that some SMEs in Egypt do experience challenges linked to the country's infrastructure. These issues are more prevalent among SMEs than large companies, placing smaller businesses at a competitive disadvantage.

Commercial space

Access to suitable commercial space can be a challenge for SMEs and entrepreneurs. In order to address this, the MSME Law stipulates that 30% of available space in industrial zones, touristic areas, urban communities and reclaimed agricultural land is allocated to SMEs. Meanwhile, the Industrial Development Authority has established 13 industrial complexes, spread across 12 governorates. These complexes are designed specifically for SMEs, providing them with working spaces and utilities. As of March 2023, 4 813 SMEs had made use of these industrial complexes. Other benefits are also available to SMEs in industrial complexes, including flexible rental payments and discounted licensing support services. In addition, the industrial complexes have been made available to informal enterprises, which are provided with a 12-month grace period for them to obtain the necessary paperwork. However, an estimated 25% of spaces at industrial complexes are vacant, which is due in part to the fact that most of the complexes are in remote regions of Upper Egypt. The costs and administrative requirements for setting up in the industrial spaces should be lowered in order to boost demand in areas where vacancy rates are high. This could be complemented by awareness-raising efforts targeting SMEs and entrepreneurs. Steps should also be taken to ensure that sufficient industrial space is provided in areas where demand among SMEs and entrepreneurs is highest. It is also important to monitor the implementation of the MSME Law to verify that the stipulated 30% land allocation is in-fact being allocated to SMEs. Alongside these public initiatives, it is important to examine how current regulations may be inhibiting the provision of commercial spaces by private entities.

Conclusions and policy recommendations

With a young and skilled population, high-quality research institutions and a burgeoning venture capital industry, Egypt has many of the ingredients needed for fostering a dynamic population of successful start-ups and SMEs. However, the realisation of this entrepreneurial potential is being limited by a number of bottlenecks in the business environment. Firstly, the successive crises of the COVID-19 pandemic and Russia's war of aggression against Ukraine have exposed and exacerbated a number of vulnerabilities and imbalances in the Egyptian economy. This has led to a highly challenging macroeconomic environment for SMEs and entrepreneurs characterised by rising input costs and subdued demand. Efforts are needed to maintain macroeconomic stability and support private sector development in the medium to long term.

There is considerable scope to improve the business environment by lowering the cost of regulatory compliance, which would encourage business ownership, bolster productivity, promote internationalisation and incentivise formalisation. Meanwhile, continuing to reduce the large role of state-owned enterprises in the economy and the competitive advantages they enjoy would further stimulate SME and entrepreneurship development in many sectors, building on the important steps contained within the state ownership policy. Financial markets in Egypt also need to be deepened and diversified to address the widespread financing gaps caused by high rates of informality and a lack of trust and understanding between private enterprises and banks.

More positively, government spending on education and research and development has increased in recent years, which will strengthen the pipeline of skills and innovative companies going forwards.

However, further progress is needed to bring Egypt's public spending levels in these areas in line with international averages and to secure commercialisation of R&D outputs and address skill shortages.

Box 3.8. Key policy recommendations on the business environment

Reduce the regulatory burden on SMEs and entrepreneurs

- Introduce a mandatory SME Test to determine the impacts of proposed regulatory or legislative changes that could impact SMEs and entrepreneurs.
- Reinstate the regulatory guillotine to review, eliminate and streamline the existing stock of business regulations.
- Increase the capacity of ERRADA to support public entities in conducting SME tests and regulatory simplification, drawing from OECD Best Practice Principles for Regulatory Policy (OECD, 2020[39]).
- Streamline the business registration process, including by allowing companies to register without having a commercial address, providing model articles of incorporation and removing the need to use a lawyer. Consolidate the existing pool of business licenses into a smaller number of broader licenses, with a co-ordinating body acting as a single point of contact for license applicants and a centralised online platform for MSMEs to submit and track multiple applications for different licenses.
- Expand access to and eligibility criteria for the incentives in the MSME Law to ensure that start-ups can also benefit. Intensify outreach activities to raise awareness and uptake of the MSME Law incentives, including through the use of trusted entities as implementation partners.

Alleviate financing challenges

- Increase the provision of capacity building and training to commercial banks to better understand and serve the needs of SMEs, building on the initiatives of the Egyptian Banking Institute.
- Launch the e-Know-Your-Customer platform (currently under development by the CBE) in order to streamline banking procedures.
- Strengthen R&D exploitation through SMEs and entrepreneurship
- Establish an entity responsible for evaluating universities and research institutions, with "third mission" activities integrated into evaluation criteria and incentives, including promotion of entrepreneurship and knowledge transfer to SMEs.
- Remove legal obstacles faced by researchers in commercialising research, including restrictions on enterprise creation and the lack of a clear intellectual property framework.

Address skill shortages

- Expand mentoring and advice to SMEs and entrepreneurs to support them in identifying skills gaps and appropriate training offers to address these gaps, building on the entrepreneurship training, mentoring, and consulting services offered by MSMEDA as well as other initiatives such as the CBE's NilePreneurs programme.

Level the competitive playing field

- Implement a comprehensive competitive neutrality framework, with concrete methodologies and mechanisms to calculate and fully offset the regulatory, tax, pricing and financing advantages that SOEs benefit from. The provisions in the framework should regulate all commercial activities conducted by government entities, including those conducted by government entities that are not registered as enterprises.

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Notes

[1] Lower middle-income countries are defined by the World Bank as those with a gross national income (GNI) per capita in 2021 of between USD 1 085 and USD 4 255 (World Bank, 2023[41]). Upper middle-income countries are those with a GNI per capita in 2021 of USD 4 256 – USD 13 205.

[2] https://www.gafi.gov.eg/English/eServices/Pages/free-zones.aspx

[3] The implementation of the incentives under the MSME Law has so far been limited. Activating the MSME Law is a priority for MSMEDA, which is aiming to implement the incentives in 2023.

[4] GAFI has reduced the number of documents required from companies to obtain services for the approval of general assemblies and boards of directors. Companies are required to keep all documents and papers that are no longer needed for submission and must provide them to GAFI upon request. GAFI has also issued a decision to reduce the number of documents required from companies to obtain the services for forming committees to determine the executive status and to start activities. The decision includes eliminating 62% of the documents that companies were previously required to submit to obtain these services.

[5] OECD Financing Scoreboard 2022, World Bank data on local currency GDP

[6] In 2018, women owned only 5.2% of land in Egypt (World Bank and National Council for Women, 2018[40]).It should be noted, however, that this picture is likely to have evolved since 2018, with many women-focused initiatives having since been introduced.

[7] https://cgcegypt.com/#

[8] https://english.ahram.org.eg/NewsContent/3/12/373132/Business/Economy/Egypt%D8%A2%E2%80%99s-central-bank-issues-EGP--bln-in-guarantee-.aspx

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4 The Strategic Framework and Delivery Arrangements for SME and Entrepreneurship Policy

This chapter describes and assesses the policy framework for SME and entrepreneurship development in Egypt, and the policy co-ordination mechanisms and delivery arrangements for the implementation of these policies. Structural changes in policy co-ordination arrangements and processes to strengthen cross-ministerial collaboration on SME policy issues would be of value in improving policy coherence and co-ordination, reducing overlaps in policy supports and programmes and addressing policy gaps. Deficiencies in the policy monitoring and evaluation system are also addressed. The chapter concludes with a summary of recommendations to aid the government in making improvements to the policy framework, policy co-ordination and monitoring efforts, and policy delivery arrangements.

Introduction

SME and entrepreneurship support is a complex and multi-faceted area of public policy that involves a large number of public entities and stakeholders. The provision of impactful support to SMEs and entrepreneurs requires an effective and well co-ordinated approach to designing and delivering policies and programmes, with robust mechanisms for stakeholder consultation and monitoring and evaluation. The need for this is reflected in the following elements of the OECD Recommendation on SME and Entrepreneurship Policy (OECD, 2022[1]):

- Recommendation 1: Co-ordinating and aligning SME and entrepreneurship policy across government entities and levels through effective governance mechanisms and place based-approaches, in line with each country's institutional setting, circumstances and needs.
- Recommendation 2: Ensuring that implications for SMEs and entrepreneurs are considered across the diverse policy areas that influence their prospects and outcomes in order to enhance policy synergies, address potential trade-offs and reduce administrative burdens, including through increased attention to their specificities and circumstances in policy and regulatory design, SME tests and evaluations, consultation mechanisms, streamlined processes and user-centric approaches in implementation.
- Recommendation 3: Taking account of the diversity of SMEs and entrepreneurs throughout policy making, by assessing implications for different types of SMEs, entrepreneurs and self-employed, adopting policy relevant typologies and collecting granular data on SME and entrepreneur key features, performance and behaviour.
- Recommendation 4: Setting up robust monitoring and evaluation mechanisms that systematically assess policies for their SME and entrepreneurship impacts, using relevant data and methodologies and feeding results in new policy initiatives.

The remainder of this chapter reviews the strategic framework and delivery arrangements for SME and entrepreneurship policy in Egypt, with consideration of each of the above elements of the OECD Recommendation. It concludes with a series of recommendations for the Egyptian government to strengthen its framework for SME and entrepreneurship policy development.

The SME and entrepreneurship policy framework

The policy framework for SME and entrepreneurship development in Egypt is guided by the following:

1. Egypt Vision 2030, the national development and sustainability plan.
2. The Micro, Small and Medium Enterprises (MSMEs) Development Law Number 152 of 2020 (the MSME Law).

This section reviews and assesses these key elements of the SME and entrepreneurship policy framework in Egypt. It also presents a series of considerations for the new national strategy for SMEs and entrepreneurship, which is currently being developed by the Micro, Small and Medium Enterprises Development Agency (MSMEDA), the designated responsible entity for SME and entrepreneurship development in Egypt.

Egypt Vision 2030

The *Sustainable Development Strategy: Egypt's Vision 2030, released in 2016,* is the Government of Egypt's national development plan. The strategy was developed in consultation between government agencies, civil society representatives, and national and international development partners to set comprehensive objectives for all pillars and sectors of the country, covering the economic dimension, the

social dimension and the environmental dimension, and to serve as the base for short and medium term development plans for inclusive development at the national, local and sectorial levels (Ministry of Planning, Monitoring and Administrative Reform, 2016[2]). The strategy document stresses the importance of SME and entrepreneurship development in achieving the country's goal of increasing the private sector's role in the economy. It places particular emphasis on enabling the growth of existing SMEs to create jobs and foster exports and on fostering innovative, high-impact start-ups. The document outlined several related policy directions and actions to be pursued by a range of government ministries. These included:

- Encouraging innovation and entrepreneurship;
- Promoting entrepreneurship through education and training initiatives;
- Promoting e-commerce and export activity among SMEs;
- Developing SME-inclusive industrial clusters and strengthening linkages between SMEs and larger enterprises;
- Developing a comprehensive programme to stimulate innovation activities by SMEs, including establishing entrepreneurship incubators to foster innovative start-ups and SMEs;
- Supporting linkages between SMEs and the scientific research and innovation system;
- Developing innovation and systems management of intellectual property rights in SMEs;
- Enabling SMEs' access to government procurement opportunities;
- Facilitating SMEs' access to financing;
- Identifying opportunities for SME and entrepreneurship development across named sectors, such as the agro-industrial sector, industrial sectors, and technology sectors; and
- Developing a package of incentives for integrating informal sector businesses, for example, in the areas of taxation, training, land and technical services.

In response, government ministries are directed to align their own policies and initiatives with the aims and objectives of the Egypt Vision 2030 strategy according to the scope of their ministerial mandates. The Ministry of Planning, Economic Development and International Cooperation is tasked with monitoring its implementation.

In light of the many changes in the national, regional and global context since the launch of Egypt Vision 2030 in 2016 (such as, the COVID-19 pandemic, the coming into force of the African Continent Free Trade Area/AfCFTA Agreement and the Russia-Ukraine war), the Ministry of Planning, Economic Development and International Cooperation released an updated version of the Egypt Vision 2030 strategy in 2022 (Ministry of Planning and Economic Development, 2022[3]). The updated strategy continued to reinforce the role of SMEs by stating "supporting SMEs" as one of the seven enablers to achieve the goals of Egypt Vision 2030 through a number of priority strategic actions. These included: digital transformation and technological development of SMEs; enhancing the productive abilities SMEs to integrate into local and global value chains; integrating informal enterprises into the formal economy; directing scientific research and innovation to help SMEs improve productivity and develop innovative products; facilitating the participation of SMEs in public procurement; improving the level of support services to SMEs in the areas of accounting and marketing; increasing the contribution of SMEs to exports; expanding dissemination of the culture of entrepreneurship, providing technical support, and enhancing the administrative, productive and innovative capabilities of entrepreneurs and SMEs; facilitating access to credit and guarantees, providing innovative financial services to increase access to alternative financing sources (such as venture capital, factoring and leasing), and increasing financial literacy; and expanding the geographical and sectoral spread of business incubators and growth accelerators. The updated strategy also places a priority on stimulating the green transition of industry, which has implications across the SME sector as well.

MSME Law 152/2020

The MSME Law 152/2020, in force as of 15 July 2020, repealed and replaced the Small Enterprise Development Law Number 141 of 2004 (Law 141/2004). It deals with both SMEs and entrepreneurship, providing further specification on the financial and non-financial incentives related to SME development and covering important points related to informal economy projects. MSMEDA is the designated authority for the implementation of the MSME Law.[1]

The new law differs from Law 141/2004 in several areas:

- **Coverage:** the MSME Law covers medium-sized enterprises as well as micro and small businesses.
  - **Definitions:** the MSME Law 152/2020 introduces new definitions for:
  - **Micro, small, and medium enterprises**: Law 152/2020 establishes specific definitions for micro, small and medium enterprises. By contrast, Law 141/2004 only included a definition for small enterprise, which differentiated between micro and small based on paid up capital. Unlike the definitions for MSMEs commonly applied in other countries, the definitions in the MSME Law 152/2020 do not include the number of employees, referring only to annual turnover for existing enterprises and/ the value of paid-in or invested capital for newly established enterprises (see Box 2.1 in the chapter of this review on SME and Entrepreneurship Performance and Characteristics).
  - **Newly established enterprise: defined in** Law 152/2020 as an enterprise established, registered or in operation for no more than two years.
  - **Entrepreneurial enterprise:** defined as an enterprise established no more than seven years ago that relies on creativity or innovation, according to parameters set by the MSMEDA Board.
  - **Informal economy enterprises:** The new law defines an “informal economy” enterprise as an MSME without an operating licence or construction permit and without any other licence or authorisation required for it to operate.
- **Incentives:** the MSME Law 152/2020 expands the financial and non-financial incentives for qualifying SMEs. It also applies a simplified tax system for SMEs and includes measures to encourage the formalisation of informal enterprises (see Box 4.1 for a more detailed description of the incentives contained within the law).

A key feature of the MSME Law is the stipulation that an annual appropriation from the government budget of up to 0.3% of GDP and not less than EGP 1.5 billion (approximately EUR 45 million[2]) be allocated for the purpose of supporting the development of SMEs. However, the law does not specify the sources of the funding, leaving the issue to be resolved on a year-to-year basis in each government budget. The annual appropriation is also not monitored, meaning that data are not readily available on the amount and nature of budgetary support for SME and entrepreneurship development. Being able to collect and monitor data on the SMEs and “supporting entities” taking advantage of the incentives under the MSME Law by categorical type (and qualifying sector) would be a first step in being able to monitor the annual State budget allocation for SME development.

The MSME Law does not set out the institutional structure or oversight mechanism for ensuring its implementation beyond naming MSMEDA as the mandated authority. In other countries, an SME law would commonly stipulate the creation of a committee to oversee the development of an SME policy agenda and implementation workplan, recognising the horizontal, cross-ministerial nature of SME policies and the need for policy co-ordination. Proposals for implementing such a co-ordination mechanism in Egypt are presented in the policy co-ordination section of this chapter. An important step that has been taken already in Egypt is the creation of a permanent committee within MSMEDA for monitoring the implementation and activation of the MSME Law. Another weakness of the MSME Law is that it does not

require any annual reporting on its implementation nor on the state of the SME sector, which is often a component of SME laws in other countries.

Box 4.1. Summary of incentives under the MSME Law 152/2020

Tax incentives

One of the major incentives in the MSME Law is the provision of special tax rates for MSMEs. Under the law, micro enterprises are subject to income taxes of EGP 1 000 to EGP 5 000, depending on their annual revenues, while small and medium enterprises are subject to corporate income tax of between 0.5% and 1%, depending on annual revenues. The law also allows for the Minister of Finance to issue special regulations with more simplified record-keeping procedures for MSMEs.

The MSME Law further provides SMEs (including informal enterprises that apply for formalisation) with a 5-year exemption from stamp duty tax and government fees for: filing articles of association, credit facilities agreements, and land registration. Formally-registered SMEs also benefit from a fixed tariff of 2% that is applied on imported equipment and tools and an exemption from the capital gains tax on the disposal of assets or machinery when any gains are used for the purchase of new assets/machinery within 1 year. These tax incentives may only be granted to SMEs that maintain regular financial books and records.

Other incentives

Under the law, SMEs can benefit from non-tax incentives including: the allocation of land with special provisions, support to cover the costs of providing technical training to their workers, the partial or full reimbursement of the cost of participating in exhibitions, and the facilitation of social security procedures and costs for micro enterprises. SMEs qualify for these incentives if they operate in the following sectors: digital transformation and artificial intelligence; agriculture and livestock; information technology; industrial and technological sectors, where the SMEs are providing innovations; and new and renewable energy. In addition, SMEs that work on increasing the use of local Egyptian components in their products may also qualify. The MSME Law also exempts entrepreneurial enterprises from the fees for registering patents, utility models and design plans.

Under certain conditions, financial institutions and other entities licensed to finance or provide facilities to MSMEs, as well as incubators and accelerators (“supporting entities), can also benefit from these non-tax incentives.

Streamlining licencing, land allocation and government procurement procedures

The licencing procedures for new MSMEs are to be facilitated through the establishment of MSME service units that issue all relevant authorisations and licenses (e.g. MSMEDA’s dedicated one-stop shops, and service units within the General Authority for Investment and Free Zones). These units may issue temporary licences for MSMEs to operate while they await final approvals from the necessary government entities. The law also includes provisions to help SMEs secure land and operational facilities, including the allocation of at least 30% of available space in industrial zones, touristic areas, urban communities and reclaimed agricultural land, with cost advantages. Additionally, the law requires that 40% of governmental contracting is conducted with MSMEs, with certain public procurement tenders to be exclusively for micro and small enterprises.

Encouraging formalisation

Under the MSMEs Law, informal enterprises can request a temporary licence valid for up to 5 years, followed by a request for a final license in the fifth year. The temporary license enables the enterprises to benefit from incentives under the law and provides a pathway to full formalisation.

Source: (Shehata, 2020[4])

The MSME and Entrepreneurship National Strategy and Operational Plan 2017-2022

In consultation with stakeholders, MSMEDA developed Egypt's first MSME and Entrepreneurship National Strategy and Operational Plan for the period 2017-2022, although this strategy was never formally approved (Ministry of Trade and Industry, 2017[5]). The higher-level objectives of the strategy were to: 1) increase the number of registered MSMEs; 2) increase the number of start-ups surviving early years of business; 3) increase the number of new jobs in MSMEs; 4) increase MSMEs' exports; 5) improve competitiveness in the MSME sector; and 6) achieve a greater uptake of innovation by MSMEs. These objectives were to be benchmarked against the value of selected performance indicators in 2016, although the baseline data for 2016 were not included in the strategy document and concrete targets were not set for the "rate of increases or improvements" to be achieved by the end of the strategy.

The strategy was appropriately structured around five policy themes:

1. Legal and Regulatory Environment: Reduce the administrative burden, simplify the regulatory environment for MSMEs, establish the legal framework of MSMEDA, and institutionalise the co-ordination and implementation of the strategy.
2. Access to finance: Strengthen access to finance, including the diversification of financing products and innovative tools.
3. Entrepreneurship promotion: Improve the entrepreneurial culture, including through awareness and entrepreneurship education.
4. Exports and integration into value chains: Expand the capacity of MSMEs to integrate in local and global value chains, including with a sectoral approach to cluster development.
5. Business development services: Improve access to business development support, including access to market information, and labour skills development.

Cross-cutting themes to be embedded in the actions of each policy theme were: women's entrepreneurship, technology and innovation, and environment.

Under each of the five policy themes, the strategy outlined a comprehensive set of policy actions. While performance indicators were specified for the activities and outputs of the policy actions, these were not generally quantifiable, instead more output-focused (e.g. "training delivered", "improved access to the schemes in place", or "law strengthened"). This makes it difficult to assess the overall impact of the strategy on SME and entrepreneurship development in Egypt. Another issue is that specific activities in the operational plan were not well aligned with the strategy's target groups, among which were women- and youth-owned businesses, micro and informal businesses, high-growth oriented MSMEs, highly innovative MSMEs, and MSMEs in high-growth sectors and value chains.

The strategy document stated that a review of the strategy would be commissioned in 2022, however, this was not done. A cursory review of the tasks, activities and outputs in the strategy document suggests that a number of activities were carried out, but many do not appear to have been executed. Without a formal stock-taking review (what was done, not done) and assessment of the implementation of the 2017-2022 strategy, is it not possible to comprehensively identify the outstanding policy gaps for inclusion in the new strategy.

Considerations for the new National MSME Strategy

MSMEDA is currently in the process of developing the new MSME strategy, considering various factors such as baseline data, consultation with stakeholders, and the design of key performance indicators for implementation. Topics to be covered in the strategy include innovation, the green economy, digitalisation, the internationalisation of MSMEs, and sector-specific measures. In addition to this, the strategy will take into account the nature and needs of MSMEs, as well as entrepreneurial ventures. It will also address

economic changes at both the international and local levels, all within the framework of Egypt's Vision 2030 and Phase 2 of the economic and structural reform program.

This section discusses a number of considerations that should be taken into account in formulating the new national strategy, which is to be co-ordinated by MSMEDA but to involve many actors.

Changing context

In formulating the new national strategy, MSMEDA should consider changes in the environment for SMEs and entrepreneurs that have taken place in recent years, in particular the passage of the MSME Law. The new strategy should reflect stipulations in the MSME Law with respect to strengthening support entities, such as business incubators and accelerators and other important policy directions such as supporting the formalisation of SMEs operating in the informal economy. It should also take into consideration the lessons learned from the impact the COVID-19 pandemic on the delivery of public services to SMEs and whether for example, new, more virtual ways of working, could be effectively added to the new policy delivery environment. The new strategy and operational plan should also align with the prescribed policy directions laid out in the Updated Egypt Vision 2030 released in November 2023 (see earlier section of this chapter on Egypt Vision 2030), and reflect the changing economic environment which drove that updating process, such as the negative repercussions of the COVID-19 pandemic, inflationary and exchange rate pressures on the Egyptian economy, the Russia-Ukraine war economic and trade-related opportunities presented by the AfCTFA, technological advances of the digital economy transformation, and transition to the green economy and greening of industry. All of these contextual changes have implications for entrepreneurship and SME development.

Furthermore, the new strategy should reflect a growing number of new policy initiatives, such as from the Ministry of Planning, Economic Development and International Cooperation's "Rowad 2030" project (2017-2022), which evolved into the Egypt Entrepreneurship and Innovation Centre (EEIC) in mid-2023. This included the objective of generating one million new entrepreneurs and 50 000 start-up companies by 2030 and focused on building an integrated and inclusive entrepreneurial ecosystem that enables young people to establish businesses.[3] The EEIC is also developing a national index to measure entrepreneurship and innovation with the aim of improving Egypt's international rankings in these areas. The index will be issued annually based on the collected and analysed data from the Entrepreneurship Observatory being developed by the EEIC.[4]

The new strategy should seek policy coherence by integrating a range of different policy initiatives of other government entities (identified through the consultation process), which will also serve to strengthen co-ordination activity as the strategy's operational plan is being implemented.

Higher-level objectives and targets

The five higher-level objectives stated in the 2017-2022 national SME and entrepreneurship strategy, although may still apply in the new strategy, should be carefully reviewed in consultation with other government policy stakeholders. In addition, quantifiable and measurable targets should be set for each of these objectives, based as much as possible on baseline year data, and the availability of data sources to measure changes over time. For example, the Turkish SME Strategy and Action Plan 2015-2018 quantified its macro-level targets as such: Increasing SME exports to USD 150 billion; Increasing the number of exporter SMEs to 60 000; Maintaining the share of R&D expenditures of business sector SMEs at the level of 33%; and Employing 3 million new people within SMEs by 2018 (KOSGEB, 2015[6]).

Key performance indicators (KPIs) for each of the strategy's policy pillars should also be developed (which was not consistently done in the 2017-2022 strategy and operational plan).

Thematic focus

National strategies are designed to address the specific concerns facing SMEs and entrepreneurs. The OECD's review of SME and entrepreneurship policy frameworks across OECD countries identified commonalities in the range of policy areas addressed in their SME strategies. These include innovation, digitalisation, internationalisation, skills, access to finance, reduction of administrative burden, and sustainability (OECD, 2021[7]). The reviewed strategy documents indicate a strong focus on entrepreneurship as well as on actions to foster the competitiveness and productivity of existing SMEs. Recent national SME and entrepreneurship strategies also have a strong policy emphasis on digitalisation to improve SMEs' market access and value chain integration and on greening technologies to address environmental challenges. For example,

In consultation with stakeholders, the new national SME and entrepreneurship strategy for Egypt should revisit the policy pillars of the previous strategy and make adjustments to reflect new realities in the Egyptian context. The goal of this sixth pillar would be to increase the utilisation of information and communication technologies and promote technology-based financial services. This is fairly well aligned with the thematic focus of SME and entrepreneurship strategies in other countries. In this regard consideration should be given to thematic emphasis on the following areas:

- The digital transformation and technological development of SMEs, increased utilisation of ICT, digital tools, and the automation of industrial SMEs to enable them to compete in the Industry 4.0 environment.
- The greening of SMEs to support them in meeting the environmental and greening standards of potential markets.
- Access to markets, including: i) building the capacity and skills of SMEs for exporting their products and improving their access to global markets (e.g. adoption of e-commerce, trade-readiness)[5]; ii) improving the integration of SMEs in local and global value chains; and iii) preparing the readiness of SMEs to participate in the public procurement market.
- Enhanced policy directions and actions for improving the business management skills of existing SMEs and upgrading the skills of SMEs' workers.
- Integrating informal enterprise into the formal economy.
- Access to financing, including alternative financing sources and fintech options, and enhanced financial literacy.
- Fostering the culture of entrepreneurship and supporting the development of innovative start-ups.

There are also still many laws and regulations that hinder (or even contradict) the effective implementation of the MSMEs Law. The Egyptian Regulatory Reform and Development Activity (ERRADA) has identified areas that need to be addressed (ERRADA, 2023[8]), but the response to addressing these issues has been very slow. The new national strategy will therefore need to identify specific actions to improve the regulatory environment for SMEs and start-ups in Egypt.

Target groups

The new national strategy should strengthen the policy emphasis on high-potential start-ups. Although the 2017-2022 strategy did include policy objectives and actions to stimulate business start-ups, stakeholders continue to express concerns that the needs of start-ups are not being adequately addressed by policy initiatives (ERRADA, 2023[8]; RiseUp, 2018[9]). High-potential start-ups typically occupy a different demographic group than traditional start-ups and require distinctive policy attention, for example by simplifying laws and regulations, improving access to risk finance or providing incubation and mentoring services. It should also place a greater emphasis on women's entrepreneurship (not only as a cross-cutting theme, but with more deliberate intent) and also on young entrepreneurs

Co-ordination and implementation

National SME strategy documents in OECD countries typically include a section outlining governance arrangements for the implementation of the strategy, noting the responsible ministries and agencies involved in policymaking and proposing intra-governmental (horizontal) and inter-governmental (vertical) co-ordination mechanisms to ensure policy coherence (OECD, 2021[7]). While Egypt's 2017-2022 National MSME and Entrepreneurship Strategy made clear that MSMEDA would be responsible for its overall implementation, the operational plan did not specify the responsible entities or timelines for the implementation of specific tasks and activities. It also did not outline the mechanism to be used by MSMEDA in co-ordinating the delivery of the various tasks and activities and for monitoring progress in the implementation of the strategy. The new national strategy should address these issues and include a description of the governance structure for its implementation.

The new strategy should also include provision for a mid-term review of its implementation status, and a final evaluation, which would include a complete stock-taking of its implementation performance.

Policy co-ordination across ministries and government agencies

MSMEDA is the designated public entity for SME development and its policy co-ordination

Since 2017, MSMEDA has been the designated public entity responsible for SME and entrepreneurship development in Egypt and the co-ordination of national SME and entrepreneurship policies. MSMEDA was initially established by Prime Ministerial Decree Number 947/2017. An amendment to the Decision (Decree No. 2370/2018) brought MSMEDA under the direct supervision of the Prime Minister. MSMEDA is governed by the MSMEDA Board, which is chaired by the Prime Minister and comprised of six ministries (ministers of Industry, Investment and Foreign Trade, Finance, Planning and Economic Development, International Cooperation, Communications and Information Technology, and Local Development), the Governor of the Central Bank of Egypt (CBE), the Head of the Financial Regulatory Authority (FRA), and five specialists in relevant fields.

MSMEDA's mandate includes responsibility for SME policy and strategy development and the design, execution and co-ordination of SME and entrepreneurship support programmes. It also covers the monitoring and evaluation of the SME sector's performance as well as legislative and regulatory oversight, particularly in relation to the streamlining of licencing procedures for start-up activity. In addition, MSMEDA is responsible for implementation of the MSME Law 152/2020, making recommendations on all legislation and international treaties relevant to the provisions of the MSME Law, and advising on all legislative matters on subjects covered by the law.

Recent changes in Egypt's governance structures have drawn a clear distinction between SMEs and entrepreneurship in policy development, which must also be taken into consideration in the policy co-ordination issue. In June 2023, the government established a Permanent Entrepreneurship and Start-ups Unit in the Egyptian Cabinet to propose appropriate policies, laws, and regulations to improve conditions for start-up companies and their growth trajectory. The unit, which is chaired by the executive director of the General Authority for Investment and Free Zones (GAFI), includes representatives from MSMEDA, GAFI, five ministries (Supply and Internal Trade, Planning, Economic Development and International Cooperation, Finance, Communications and Information Technology, and Industry, Investment and Foreign Trade), the Central Bank of Egypt (CBE), and the Financial Regulatory Authority (FRA). The Permanent Unit is responsible for co-ordination between the concerned entities in order to create a conducive environment for start-ups in Egypt, develop solutions to their legal and procedural challenges, build capacities to provide technical support to start-ups and supporting entities, and provide a platform to

respond promptly to the complaints of start-ups.[6] The Unit reports to the Prime Minister on the results of its work on a quarterly basis, along with recommendations and proposed implementation mechanisms and is currently in the process of developing a national start-up strategy. The relationship between MSMEDA and the Permanent Unit has to date been very positive, a favourable condition for their future policy co-ordination roles. Otherwise, there will likely be a considerable amount of confusion in the public domain regarding policy support for SMEs versus policy support for start-ups. In this regard, MSMEDA is taking steps to create a clear framework for the co-operation and co-ordination between the relevant three parties.

The institutional framework for MSME and entrepreneurship development in Egypt is fragmented across multiple institutions

SME and entrepreneurship policy is horizontal, transcending the scope of any one ministry or agency. Important issues for MSME and entrepreneurship development that lie outside the mandate of the ministry or agency responsible for SMEs include taxation, regulatory affairs, employment, education, digital transformation, science and technology, innovation, international trade, and public procurement. The ministries or agencies with responsibility for these different areas vary among countries, but the implication is clear: managing a national MSME and entrepreneurship policy agenda requires inter-ministerial co-ordination. The main purpose of this is to ensure policy coherence in the design, development and implementation of the MSME and entrepreneurship policy framework and to mitigate the risks of fragmentation, duplication, and gaps.

In the case of Egypt, although MSMEDA is the main government entity responsible for SMEs, many other ministries, agencies and governmental bodies also implement polices and measures to support MSME and entrepreneurship development. Table 4.1 provides an overview of these governmental institutions. Some of these entities have authority over one type of support and/or a specific sector(s), while others have a general overarching authority. Co-ordinating the policy measures and actions of these diverse government entities – as well as those of international co-operation partners and donors – is essential in supporting MSME and entrepreneurship development in Egypt.

Table 4.1. Main governmental institutions involved in MSME and entrepreneurship policy

Governmental institution	Scope of MSME and entrepreneurship policy
MSMEDA	Designated responsible authority for implementing the MSME Law 152/2020 and developing and co-ordinating national SME policies across entities.
Permanent Entrepreneurship and Start-ups Unit, Prime Minister's Office	Responsible for proposing appropriate policies, laws, and regulations to improve conditions for start-up companies and their growth trajectory. Chaired by the Executive Director of the General Authority for Investment and Free Zones (GAFI). MSMEDA is a member of the Permanent Unit.
General Authority for Investment and Free Zones (GAFI)	Leading public agency in charge of investment policy, regulation, promotion, and facilitation of foreign and domestic investment in Egypt. Promotes Egypt's high-potential sectors to attract foreign investment. Manages free zones and investment zones to accelerate the expansion of competitive strategic clusters. Has an Entrepreneurship and Innovation Unit, which supports entrepreneurs and stimulates innovation.
Ministry of Industry	The National Strategy for Industrial Development 2022/23-2026/27 includes a thematic pillar on developing industrial MSMEs to stimulate, enable, and facilitate commercial innovation. The Ministry is responsible for a number of agencies engaged in delivery of policy support in the areas of: i) SME competitiveness (Industrial Modernization Centre), ii) technical support for industrial enterprises (Technology and Innovation Centres), and iii) investment and land development policies (Industrial Development Authority). The Industrial Development Authority sells industrial complexes and pieces of land to industrial SMEs and presents a number of projects within the framework of the Ministry of Industry's plan to support the SME sector, such as the "Your Factory is Ready with Licenses" initiative that aims to launch 22 specialised industrial complexes for SMEs in 14 governorates.
Ministry of Investment and Foreign and Trade	New ministry established in July 2024. Responsible for attracting local and foreign investment and bolstering Egypt's exports and trade volume and foreign direct investment. Responsible for agencies engaged in the delivery of policy support in the area of exports (e.g. the Export Development Authority, the General Organisation for Export and Import Control). Developing a plan for the upcoming phase to achieve Egypt's ambitious target of reaching USD 100 billion in annual commodity exports and to maximise the advantages offered by the Export Support and Burden Rebate programme.
Ministry of Communications and Information Technology (MCIT)	Adopts policies to promote entrepreneurship, self-employment, and technological innovation in the information technology sector, with considerable policy support for MSME digitalisation. Responsible for policy implementing bodies, such as: i) the Information Technology Industry Development Agency (ITIDA) to spearhead development of the information technology industry, and ii) the Technology Innovation and Entrepreneurship Centre (TIEC) to support entrepreneurs and start-ups in the ICT sector.
Ministry of Higher Education and Scientific Research (MHESR)	MHESR's new ministerial strategy includes "Entrepreneurship and Innovation" as a policy pillar. Implements programmes such as the Innovators Support Fund and Researcher to Entrepreneur initiative, and provides support for entrepreneurship activities within Egyptian universities.
Ministry of Education and Technical Education	Policy for integration of entrepreneurship in the technical and vocational education and training system; improvement and enhancement of workforce skills; e-learning.
Ministry of Planning, Economic Development and International Cooperation (MPEDIC)	Sets the overall objectives of economic development and proposes economic policies to achieve them. Formulates and monitors the implementation of the Egypt Vision 2030 strategy in co-ordination with ministries and stakeholders. Ensures consistency of sectoral strategies and plans with the development strategy, including for entrepreneurship and innovation. Participates in the development and monitoring of programme and performance plans. Responsible for developing the "Strategic Directions for the Egyptian Economy for the Period 2024-2030". Responsible for the Egypt Entrepreneurship and Innovation Centre, which aims to build an integrated and inclusive entrepreneurial ecosystem in the national economy through four pillars: education and training; entrepreneurship awareness campaigns; business incubators; and capacity building for government officials.
Ministry of Manpower	Responsible for labour policies and skills training for workforce entry, including the offer of self-employment training to the unemployed or marginally-employable.
Ministry of Social Solidarity	Policies to support social enterprise.
Central Bank of Egypt	Supervisory and regulatory authority for the banking sector, including requirements for lending to MSMEs. Responsible for development and implementation of the National Financial Inclusion Strategy (2022-2025), which includes the financial inclusion of MSMEs as one of the priority target groups. Policy support for entrepreneurship through the NilePreneurs Programme and Business Development Services (BDS) Hubs.
Financial Regulatory Authority (FRA)	Supervisory and regulatory authority for non-bank financial institutions, capital markets, and instruments. Responsible for implementing the Microfinance Laws No. 201/2020 and No. 155/2022, regulating the licencing of microfinance non-governmental organisations and microfinance companies to deliver microfinancing to micro enterprises, in addition to SMEs. Responsible for implementing Law No. 175/2018 on the licensing of leasing and factoring institutions.
Ministry of Finance	Taxation policy, including special taxation rules for MSMEs. Monitoring compliance of public procurement entities with MSME procurement rules under the 2018 Public Procurement Law. Disbursement of the Export Support Fund and Innovators Support Fund.

Egyptian Regulatory Reform and Development Activity (ERRADA)	Affiliated to the Egyptian Cabinet, under supervision of the Ministry of Planning, Economic Development and International Cooperation. Mandated to reform the Egyptian legislative and regulatory framework in view of enhancing policymaking, stimulating businesses, and encouraging investment, including through establishment of a dialogue between government and businesses. Short-term focus on investment, trade, MSMEs, and access to finance for start-ups for better regulation, less bureaucracy, and more digital services.
National Council for Women (NCW)	Independent national council affiliated to the office of the Egyptian President mandated to promote, develop and protect women's rights and freedoms, including their economic empowerment. Responsible for developing co-ordinated policy and actions across concerned entities via the National Strategy for the Empowerment of Egyptian Women 2030, including increased participation of women as entrepreneurs and MSME owners and equitable access to all financial and non-financial services.

Egypt is taking positive steps to facilitate horizontal policy coherence and co-ordination

The approach to promote SME and entrepreneurship policy co-ordination and oversight often adopted in other countries is to establish an inter-ministerial SME and entrepreneurship council represented by key ministries relevant to the SME and entrepreneurship policy agenda. The composition and size of the council will vary by country depending on the implicated roles of specific ministries, but the general mandate of these councils is to formulate policies and plans for the development of SMEs and entrepreneurship across government, as is the mandate of MSMEDA in Egypt. Commonly, this includes setting the broad policies, strategic directions and policy measures for an integrated, co-ordinated effort, and annual reporting of the results of policy implementation based on the monitoring of policy measures.

In September 2024, the Prime Minister of Egypt issued a decree for the establishment of a Ministerial Group on Entrepreneurship, outlining its structure and objectives. Its primary mission is to foster entrepreneurship, enhance the capacity of start-ups and bolster Egypt's entrepreneurial landscape to achieve sustainable and accelerated growth. The goals of the Group include co-ordinating government efforts to implement supportive policies for start-ups, maximising the local economy's benefit from these new enterprises as a driver of rapid growth, assisting start-ups in accessing international markets, and linking innovative solutions provided by new businesses to sectoral challenges. The Group also aims to address the migration of entrepreneurs outside the country by supporting female and young entrepreneurs and backing their start-ups.

The Ministerial Group, chaired by the Ministry of Planning, Economic Development and International Cooperation, includes the ministers of Communications and Information Technology, Higher Education and Scientific Research, Supply and Internal Trade, Investment and Foreign Trade, and Finance, the CEO of MSMEDA, and representatives from the Ministry of Industry, the Central Bank of Egypt and the Financial Regulatory Authority. It is responsible for approving a co-ordinated framework and a mechanism for its implementation and follow-up, creating and managing joint programmes to support start-ups with resource and expertise from different ministries, and proposing policies, laws, and regulations to achieve its main objectives. It will also ensure alignment among government activities and initiatives to prevent policy and legislative conflicts.

The Ministerial Group on Entrepreneurship does not focus on SME development per se, although its policy support for a more favourable entrepreneurship environment and for innovative and growth-oriented start-ups will, in the medium- and longer-term, lead to a stronger and more competitive SME sector. With respect to inter-ministerial governance of the SME development policy agenda, the representation of key ministries on the MSMEDA Board of Directors may be viewed as an alternate approach.

However, the focus of the board is directed primarily to the undertakings of MSMEDA a policy implementation and delivery entity in line with the government's overall policy priorities for SME development, e.g. the MSMEDA strategy and action plan. The membership of the Board may need broadening to have a sufficiently representative membership of all relevant ministries to drive an integrated whole-of-government approach to the national policy agenda for SME development.

…at the same time, MSMEDA's policy co-ordination role needs strengthening

MSMEDA has the dual roles of policy delivery and policy co-ordination. Its organisational structure has historically reflected a much stronger emphasis on the former, with the MSMEDA Head Office relatively well-structured for delivering its own corporate strategy and implementing policy measures over which it has organisational control, such as the programmes and services of the MSMEDA Regional Offices and one-stop shops. On the other hand, MSMEDA would in the past have benefitted from more resources and greater authority to fulfil its policy co-ordination role across national public institutions. To address this, MSMEDA has established a new Central Sector for Policies and Legislation within its organisational structure. The formation of this sector has been approved by the Board of Directors headed by the Prime Minister, in accordance with the growing importance attached to policy formulation and national co-ordination. One of the fundamental mandates for this new sector is to formulate policies and guide the implementation process regarding the national strategic directions. It is responsible for all functions related to the co-ordination of the MSME system, as well as for policy development and assessments.

The establishment of the Policies and Legislation sector is an important step towards strengthening MSMEDA's policy co-ordination function. It is critical to ensure that the sector is resourced with sufficient officers to assume responsibility for cross-government policy co-ordination, policy monitoring, and annual reporting on performance results.

Different options could be considered to further enhance MSMEDA's capacity to fulfil its cross-government co-ordination role. In some OECD countries, the approach is to establish a Technical Working Group within the ministry or agency responsible for SMEs and entrepreneurship. This group is comprised of working level officials from within the membership of the inter-ministerial council (OECD, 2021[10]). In Türkiye, for example, the Small and Medium Enterprises Development Organisation (KOSGEB) is responsible for the co-ordination and implementation of the SME Strategy and Action Plan (SSAP) under the guidance of the inter-ministerial SSAP Steering Committee chaired by the Ministry of Science, Industry and Technology.[7] The Steering Committee is responsible for co-ordinating the SSAP, taking overall steering decisions, providing direction to and approval of the SSAP, and monitoring the implementation of the SSAP. At the technical level, KOSGEB has established a working group of concerned ministries and agencies to assess the operating environment for SMEs, determine strategic focus areas and targets, and consider proposals for actions and projects to be executed in line with these focus areas and targets. The resulting SSAP presents an integrated action plan with various ministries and agencies accountable for delivering on designated actions/projects. Entities responsible for actions/projects within the scope of the SSAP prepare and submit to KOSGEB a twice-yearly progress report for each action/project in the format established by KOSGEB, which KOSGEB consolidates into an integrated progress report for review by the SSAP Steering Committee.

Another option used in some countries is for the ministry or agency responsible for SMEs to promote the establishment of focal point representatives within entities implicated in the development and delivery of SME and entrepreneurship policy measures. For example, in Malaysia, special SME Units have been established in each of the ministries and agencies involved in SME development (17 ministries and more than 60 agencies), which work collectively with the central agency for SMEs on policy and programme integration and delivery.

In the Egyptian context, many ministries and agencies have established Entrepreneurship and Innovation Units that may be potential focal points for MSMEDA in its policy co-ordination efforts, such as GAFI, the Ministry of Industry, the Ministry of Planning, Economic Development and International Cooperation, the Ministry of Investment and Foreign Trade, the IMC, the Export Development Authority (EDA), the Technology Innovation and Entrepreneurship Centre (TIEC), the Academy of Scientific Research and Technology (ASRT), and ERRADA. MSMEDA would then organise monthly or bi-monthly group sessions with the focal points to work on co-ordination and monitoring issues.

Policy dialogue with the private sector and stakeholders

The government of Egypt consults extensively with private sector stakeholders when it is designing national development plans, such as the Egypt Vision 2030 strategy and strategic directions for the Egyptian economy, or proposing business environment reforms, including legislative or regulatory changes. MSMEDA consults with the private sector on SME and entrepreneurship policy issues on an ad hoc basis, primarily during the process of developing the national strategy and action plan. These stakeholders would include the Federation of Egyptian Industries, Alexandria Business Association, Federation of Egyptian Chambers of Commerce (FEDCOC), Egyptian SMEs Association, Businesswomen of Egypt 21 Association, the Egyptian Young Entrepreneurs Network, and possibly the Federation of Egyptian Banks, and Egyptian Federation for Financing Medium, Small and Micro Projects. Other stakeholders, such as Endeavor Egypt, the AUC Centre for Entrepreneurship and Innovation, Flat6Labs accelerator, and others may also be consulted. However, there is no formal or regularised mechanism for consulting with or seeking feedback from private sector SME stakeholders.

Consultations between international donors and government and non-governmental organisations may take place through the SME donor co-ordination group. Exchanges via this group occur more regularly than the private sector consultations yet remain variable in terms of frequency. While the donor co-ordination group is focused on exchange among international co-operation partners and donor organisations who are funding or delivering SME and entrepreneurship programmes, government actors and quasi-government actors, such as MSMEDA, and private sector actors are often invited to participate in the co-ordination group meetings.

Although government ministries and MSMEDA do have some consultation procedures in place, it would be beneficial to create more formal and regular mechanisms for public-private sector dialogue. This would enable the views of entrepreneurs, business owners and other private sector actors to be more consistently incorporated within the policymaking process. Many OECD member countries have established SME and entrepreneurship advisory committees as a means of facilitating a more structured public-private dialogue with the private sector, notably SME associations. The membership of these committees is generally broad and includes chambers of commerce and industry, small business associations, business support organisations, SME financing institutions, business leaders, and independent experts (OECD and UNIDO, 2004[11]). These committees are generally tasked with examining the implementation of the SME and entrepreneurship policy framework, reviewing current policies, strategies and plans, advising on new strategies and interventions, and providing feedback on the institutional landscape to express how the delivery of supports to SMEs and entrepreneurs could be made more efficient and cost-effective. The SME advisory committee can also help to identify emerging SME and entrepreneurship issues and suggest measures that could be implemented to mitigate the issues. For example, the German Federal Ministry of Economic Affairs and Energy established an SME Advisory Board to advise the Minister on the likely impact on SMEs of structural changes in the domestic and global economy, to analyse the effects of domestic economic policies on the SME sector, and to provide ideas on general SME-related issues; in Chile, the Smaller Companies Advisory Council plays an advisory role on SME policies to the Ministry of Economy, Development and Tourism; and in Ireland, regular formal consultations are held with SMEs through the Advisory Group on Small Business, chaired by the Minister of State for Enterprise, Trade and Employment (OECD, 2021[7]). The Ireland Department of Enterprise, Trade and Employment also makes use of online consultations to seek input from SMEs on its draft strategy documents.[8]

To enhance the current mechanisms for consulting with private sector stakeholders, MSMEDA should consider creating an MSME Advocacy Group that is inclusive of SME and entrepreneur associations, such as the SME associations and the Youth Entrepreneurs Association, in addition to the Federation of Egyptian Industries, FEDCOC and other relevant bodies. This would help to formalise the current ad hoc consultations and thus regularise dialogue with the private sector.

Such an MSME Advocacy Group would complement the Advisory Council established by the Permanent Unit on Entrepreneurship and Start-ups at GAFI, which is comprised of private sector experts and specialists from the entrepreneurial ecosystem. The Advisory Council has been formed to assist the Permanent Unit in achieving its primary goal of proposing policies, laws and regulations conducive to the growth and prosperity of start-ups in Egypt. During the first meeting of the Advisory Council in June 2024, it reviewed all results of the Unit to date and tasked with preparing a comprehensive action plan to be presented to the Unit.

A portfolio analysis of SME and entrepreneurship policy

One of the main challenges in managing SME and entrepreneurship policies across government is ensuring that the set of selected programmes and projects is the most appropriate for meeting strategic objectives, and that available budget resources are directed to the activities with the greatest returns on public investment. A policy portfolio analysis is a useful tool for meeting these challenges. The premise of this approach is that SME and entrepreneurship policy measures can best be seen not as standalone measures but instead as part of a broad portfolio of different programmes, each with strategic objectives that are in line with the government's current policy priorities.

An SME and entrepreneurship policy portfolio analysis considers the distribution of government spending by the main policy areas (e.g. entrepreneurship training, market and export development, innovation, access to finance, etc.) and by the main targeted populations (e.g. potential and nascent entrepreneurs, new start-ups, micro enterprises, innovative SMEs, etc.). It sheds light on the weighting of policy support towards different instruments or targets. This in turn helps in clarifying whether government spending on SME and entrepreneurship policy is balanced (e.g. an over concentration in one category versus another), given the policy framework priorities, and addresses the main development challenges faced by SMEs and entrepreneurs over the enterprise life cycle. It is also helpful in clarifying to government-wide actors where policy effort is being focused and in comparing results across activities. In conjunction with programme monitoring and evaluation, it can also help to channel public spending into the most beneficial measures. For example, undertaking evaluations of the key programmes to determine their cost effectiveness can assist in determining the appropriateness of the budget allocation across the portfolio.

In practice, the policy portfolio approach entails an analysis of all SME and entrepreneurship policy measures, broken down by policy category and stage of SME and entrepreneurship development.[9] This can be represented as a matrix of cells, which can be adapted to the country's particular policy context. A sample portfolio framework is provided in Table 4.2.

To populate this matrix, the first step is to identify all relevant policy measures and programmes. This requires a mapping of the SME and entrepreneurship-related instruments of all public entities working on SME and entrepreneurship issues, according to the main policy category, target beneficiary, and budget allocation of each instrument. This mapping is dependent on the co-operation, input, and verification of all public entities as part of a collaborative and integrated effort.

Each policy or programme is then be assigned to the most appropriate cell of the matrix, depending on the policy category and targeted enterprise segment. Each cell of the matrix is filled in with the cumulative total budget or expenditure of all programmes assigned to that cell. For example, the value in cell 1A of the matrix above would represent the total budget or expenditure for all policies and programmes that provide education and training or human capital development to pre-nascent entrepreneurs. The subsequent analysis of the completed matrix can help to increase transparency in the allocation of the budget portfolio and identify where there are relative gaps in policy support, and where a reallocation of resources could improve the performance of the policy portfolio and the return on government's budget investments.

Table 4.2. Sample portfolio framework for SME and entrepreneurship policy interventions

Policy and Programme Categories (focus areas)							
Enterprise Segments (A-G) (enterprise development stages)		1 Education and training, human capital development	2 Finance	3 Market access/ development	4 Technology and innovation	5 Capacity building and networks	Row totals
A	Pre-nascent	1A	2A	3A	4A	5A	
B	Nascent	1B	2B	3B	4B	5B	
C	Start-ups	1C	2C	3C	4C	5C	
D	Existing micro enterprises	1D	2D	3D	4D	5D	
E	Established SMEs	1E	2E	3E	4E	5E	
F	High-growth potential firms	1F	2F	3F	4F	5F	
G	Export-potential MSMEs	1G	2G	3G	4G	5G	
	Column totals						

By way of example, a policy portfolio analysis undertaken in the framework of the OECD Review of SME policy in Thailand revealed gaps in the funding of projects related to the pre-nascent, start-up and enterprise growth stages, as two-thirds of the budget expenditures (excluding financial assistance programmes) was directed to existing MSMEs. It also revealed that the bulk of the SME Development Agency's total project budget (again excluding finance measures) was spent on education and training, with considerable gaps in the internationalisation stage and in technology and innovation support. Gaps in addressing the needs of start-ups and the growth-phase of existing SMEs were identified as requiring further attention by the government and have since been responded to.

Limited information is available to conduct an SME and entrepreneurship portfolio analysis in Egypt

A fully-fledged policy portfolio analysis in Egypt is hindered by three main factors:

1. Although the MSMEs Law stipulates that the government will allocate up to 0.3% of GDP annually (and not less than EGP 1.5 billion) for the purpose of supporting the development of SMEs, to date, there has been no accounting of the budget allocation to SME and entrepreneurship policy support and how the budget is distributed.
2. A portfolio analysis requires a mapping of the SME- and entrepreneurship-related policy instruments of all public entities delivering SME and entrepreneurship interventions. This mapping should cover the objectives, beneficiary focus, and budget allocation of each instrument. Such an assessment therefore requires a collaborative effort involving all public entities. Until recently, other ministries/agencies were not directed to report to MSMEDA on their programme activities or expenditures to support SMEs, leading to a co-ordination and information-sharing failure.
3. A significant amount of funding for SME and entrepreneurship support measures and programmes comes from donor funding, and not from a government budget allocation. MSMEDA, for example, does not receive an allocation from the government budget. It reports self-sufficiency in its operational funding based on the fee revenue from the one-stop-shop services and interest rates earned from its lending activity, and its programme funding is largely secured by grants and credit lines from international co-operation partners.

As the designated co-ordinating body for SME policy, measures, and programmes in Egypt, MSMEDA would need to take the following steps to overcome these challenges and facilitate a policy portfolio analysis:

1. Ensure that the new National MSME Strategy reflects the integrated set of policy actions from all relevant public entities, according to the strategy's thematic pillars. The strategy should present an integrated action plan with input from the Egypt Entrepreneurship and Innovation Centre (EEIC), MPEDIC, GAFI, the Ministry of Industry, the EDA, the ITIDA and TIEC, the IMC, the CBE, NilePreneurs, and other relevant entities.
2. Secure the commitment of relevant public entities to provide MSMEDA with information and data on the implementation of their SME and entrepreneurship policy measures. This data should be broken down by target group and type of policy support (e.g. entrepreneurship training, export training, business advisory and consultancy services or cluster programmes). It should also include planned and actual budget expenditures and sources of funding (e.g. the government budget or a donor organisation).
3. Prepare a portfolio analysis matrix (see Table 4.2), which includes the different categories of policy support.
4. Populate the matrix with information from the relevant public entities on programme type, budget expenditures, target groups and number of beneficiaries. Totaling the columns and rows of the analysis matrix would then determine the indicated priorities by target group and category of policy measures. From this, inferences can be drawn on, for example, the emphasis on start-ups versus existing SMEs, or the existence of gaps in policy support.

Adopting the policy portfolio approach would provide the foundation for effective monitoring of the implementation of the policy and actions within the national SME and entrepreneurship strategy.

Policy delivery arrangements

This section outlines and assesses the delivery arrangements for SME and entrepreneurship policy measures and programmes in Egypt. The large number of government and public-supported entities involved in delivering policy measures is illustrated in Figure 4.1. Detailed descriptions and assessments of the SME and entrepreneurship support programmes can be found in the SME and Entrepreneurship Programmes chapter of this report.

Figure 4.1. Schematic of the main policy delivery structures for SME and entrepreneurship support in Egypt

Panel A: Entrepreneurship, start-up and business development support

- **MSMEDA –** 33 regional offices in the 27 governorates provide guidance to mostly micro and small enterprises, such as information, entrepreneurship training, advisory, technical and referral services; programmes to improve productivity, competitiveness and product quality of MSMEs; plus 31 One-stop shops facilitate the registration and licensing of micro, small and informal enterprises.
- **GAFI –** one-stop shops in GAFIbranches facilitate the incorporation of businesses for foreign and domestic investors (under the 2017 Investment Law) and approvals for the required permits and licenses from related entities; special unit for small investors; 14 Investor Services Centres; Information Portal for Investors.
- **Central Bank of Egypt** – 116 NilePreneurs BDS Hubs in partner bank branches, youth centres and universities in 24 governorates; NilePreneurs (NP) Programme for innovative start-ups in five universities; NP Incubate Programme.
- **National Council for Women (NCW)** – Women Business Development Centre focal points facilitate training in entrepreneurship, marketing, e-commerce, and market entry.
- **Industrial Modernization Centre (IMC)** – 15 branches in 12 governorates; deliver programmes to improve SME productivity
- **Ministry of Planning, Economic Development and International Cooperation (MPEDIC)** – Egypt Entrepreneurship and Innovation Centre works on building an integrated and inclusive entrepreneuriship ecosystem awareness campaigns, entrepreneurship education and training, and business incubator programme in governorates; Falak Startups Incubator, Orange Coners incubation programme.
- **Technology Innovation and Entrepreneurship Centres (TIECs)** – programmes to stimulate entrepreneurship among students, support start-ups and SMEs in the IT sector through incubation programmes and one-on-one consultancy services.
- **Information Technology Industry Development Authority (ITIDA) –** Startup Launch Pad delivered by AUC Venture Lab

Panel B: Innovation and technology support

- **Ministry of Industry** – 12 sector-focused Technology and Innovation Centres provide technology and innovation services and technical assistance to Egyptian industries.
- **Ministry of Communication and Information Technology (MCIT)** – 23 CREATIVA Innovation Hubs implemented by TIEC - digital innovation hubs/co-working spaces inside university campuses in 12 governorates for students, faculty, or local entrepreneurs to test the commercial and digital transformation potential of their ideas (ideation support, interaction with mentors, networking events, workshops, venture demos, product launches, other collaborations).
- **Academy of Scientific Research and Technology (ASRT)** – supports the promotion and commercialisation of outstanding technological ideas in the science, technology and innovation community; provides grants to universities for innovation and entrepreneurship programmes.
- **Ministry of Higher Education & Scientific Research** – EGP 1 billion Innovators Support Fund to support innovators, entrepreneurs, and gifted students to develop technological and scientific solutions to meet market and societal challenges.
- **Science, Technology and Innovation Funding Authority (STDF)** – Grant-based awards programme; STDF Incubation Programme to assist start-up and fledgling entrepreneurs in the commercialisation of R&D results.
- **Central Bank of Egypt, with state banks** – USD 85 million FinTech Innovation Fund to support innovative FinTechs and FinTech-enablers (NCLUDE); FINTEKRS pre-accelerator for start-ups in fintech solutions, outside of Cairo.

Panel C: Market development support

- **Export Development Authority (EDA)** – promotes exports through electronic means and missions; business matchmaking meetings; specialised training to build SMEs' export capabilities.
- **Foreign Trade Training Centre FTTC)** –delivers export-readiness training to SME exporters.
- **MSMEDA** – delivers training to Egyptian exporters in co-operation with the FTTC; supports the participation of MSMEs in fairs and exhibitions
- **IMC** – "Creative Egypt" clusters development programme, retail store. for handicraft producers; Innovation and Entrepreneurship Programme targeting industrial SMEs with technical services, market information, B2B business meetings.
- **Egyptian Exporters Association (EEA)** – operates export information platform; offers export-readiness training to potential and new exporters; runs an Export Incubator programme.
- **Export Support Fund** – rebate programme to incentivise Egyptian exporters (administered by the Ministry of Finance).
- **Egyptian Commercial Service** – services to assist SME exporters in foreign markets.

Panel D: Financing support

- **Central Bank of Egypt (CBE) –** regulates banks to direct 25% of their total loan portfolios to MSMEs, 10% to small enterprises
- **Credit Guarantee Company** – issues guarantees against bank loans to SMEs
- **SME Units in Egyptian banks**; microfinance units in several banks
- **Export Development Bank** – lending programme for SME exporters
- **4 FRA**-licensed private sector microfinance companies; over 1 0000 local NGOs delivering microfinance
- **MSMEDA** – agreements with state-owned and private banks as well as non-banking financial institutions for the delivery of loans to micro and small enterprises.
- **MSMEDA** – direct delivery of loans to start-ups, and to small and medium enterprises; provides financing to local NGOs to relend at governorate level.
- **MSMEDA –** USD 50 million Fund of Funds venture capital scheme to stimulate private investment in innovative and high-potential start-ups and SMEs.
- **MPEDIC** – Egypt Ventures Fund investing in tech-based start-ups; Falak Startups investing in tech-enabled and scalable start-ups.
- **Private business angel networks** – without support of the government; seed-capital funds in some of the private sector business accelerators.
- **NILEX –** secondary market of the Egyptian Exchange with relaxed listing requirements for SMEs.

Delivery of business support services

In any country, an organisational structure is needed for the delivery of business support services and programmes to SMEs and entrepreneurs at the national and local levels. Governments generally take two approaches. In some cases, the ministry or agency responsible for SMEs will operate a network of government-run regional offices to deliver information and advisory services. In other cases, and sometimes simultaneously, governments will work through public, private and/or non-governmental intermediaries. This second approach can be effective in extending the reach of SME assistance to local communities and particular target groups, such as women and youth.

Business support services in Egypt are delivered by a number of different public institutions via information, advisory and support centres. These include:

- MSMEDA's regional office network and one-stop shops for business registration and licensing.
- The CBE's network of 116 Business Development Support Hubs located in banking branches, youth centres and universities (operated through the NilePreneurs Programme), which have a primary focus on young Egyptians offer non-financial advisory and consultancy services to young entrepreneurs, start-ups and SMEs.[10]
- The Women Business Development Centres, with focal points located in the branch offices of the National Council for Women, which focus principally on women entrepreneurs.
- GAFI's Fekretak Sherketak (Your Idea, You Company) Centre, Investor Services Centre and one-stop shops for business registration and licensing for enterprises registering under the Investment Law.

In addition, the Industrial Modernization Centre (IMC) provides services to industrial SMEs with more than 10 employees.

MSMEDA Regional Offices

MSMEDA manages a major service delivery network that provides information and assistance to SMEs and entrepreneurs, with 33 offices across 27 governorates in addition to MSMEDA's mobile units, which play a crucial role in extending services to remote areas. MSMEDA assumes a dual role through these offices, acting as co-ordinators for service delivery from partner organisations and providing direct services such as financial or business development support. This practice, which is followed by other countries with a widely dispersed population over a large geographic area, improves the accessibility of the service offerings. MSMEDA's service delivery network conducts its activities in co-operation with over 600 NGOs and over 1 900 bank branches. The regional offices contract out the delivery of more sophisticated training and consultancy services to private entities locally.

MSMEDA's regional offices are staffed by up to 25 employees in the case of the 16 class A offices (see Table 6.8). These staffing complements include staff working in the one-stop shops for business registration and licencing, which delivered more than 580 000 services between July 2014 and October 2023 (MSMEDA, 2023[12]). Each office has an SME Finance Unit, which typically includes lending officer/s, a training officer, and a consulting officer. Regional office staff provide information, basic guidance, and entrepreneurship training to local SMEs and entrepreneurs, as well as technical and market support and all services or incentives under the MSMEs Law. Additionally, the offices organise internal and external exhibitions and provide a variety of free marketing and advisory services to SME owners.

In terms of training, MSMEDA is supported by a team of certified trainers, some of whom are accredited by international bodies such as the ILO or/and UNIDO. For example, MSMEDA staff have received training from the International Labour Organisation (ILO) on delivering the *Start and Improve Your Business* training programme[11].

The Central Bank of Egypt NilePreneurs BDS Hubs

The Central Bank of Egypt (CBE) has supported the establishment of 110 Business Development Services (BDS) Hubs inside CBE partner bank branches, youth centres and universities in 24 governorates. The primary aim of these hubs is to support entrepreneurs by raising awareness on the fundamentals of enterprise development, facilitating financing through co-ordination with funding institutions, and reinforcing SMEs' competitiveness and export capacity. Specifically, they aim to support youth who want to start their own business to choose a project that is appropriate for their capabilities, help them in developing their innovative ideas into feasible projects, and provide financial and banking literacy. The hubs work under a unified brand image, internal work procedures manual, and operating system and are staffed by up to three advisors, depending on the size of the hub. The BDS Hubs make use of over 150 certified advisors to work with the beneficiaries, with the costs covered by the hubs. The services provided by the hubs could be complementary to those offered in the MSMEDA regional offices. As such, there would be merit in co-locating BDS Hubs in the MSMEDA regional office facilities.

Women Business Development Centres

Located in the National Council for Women's branch offices in each governorate, the Women Business Development Centre focal points provide business development services to women wishing to establish a business. These services include technical skills and entrepreneurship training, marketing and advisory services, mentoring, and consulting services. The consultancy services make use of external specialists in various sectors to provide the necessary technical support for product development. The centres also promote networking opportunities for women with other agencies that provide business development services, provide information related to business development, and organise seminars, workshops, and local events.

GAFI Fekretak Sherketak (Your Idea, Your Company) Centre and Investor Services Centres

The General Authority of Investment and Free Zones (GAFI), has launched multiple nationwide initiatives to support entrepreneurship in collaboration with other public and private sectors. The Fekretak Sherketak Centre promotes the entrepreneurship culture and offers comprehensive support packages to start-ups at different stages of the enterprise life cycle (e.g. workshops and educational seminars, technical support, advisory, and counselling services to help young entrepreneurs develop and transform their business ideas into viable projects, legal advice on the appropriate legal form for the business and the documents and procedures required to establish companies). The Centre also connects the entrepreneurs with relevant financial entities, accelerators and business incubators. In maximising its support for entrepreneurs, the Centre co-operates and co-ordinates with various institutions and entities that support the entrepreneurship environment in Egypt.

The 14 GAFI Investor Services Centres provide services to all investors in implementation of the provisions of Investment Law No. 72/2017 and help entrepreneurs obtain all necessary approvals to fast-track the establishment of businesses.

The Industrial Modernization Centre

Operating from 15 branches in 12 governorates, the objective of the Industrial Modernization Centre (IMC) is to deepen and modernise Egypt's industrial sector. Industrial SMEs with 10 or more workers, including SMEs in heritage and creative industries, are the target group for the IMC, which makes wide use of external consultants to deliver many of its services.

Delivery of innovation and technology supports

The delivery of policy supports for innovation and technology is concentrated in three public institutions, each with a different target group (see Figure 4.1, Panels A and B):

- The **Ministry of Industry**, which targets industrial SMEs through 12 sector-focused Technology and Innovation Centres. These centres provide technical assistance and a variety of other services.[12]
- The **Ministry of Communications and Information Technology** (MCIT), which targets SMEs and entrepreneurs in the information technology (IT) sectors via the Information Technology Industry Development Authority (ITIDA). ITIDA is the executive information technology (IT) arm of the MCIT, working to develop the local IT industry by identifying its needs and addressing them with bespoke programmes, policy advice, and the provision of strategic advisors. The Technology Innovation and Entrepreneurship Centre (TIEC) is the implementing affiliate of ITIDA. TIEC is therefore a key actor in delivering policy support for innovative entrepreneurs and start-ups in the IT sector, including training, consultancy, incubation and acceleration, co-working spaces, and networking. It is dependent on government funding from ITIDA, which receives 2% of the revenue from the National Telecom Regulatory Authority through a special tax on ICT companies. TIEC also implements the ITIDA Innovation Cluster Initiative.
- The **Ministry of Higher Education and Scientific Research** (MHESR) targets entrepreneurs and innovators in university environments, with a focus on supporting the commercialisation of research and development (R&D) projects. The MHESR delivers its policy support through three entities:
  - The Academy of Scientific Research and Technology (ASRT), which is the national think tank on science, technology and innovation. It works to foster the transfer of innovative technological ideas into commercialisable products and start-up companies. By providing grants to universities for innovation and entrepreneurship programmes, the ASRT also plays a leading role in creating awareness of entrepreneurship and innovation among university students.
  - The Science, Technology and Innovation Funding Authority (STDF), which provides funding for scientific research and technology development. It offers a competitive grant-based programme to assist start-ups and fledgling entrepreneurs in the commercialisation of research results through the STDF incubator programme.
  - The Innovators Support Fund (ISF), which was launched in 2019 and is delivered by the STDF. The ISF helps bridge the gap faced by innovative start-ups in financing their developmental, pre-market stages prior to being able to attract venture capital. The ISF also builds the capacity of universities in setting up Technology Transfer Offices and developing intellectual property policies.

Delivery of supports for SME exporters

The primary policy delivery agency for SME exporters is the Export Development Authority (EDA) (see Figure 4.1, Panel C). The EDA offers specialised training and technical assistance to build the export capability of Egyptian enterprises. It also disseminates relevant information and facilitates business-matching opportunities. Its efforts are complemented by those of the Egyptian Exporters Association (EEA), with which the EDA works closely. Other important policy delivery entities in this area include the Ministry of Industry's Foreign Trade Training Centre (FTTC), which provides export-readiness training for SMEs exporters13, and MSMEDA, which supports SMEs' participation in trade fairs and exhibitions and provides export capacity building training in co-operation with the FTCC. In 2024, MSMEDA established a new Export Department to strengthen its scope of support to the export development of SMEs.

Delivery of finance supports

Public policy support aimed at improving SMEs' access to bank financing primarily stems from the regulatory regime set by the Central Bank of Egypt (CBE). Meanwhile, the Financial Regulatory Authority (FRA) has taken numerous measures to enhance SMEs' access to microfinance. Further information on these initiatives can be found in the Business Environment chapter of this report. In addition to the two main regulatory entities (the CBE and the FRA), there are other public entities that deliver direct financial supports to SMEs and entrepreneurs in Egypt:

- **Credit Guarantee Company:** Regulated by the CBE, the Credit Guarantee Company (CGC) is Egypt's sole guarantee scheme. The CGC's major shareholders are the CBE and six Egyptian banks. The CBE provided an initial support to the CGC by establishing a EGP 2 billion guarantee trust to cover part of the credit risk guarantee associated with bank lending to existing and newly-established SMEs and start-ups and by issuing regulations providing special treatment for CGC guarantees. The CGC offers guarantee products for micro enterprises (Small and Emerging Businesses Programme) and for SMEs (Small and Medium Enterprises Programme, targeting industrial, service, agricultural and healthcare sectors).
- **MSMEDA**: MSMEDA plays a key role in SME lending by entering into extended credit line contracts with participating (mostly state-owned in addition to private) banks to relend to SMEs and target groups. This is often facilitated by the allocation of funds to MSMEDA from international co-operation partners and donor organisations for channelling through the banking system. MSMEDA also lends money to non-bank financial institutions (mostly the Category C NGOs, but also to factoring and leasing companies) for relending to SMEs. It further conducts direct lending through the MSMEDA regional office network to vulnerable target groups of unbankable borrowers (e.g. young entrepreneurs, women entrepreneurs, SMEs with higher-risk projects). This direct lending cannot exceed a certain percentage of the total MSMEDA portfolio in 2022, MSMEDA provided less than EGP 1 billion in direct lending to 2 380 SMEs. Another recent policy initiative is the establishment of the MSMEDA first Egyptian Fund of Funds in 2021. The aim of this programme is to provide equity financing to private sector venture capital firms for reinvestment in innovative and high potential start-ups and SMEs
- **Egypt Ventures:** The government has made some recent strides in supporting venture investments, including through the establishment of Egypt Ventures in 2017. Egypt Ventures is an investment firm seeded by the former Ministry of Investment and International Cooperation (now under the Ministry of Planning, Economic Development and International Cooperation) to support and invest in technology-based start-ups. Egypt Ventures applies a blended finance model through which investments are directed into accelerators, venture capital firms, and start-ups at the early and growth stages.[14]
- **NCLUDE Venture Fund:** In 2022, three of the largest state-owned national banks launched the NCLUDE Venture Fund (initial investment of USD 85 million) to support young innovative entrepreneurs in fintech and fintech-enabled sectors.

Delivery of SME and entrepreneurship supports through incubators and accelerators

Incubators and accelerators are an important policy delivery tool, providing a pathway for aspiring entrepreneurs to transition from entrepreneurship training programmes to more intensive support to refine their business plans and projects and become investor- and market-ready. Although the number of business incubators and accelerators has been increasing rapidly, the Government of Egypt does not yet have a national business incubator policy. The TIEC is paramount among public institutions in the offer of incubation support, operating Start-up Launch Pads, pre-incubators, and the StartIT incubator. There are, however, other prominent public incubators, such as the FINTEKRS pre-accelerator, initiated by the CBE, which targets high-potential entrepreneurs and start-ups with fintech and fintech-enabled solutions in

governorates outside Cairo. Through the NilePreneurs initiative, the CBE also supports the development of university incubators.

The majority of business incubators and accelerators are concentrated in the Greater Cairo area.[15] Although efforts have been underway to establish business incubators in different universities in governorates lacking such facilities[16], much of the rest of the country is underserved.

Most of the nascent incubation and acceleration programmes, especially those based in university environments, function with limited financial and management capacity and know-how to completely design and effectively implement their programmes (African Development Bank, 2022[13]). There is a strong need to build the incubator management capacity, as well as to develop a co-ordination and collaboration platform for business incubator managers to support knowledge transfer and resource sharing. These issues are explored further in the SME and Entrepreneurship Programmes chapter of this report.

Fully developing the MSMEDA electronic MSME platform will create more transparency on the policy measures and support programmes available to SMEs and entrepreneurs

Disseminating information about relevant policy measures and programmes to SMEs, entrepreneurs and other stakeholders is an important role of an SME agency. This role is particularly significant in the Egyptian context, where the large number of support measures and their distribution across numerous ministries and agencies makes it difficult for SMEs and entrepreneurs to identify which organisational entities or support programmes could best meet their specific needs. In many instances, SMEs are also unaware of the business support institutions or find it difficult to obtain information on how to access the support.

Transparency and ease of access to information about the range of available supports could be substantially improved by creating a unified online business portal for SMEs and entrepreneurs in Egypt. This portal could also provide an effective referral source of information for supporting institutions in their dealings with SMEs and entrepreneurs. Unified online platforms are a major feature of policy delivery in many countries, complementing existing enterprise development centres in providing information to SMEs and entrepreneurs. These online portals often contain information on, for example:

- Starting, managing, growing, and exiting a business.
- The legal and regulatory requirements for starting or operating a business.
- The procedures and available incentives for starting or operating a business.
- Detail on the available assistance and support programmes to aid in each stage of the enterprise lifecycle, which may include access to support facilities (e.g. enterprise centres, incubators, technology parks), financing support, advisory services, training, and innovation and technology supports.

Until recently, MSMEDA's online portal (www.msme.eg) has mainly provided information on MSMEDA's own services and programmes. Since mid-2023, MSMEDA has been working on enhancing the portal by incorporating information on all authorities offering financial and technical assistance to SMEs, including government bodies, banks, NGOs and business providers. The aim of this initiative is to enable SMEs and entrepreneurs to remain updated on the availability of financial or technical supports, and to eventually compare the various services offered by these entities. This would create more transparency for SMEs and entrepreneurs and help them to find the "right" support organisation, service or programme to meet their needs.

Once the development of the enhanced portal is completed, MSMEDA should continue to work co-operatively with other ministries and agencies on an ongoing basis. This is necessary to ensure that the portal provides comprehensive information about support programmes, services, and organisations, as well as regulations and procedures surrounding starting and growing a business. Furthermore, the portal should ideally profile the support programmes by type, target group, delivery organisation and location.

Notably, the MSMEDA portal should provide linkages to the GAFI electronic platform, underway since May 2024, which will showcase all services offered to entrepreneurs by government bodies, agencies and initiatives according to three phases: pre-establishment services, establishment services, and post-establishment services.

Monitoring and evaluation arrangements

Developing a monitoring and evaluation (M&E) system is critical to effective tracking and measurement of the success of a strategy's implementation. Its design enables the assessment of policy and policy measures against carefully designed policy objectives and allows for informed adjustments to be made where appropriate.

Monitoring of policy measures and actions is the first step in an M&E system. This involves a continuous exercise of record-keeping to track progress of the implementation of a programme or project, which, with periodic analysis and discussion, enables corrective action to be taken in a timely manner. The monitoring of a policy or programme involves tracking of the inputs (e.g. budget, resources) and the outputs (e.g. number of participants, take-up rates), and may collect the opinions of the programme managers, stakeholders and participants (OECD, 2020). At a minimum, monitoring efforts should address: the extent to which intended outcomes are being achieved; factors contributing to any lack of progress; the contributions of individual partnering organisations to the outcomes based on outputs generated by programmes, projects, or other actions; and lessons learned for wider sharing. Data collected as part of the monitoring process can be useful input in the evaluation process, however, the monitoring of programme inputs or outputs is not sufficient to identify the causal effects of a policy intervention on targeted businesses. Establishing causal impacts requires policy impact evaluation, such as by conducting a comparative analysis of the differences between the performance of assisted versus a control group of non-assisted entrepreneurs/firms. Box 4.2 presents the "six steps" framework of monitoring and evaluation methods. Monitoring activities are generally carried out internally by the government entity or entities. External evaluation consultants are generally engaged to perform the impact evaluations.

MSMEDA demonstrates adequate monitoring capacity for the programmes and services that it delivers…

MSMEDA relies on three mechanisms for monitoring and evaluating performance: i). monitoring conducted by its regional offices, ii). monitoring by an external company or association on the use and benefits of MSMEDA's financial and non-financial services, and iii). analyses conducted by third-parties on the impact of service delivery.

Overall, there is adequate monitoring of the SME and entrepreneurship programmes delivered by MSMEDA. The MSMEDA Monitoring and Evaluation Unit monitors the implementation of agreements delivered through its regional offices, particularly during the first three months of delivery followed by annual monitoring for funded SMEs, through reporting and in-person site visits. The key performance indicators monitored are primarily output-related, such as the number of programme participants, the number of recipients of grants and other financial supports, the number of SME beneficiaries working with the regional centres, and budget expenditures. Results of monitoring at the agreement level are reported at various frequencies. The nature and extent of reporting to the central office of MSMEDA depends on the project and the implementing regional office. This can range from weekly, monthly and quarterly reporting periods. However, all initiatives follow an annual plan that is reported on at the central level. These findings are then internally communicated to the MSMEDA Board of Directors and to the Prime Minister. Some findings are publicly shared on the MSMEDA website, including for the Women's Empowerment Programme.

Many ministries and public authorities also have a small, dedicated unit that monitors their activities. These monitoring efforts focus mostly on the take-up of certain policy measures and programmes.

Box 4.2. Six Steps to Heaven: Methods for assessing the impact of SME and entrepreneurship policy

The *Six Steps* methodology is a step-wise method to evaluating SME and entrepreneurship policies and programmes. The method provides a categorisation for different evaluation approaches that increase in reliability and sophistication, in which Step 1 is the least and Step 6 is the most sophisticated approach. The first three steps are considered more monitoring techniques. These steps rely on output indicators and the views of programme participants regarding the value of the intervention and the difference it made relative to the outcome if they had not participated in the programme. Surveys with the programme participants can be used to gather this information. Steps 4 - 6 are considered evaluation methods.

Monitoring

Step 1 – Take up of a programme

Step 2 – Recipients' opinions

Step 3 – Recipients' views of the difference made by the assistance

Monitoring information can help ensure that a programme is delivered to the intended recipients in an efficient manner.

Evaluation

Step 4 – Comparison of the performance of "Assisted" with "Typical" firms

Step 5 – Comparison with "Match" firms

Step 6 – Taking account of selection bias – through statistical procedures or use of Randomised Control Trials (RCTs)

Evaluation contrasts the views or actions of policy recipients with those of non-recipients in order to present the "counter factual". The difference between actual changes and the "counter factual" is viewed as the impact of the policy – or its "additionality". Step 5 evaluations aim to compare "treated" with "non-treated" firms by matching firms on observable factors, such as ownership, size, sector and geography. While the matching process helps to minimise the presence of unobservable variables, results can still be somewhat ambiguous. Step 6 evaluations take into account selection bias through the introduction of statistical procedures or the use of randomised control trials.

Source: (OECD, 2023[14])

…but impact evaluation of programmes remains limited

Some ministries and agencies have recently taken steps to improve their evaluation practices, including through upskilling those responsible for monitoring and evaluating public programmes through capacity building exercises as well as the introduction of more sophisticated evaluation techniques, such as randomised control trials. However, such initiatives have so far taken place on a limited scale. Overall, formal impact evaluations that assess how much a programme intervention has made a difference for recipients are rare within the Egyptian government. While programmes delivered by international donors

often have strong monitoring and evaluation measures in place, including programme impact evaluations, there is a need to strengthen policy evaluation systems and better align national and local-level monitoring and evaluation approaches and activities. MSMEDA should work to specify in advance the objectives and targets for each policy measure introduced and look to evaluate all major SME and entrepreneurship policies and programmes every three years using reliable and robust evaluation techniques, defined as a minimum of Step 5 (as per (OECD, 2023[14])).

Inter-ministerial co-ordination on the monitoring and evaluation of SME and entrepreneurship policy could be more effective

Implementing a more formal monitoring and evaluation framework would serve to address a lack of harmonisation across data and definitions used by the many actors in the SME and entrepreneurship field. Moreover, inter-ministerial co-ordination in SME and entrepreneurship policy could be more effective, notably in monitoring and evaluating policy implementation.

There is currently no centralised department that has all the data for each unit working on SME and entrepreneurship activities. Data related to SME and entrepreneurship programmes are not unified as each entity has its own data system and platform. It is important to have a common language for outputs related to SME and entrepreneurship activities and programmes. Egyptian stakeholders report that data collection processes should be improved. Moreover, co-ordination between different actors involved in the monitoring and evaluation of policies and programmes remains limited.

As the entity responsible for co-ordination of SME and entrepreneurship policy in Egypt, MSMEDA also has an important role in following-up on policy and programme performance. MSMEDA could act as a centralised entity that has all the data for each SME and entrepreneurship programme that is delivered across the various actors. MSMEDA could then implement a suitable and reliable data collection system with harmonised definitions, indicators and monitoring and evaluation mechanisms. This would help reduce redundancy across the ministries and agencies and improve data available to evaluate policies and programmes.

On the other hand, it may be difficult for MSMEDA to gain the co-operation of other government or quasi-government actors in the provision of reporting data for monitoring purposes. To address this, MSMEDA could include a reporting requirement clause in the Service Level Agreements that are in place with relevant entities and implementing partners. In all cases, it is important that MSMEDA, particularly the monitoring and evaluation unit, maintain close relationships with all implementing partners.

Monitoring and evaluation of SME and entrepreneurship strategies and policies should be scaled up

With the recent establishment of a central monitoring and evaluation unit within MSMEDA's Central Sector for Policies and Legislation, MSMEDA can implement a comprehensive and co-ordinated monitoring and evaluation framework to follow SME and entrepreneurship policies. This should include quantitative targets, milestones, inputs (e.g. budgets, management resources, project proposals), processes (e.g. provision of incubator space and other services), and outputs (e.g. performance of assisted enterprises in terms of survival rate, growth and profits). This would enable MSMEDA to co-ordinate the monitoring and evaluation of the SME and entrepreneurship policies and programmes that have been implemented by the different regional centres, ministries, and authorities.

This new monitoring and evaluation unit could also develop a management information system. This system should be capable of recording all project details and collecting and managing data for each of the initiatives and programmes related to SME and entrepreneurship development, including inputs, activities, outputs and outcomes. The tasks of the MSMEDA monitoring and evaluation unit could include:

- Setting up a logic framework for monitoring key performance indicators for the policies and measures related to SME and entrepreneurship activity;
- Collaborating with the various ministries and public agencies to collect information on missing baseline indicators;
- Designing a recurring survey on MSMEs and entrepreneurship activities to monitor several KPIs;
- Collecting data from delivery partners (e.g. regional centres, international donor projects, higher education institutions, etc.) in the implementation process;
- Preparing an annual report on the state of SMEs and entrepreneurship activities and the implementation progress of the key measures as outlined in the policies.

Moreover, MSMEDA should assign a monitoring and evaluation unit with responsibility for the reporting and monitoring process of the MSMEs Law and any policies related to entrepreneurship and SME development. The unit could hold quarterly meetings with the MSMEDA Board of Directors to report on the implementation progress, including identification of which initiatives were ahead of or behind schedule. The unit could also develop a plan to carry out impact studies on the effect of relevant support programmes/projects on the performance of assisted entrepreneurs and SMEs. All input data and progress reports should be compiled for annual reporting on the implementation of the MSME Law and KPI outcomes for all entrepreneurship and SME programmes and services.

A report on implementation of the entrepreneurship and SME support programmes should be prepared annually with inputs from the relevant ministries and programme administrators. The report should present information on the state of implementation of the different policies and measures and the evaluation of these policies when applicable. The report should be delivered to the MSMEDA Board of Directors and the Prime Minister before being made publicly available on the MSMEDA website.

The case of Thailand provides an illustrative example of how an SME agency provides integrated reporting on the SME and entrepreneurship support offered by a range of government entities (see Box 4.3).

Box 4.3. Monitoring and reporting of national support to SMEs in Thailand

Description of the approach

As per the SMEs Promotion Act of 2000, the Office of Small and Medium Enterprises Promotion (OSMEP) is the authorised government agency to lead the formulation of policies and strategies to promote SMEs. In addition to providing support and assistance to SMEs through its One-Stop Centres, OSMEP acts as the focal agency of all government and private-sector entities involved in promoting SMEs, helping to co-ordinate and align their collective efforts. In particular, as responsible entity for the SMEs Promotion Master Plan and the SMEs Promotion Action Plan, OSMEP integrates the SME support activities of all relevant entities to ensure their activities are aligned with these wider SME promotion plans.

Annually, OSMEP monitors and evaluates the project performance of 25 agencies that implement SME promotion activities in accordance with the integrated plan for SME and entrepreneurship development. The OSMEP annual report provides details on the allocation of the SME Fund budget to various SME segments: early-stage enterprises; microenterprises; small enterprises; medium enterprises; and high-potential enterprises, by type of support (such as training, financing, consulting services, coaching, cluster network support and exporting support) (see (Office of the Promotion of Small and Medium Enterprises Promotion, 2021[15])). It also includes reporting on the number of SMEs making use of the SME One-Stop Service Centres, government-supported business incubators and cluster networks. This may be done more easily in Thailand because agencies that participate in the integrated MSME Promotion Plan and its implementation must report to OSMEP on how their SME budget was allocated.

Factors for success

The SME budget allocation of the Government of Thailand (based on an integrated SME Promotion Action Plan) is channelled through OSMEP, which then reallocates the budget to the various agencies delivering SME support programmes according to their action plan submissions to OSMEP. The participating agencies have an obligation to report back to OSMEP on the allocation of their SME budget with evaluation results.

OSMEP meets with designated focal points in the various government agencies during the process of formulating the SMEs Promotion Action Plan to gain information on their specific actions to contribute to policy objectives and strategies outlined in the Plan. Government agencies provide their reports to OSMEP on project activity, budget disbursements, and operating results through an intranet site (data.sme.go.th). From this data, OSMEP can report on the total budget disbursements for the year, and the total number of entrepreneurs and SMEs benefiting, according to the type of programme or service. The monitoring activity can also determine these results for each of the 25 agencies.

Obstacles encountered and responses

Initially, OSMEP experienced difficulties with gaining the co-operation of other ministries and agencies in providing reporting information on their SME support programmes, even though they were obligated to do this under the SME Promotion Act. The Act stated that any government agency or state enterprise involved in implementing the Action Plan on SMEs Promotion shall report the implementation results to the OSMEP Board at least once a year. To deal with the lack of responsiveness of some public entities to this stipulation in the Act, the Prime Minister has issued official directives to reinforce the Act.

Relevance for Egypt

An effective mechanism for collective monitoring and integrated reporting of project support to SMEs and entrepreneurs is not et in place in Egypt. In its policy co-ordination role, MSMEDA can benefit from the experience of other SME agencies and their lessons learned. The situation in Thailand is different from that of Egypt, which may make the task of policy co-ordination and monitoring more difficult for MSMEDA: the fact that the government of Thailand has a designated annual budget allocation for SME project support; that OSMEP has been co-ordinating the actions of government stakeholders for a longer time under the aegis of the National Board of SMEs Promotion (since 2001); and that OSMEP as an organisation is structured with adequate resourcing of a Policy and Strategies Unit (with an SME Policy and Planning Department), plus a Data and Information Department, and a Monitoring and Evaluation Department.

Source: For more information, see the OSMEP website: https://www.sme.go.th/en/.

Conclusions and policy recommendations

Relative to the four OECD Recommendations on SME and Entrepreneurship Policy outlined in the introduction section of this chapter, Egypt could benefit from enhanced alignment with certain of these principles. First of all, improvements could be made in establishing effective governance structures to achieve alignment and co-ordination of SME and entrepreneurship policy across government entities. This could be done by setting up a comprehensive and well-structured inter-governmental co-ordination mechanism, reflecting the cross-cutting nature of SME development policies and the involvement of several government ministries, agencies and departments. The establishment of such a body better ensures effective communication and collaboration across institutions and reduces the potential for policy fragmentation. Apart from the establishment of MSMEDA as a co-ordination body for MSME and

entrepreneurship policy, further actions would be needed to establish formal mechanisms for effective design and implementation of the national SME and entrepreneurship policy framework.

Secondly, employing a consultative process in developing the medium-term strategic framework for SME and entrepreneurship development (i.e. MSME strategy), which defines the priorities, goals, targets, key performance indicators, and clear responsibilities of different actors, can facilitate co-ordination among public institutions and is essential to monitoring progress and evaluating final results. MSMEDA is in the preliminary stages of formulating the new SME and Entrepreneurship National Strategy and Operational Plan. By consulting widely with stakeholder groups and reviewing the national policy agenda, there will be greater assurance that the implications for SMEs and entrepreneurs are considered across diverse policy areas as well as stronger buy-in from implementing bodies.

Thirdly, a robust monitoring and evaluation mechanism is essential for the systematic assessment of the impacts of policies and measures on SMEs and entrepreneurs. While MSMEDA has strengths in monitoring its own activities, its capacity to implement a robust monitoring and evaluation mechanism for the national SME and entrepreneurship strategy and operational plan would need development.

Adopting a portfolio approach to SME and entrepreneurship policy measures would aid in assessing how well programmes and supports align with the government's priorities and identifying gaps and overlaps. To implement such an approach would require a system for co-ordinating the collection or programme and results data from all implementing bodies, a challenge that should be pursued by MSMEDA.

The SME and entrepreneurship support ecosystem in Egypt is quite well developed, with recent efforts to delineate the ecosystem, its actors, and its support offerings (African Development Bank, 2022[13]). However, due to the lack of an adequate co-ordinating mechanism between ministries, agencies, and private support providers, gaps may exist in the delivery of appropriate policy supports to meet the needs of SMEs and entrepreneurs at various stages of development. In fact, co-ordination failure is one of the major challenges in policy delivery arrangements and could be improved by adopting a more integrated approach to managing the entrepreneurial and innovation ecosystem.

Based on the assessment of SME and entrepreneurship policy governance and delivery arrangements, the following recommendations are proposed:

Box 4.4. Key policy recommendations on the strategic policy framework

SME and entrepreneurship policy framework

- Establish a mechanism for monitoring the implementation of the MSMEs Law and the take-up of its various incentives.
- Finalise and implement the new National MSME Strategy, with full consultation and input from other ministries and agencies on policy objectives and targets and reflecting new challenges and priorities including digitalisation and greening, and evolving developments in innovation, trade, and technological opportunities for start-up entrepreneurs and growth-oriented MSMEs.

Policy co-ordination and monitoring mechanisms

- Ensure appropriate staffing and resources within MSMEDA's new Central Sector for Policies and Legislation for policy co-ordination, policy monitoring, and annual reporting on implementation of the new MSME strategy.
- Establish a system in MSMEDA for ensuring full co-operation of ministries and agencies in the implementation and monitoring of the new MSME strategy, such as formation of a Technical Working Group, or assignment of SME and entrepreneurship "focal points" in each of the implicated ministries and agencies.

Policy dialogue with the private sector and stakeholders

- Establish an MSME Advocacy Group that is inclusive of SME associations, such as the Young Entrepreneurs Network, the Federation of Egyptian Chambers of Commerce and the Federation of Egyptian Industries, in order to formalise and regularise dialogue with the private sector.

Policy portfolio analysis

- Adopt a policy portfolio analysis approach in budgeting and monitoring of MSME and entrepreneurship policy measures and actions.

Policy delivery arrangements

- Achieve complementarities and synergies in delivery of business support by co-locating BDS Hubs in the MSMEDA Regional Office locations.
- Develop a national business incubator and accelerator policy that seeks to provide guidance on government-operated or supported incubator programmes and encourage the establishment of incubators in Egypt's regions.
- MSMEDA to continue to work co-operatively with other ministries and agencies to fully develop a comprehensive and all-inclusive MSME policy and programme web portal.

Monitoring and evaluation

- Undertake monitoring and evaluation of the SME and entrepreneurship policy agenda.
- Implement a data collection system with harmonised definitions, indicators and reporting mechanisms, in order to improve data availability for monitoring and impact evaluations.
- Prepare an annual report on the implementation of the MSMEs Law, with inputs from the relevant ministries and programme administrators.

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Shehata, I. (2020), *Guide to the New SMEs Law in Egypt*, https://legaladviceme.com/legal-blog/212/guide-new-smes-law-egypt. [4]

Notes

[1] Law 141/2004 mandated the Social Fund for Development (SFD), which had been in existence since 1992, as the implementing authority. MSMEDA replaced the SFD in 2017.

[2] Based on currency exchange rate of 8 June 2023 1 EUR = EGP 33.29.

[3] The objectives of the EEIC are to foster a culture of sustainable entrepreneurship, support start-ups at different stages of development, ensure the quality of entrepreneurial education content provided by various entities, and propose recommendations for supportive policies related to entrepreneurship and amendments to the legislative frameworks that govern and regulate entrepreneurship and innovation.

[4] The Egypt Observatory for Sustainable Entrepreneurship and Innovation is an open platform for registering and monitoring all initiatives, startups, and entrepreneurship centres that focus on sustainable entrepreneurship projects. The Observatory aims to collect and analyse data on the entrepreneurial environment and activities at the national level, shed light on the best practices of sustainable innovations, and integrate results to produce an Egyptian national index for innovation and entrepreneurship.

[5] This is particularly relevant considering the AfCFTA, which came into force in 2019.

[6] *GAFI News,* "Prime Minister discusses proposals to support and stimulate the entrepreneurial environment", 4 June 2023, www.gafi.gov.eg/English/MediaCenter/News/Pages/Prime-Minister-discusses-proposals-to-support-and-stimulate-the-entrepreneurship-environment-.aspx/.

[7] The SSAP Steering Committee consists of 16 members: eight ministries, representatives from the Treasury, the Statistics Agency, the Scientific and Technologic Institute, KOSGEB, the Union of Chambers and the Confederation of Craftsmen and Artisans, as outlined in the SME Strategy and Action Plan 2015-2018 (KOSGEB, 2015, p. 71).

[8] See, for example, the public consultation call for input on the development of the Department of Enterprise, Trade and Employment Statement of Strategy 2023-2025, www.gov.ie/en/consultation/d497d-public-consultation-on-the-development-of-the-dete-statement-of-strategy-2023-2025/.

[10] https://np.eg/bds-hubs/

[11] This includes the Train-the-Trainer programme as well as Master Trainer credentials, which qualifies regional office staff to train trainers in the local areas to deliver the ILO training methodologies.

[12] Focused sectors: Cleaner Production; Engineering; Food and Agri-Business; Fashion and Design; Furniture; Jewelry; Leather and Leather Tanning; Mining Industries and Marble; Plastics; Textiles; and Quality Improvement.

[13] The main objective of the FTTC is to upgrade exporters' skills and their ability to compete in global markets and the international trading system. This includes practical training to improve their marketing skills and to develop a cadre of export marketing personnel specialised in international export marketing, and support services to introduce the use of effective tools for meeting the product development requirements of international buyers.

[14] The mandate of Egypt Ventures is to invest in technology-based startups fostering a stronger eco-system of innovation in Egypt.

[15] Of the 20 top-ranked start-up accelerators and incubators in Egypt, all but one were based in Cairo or Giza, the majority operated by private companies or NGOs (Qavi, 2023).

[16] The Ministry of Planning, Economic Development and International Cooperation aimed to address this gap through the Rowad 2030 project, which established nine business incubators in different governorates.

5 SME and Entrepreneurship Programmes in Egypt

This chapter assesses the national programmes for SME and entrepreneurship development in Egypt. It examines national government measures in support of SMEs and entrepreneurship in the areas of access to financing, innovation, exporting and internationalisation, skills upgrading, business development services, entrepreneurship education and training, public procurement, green entrepreneurship, and programmes for specific target groups in the population. It concludes with recommendations for actions to strengthen these support programmes.

Introduction

Government programmes involve the provision of direct supports to a specific set of beneficiaries. These differ from broader government policies and regulations, which are implicitly applicable to all relevant agents. SME and entrepreneurship programmes are integral in enhancing the performance of SMEs and entrepreneurs, helping to address various market failures and the many size- and age-related obstacles that small and young businesses encounter. SME and entrepreneurship programmes are therefore unsurprisingly an important aspect of many elements of the OECD Recommendation on SME and Entrepreneurship Policy[1], including:

- Recommendation 6: Encouraging and enabling SMEs and entrepreneurs to transition to sustainable business models, practices and technologies, and to drive green innovations, taking into account their specificities and needs in environmental policies; fostering their access to resources, including sustainable finance; and supporting their adoption of circular economy strategies.
- Recommendation 7: Enhancing SMEs' and entrepreneurs' participation in international trade and global value chains through open markets; conducive regulatory frameworks; trade facilitation and trade finance; and by strengthening their access to services and networks, including with foreign partners and multinationals.
- Recommendation 9: Encouraging and supporting under-represented or disadvantaged groups to participate in entrepreneurship by taking into account structural barriers and specific challenges and needs through appropriate targeted measures, where necessary, and through equal access to wider entrepreneurship support programmes.
- Recommendation 10: Facilitating the transition from informal to formal entrepreneurship, easing access to resources where needed; and ensuring a level playing field and enabling conditions for productive employment and decent work for the self-employed and for all kinds of entrepreneurship, including in the platform economy.
- Recommendation 12: Providing adequate incentives for SMEs and entrepreneurs to innovate and fostering their capacity to benefit from innovation diffusion, through conducive market conditions; robust and inclusive innovation ecosystems, local networks and infrastructure; and appropriate targeted measures, where necessary.
- Recommendation 13: Enhancing SMEs and entrepreneurs' access to a diverse range of financing instruments, sources and channels that are adapted to their needs in terms of development, growth and sustainability, by implementing evidence-based policies and regulatory approaches conducive to transparent and resilient SME finance markets; leveraging the role of new technologies; encouraging timely payments; and strengthening SME financial skills and vision.
- Recommendation 14: Encouraging the development of an entrepreneurial mindset throughout society, and creating adequate incentives for SMEs and entrepreneurs to invest in skills; in particular promote the development of and access to skills that are transversal across jobs and contexts, such as management, problem-solving and digital skills.

This chapter reviews the selection of SME and entrepreneurship programmes in Egypt, assessing the extent to which current approaches are aligned with the principles and guidance embedded in the OECD Recommendation and proposing future policy actions for consideration by the Egyptian government.

Financing programmes

Access to bank finance

The banking sector is a key source of financing for SMEs. By the end of 2021, an estimated EGP 400 billion of bank financing (approximately USD 13 billion) was extended to SMEs, with a more than 20% annual increase in the SME bank loan portfolio in both 2020 and 2021 (National Bank of Egypt, 2022[1]). This growth is largely an outcome of the ongoing regulatory efforts of the Central Bank of Egypt (CBE) to induce Egyptian banks to lend more to SMEs (see the Business Environment chapter for further details on CBE regulations relating to bank lending to SMEs). Another factor underlying the growth of SME bank lending is the influx of credit lines to banks from international financial institutions to support on-lending to SMEs. These include, for example:

- An unsecured loan of USD 100 million in 2023 from the European Bank for Reconstruction and Development (EBRD) to Banque Misr for on-lending to SMEs.
- An EBRD unsecured loan of USD 30 million in 2021 to the Ahli United Bank of Egypt for on-lending to SMEs.
- An EBRD unsecured loan of USD 25 million in 2023 to the Export Development Bank of Egypt for on-lending to underserved SMEs, with focus on local small exporters.
- A USD 148 million financial package from the AfDB to the Commercial International Bank of Egypt (CIB) in 2023 to strengthen SMEs and facilitate trade (comprised of a USD 10 million line of credit, a USD 90 million subordinated loan, a USD 32 million trade finance line of credit, and a USD 16 million trade finance line of credit sourced from the Africa Growing Together Fund).

Despite this progress, it is estimated that only 2 million out of the 4.5 million SMEs in Egypt satisfy the requirements for bank financing, and that less than 10% of all Egyptian SMEs currently receive loans from banks (CGC Egypt, 2022[2]). This bank financing gap is a major barrier to SME and entrepreneurship development.

The credit guarantee programmes of the Credit Guarantee Company (CGC) are one of the main ways in which these bank financing challenges are being addressed. The CGC was established by the government in 1989 and was brought under the CBE regulatory body in 2018. The majority (70%) of the 206 000 loan guarantee recipients in the CGC's outstanding portfolio as of 31 January 2021 were medium enterprises, with small enterprises accounting for 20% of the beneficiaries and micro enterprises for just 1%. The CGC offers two programmes that aim to increase the credit guarantee share of micro and small enterprises:

- The Small and Emerging Businesses (SEB) programme, which offers wholesale guarantees to microfinance institutions (MFIs) capable of providing financial and technical services to micro and small enterprises, including self-employed clients and poor women engaged in simple income generating activities. The wholesale model provides a guarantee umbrella for financial institutions lending to MFIs that enables the MFI to create a portfolio of microloans. The SEB programme includes comprehensive technical assistance on a range of topics including board composition, portfolio management, outreach activities, risk, governance, finance, and IT.
- The Small and Medium Enterprises (SME) programme, which provides individual loan guarantees to new and existing SMEs (both banked and unbanked). The programme uses a digital platform that connects SME borrowers with lending banks through a digitised and simplified credit application and assessment process.

It will be important for the CGC to monitor the extent to which these targeted programmes are successful in increasing the share of micro and small enterprises in the guarantee portfolio. The CGC should also examine whether there is scope to increase the leverage ratio of guaranteed loans to its capital base, while remaining within the maximum permitted ratio.

An issue with the credit guarantee scheme currently is that the guarantees are mostly taken up by existing small and (mostly) medium enterprises, with minimal targeting of start-ups and innovative firms with high growth potential. As such, the CGC programmes could seek stronger alignment with emerging government priorities, such as supporting the financing of innovative SMEs and start-ups and the digital and greening transformations of SMEs. Box 5.1 provides a description of the approach taken by the Korea Credit Guarantee Fund to diversify its guarantee product offerings, which at one time faced similar issues.

Box 5.1. Korea Credit Guarantee Fund

Description of the approach

The Korea Credit Guarantee Fund (KODIT) was established in 1976 to support the financing of SMEs through the provision of credit guarantees. KODIT's capital base is composed of contributions from the government, financial institutions and enterprises, as stipulated in the Korea Credit Guarantee Fund Act. With contributions of USD 839 million from the government, USD 825 million from financial institutions, and USD 50 million from non-bank financial institutions and local governments in 2022, KODIT's capital fund reached USD 8.3 billion in size at the end of 2022. Outstanding guarantees stood at USD 65.6 billion, which was approximately 4% of GDP. The Korea Credit Guarantee Fund Act prohibits the operational multiple (the outstanding credit guarantee amount divided by the capital fund, which is an important measure indicating the capacity to provide guarantees) from exceeding 20. At the end of 2022, the multiple stood at 7.9. In 2022, the usage rate of credit guarantees was 14.2% of total bank loans, up from 12.4% in 2019, while the KODIT default rate fell from 3.6% in 2018 to 2% in 2022.

KODIT operates through 40 branches across the Republic of Korea, including five Business Start-up Branches. KODIT aligns its programme support with government policy priorities, and consequently makes adjustments to its credit guarantee products and offerings, such as guarantees for start-ups, exporters, innovative SMEs, and the green transition. KODIT accordingly offers 11 types of guarantee product offerings, including special guarantee programmes, such as:

- The Promising Start-up Growth Support Programme, consisting of four credit guarantee products: Guarantee for Pre-Stage Start-up; Guarantee for New Start-up; Guarantee for Early-Stage Start-up; and Guarantee for Growth Stage Start-up. In 2022, this programme provided guarantees of USD 3.1 billion to 10 256 start-ups.
- The Start-up Nest Platform, a one-stop system to increase the supply of "scale-up start-ups" by combining credit and investment guarantees with non-financial supports, such as consulting, mentoring, and technical advice. As of 2022, KODIT had selected 1 060 Start-up Nest businesses and provided USD 244 million in credit guarantees and USD 26 million in direct investment.
- The Innovative Start-up Support Programme, to foster the scaling of start-ups with innovative technologies or in new industries. The programme provides credit guarantee products for four stages ("R&D", "Initial", "Growth", and "Leap") to ensure sufficient support is available throughout the growth process.
- The Innovation Icons Support Programme, which provides a credit guarantee of up to USD 1.4 million in value for innovative start-ups with high growth potential. The guarantees are supplemented by services such as consulting, legal advice and support for overseas expansion. The goal is to support 50 innovative icons by 2026.
- The Green Guarantee Programme, which, in 2022, provided guarantees of USD 134 million to 95 companies in the field of new and renewable energy.

- The Green Fair Transition Guarantee Programme, launched in June 2022 with contributions from the Ministry of Economy and Finance, aims to assist SMEs in achieving carbon neutrality and mitigating greenhouse gas emissions. As of late 2022, 706 SMEs were provided with USD 428 million of new guarantees.
- The Guarantees for Social Economy Enterprises Programme, which provided guarantees of USD 151 million to social enterprises, co-operatives, and other eligible entities in 2022.
- The E-Commerce Guarantee Programme, which consists of guarantees for bank loans taken out to purchase goods under an e-commerce contract and guarantees for payment obligations when a company purchases goods or services on credit from a supplier. The programme provided guarantees of USD 3.35 billion to 12 817 enterprises in 2022.

Factors for success

To align its credit guarantee offers with government policy priorities of increasing support for entrepreneurship, export competitiveness and businesses in key industries and future innovative sectors, KODIT innovated with an adapted policy focus on start-ups and new deal enterprises. Consequently, 33.6% of KODIT guarantees support start-ups, 23.1% support exporting, 22.5% support new deal Industries, and 7.2% support key industries.

Improvements made to KODIT's digital credit guarantee service allowed expansion of its online services through digital innovation. In 2022, KODIT introduced the Easy-one Guarantee digital platform, which allows customers to use the credit guarantee service via the Internet or mobile phone. Tools such as the Artificial Intelligence chatbot and social networking service (SNS) provide 24/7 access to support when using the digital platform. KODIT also established a Robotic Process Automation system to enhance digital customer services and work efficiency.

KODIT is notable for providing non-financial support services to its guarantee clients, including management consulting (through a dedicated management consultant group) and specialised consulting through its in-house professional consultants who work co-operatively with universities, the Korea Trade Promotion Agency, and others. KODIT also offers a training programme to support the human resource development of SMEs and improve the practical skills of management and workers.

Obstacles and responses

Establishing a stable capital base is essential in building confidence in the credit guarantee system and ensuring the growth and sustainability of the fund. Without this, credit guarantee schemes will lack effectiveness and impact. Korea dealt with this challenge by making it a legal requirement for financial institutions to make contributions to the credit guarantee fund on an annual basis to supplement its initial capital base. The government also allocates an annual budget contribution to the fund and different ministries make contributions to the fund for establishing new guarantee products to meet the needs of client groups and government priorities.

Relevance to Egypt

With additional capital funding, the Egyptian Credit Guarantee Company (CGC) could further diversify its guarantee product offerings to align with government priorities such as stimulating innovative start-ups, supporting SMEs in priority sectors, and fostering e-commerce and digitalisation. In this regard, consultations should be held by the CGC with MSMEDA, GAFI, the banking institutions and other relevant stakeholders to discuss the special financing needs of innovative start-ups and SMEs and how the guarantee scheme can better match other government priorities, such as SME digitalisation and supporting green enterprises.

Sources: (Korea Credit Guarantee Fund, 2022[3]; Korea Credit Guarantee Fund, 2021[4])

Access to microfinance

The second primary source of financing for micro and small enterprises in Egypt is the microfinance sector, which has grown significantly in recent years. As of March 2024, the total outstanding loan portfolio of the microfinance sector (including from both microfinance institutions and the microlending from banks) was EGP 93.4 billion. This compares to an outstanding loan portfolio of EGP 2 billion and 1 million borrowers in 2014.

Institutional Upgrade Programme for Microfinance NGOs - Category (C)

The microfinance sector is comprised of business associations, microfinance companies (MFCs), and NGOs. The NGOs are classified as Category A, B, or C, depending on their portfolio size. Many of the more than 1 000 NGOs offering microfinance in the Egyptian governorates lack operational efficiency, professionalism, and sustainability. This is particularly the case among the Category C NGOs. To address this, the CBE is collaborating with the International Finance Corporation (IFC), the FRA and MSMEDA on a three-year programme to build the institutional capacities of 41 Category C NGOs, with the aim of eventually upgrading them to Category B.[2]

The upgrading training programme, implemented by the Egyptian Microfinance Federation (EMF) covers basic aspects of the NGOs' activities, such as reports preparation, financial and administrative structures, as well as digital upgrading and the use of electronic payment systems for lending and repayment operations.[3] The programme also provides follow-up support to ensure the NGOs can implement the knowledge and skills acquired during the training. When deemed ready, the NGOs will submit requests to the FRA for Category B classification. It is anticipated that the upgraded NGOs will be in a better position to attract financing from banks and investors and to increase their client base of financially marginalised groups. This programme will therefore contribute to the aims of the CBE's National Financial Inclusion Strategy.

The FRA monitors the qualifying processes for Category C NGOs on an on-going basis and coaches the EMF and NGOs for any modifications needed to submit a correct file for upgrading. In addition, the FRA reviews qualifications and holds interviews for key positions before the upgrade and participates effectively in a review all the training material and the tailored and delivered special topics related to Governance, Internal Control and Internal Audit, Microfinance Regulatory Rules and Responsible Pricing.

MSMEDA direct lending programme

MSMEDA lends directly to formal MSMEs (falling within the definitions presented in the MSMEs Law), including start-ups. The maximum loan amount for MSMEDA's direct lending is EGP 30 million for small business and EGP 60 million for medium enterprises. In this regard, MSMEDA's direct lending fills the gap left by the maximum MFI lending ceiling of EGP 242 000. MSMEDA reports an outstanding direct lending portfolio of EGP 2.1 billion spread across 9719 borrowers as of 31 December 2022.[4]

One of the advantages of MSMEDA's direct lending activities is that the provision of finance can be complemented by other MSMEDA services, such as training and advisory support, which most MFIs do not provide. MSMEDA also lends to microfinance NGOs for on-lending to micro-credit borrowers.[5] Most of the microfinance channelled through third parties in this way supports informal micro enterprises.

Establishing an SME Bank and/or allowing larger microfinance companies to be licenced as Microfinance Banks could bridge the gap between microfinance and bank finance

Many Egyptian MSMEs do not have access to bank financing, and of the estimated 2 million who could be eligible for bank financing, only 400 000 currently receive loans (CGC Egypt, 2022[2]). Half of those considered eligible would not be able to supply the documentation required by banks and a third lack

financial awareness or interest in borrowing from banks. Thus, MSMEs still face barriers in accessing loans from the traditional banking sector. Many micro and small enterprises can make use of MFIs where bank finance is not accessible. However, with lending capped at EGP 242 000 (approximately EUR 4 600), enterprises will have difficulty scaling without access to higher levels of financing. Mechanisms to bridge the gap between microfinance and bank financing are not well established, although the CBE is making efforts to encourage banks to down-ramp their lending to micro and small enterprises.

One potential solution to addressing the lending gap would be for Egypt to establish a public SME Bank. This is the route taken by governments in many countries. Examples of SME Banks in other countries include:

- The SME Bank in Saudi Arabia, established by a Council of Ministers Resolution in 2021.
- The SME Development Bank in Thailand, 99% owned by the Ministry of Finance.
- The SME Development Bank Malaysia, established in 2005, 100% owned by the Ministry of Finance and regulated by the Malaysian central bank.
- The CARD SME Bank in the Philippines, which facilitates the transition of micro entrepreneurs to small businesses and addresses a gap not filled by the commercial banks.
- The SME Bank in Lithuania, a neobank licenced by the European Central Bank in 2021 that offers a single digital platform for SMEs' financing and daily banking services.

The new Egyptian Banking Law No. 194/2020 provided for the establishment of digital banks (which would be prohibited from granting credit facilities to large corporations) and "specialised banks". The CBE has subsequently issued the regulatory framework and licensing requirements for Digital Banks (circular of 12 July 2023) and is currently developing regulations for specialised MSME Banks. The CBE has granted initial approval to the Egypt Digital Innovation Company, a subsidiary of Banque Misr, which is set to launch as Egypt's first digital bank before the end of 2024.

Another option may be to create a licence for microbanks, which would enable the most qualified Microfinance Companies to eventually transition towards becoming microbanks, including allowing them to accept deposits from clients. This is the approach taken by the government in Georgia through the adoption of the Law on Microbanks[6] in early 2023. The microbanks operate as financial institutions and serve to address the gap between MFIs and commercial banks with a primary focus on lending to individuals who generate income from entrepreneurial endeavours, including agricultural activities. While commercial banks require a capital of GEL 50 million in order to be licensed and MFIs require a capital of GEL 1 million, microbanks must have a capital of GEL 10 million to be licenced. Moreover, microbanks cannot issue loans of more than GEL 1 million. Once operating under a microbank license, microbanks can accept savings deposits and are able to improve their range of service offerings and graduate their clients to larger loans to support their growth plans. The first microbank licence was issued to FINCA Georgia, formerly an MFI. Under the license, FINCA Georgia can accept deposits and issue loans, letters of credit, credit cards, and leasing and factoring operations.

Access to equity finance

Venture capital

There are a number of private venture capital firms in Egypt, but they tend to invest in later-stage, more established medium-size enterprises. However, Egypt's start-up community is beginning to attract considerable interest from investors both inside Egypt and the Gulf areas, particularly in the fintech sector. This is happening without any government intervention.

Other venture funding initiatives, initiated by banks and the government, are moving into the landscape. In 2017, the investment firm Egypt Ventures was established and seeded by the former Ministry of Investment

and International Cooperation. Egypt Ventures invests in accelerators and co-invests in tech-based and high-growth potential enterprises. Falak Startups, a venture fund powered by the Ministry of Planning, Economic Development and International Cooperation, invests in tech-enabled and scalable start-ups with a ticket size of up to EGP 2 million.

Since 2021, the CBE has allowed banks to include their contributions to funds-of-funds and investment companies targeting SMEs towards the requirement for 25% of their total lending portfolios to be directed to SMEs. Avanz Manara was the first investment fund initiative of the banking system. It was launched by Egyptian banks and local institutions[7] in 2022 with a targeted investment amount of EGP 2 billion. The investment priority was placed on funds supporting SMEs in healthcare, education, fintech, agribusiness, renewables, fast-moving consumer goods and IT. Further, in early 2022, Egypt's largest banks launched the Nclude Venture Fund with an initial investment of USD 85 million to target innovative youth in fintech and fintech-enabled start-ups.

Following a pilot phase that began in 2015, MSMEDA launched in 2021 a pioneering Fund of Funds programme for venture capital, in partnership with the World Bank, with initial capital of USD 50 million. The primary objective of the programme is to strengthen access to finance for innovative start-ups and young SMEs with high growth and job creation potential. The programme makes equity and quasi-equity investments into a range of experienced or emerging, privately-managed investment vehicles, targeting first time fund managers with early-stage investing experience, experienced local, regional and international fund managers, accelerators, angel funds, early and growth-stage venture capital funds, as well as other SME funds. These intermediaries then make equity or quasi-equity investments – including venture debt and mezzanine finance – into start-ups and high-growth potential SMEs. The fund managers may invest up to 40% of the fund's capital with a maximum ticket of USD 5 million per fund, subject to raising at least 50% of fund equity from private sector investors or development finance institutions. The programme is sector agnostic, although priority may be given to certain sectors where they have particularly high sustainable growth or development impacts.

Out of 40 applications, the scheme has issued 19 soft commitments, out of which eight commitments totalling approximately USD 20.7 million have been transferred into solid commitments. MSMEDA conducted due diligence on the applications using external consultants, which were then approved by the MSMEDA Investment Committee. Since almost half of the approved venture funds had new fund managers, MSMEDA also offered capacity building training as part of the scheme.

The performance of MSMEDA's Fund of Funds programme has so far exceeded expectations. The programme initially aimed to leverage almost two times the USD 50 million allocated. Thus far, it has attracted USD 117 million in foreign direct investment and USD 19 million in private sector investment (Yassin, 2023[5]). Over 130 enterprises have received investment thus far through the programme. The current value of the portfolio of investee companies is approximately USD 3 billion.

MSMEDA is currently raising an additional USD 100 million to top up the initial USD 50 million allocated to the programme. It is also looking into the possibility of introducing new financing tools that address market gaps and support the growth plans of the start-ups, such as quasi-equity funds, debt to start-ups, secondary funds, and Series B funds (Yassin, 2023[5]). Furthermore, MSMEDA is actively working on the implementation of supplementary initiatives designed to boost private sector participation in the financing of early-stage start-ups within Egypt. These initiatives encompass a broad range of programmes designed to address bottlenecks in the entrepreneurial ecosystem.

Angel investment

Business angel networks are not well developed in Egypt. Some private business angel networks are present, such as Cairo Angels, AUC Business Angels, Alexandria Business Angels (Alex Angels), and Hult Alumni Angels. However, the government does not have any policy or programme initiatives to develop

the business angel segment, such as exist in a number of other countries. There are also no regulations in place for business angel networks or investments. One of the advantages of MSMEDA's new Fund of Funds programme is the possibility of providing an exit opportunity for some of the business angel network investments. In this regard, enabling the connection between angel investors and the Fund of Funds venture capital groups is critical. In the meantime, MSMEDA is working on the design of a set of programmes to support the scaling-up of business angel investing in Egypt.

Access to leasing, factoring and SME finance through non-banking financial institutions

Leasing serves a significant function in assisting SMEs with the acquisition of machinery, equipment, and production inputs. Meanwhile, factoring is essential for enhancing access to working capital, thereby preventing cash flow deficiencies. Additionally, non-bank financial institutions (NBFIs) play a crucial role in facilitating SME financing, which helps to bridge the financing gap within the SME sector.

The Factoring and Leasing Law No. 176 of 2018 established a regulatory framework for factoring and leasing services. However, these markets remain in the early stages of development in Egypt. The limited number of leasing and factoring companies mainly engage with larger corporations. From the fiscal year 2023 until October 31 2024, the share of SMEs within the overall portfolio of leasing, factoring, and finance intermediaries – from both the banking and non-banking portfolios – averaged 10%.

MSMEDA extends credit lines to leasing and factoring firms to encourage increased engagement with SMEs. However, additional initiatives are necessary to enhance this effort, particularly in relation to raising awareness among leasing and factoring companies about the potential advantages of focusing on SMEs. MSMEDA should also promote greater awareness among SMEs regarding the benefits of utilising leasing options for acquiring capital equipment and the advantages of factoring services to enhance their cash flow.

Innovation programmes

Innovation hubs and clusters

Numerous public entities are involved in supporting SME and entrepreneurship innovation in Egypt. Often, the approach taken involves the establishment of innovation hubs or clusters that provide a range of services from a single location. The Ministry of Communications and Information Technology's (MCIT) Technology Innovation and Entrepreneurship Centre (TIEC) has a number of such initiatives:

- The Innovation Cluster Initiative (ICI) creates a network of innovation clusters across the local business and technology parks in second tier cities, each specialising in a specific ICT-enabled sector. The cluster members include universities (each cluster must include at least one university), private companies and entrepreneurship centres. The members collaborate within a specific scope of work in a certain geographical area to offer high-value innovations to global markets. Each innovation cluster benefits from TIEC's services, funding and incentives for five years. In its first phase, the ICI aims to establish two innovation clusters: the Alexandria Innovation Cluster operating from the new Borg Al Arab Tech Park and the Assiut Innovation Cluster to be based in the new Assiut Tech Park.
- TIEC's CREATIVA Innovation Hubs are based within nine governmental university campuses, providing co-working spaces for students, faculty members, or local entrepreneurs to test their ideas and commercial potential through digital transformation. The hubs provide a variety of supports including for ideation, mentoring, networking, workshops, venture demos, and product launches, as well as other collaborative activities, such as Hackathons and competitions.

- The EgyptInnovate platform is an online innovation hub for entrepreneurs and innovators to share knowledge and connect with the innovation and entrepreneurship ecosystem.[8] The platform provides access to networks of innovation hubs and spaces that exist in Egypt and internationally. It also provides a single point of access for information on the innovation ecosystem, with links to courses, innovation tools, self-assessment tools and expert videos, as well as lists of innovation-related events and news. The aims are to educate innovators, start-ups and businesses on technology and innovation management, to provide Egypt's innovators with national and international exposure, and to build collaborative communities within Egypt's innovation and entrepreneurship ecosystem.

The MCIT and the Ministry of Higher Education and Scientific Research (MHESR) also collaborate to establish Creativa Innovation and Learning Hubs in all governorates. These provide technological innovation support to Egyptian youth in order to address skills gaps that exist in the market. The hubs present single window access to training on digital technologies and other innovation supporting activities, such as co-working spaces, advanced technology labs, and start-up and technology incubators. They also connect start-up entrepreneurs with mentors, customers and investors. The Creativa hubs are available in Mansoura, Monufia, Menia, Sohag, Qena and Aswan, with each hub providing a tailored offering based on the needs of the local community.

Meanwhile, the 12 sector-focused Technology and Innovation Centres[9] under the Ministry of Industry provide technology and innovation services to businesses in Egypt's industrial sectors. This includes technical assistance, product development and quality testing facilities, access to financing instruments, incubation services, and networking linkages with sources of technology and international linkages for innovation and technology transfer opportunities. The Technology and Innovation Centres are a member of the newly-established ECOSAYS Hub for innovation and entrepreneurship, a platform that aims to reinforce the national innovation system.[10]

The NilePreneurs Initiative has launched the "Innovation & Design Technologies" programme, which is an innovation consultancy and R&D as a Service entity that is supported by a consortium of sponsors who believe in the power of design in the growth and strengthening of economic development. Through three different programmes, it provides a list of services, including consultancy, new product development, product re-engineering, prototyping, and production.

Innovation funding programmes

Innovation and entrepreneurship is an important pillar of the MHESR's strategy. There are three entities within MHESR that provide innovation funding to support businesses and the wider ecosystem:

- The Academy of Scientific Research and Technology (ASRT), which provides grants to support early-stage research up to technological readiness level 3.
- The Science and Technology Development Fund (STDF), which has a mandate to promote science and technology (S&T) through funding scientific research and technology development. The specific objectives of the STDF are to develop innovation capacity, enhance and monitor S&T systems and develop appropriate and flexible funding mechanisms for S&T activities. To achieve this, it provides funding for infrastructure and early-stage businesses as well as training on how to use research equipment.
- The Innovators Support Fund (ISF) (EGP 1 billion fund launched in January 2022), which focuses on investing in promising enterprises in order to take their businesses to the next level. The ISF's activities are designed to address existing funding gaps for projects that are at a technological readiness level of 3 or higher, but are not yet mature enough to attract venture capital investment (the so-called "valley of death" that is observed in many countries). The ISF has two main areas of focus:

- Supporting the commercialisation of R&D output: The ISF supports research commercialisation through two channels. The first is working with technology transfer offices in universities to establish licensing or royalty agreements with researchers. The second is to identify researchers with entrepreneurial potential and to invest in these researchers' start-ups.
- Improving the entrepreneurship skills of researchers: The ISF provides education awareness programmes for researchers to make them more business oriented and help them to better understand commercial processes. The aims are to create a small number of potential entrepreneurs and create a greater awareness of entrepreneurship among the wider population of researchers. The programme seeks to replicate a similar initiative overseen by the National Science Foundation in the United States. Efforts are being undertaken to tailor the programme to the Egyptian context, taking into account cultural factors and the more limited entrepreneurial experience and knowledge of Egyptian researchers.

This structure represents a good model for supporting the commercialisation of R&D in Egypt's innovation system at various different levels of technological and/or commercial maturity. However, many of the initiatives are relatively new and are being conducted on a relatively small scale.

NilePreneurs has also been offering R&D as a service in the form of innovation vouchers, which are covered by NilePreneurs Funds. Through these vouchers, SMEs can receive services in areas such as new product development, mentoring and capacity building. This model has supported more than 200 product development projects, and overall provided various innovation related services to 800 SMEs.

Innovation technical support, training and capacity building

Some Egyptian entities are providing capacity building programmes in the area of innovation. For example, InnovEgypt is a TIEC-offered training programme directed to university students and graduates in ICT specialisations who aspire to being future innovators and entrepreneurs. The 30-hour training programme is delivered over four days of interactive workshops. It is structured around three modules: innovation and technology management, design thinking, and entrepreneurship.

The Huawei Spark Programme was launched by the Information Technology Industry Development Agency (ITIDA) in 2022, in partnership with Huawei Technologies. This competitive programme provides opportunities for tech-driven start-ups to enter new markets and widen their client reach,[11] providing training and knowledge in eight fields of interest, such as artificial intelligence (AI), data management, gaming, and e-commerce. Selected start-ups receive technical support from Huawei Technologies and access to its ecosystem of cloud resources, as well as to its AI development framework, database, and operating system to support them in developing their own applications and services.

Finally, the MHESR's "Researcher to Entrepreneur" programme builds the commercialisation capacity of researchers in Egyptian universities and research centres by training them on the skills needed to turn their scientific and technical research into viable ventures. The competitive online training programme, led by the Innovators Support Fund, also includes mentoring support to the researchers as they work on their business model and start-up processes.

SMEs' innovative activities can also be encouraged and facilitated through collaboration with other businesses, which can provide them with resources, knowledge and contacts they need to implement these projects. Italy's Network Contracts approach, as described in Box 5.2 below, provides a good illustration of how inter-firm collaboration can be facilitated in a way that successfully fosters innovation and improved business performance.

Box 5.2. Italy's Network Contracts

Description of approach

Italy has a long-established tradition of informal collaborations between firms in its local enterprise clusters. However, owing to changes in global supply chains, which have attenuated the traditional advantages of geographical proximity and forced clusters to move up the value chain, it became apparent that more needed to be done to promote innovation linkages among Italian SMEs. In response to this need, the "network contract" was introduced into Italy's regulatory framework by Law Decree 5 of 2009.

Network contracts are formal multilateral agreements whereby two or more independent businesses undertake to perform some economic activities in their core line of business consistent with the aims of promoting competitiveness and innovation. Each network contract sets out a co-operation programme which is prepared and implemented by the participating entities. These co-operation programmes can involve one or more of the following activities:

- Collaborating in predetermined formats and fields relating to the operation of the parties' businesses.
- Exchanging information or services of an industrial, commercial, technical or technological nature
- Carrying out jointly one or more activities falling within the scope of the parties' undertakings.

The network contracts were initially aimed at entrepreneurs but Law 81 of 2017 subsequently extended the programme to professionals, enabling the formation of mixed networks. Firms have considerable leeway in how they write and structure a network contract, which must be registered in the sections of the business registry in which each participant is registered. The contracts are required to include provisions for the accession of new entrepreneurs. They also allow for the flexible use of personnel, providing for forms of co-employment and joint ownership of employment contracts belonging to network companies.

Success factors

Since the introduction of the in 2009, an increasing number of Italian firms have decided to join a formal network. More than 7 000 network agreements were signed between 2010 and 2021, involving nearly 42 000 firms. The advantages of the instrument are that it can diffuse innovations among the contract participants and mutually increase their innovative capacity and competitiveness, while greater scale through collaboration can enable some SMEs to initiate more ambitious industrial projects. It can also protect supply chains connecting larger firms with SMEs. It is well suited to SMEs that lack the scale to innovate or internationalise on their own but wish to preserve their operational independence. Indeed, a recent econometric analysis found that firms that participated earlier in a network had on average higher value added and revenues than those that joined a network at a later stage (Correani and Morganti, 2024[6]). Strengths of the initiative include the requirement to formalise network objectives and prepare a detailed programme, as well as the option to formally define governance rules (Tiscini and Martiniello, 2015[7]).

Relevance for Egypt

Boosting innovation and exports is key to the future development of Egypt's SME sector. Italy's Network Contracts provide a model for supporting collaboration between groups of firms in a way that helps them to share knowledge, reduce costs, and gain access to larger international markets. These features are of particular benefit to SMEs, given that many small businesses in Egypt lack access to the knowledge, contacts and technologies needed to innovate and internationalise (Correani and Morganti, 2024[6]).

Source: (Correani and Morganti, 2024[6]; Tiscini and Martiniello, 2015[7]; TRE-LOG, 2021[8]; University of Bocconi, n.d.[9])

Incubators and accelerators

Business and technology incubators are a key element of the government's policy for transitioning Egypt to an innovation-driven economy. Law No. 23 of 2018 on Incentives for Science, Technology and Innovation, gives the right to public and civil universities, research centres and entities affiliated to different ministries to establish incubators or companies to promote local production and innovation-based research. As a further incentive, the incubators formed are exempted from VAT and other taxes and customs on the purchase of goods and equipment.

This section reviews the government-sponsored incubators and university-based incubators that operate in Egypt. It is important to note, however, that Egypt also has a number of private sector incubators and accelerators, such as Flat6Labs, EdVentures, Plug and Play, Entlaq Accelerator, and Logivators, which target high growth potential, innovative start-ups and often provide their services in exchange for equity, as well as NGO-operated incubators, such as the Nadhet El Mahrousa incubator for social enterprises, which typically provide services related to their mission.

Government-sponsored incubators and accelerators

National Programme for Technological Incubators

The largest system of government-sponsored incubators derives from the ASRT's National Programme for Technological Incubators (INTILAC). The INTILAC programme, which was launched in 2013, established a network of incubators throughout the country to support the start-up of innovative and commercialisable projects by entrepreneurs and researchers. The programme provides financial support for the establishment of the incubator and seed funding for start-ups working on a technological idea or innovation. The ASRT partnered with universities, research centres, the TIEC, GAFI, NGOs, and the Misr El Kheir Foundation to establish the incubators. The supported incubators provide working spaces to the start-up teams, entrepreneurship training, technology validation, prototype financing, technical and advisory support, ecosystem networking, and seed funding of up to EGP 200 000 per project. The INTILAC programme has supported 48 technological incubators and entrepreneurship centres in national universities (African Development Bank, 2022[10]).

To build on the INTILAC programme, the incubators component of the Tanmia wa Tatweer project which is funded by the African Development Bank and implemented by the ASRT, was launched in June 2020. The Agri-Business Incubator initiative strengthens the incubation and acceleration of enterprises in three priority sectors (agribusiness, clean and green, and creative industries) by supporting start-up pitch competitions and awarding non-equity seed funding of EUR 51 000 for each selected start-up. The aim is to support 480 start-ups through five incubation and seven acceleration programmes, with 50% of the project beneficiaries being based in Upper Egypt and remote areas and 50% of the project beneficiaries being female.

Technology Incubators programme

The Technology Incubators programme, under the Science, Technology and Innovation Funding Authority (STDF), seeks to accelerate the commercialisation of research and development by providing integrated support to assist in the development of technology-based start-ups.[12] The programme issues targeted calls for innovative ideas in the following sectors: Aquaculture and Fisheries; Development of Sinai; Health, Pharmaceutical Industries; Renewable Energy; Sustainable Food Production; and Water Desalination.

TIEC incubator programmes

The TIEC, under the MCIT, operates a range of incubation programmes targeting entrepreneurs and start-ups in the IT sector. The entry point is the national Start IT Business Plan Competition, which has four intakes per year and targets aspiring tech-entrepreneurs with proof of concept or prototypes. The most promising candidates from the competition are selected either for the pre-incubation programme or for full-scale incubation in the Start IT incubator.

The pre-incubation programme works with first-stage entrepreneurs, providing training and information on a range of business and operational issues. Graduates of the pre-incubator programme may then be deemed ready to enter the Start IT incubator. The 1-year incubator programme offers working spaces equipped with hardware and software tools, access to technical advisory, marketing and business counselling services, a large community of mentors, and networking with other technology entrepreneurs and investors (valued at up to EGP 120 000 of in-kind services). The incubator programme also provides the incubated teams with EGP 60 000 of financing, delivered in three instalments, conditional on meeting milestone targets. A positive feature of the incubation programme is its virtual accessibility, enabling TIEC to provide its incubation services to entrepreneurs across all governorates.

The NilePreneurs Incubate programme

The NilePreneurs Incubate Programme is an initiative of the CBE and operated from Nile University. The programme seeks to tap into the potential of innovative young people. It consists of four full-service incubators:[13]

- The Creative Design Incubator, which is focused on furniture, home décor, and environmentally-friendly handicrafts, is a hardware incubator that aims to integrate design into the development of diverse products by graduating a new generation of professional designers who can create innovative products that compete effectively in local and international markets.
- The Technology Applications Incubator, a software as a service (SaaS) incubator, which allows B2B software start-ups in Egypt to launch products aiming to help SMEs automate their workflow. Consequently, it leads to achieving digital transformation while equipping incubated start-ups with gamification modules to produce engaging software with high usage and low churn rates.
- The Engineering Business Incubator, which is dedicated to climate change technologies and the manufacturing of local products that promote sustainable industries.
- The TechSpace Incubator, which aims to transform AI concepts into viable ventures, is a technology-focused business incubator that supports Egyptian startups in building sustainable business models that operate and compete in high potential industries' markets such as banking, retail, insurance, corporate applications, and health tech. It also helps start-ups with high-tech factors like machine learning, Artificial Intelligence, deep learning, and blockchain, etc..
- There are also two pre-incubation programmes that aim to support innovators at the earliest stages of their businesses by providing them with the means required to bring their ideas to life: one on product design and one on packaging design, which are both sponsored by the Export Development Bank of Egypt. The design pre-incubator attempts to support passionate designers who create original and visionary packages from start to finish. It also assists companies by connecting them with those unique and creative designs and offering consultancy for the selection of materials used to produce their own designs.

The NilePreneurs incubators offer the full range of incubation services, including co-working spaces, technical and innovation support, logistic and legal services, business consultancy, mentoring, and access to investors, business partners, and potential markets. This amounts to approximately EGP 200 000 of in-kind services. To enter the incubator programmes, applicants must first participate in a bootcamp, after which final selections are made.

Pre-incubation and business incubator programmes launched by other ministries and agencies

The Ministry of Planning, Economic Development and International Cooperation (MPEDIC) sought **to address the gap in business incubators at the regional level outside Cairo by beginning** the process of establishing a national network of incubators across Egypt in co-operation with the ASRT. This included efforts to expand the establishment of business incubators in public universities to serve innovative entrepreneurs in local and remote areas. Nine business incubators were created as part of the initiative.[14] These include five incubators in different universities to support start-ups and projects in the industrial sector, and four specialised incubators in collaboration with universities and other partners – an AI incubator, a tourism incubator, a micro-factory incubator, and an online Egyptian-African incubator for Arab and African youth with a target of 500 start-up companies.

The MPEDIC is also responsible for other incubators and pre-incubation programmes:

- Falak Startups, a Cairo-based incubator for tech-enabled and scalable start-ups launched in 2021. It offers incubator space, the necessary tools, resources, and networks to develop their strategies and scale-up their businesses (e.g. training, mentorship, growth hacking, networking, and a wide variety of perks and benefits, including equity investment. After completing the incubation cycle and meeting the required key performance indicators, the venture founders are able to showcase their start-ups on the Falak Startups Virtual Stage platform, a tool for connecting with potential investors, stakeholders, and partners. Falak Startups also runs the EFGEV Fintech Track, a 6-month accelerator programme for start-ups in the fintech sector.
- The Orange Corners Egypt incubation programmes in Cairo and Upper Egypt, which offer training, mentorship, business development support, and networking opportunities to support entrepreneurs, focusing particularly on young entrepreneurs in the agriculture and creative sectors, to start and grow innovative enterprises. Orange Corners Egypt is a public-private partnership involving the Bank of Alexandria and the Madinet Masr Company as key partners.
- Since August of 2023, the Egypt Entrepreneurship and Innovation Centre (EEIC), under MPEDIC, has been offering integrated and intensive Pre-Incubation Programmes to support participants in the development of their business ideas into viable start-ups. To date, pre-incubation programmes have been offered in the Sustainable Ready-Made Garments industry, the Digital Transformation sector, and Agribusiness and Biotechnology sector. The EEIC Sustainable Innovation Lab also includes incubation and acceleration components for enterprises in the green economy, creative and cultural industries, digital transformation and 4G industries, and biotechnology following idea generation and hackathon components.

The Ministry of Industry Technology and Innovation Centres have many incubators and are always open to co-operate with the private sector and NGOs in these incubators.

Starting in 2024, the MCIT CREATIVA Innovation Hubs began hosting the CREATIVA Incubation Programme, a nine-month cohort programme for university students and graduates with innovative ideas or start-ups. The programme focuses on projects in educational technology, renewable energy, e-commerce, electronics, embedded systems, manufacturing technology, agri-tech, healthcare, environmental technology, and smart cities, among others.

University incubators and accelerators

A growing number of business incubators are housed and managed by universities. The Venture Lab (V-Lab) at the American University in Cairo (AUC) School of Business was the first university-based incubator in Egypt. Established in 2013, the V-Lab offers three programmes: the 4-month Start-up Accelerator, the 9-week Start-up Launch Pad for idea-stage entrepreneurs[15], and the 4-month Fintech Accelerator. The V-

Lab has supported over 1 000 entrepreneurs by providing entrepreneurial leadership skills, growth strategies, business building insights, investment-readiness support, and access to mentors, investors, and the AUC Angels network.

A large number of other universities support campus-based business incubators. Some of these have been supported by government programmes, such as the ASRT, the MPEDIC and NilePreneurs Incubate; others, such as the business incubator at the Cairo University Faculty of Economics and Political Science (FEPS)[16], the first Egyptian public university to have a business incubator, operate without any specific government support. Other notable university-based incubators in Egypt are the Nile University Business Incubator and the Innovation Hub (iHub) at Ain Shams University.

Developing an inventory of private, public and university incubators would enhance transparency among aspiring entrepreneurs

Given the large and growing number of business incubators and pre-incubation programmes, aspiring entrepreneurs may have difficulty in obtaining information on opportunities for their participation. A complete mapping of incubation programmes by type, geographic location, sector priorities, and timelines is not readily available to assist with this search.

The MSMEDA platform includes an icon for business incubators and accelerators, but the list of institutions is yet to be developed. The EEIC Egypt Observatory for Sustainable Entrepreneurship and Innovation is a possibility for including a mapping of incubation programmes. MSMEDA should partner with the key ministries and agencies to begin the process of mapping the various incubator programmes and making this information publicly available.

Building the capacity of business incubator managers and staff would improve the effectiveness and performance of incubator programmes

University-based incubators and accelerators are growing in number, with many universities in the process of launching their incubators. However, many of the newly-established incubators, university-based or otherwise, lack know-how on how to manage effective incubation and acceleration programmes (Ismail, 2022). To respond to this need, in 2021, the MPEDIC Rowad 2030 project (2017-2022) partnered with the AUC V-Lab to deliver a capacity building programme to improve the effectiveness of incubator and accelerator managers, based on the good practice experience of the AUC's incubator. The training programme helped participants in the design of new business incubators and in the improvement of existing ones. It comprised three basic units on programme design, delivery and sustainability. In 2021, the training was delivered to more than 170 incubator and accelerator managers (African Development Bank, 2022[10]), indicating that demand for this capacity building support is high.

Efforts to improve the competency levels of Egyptian incubators evolved further in 2024 with the launch of the Incubator Management Bootcamp by the NilePreneurs Initiative. The objective of this 5-day bootcamp training is to expand the knowledge, skills and good practice procedures and insights needed by incubator management teams to start and operate an innovation incubator programme, including university incubators.[17] The bootcamp programme includes one-to-one mentoring of the incubator management teams by the Nilepreneurs team.

Improving the management and performance of business incubators should go further by working with the AUC V-Lab and other experienced incubators to develop a set of standards and certification processes for incubators. The Brazilian Reference Centre for Supporting New Ventures (CERNE) competency improvement programme for business incubator management serves as an illustrative approach (Box 5.3). One of the first steps in the CERNE approach is to categorise business incubators by their level of development and capacity. This categorisation of incubators would be a useful first step in Egypt, allowing targeted capacity building to strengthen the performance of early-stage incubators, for example through

tailored training for their managers and mentors, and assistance with the implementation of operational standards and the expansion of service offerings.

The creation of a monitoring and evaluation framework to follow the activity of the incubators and the performance of tenant enterprises would also help maximise the impact of existing and future business incubators.

Box 5.3. Competency improvement programme for business incubators in Brazil - CERNE

Description of the approach

The Brazilian government created the Reference Centre for Supporting New Ventures (CERNE) to reinforce the training and professional development of incubator managers and staff. CERNE aims to enhance the ability of incubators, pre-incubators, accelerators, and innovation hubs to generate successful innovative ventures and reduce variations in the performance of different incubators (Garcia et al., 2015). It was developed as a joint initiative of the Brazilian Micro and Small Business Support Service (SEBRAE) and the (government agency) Brazilian Association of Science Parks and Incubators (ANPROTEC) in 2009.

Incubator manager and consultants are trained on managing and organising an incubator, building and managing professional networks, and generating innovative companies. The CERNE training certifies incubators at four levels of maturity:

- CERNE 1 – concerns the processes and practices related to the creation of an incubator and the selection of incubating enterprises.
- CERNE 2 – focuses on how to effectively manage an incubator organisation, including strategic management, service provision and the monitoring of results and impacts.
- CERNE 3 – deals with building a strategic network of partners to expand the incubator's operations, according to established performance indicators, and strengthen its role in the local entrepreneurial ecosystem.
- CERNE 4 – concentrates on building the capability of the incubator to support the further growth and internationalisation of the incubated enterprises.

CERNE has produced a set of documents outlining the requirements for obtaining certification at each of the four levels. The documents include:

- An Executive Summary, which is intended for incubator managers and presents an overview of the principles and advantages of implementing the CERNE model.
- A Terms of Reference, which is intended for managers, consultants and auditors, and presents the principles, structure and details of the CERNE model, including all key processes and practices that must be adopted by incubators.
- An Implementation Manual that clarifies and facilitates the CERNE implementation process, including the planning, logistics, details of practices and the evidence to be presented during the certification process.

Success factors

By 2021, CERNE had certified 75 incubators at one of the CERNE levels. An evaluation of the impacts of CERNE certification on the management of incubators and of incubated and graduated companies revealed that certified incubators outperformed non-certified incubators on a number of metrics (ANPROTEC, 2021[11]). CERNE-certified incubators had more organised structures, generated more

jobs and income locally, maintained better contact with their graduated firms, and were recognised in the market as being more innovative. They were also more likely to demonstrate good monitoring of the evolution process of their incubated companies and were better able to report statistics on the three-year survival rates of their graduated enterprises. Furthermore, CERNE certified incubators offered more services and of higher quality, provided more financial support to incubated firms, had a higher likelihood of helping their incubated companies with internationalisation, and generated more revenue from the services offered.

Obstacles and responses

Conducting a maturity assessment of incubators can be a time-consuming and difficult process. This can be facilitated by first collecting information through online surveys with individual incubators, which is potentially supplemented by subsequent site visits or interviews with incubator managers.

There are over 400 business incubators and accelerators in Brazil and in 2021, only 75 had been CERNE-certified. It takes time to convince incubator managers of the need for incubator management training and certification. This requires ongoing promotion of the available benefits, for both the incubator and the wider economy impact. Training is also needed to accredit institutions in carrying out the CERNE model and evaluation processes, which ANPROTEC has put into place.

Relevance for Egypt

There is a growing policy emphasis in Egypt on business incubators and accelerators, particularly those focused on technological innovations. Egypt's incubators have varying levels of maturity, performance, scaling potential and impact. University-based incubators, in particular, lack capacity and capability to deliver effective programmes. Developing a training programme or platform for incubator managers and staff to enhance their understanding of good incubator practices and metrics and advance their knowledge and skills in incubator management would produce improved performance and outcomes for the incubator system. The programme could be delivered on a tailored-basis according to the maturity level of the incubator or accelerator, similar to the CERNE programme in Brazil.

The concept of certifying incubators is of utmost importance in Egypt as incubators vary greatly in quality as each operates by its own direction. Having a governing body/umbrella to ensure the quality and relevance of the curriculum content and service provision would better ensure the best possible impact for the costs incurred, avoid duplication and enhance integration between entities.

Sources: (ANPROTEC, 2021[11]; ANPROTEC, 2015[12])

There would be merit in creating an umbrella association or network of Egyptian incubators and accelerators

Egypt does not have an overarching national business incubator policy or strategy, nor is there a national association of business incubators that can provide an umbrella for incubation activity and a forum for knowledge-sharing and exchange and capacity building for incubator managers. Such associations are common practice in many countries.[18] The Rowad 2030 project (2017-2022) noted the absence of a clear system for management of business incubators under one network and initiated discussions with the AUC V-Lab on developing an Egyptian incubator association. The model of such an umbrella association or network may be informed by the example of the Association of Thailand Business Incubators and Science Parks, which is profiled in Box 5.4.

Box 5.4. Role of the Association of Thailand Business Incubators and Science Parks in supporting business incubators

Description

The Association of Thailand Business Incubators and Science Parks (BISPA) was formed in 2009 as a partnership between the National Science and Technology Development Agency (NSTDA), the Office of the Higher Education Commission (OHEC) and Office of SMEs Promotion (OSMEP). BISPA seeks to strengthen the management of business incubators and their service offerings, and help them to become ecosystem builders with shared platforms, knowledge exchange, and networking.

In addition to providing policy input to the government, THAI-BISPA focuses on four pillars of activity:

1. Learning, including conferences, workshops and seminars, knowledge-sharing.
2. Resources, including the provision of facts and figures, news updates, business incubator toolkits.
3. Professionalisation, through the provision of service standard guidelines and accreditation for business incubators and business incubator managers.
4. Community ecosystem development, through the development of a business incubator directory, mentor network, angel and investor networks, and co-incubation platforms to facilitate exchange and information sharing between domestic and international incubators.

Only business incubators are “full” members of BISPA. However, the association also offers three other membership categories for founding organisations, for organisations that support or fund BISPA, and for organisations that would like to be part of the ecosystem. Through its advisory board, BISPA includes representation from the Federation of Thai Industries, the Venture Capital Association, universities, and government bodies.

In mid- 2021, BISPA had 36 business incubator members, 22% of which were public incubators, 53% were university-based/academic incubators, and 25% were private. An important goal of BISPA is to attract more business incubators into its membership and to professionalise the provision of incubator services. This requires the strengthening of existing incubators, particularly university-based incubators (UBIs), so that they can meet the minimum standards for membership. It also requires efforts to convince incubators of the value that membership can bring them. The entry of new incubators into the ecosystem and the high level of turnover of incubator staff necessitates the ongoing provision of training and certification programmes.

To become a full BISPA member, business incubators must pay a membership fee and meet certain criteria. Many UBIs do not currently meet these criteria and do not have the required minimum maturity level. To assess the capabilities and quality level of business incubators, BISPA uses the results of a self-assessment tool. This tool assesses an incubator’s strategy and organisational structure, financial capacity, knowledge body, human resource development, infrastructure, network, and services.

BISPA offers a Business Incubator Accreditation, a process that involves collecting and reviewing data on the business incubator and its incubator model, and preparation of a customised report for each incubator indicating areas for improvement to achieve accreditation status. The BISPA Certification programme focuses on the training of incubator managers and staff.

BISPA also provides a “Co-incubation platform”, which aims to accelerate the scaling up and internationalisation of incubated firms, including through soft-landing programmes and other supports to help companies enter new markets more effectively. In this regard, BISPA maintains relationships and alliances with a number of international business incubator organisations, such as InfoDev and the

European Business and Innovation Centre Network (EBN).

BISPA has also developed the "Inno-Peer Platform", which is a virtual community platform for incubators and other business development entities to connect with members of the innovation ecosystem. A feature of the platform is integration of the "InteGreat" platform (www.integreat.in.th/), which aims to facilitate the work processes of business incubators, increase their management efficiency and raise the standard of sustainable business operations for the incubated entrepreneurs. The InteGreat feature enables business incubator members, paying an annual licensing fee, to enter and monitor their incubator client data and receive quarterly reports on this data. This is a useful resource for incubators, many of which may face challenges in implementing their own systems for collecting and monitoring data on their client activity and performance.

OSMEP is also an important player in supporting business incubators in Thailand, predominantly university-based incubators. To address the lack of financial resources within universities to fund the activities of their incubators, OSMEP makes efforts to secure budget support for the university business incubators in the government's Integrated Budget Plan. OSMEP also uses its own budget to contract some services from the university business incubators, mainly technology-matching services for SMEs.

Sources: (OECD, 2021[13])

Internationalisation programmes

Egypt's Export Development Strategy 2018-2020 included a range of supports for SMEs, including export development services such as technical assistance programmes, export incentives, and trade facilitation, with a particular focus on developing the export market and opportunities within Africa. However, there has been slow progress in implementing this strategy. Meanwhile, the MSMEs and Entrepreneurship National Strategy 2017-2022 aimed to facilitate the export-readiness of SMEs in targeted sectors and facilitate access to value chains through a variety of support measures including information packages, export-readiness training and capacity building, matchmaking, the expansion of industrial zones and the strengthening of clusters, incentives for larger or FDI firms to engage with SMEs, and the development of a comprehensive quality management system infrastructure. However, there is limited reporting on the implementation progress of the strategy and the impact of the programme and service interventions.

Notwithstanding these gaps in the implementation of strategies, there are several instruments and programmes provided by the government and international co-operation partners and donor organisations to support SME exporters and SMEs seeking to integrate as suppliers in international value chains. The leading entities (public and private) involved in SME export promotion and development include the Ministry of Investment and Foreign Trade), the Export Development Authority (EDA), the IMC, MSMEDA, the Egyptian Exporters Association, and the sector Export Councils[19], with MSMEDA playing an increasing role in promoting SME exports. Table 5.1 provides a brief description of the activities of these, and other entities, involved in SME export promotion in Egypt.

Table 5.1. Key institutions supporting SME exports in Egypt

Institutions	Main description
Ministry of Investment and Foreign Trade	Responsible for the General Organisation for Exports and Imports Control and the Customs Authority and for other agencies delivering progrramme support for exporters including SME exporters.
Ministry of Industry	Responsible for development of the industrial sector, which includes industrial SMEs, and for the activities of the Industrial Modernization Centre, which includes a focus on the Industrial SME's export promotion.
Ministry of Planning, Economic Development and International Cooperation	Responsible for the Hub for Advisory, Finance and Investments for Enterprises (HAFIZ platform), which supports SME exports in Egypt by providing access to international tenders of Development Finance Institutions in Egypt and abroad (see Box 5.5).
Export Development Authority (EDA)	Established in 2017 under the MTI, now under the Ministry of Investment and Foreign Trade. Offers a full range of export development services and supports and a special focus on SMEs; is acting as a "hub" for improving the rate of Egypt's exports – disseminating information, business matchmaking. EDA's online Egyptian Export Portal to promote exports has a special icon for SME access to information and services and to encourage exporting firms to register through the Exporter Database. The Portal offers access to consulting services and exporter training.
	Arab-Africa Trade Bridges (AATB) Programme in Egypt (with the International Islamic Trade Finance Corporation (ITFC) to fund a number of export development programmes, e.g. awareness, information, training, planning and guidance services; implemented by the EDA in co-operation with the ITFC, the Export Councils and the Federation of Egyptian Industries (FEI).
MSMEDA	The main MSMEDA interventions are designed to address the key obstacles to the under-performance of MSMEs in exporting activity: lack of awareness, inaccessibility of export channels, inadequate access to market information, lack of capacity, and constraints in linking to progressive value chains. Encourages and supports MSMEs to benefit from international markets and expands the capacity of MSMEs to integrate in local and global value chains (e.g. development of clusters, a sectorial approach). Recently established an Export Department, which will support SME exports by clarifying export procedures, identifying foreign markets and providing support mechanisms for small exporters.
	Export support services to MSMEs (e.g. establishment of a marketplace on the MSMEs Platform to help SMEs find new markets and sales channels).
	Delivers training to boost capacities of Egyptian exporters, such as the "Training – A Step to Exportation", a programme to qualify new exporters, with a priority on SMEs in the agricultural sector with an exportable product, in co-operation with the FTTC (and funded by the International Islamic Trade Finance Corporation).
Ministry of Finance	Export Support (Rebates) Programme provides a rebate to exporting firms based on their export volume, with some provisos. to boost exports and reimburse certain expenses of exporting firms. Also seeks to boost the ratio of local components in exported products by requiring that exporters are only eligible for the export rebates if a minimum of 40% of local components are used. Exporting firms will also be eligible for additional increments if their products target African markets. Aims to encourage the export activity of SMEs by topping up the standard rebate rate by an additional two per cent and one per cent, respectively.
Information Technology and Industry Development Agency (ITIDA)	"Export IT" Programme – cash rebate to MSMEs of up to 35% of the value-added exports of ICT-related products and services to reduce the export-related costs of MSMEs in penetrating key export markets (35% rebate to qualifying microenterprises; 15% to small enterprises; and 10% to medium enterprises). Main goal is to increase exports of ICT services.
Egyptian Commercial Service (ECS)	Offers information sessions to increase awareness among Egyptian companies of opportunities in international markets, qualifying new exporters, training workshops and documentation for small exporters to improve their knowledge and skills to kick-off an international market presence, and organising business-matching and trade missions.
Foreign Trade Training Centre (FTTC)	Offers export training programmes for existing exporting firms, potential and new exporters, and export specialists, often in partnership with other public entities, such as MSMEDA and the IMC, as well as with the Egyptian Exporters Association (ExpoLink).
Industrial Modernization Centre (IMC)	National Industrial Localisation Programme/NILP to encourage local manufacturing of many imported goods in order to nurture domestic value-added in the export of industrial components and to reduce Egypt's trade deficit.
	IMC Export Development Programme provides technical services to help companies start and enhance sustainability of their export activities, and enhance their export capabilities and increase their competitiveness in international markets. Through the programme, the IMC seeks to qualify exporters and maximise exports value by encouraging transformation to high value-added exports, targeting markets with promising export opportunities, enhancing the competitiveness of Egyptian products at international markets in targeted industrial sectors, and managing export quality and

	enhancing export operations. Services include export-readiness assessment, developing export strategies, securing trademarks in targeted international markets, implementing export transactions, and adopting digital marketing.
	"Creative Egypt" clusters development programme to integrate creative clusters into the national and international supply chains of ethnic products and handicrafts.
NilePreneurs Programme	Operates the Export Excellence Centre which supports Egyptian SMEs to scale their exports. This is part of the COMPETE Programme, which aims to boost the competitiveness of late-stage start-ups and SMEs in collaboration with ecosystem players.
Sector Export Councils	Support the export activities of member firms through trade shows and trade missions, and by providing export opportunities and buyers' lists, training and seminars, marketing studies, and individual consultancy.
Egyptian Exporters Association (ExpoLink)	Provides programmes and services to support member firms with market intelligence, export-readiness tools and solutions, business matchmaking, missions, virtual export promotion platforms, etc. through ExpoLink.
	Operates the Export Incubator Programme (EIP), a 6-month programme for non-exporters and young entrepreneurs (priority target of fresh university graduates), delivered in co-operation with the FTTC and the FEI. Provides all knowledge/skills for starting, managing, sustaining/expanding export businesses and supporting start-up entrepreneurs to launch a successful export business (incubation services, training, mentoring, promotion/marketing, product quality, access to finance, market linkages, B2B platforms for the firms to do business internationally). Graduate from the incubator programme with an EIP Certificate that enables access to a variety of ExpoLink services, plus issuance of the mandatory Export Practice Certificate required to obtain export licence from the Register of Exporters. The EIP is now in its 9th intake cycle.
Export Development Bank of Egypt	Main funding source for trade finance and export operations in Egypt. Supports Egyptian exports by expanding the financing of export and import substitution projects, participating in joint loans and contributing to their capital.
Egyptian Export and Investment Guarantee Agency	Approved for launch by the Egyptian Parliament in late 2023. Entirely owned by the CBE, the Export and Investment Guarantee Agency will seek to expand the base of Egyptian exporters, enforce their participation in the international supply chains and their entry into new markets by offering guarantee services to Egyptian exports and foreign investments. The Agency will co-operate with banks and international or local financial institutions to provide financial services to finance Egyptian exports and investments abroad.

Box 5.5. The Hub for Advisory, Finance and Investments for Enterprises (HAFIZ) Platform

The Hub for Advisory, Finance and Investments for Enterprises (HAFIZ) is an AI-powered platform established by the former Ministry of International Cooperation, which has now been merged to become the Ministry of Planning, Economic Development and International Cooperation. The platform, launched in December 2023, connects development partners, international institutions, the government, and the business community to enhance the benefits of international partnerships.

HAFIZ aims to enhance the role of the private sector, including SMEs, by facilitating international partnerships, offering business support, and simplifying the process of finding relevant international tendering opportunities for businesses of all sizes. The platform provides over 85 financial and technical support services from 32 development partners.

Key features of the Hafiz platform include:

- Integrated Support: Offers 85+ financial and non-financial services from +35 development partners.
- Comprehensive Services: Provides consulting, capacity building, and financing solutions for various types of private sector companies, including large, medium, small, and emerging companies.
- Enhanced Communication: Bridges the information gap that previously prevented many private sector companies from accessing available services.
- Accessibility: Available in both Arabic and English, making it accessible to a wider audience.

Information on tenders and other international opportunities can be accessed through the HAFIZ website at: https://privatesector.moic.gov.eg/en/

The Export Support (Rebate) Programme provides an effective incentive for increased export activity

The Ministry of Finance's new 3-year Export Support (Rebate) programme came into effect in July 2023, replacing the previous version of the scheme. The programme aims to boost exports by reimbursing certain expenses of exporting firms. It also seeks to boost the ratio of local components in exported products by stipulating that exporters are only eligible for the rebates if the manufactured goods use at least 40% local components. For SMEs that have succeeded in signing deals for their products abroad, the standard rebate is topped up by an additional 1% to 2%. Exporting firms are also eligible for additional rebates if their products target African markets within the African Continent Free Trade Area. The level of support provided has been scaled up significantly in the new iteration of the programme. Indeed, a dedicated budget of EGP 30 billion was allocated for the new programme in 2023-2024. This compares to a budget of EGP 8 billion for the previous year.

Better co-ordination between different export-related institutions may lead to improved performance impact at the SME level

Despite the existence of several trade and export-related institutions that help SMEs, only a very small minority of SMEs in Egypt (approximately 6%) export (International Labor Organization, 2022[14]). This raises questions regarding the capacities, connectedness and performance of these different stakeholders. The former Minister of Trade and Industry had directed trade bodies to intensify collaboration to give momentum to export growth. Although examples of collaboration between stakeholders exist in pockets of the system, such as in the delivery of export training to SMEs (MSMEDA, the IMC and the FTCC), provision

of export development support as a whole remains fragmented. A more comprehensive and integrated export development approach towards the SME sector and better co-ordination between the different institutions may lead to improved outcomes in this area.

Faced with a similar co-ordination failure, the Korean Ministry of Start-ups and SMEs established the Support Centre for SME Exports. This is tasked with providing information, advice and training on international opportunities, and supporting SMEs to conduct export procedures, access trade financing and negotiate international business contracts. The centre also facilitates improvement in the design and quality of export products and assesses the capacity of SMEs to engage in international trade (UN ECLAC, 2021[15]). There are 13 physical centres across Korea, as well as a unified website (www.exportcenter.go.kr) that guides SMEs through the major support projects and services of the SME Export Support Centre, including an online Export Consultation Room. This integrated approach to providing SMEs with access to the full package of export support programmes on offer may be a model for Egyptian export support bodies to emulate.

A significant new development in this area is the agreement between the Ministry of Planning, Economic Development and International Cooperation, the Egyptian Exporters Association, and the Foreign Trade Training Centre (FTTC) to implement the "Export Academy" project. This is supported by funding from the International Islamic Trade Finance Corporation.[20] Established in January 2024, the strategic goal of the academy is to establish a unified entity for training exporters and providing export advisory services, with the ultimate aim of supporting Egypt's direction to double the size of Egyptian exports, enhance regional economic integration, and increase intra-trade, which helps drive economic growth and create job opportunities. The academy also serves as a business platform in Egypt to foster economic integration and regional trade between Arab and targeted African countries and strengthen Egypt's position as a regional trade hub. While the establishment of the Egypt Export Academy is a positive step in consolidating the support offerings of different institutions, attention must also be paid to easing trade facilitation for SMEs, improving the quality of SMEs' products to meet international standards, and ensuring SMEs have adequate access to export and supply chain financing.

There is a potential gap in the availability of export financing schemes for SMEs

The availability of export financing schemes may be one of the limiting factors in the participation of SMEs in exporting activity in Egypt. Although the Ebank promotes the SME sector in its offers of export financing, special products for exporting SMEs are not readily evident. However, one recent example of a targeted effort is the co-operation protocol agreement between the IMC and Ebank in 2023, which aims to boost exports from industrial SMEs as one of its objectives. Under the agreement, Ebank will support industrial exporters through financing programmes, with special attention to SMEs and green economy projects. The IMC will assist Ebank clients in obtaining the required ISO certifications to meet international standards and ready the SMEs for the Ebank export financing. It will also assess and support the training needs of Ebank to enhance the skills of its staff in lending to SME exporters. Also notable is the EBRD loan of EUR 23.2 million to the Ebank in 2024 for on-lending to SME exporters, complemented by EBRD's Advice to Small Business Programme whereby Ebank will offer export training sessions to its SME clients.

MSMEDA also plays a role in the financing of SME exporters. For example, in September 2024, it signed a USD 3 million contract with the Enmaa Finance Company to provide financial support to SMEs engaged in export activities. Funding for this initiative came to MSMEDA through the World Bank's "Catalysing Entrepreneurship and Job Creation Project".

A further development on the horizon is the establishment of an export risk guarantee company by the CBE to provide strategic support for Egyptian industrial and export services to the African continent and to help Egyptian companies, including SMEs, take advantage of promising trade opportunities within the context of the AfCFTA agreement. In November 2023, Egypt's legislature passed a bill enabling the creation of the Egyptian Export and Investment Guarantee Agency (Law No. 178 of 2023), replacing the

former Export Credit Guarantee Company of Egypt. The share of exporting SMEs supported by the export risk guarantee company remains to be seen.

The supply of business development support (BDS) services

The delivery of BDS to SMEs and entrepreneurs in Egypt is distributed across many public institutions, each one targeting various subsets of the SME and start-up population, according to the mandate and objectives of the organisational entity.

- MSMEDA provides a range of non-financial services to MSMEs through its network of 33 regional offices covering all governorates. Through this network of offices, MSMEDA's BDS services have the greatest reach into rural areas of Egypt. The support provided includes information, basic guidance and advice, entrepreneurship training, technical support and training in areas such as e-marketing, exporting and feasibility studies, business-to-business collaborations, local and international exhibitions, public procurement support, mentoring and advice programmes, and business development training programmes certified by the ILO. MSMEDA reports that, between July 2014 to October 2023, 78 642 young men and women participated in its entrepreneurship skills and start-up training (MSMEDA, 2023[16]). During this period, MSMEDA also organised 1 237 internal and external exhibitions with more than 28 000 exhibitors who achieved sales and contracts worth EGP 1 billion. Each regional office has a designated Consulting Officer responsible for organising non-financial support services to meet the needs of client SMEs and start-ups. MSMEDA also refers clients to external BDS providers for more sophisticated consultancy. However, this is limited by the supply of external BDS providers, which is very small in some governorates. MSMEDA does not currently seek to attract medium enterprises, but has plans to do so in the future.
- The CBE-initiated NilePreneurs BDS Hubs provide a range of advisory and counselling services in 24 governorates. There are 116 hubs in total, which are situated within CBE-partner bank branch offices, youth centres in the governorates, and universities. The BDS Hubs provide nine business advisory services ranging from guidance on establishing a new business to facilitating access to training programmes and financial services to offering data and information about the market and providers of specialised consulting services. From July 2019 to October 2024, the hubs delivered a total of 600 878 advisory services to 226 000 clients (of which 37.3% were female),[21] supporting early-stage entrepreneurs as well as start-ups and growing small businesses. Further, the hubs facilitated financing for 9 000 projects totalling EGP 6.7 billion. These data suggest a high demand for BDS services when they are made available. Going forwards, the CBE plans to increase the number of BDS Hubs, expand their presence across Egyptian governorates, and make all advisory services available online.
- A distinctive feature of the NilePreneurs BDS Hubs initiative is the training of its business advisors, who run the BDS Hubs. The NilePreneurs BDS Hubs deploy 150 certified business advisors. To ensure a consistent quality and delivering of advisory services, the CBE partnered with the Egyptian Banking Institute (EBI), which in collaboration with the International Labour Organization (ILO), developed a BDS training toolkit curriculum to train the advisors. The EBI has trained more than 20 trainers to train the advisors. Upon completion of the training programme, the business advisors receive an EBI BDS Specialist Certificate or an ILO BDS Certificate. Close to 400 BDS Hub advisors have received certification to date.
- The TIEC provides one-to-one consultancy services to start-ups and SMEs in the IT sector. The TIEC contracts with a list of professional consultants who deliver services in the domains of finance, marketing, sales, business development, and intellectual property and other legal issues. The

consultancy services are funded by the TIEC and free of charge to the user. The service is confined to technology-based start-ups with a commercial registration number and a client base.

- GAFI's Entrepreneurship Development Unit offers an integrated package of BDS services that covers legal advice, consulting and mentoring. These services can be delivered on an individual or group basis. The target group is entrepreneurs with high growth potential and innovative start-ups.
- The IMC is a major BDS services provider for manufacturing enterprises. Over the past 20 years, the IMC has served 9 000 enterprises by providing more than 97 000 services. It currently serves more than 700 enterprises annually with more than 2 000 services. In addition, the IMC has a customised programme for industrial clusters of SMEs, as well as one for Local Suppliers Development. To access the services, SMEs are required to register in the IMC as a beneficiary for funded services. The main types of support relate to human capital development, planning, training, marketing, export development, financial management, market access, innovation, product and website design, and support in the green transition. Although the IMC employs business development officers, the BDS services are often provided by external service providers. On a largely user-pay basis, the IMC helps SMEs to access local and international markets (e.g. with participation in exhibitions and matchmaking), and offers services to help manufacturing enterprises automate their production processes.

Other sources of BDS services in Egypt include the Ministry of Industry's Technology and Innovation Centres and the NCW Women Business Development Centres focal points. The business and technology incubators also provide a targeted form of BDS services to their start-up clients. This is delivered by incubator staff, external consultants, and mentors. However, there is no standard for the scope and nature of BDS services across the network of incubators.

The ecosystem for business advisory services could be more cohesive, transparent and inter-connected. The ILO and USAID have attempted to address this by working with MSMEDA to develop a national BDS co-ordination framework and strategy (see discussion below).

Demand side factors limit the uptake of BDS services

Demand-side factors may limit the uptake of BDS services among SMEs. These include a lack of awareness among SMEs of the importance of BDS services, the lack of information about available services and providers, and the poor accessibility of BDS services in terms of convenience and location, with BDS providers generally more available in Greater Cairo than elsewhere (USAID, 2023[17]; MSMEDA, 2023[18]). In addition, many SMEs have a low perception of the credibility of service providers and the value of the services provided. As a result, SMEs have limited willingness to pay for services, with affordability being a major factor holding firms back from accessing BDS from private sector providers. Furthermore, micro and smaller enterprises have a low capacity to engage in the consulting process or to implement the ensuing recommendations.

Some Egyptian stakeholders point to a growing demand for BDS services from new start-ups and the next generation of family-owned SMEs. However, to increase BDS take-up from existing SMEs, it is necessary to disseminate information on the availability and value of BDS services. The provision of risk-free opportunities for SMEs to trial BDS services could also help to boost demand. This could be facilitated by issuing BDS vouchers to SMEs that they can use to access external business advisory services, a common practice in many countries to help drive demand (OECD, 2021[19]). The assumption is that once SMEs see value from the trial intervention, they will be more likely to become a more regular user of BDS. These are among the actions to be undertaken by MSMEDA to build demand among SMEs for external business advice and guidance, which are already recommended in the draft BDS strategic action framework for MSMEDA (MSMEDA, 2023[20]).

A first step for MSMEDA is to quantify the demand for BDS by SMEs. This could be achieved by conducting a survey of SMEs to determine their current usage of BDS services (from which organisations, what type of service, their assessment of the usefulness and quality of services, etc.), their reasons for not having accessed any BDS services, and their willingness to pay for such services. This survey data, categorised by the business size (micro, small or medium-size) and geographic location of the respondents, could be very useful to MSMEDA in identifying policy actions to better meet the BDS needs of SMEs.

Strengthening MSMEDA's role as a facilitator of BDS services could improve access and quality of BDS to SMEs and entrepreneurs

The EU-funded ILO Business Development Services for Growth (BDS4GROWTH) project (2018-2020), delivered in partnership with MSMEDA, sought to address the needs of SMEs in Egypt by shifting the BDS paradigm towards a market-based approach, while addressing constraints and gaps in both the supply and the demand side of BDS. The project also aimed to build the capacity of MSMEDA to become a BDS market facilitator to ensure that SMEs across the country have access to good quality, relevant and sustainable BDS services from public and non-governmental institutions. This included a component to identify BDS providers and to assist MSMEDA in building their capacity. It further recommended that MSMEDA develop a digital platform for BDS delivery to expand reach to more SMEs, for example by enabling them to book appointments and attend meetings with business advisors online. The project also recommended the development of a database of BDS providers and consultants for uploading onto the MSMEDA platform, as well as the provision of digital tools to support the operations of BDS providers. The latter recommendation is geared towards helping BDS providers to enhance their productivity and sustainability, for example through the use of Customer Relationship Management, Enterprise Resource Planning, programme management, accounting and marketing software, and e-payments systems. This would serve the dual role of supporting the BDS provider while also supporting SME clients in their own digitalisation efforts.

MSMEDA has been offered support from the ILO and USAID to develop a national strategy for the delivery of co-ordinated BDS services in Egypt (International Labour Office, 2020[21]; MSMEDA, 2023[18]). The objective of the draft BDS framework and strategy developed by MSMEDA (not yet approved by the MSMEDA Board) is to "ensure all MSMEs in the country gain access to good quality, relevant and sustainable business services" (MSMEDA, 2023[20]). In a role as a facilitator rather than provider of BDS, MSMEDA's main concerns would be stimulating the supply and demand of BDS, building the capacity of BDS service providers, and ensuring BDS best practices are observed in the design, delivery, follow-up and monitoring of BDS services. However, transitioning to a BDS facilitation role will require changes in MSMEDA's institutional structure, which may be a factor in the delays of the board in approving the BDS framework proposal.

A fundamental action to address the BDS supply and demand gap is to develop an integrated referral system of BDS providers, especially at the governorate level outside of Greater Cairo. This can be achieved by building a "referral" network of BDS providers. Box 5.6 provides a useful example of how this was done in Thailand, which may provide inspirational guidance for MSMEDA and partner agencies in piloting such an approach by working through the MSMEDA regional offices to develop a database of BDS providers in different parts of the country.

Box 5.6. The integrated networks of BDS providers in Thailand – the Regional Integrated SME Promotion project

Description of the approach

The aim of the Regional Integrated SME Promotion (RISMEP) project was to improve the quality of BDS provision to start-ups and SMEs in Thailand's provinces. The pilot project was funded by the Japan International Co-operation Agency (JICA) under an agreement with the Thailand Ministry of Industry (2009-2018). By the end of the project in 2018, the RISMEP system was implemented in 21 of the 76 provinces.

The RISMEP approach brought together government officials, BDS-providing organisations, private sector business counsellors and consultants, university lecturers, R&D centres, financial institutions, chambers of commerce and industry, and industry and SME associations into a "collaborative" Business Development Service Provider (BDSP) network in each province, whereby members could refer clients to each other. Service providers and business advisors interested in joining the network are required to complete a written and an oral test to demonstrate their knowledge and performance quality. They are also subjected to follow-up assessment on the quality of services provided to clients. The creation of these networks produced a more horizontal, integrated approach to servicing the BDS needs of start-ups and SMEs. In provinces that have created a BDSP network, SMEs and entrepreneurs can approach any one of the one-stop shop (OSS) "consultation counters", have their questions answered, and based on a simple diagnostic assessment, be referred to the most appropriate partner organisation for follow-up BDS support.

The RISMEP model employed three key personnel in each province: 1) Facilitators, who promoted and led the process of developing a co-ordinated services delivery system in the province; 2) Co-ordinators, who were responsible for planning, arranging, and implementing support services according to the needs of the individual SME clients; and 3) Assistants, who accepted SME clients at the consultation counters and conducted preliminary interviews before referring them to an advisor or consultant. A Japanese-developed tool promoted by the RISMEP approach, the Shindan "awakening tool" (simple enterprise diagnostics and advice) was used to diagnose business needs.

The impact evaluation of the RISMEP project concluded that by establishing a formal network of BDS providers, RISMEP provinces reduced the major supply-side constraints to the take-up of BDS services (by reducing the cost of search), resulting in increased demand for BDS services. Relative to control group provinces, BDS providers in RISMEP provinces increased the number of SMEs they assisted, the number of participants in their training programmes, and the number they referred to other BDS providers (Japan International Cooperation Agency, 2017[22]). By developing websites and accepting online consultations, the BDS providers in the RISMEP networks also expanded the availability of their services and became more demand-driven.

Factors for success

One of the keys to success was organising information on the public, private and independent BDS providers and their services into a database system. This required a mapping of all BDS-providers according to their specialties and service offerings and mobilising the network to become familiar with the range and scope of network member's focus, capability and areas of competency. This facilitated referrals to the appropriate local service providers and services based on the needs of SME clients.

Through the creation of the entry-point "consultation counters" and an integrated system of referrals, the RISMEP project enabled start-ups and SMEs to take advantage of varied expertise within the network to help resolve their problems. SMEs can also access RISMEP services via an online format on both website and mobile applications. The consultant sessions can take place online using chat, voice call, or video call. Use of the "Shindan" diagnostic tool (also made available online to be

accessed by SMEs) was fundamental to the consultation counters in matching of the SME clients with the suitable BDS service and advisor.

In recognising the level of experience and ability of BDS service providers, the system of certification for BDS providers was also a key success factor in enhancing the quality of BDS provision. The certification committee of representatives from the Ministry of Industry, the SMEs Promotion agency, and experts, reviews applications for certification based on ability standards, the ethical code and an evaluation system.

Obstacles and responses

The training of the RISMEP co-ordinators and network members was one of the initial obstacles. To deal with this, RISMEP developed a compendium of Collaborative Support Models to be used by counsellors at the consultation counters. The guidance manual describes team formation, the roles of team members and various RISMEP network members in responding to clients' needs in a co-ordinated manner according to their area of specialisation and expertise, and includes more than 20 modules dealing with various kinds of counselling and BDS issues.

The project provided training in basic counselling and coaching skills and effective techniques to develop the capabilities of RISMEP network members, including public SME support organisations, and enable them to be more effective in delivering quality BDS services. Seminars were delivered to increase awareness among network members of all available support programmes and the competences of all BDS providers in order to improve their knowledge base to make appropriate referrals. The project also exposed members to promotional activities that RISMEPs could use to build the service, such as bringing new BDS providers into the network and creating more awareness among SMEs about the co-ordinated service delivery.

The maintenance and expansion of the RISMEP networks was a critical challenge when the JICA funding ended. This was resolved by the commitment of the Thai government to allocate budget funding for the expansion of the RISMEP mechanism to all provinces by 2023.

Relevance for Egypt

Prior to introduction of the RISMEP project, few SMEs in Thailand had used BDS services. The low demand was attributed to insufficient awareness of BDS, the perceived low effectiveness of BDS, the low level of organisation of BDS providers, inadequate quantity and quality of service providers, and the lack of an overall system to link SMEs and BDS (Japan International Cooperation Agency and UNICO International Cooperation, 2011[23]). The lack of such a system meant that SMEs had to be able to diagnose their own problems and search for the BDS provider that could best address them. Moreover, since information about the available types of BDS was not mapped, the cost of search was very high, which further reduced the demand for BDS (Japan International Cooperation Agency, 2017[22]).

These issues are very much shared by Egypt at present. In particular, follow-up assessment on clients to assess the actual impact of the BDS provided to SMEs, especially training services, is missing in the Egyptian ecosystem. This is crucial for two purposes: to re-visit the quality and details of the provided services in case corrective actions are needed; and to re-visit the criteria for approving beneficiaries in the first place. Adopting a RISMEP approach would assist in alleviating these concerns. As well, creating an integrated SME support system at the local level would produce significant benefits to MSMEDA in serving the collective needs of SMEs and demonstrate its role as a facilitator of quality BDS services.

Sources: (Japan International Cooperation Agency, 2017[22]; Japan International Cooperation Agency and UNICO International Cooperation, 2011[23])

A further action MSMEDA could initiate to add value to the BDS delivery system is working with stakeholders to encourage and support the formation of an association of BDS providers. This would aid in fostering a network of BDS providers (organisations and individual SME consultants) that could be a forum for BDS providers to exchange information, experience and good practices. The association could be a partner to MSMEDA in formulating policy improvements and supply arrangements to develop the BDS sector. The example of the Association of Business Development Services Indonesia illustrates the importance of amassing a membership of qualified BDS consultants and how it can aid the objectives of an SME agency (Box 5.7).

Box 5.7. The Association of Business Development Services, Indonesia

Description

The Association of Business Development Services Indonesia (ABDSI) was founded in 2000. It is a professional association of institutions providing business assistance services, including those affiliated with government programmes, as well as NGOs, universities, and private sector and not-for-profit organisations. ABDSI also manages professional individuals ("BDS consultants") with competencies in business consulting services. Its membership is comprised of 165 489 BDS consultants and 254 BDS institutes, which have collectively assisted more than 2 million SMEs.

To improve the quality of BDS provision in Indonesia, the Ministry of Co-operatives and SMEs, together with the ABDSI, developed a four-level competency standard for BDS providers. This was informed by a review of experiences in other countries, and resulted in a national qualification for BDS consultants. This is complemented by a national training programme for future business advisors and coaches implemented through the ABDSI BDS Academy, which is a capacity building centre for business consultants and training instructors. The Academy learning method includes a minimum of two hours of independent learning using materials shared on the Academy platform; a series of scheduled online classes; online discussions with resource persons; practice assignments that must be completed; and an online theory test (limited to no more than 12 hours). Consultants who complete the programme and meet the professional graduation capacity standards are certified as a Registered (ABDSI) Business Consultant.

The ABDSI has a network of regional co-ordinators in 30 provinces who can mobilise BDS consultants and trainers to support the needs of the Ministry of Co-operatives and SMEs and other government agencies in delivering programmes and services to SMEs. This capacity makes the ABDSI a good partner for government institutions in providing qualified consultants to support their BDS activities, as it did, for example, in delivering the ILO SCORE programmes in Indonesia.

The Ministry of Co-operatives and SMEs collaborates with the ABDSI to provide business consultancy service to SMEs in parts of the country that do not have one of its Business Centres for Co-operatives and SMEs. Drawing from the ABDSI's membership of qualified business consultants, the Ministry can be assured of the delivery of quality BDS services in these areas.

Source: ABDSI website at: https://abdsi.id/.

Digital tools and services can strengthen BDS for SMEs and entrepreneurs

Digital diagnostic tools

Governments are increasingly using digital technologies in support of BDS services. To be able to deliver the most appropriate advisory and training services, MSMEDA could develop an online self-assessment diagnostic tool to help SMEs assess their current strengths and areas for improvement. This in turn would aid business advisors in identifying the appropriate advisory support for the business and working with the SME owner on an action plan to address the areas of weakness. (See Box 5.8 for examples of self-assessment diagnostic tools in use in various countries.)

Adopting such a diagnostic service would allow the MSMEDA Regional Offices and BDS providers to better tailor programme assistance to individual needs, including referrals to consultancy advice and technical assistance in areas not offered by the regional offices. This effort should be complemented by the mapping of government support available at the national and local levels and by the publication of such information on MSMEDA's online platform.

In the Egyptian context, the EBRD Business Lens self-diagnostic tool has been used to deliver business consultancy services to SMEs as part of funded programmes. The tool, which can be completed online, provides a score to businesses on seven dimensions (financial management, market knowledge, marketing and sales, human resources management, strategy and organisation, risk management, and operations), based on their responses to a series of questions. This approach might be an option for MSMEDA to consider.

Box 5.8. Self-assessment diagnostic tools

There are several examples of self-assessment diagnostic tools for use by entrepreneurs and SMEs, either generic or domain-specific. Examples include:

- the Business Productivity Benchmarking tool (Canada),
- an online diagnostic tool to gauge the ambition and readiness of SMEs and start-ups for change (Estonia),
- the Business Excellence tool to enable SMEs and start-ups to assess their organisational performance against an internationally-benchmarked framework (Singapore),
- the Future SME Capability Diagnostic Model (Europe),
- the IMP3rove Approach diagnostic tool for assessing the digital and innovation management capabilities and performance of firms against the average score of direct and indirect competitors (Germany),
- the Advanced Digital Self-Diagnostic Tool to assess the level of readiness and maturity to begin a digital transformation towards Industry 4.0 (Spain),
- the online Innovation Scoring diagnostic tool to self-assess the SME's innovation performance (Portugal), and
- the BpiFrance Internationalisation Metric that allows SMEs to assess their maturity in exporting or establishing themselves internationally (France).

Source: (OECD, 2021[19])

Digital advisory services

Implementing digital advisory services could also increase the possibilities for SMEs to access BDS. In keeping with its pivotal role in promoting and developing the SME sector in Egypt and the importance of activating all SME support services through the internet, MSMEDA has taken the initiative to create an interactive electronic platform (www.msme.eg). When fully developed, this will provide information on all SME support services, programmes and initiatives provided by government agencies and institutions as well as supporting bodies, such as civil society associations, business associations, and the private sector that are willing to provide information and links to their support. The platform is operational but still under development. The site currently features the "Your Smart Advisor" page that asks the user some simple questions about the type of service they would like and refers them to options for further exploration. Eventually, the platform will be able to feature more service providers, including private sector consultants and advisors. Service providers and consultants are invited to register on the platform (https://id.msme.eg/Account/Register) and submit information on their professional experience. If accepted, the service provider/consultant will be sent a confirming email to join the platform. A simple mechanism for how SMEs can access BDS services online is demonstrated by the "MeetMe" digital advisory service example implemented by the SME Corporation Malaysia (Box 5.9).

Box 5.9. Online access to business advisory platform – the MyAssist MSME platform in Malaysia

Description

"MyAssist MSME" is an online one-stop business advisory platform operated by SME Corporation. Malaysia. It is designed to assist SMEs through the provision of business advisory and information, digital marketing opportunities and guidance, technology and business innovation support facilitation, and business matching services. It is also a gateway to the various other initiatives of different implementing agencies.

Through the platform's "MeetMe" button, SMEs can schedule a meeting (online or in-person) with a business counsellor. SMEs can also access the "100 Go Digital Coaching" programme via the platform, a programme offered through the Malaysia Digital Economic Corporation to help SMEs identify their digital needs and provide hands-on guidance on the steps involved in adopting digital solutions. Registered SMEs benefit from weekly "Open Day" sessions to obtain advice and basic information on digital business solutions and periodic mentoring sessions to help them understand the preparations, processes and steps required in digitising their business.

Sources: SME Corporation Malaysia website at : https://myassist-msme.gov.my/en; https://myassist-msme.gov.my/meet-me/; https://titan.mdec.my/100-godigital/

Entrepreneurship education and training programmes

Entrepreneurship education in schools

Entrepreneurship education is not embedded in the core curriculum of public schools…

Currently, entrepreneurship education is not integrated as a core subject in the curriculum of the Egyptian public school system, which is under jurisdiction of the Ministry of Education and Technical Education (METE). However, there have been some large-scale initiatives to introduce and promote a culture of

entrepreneurship among school students. Most notably, the Rowad 2030 project (2017-2022, now ended) ran an entrepreneurship awareness-raising campaign that reached more than 300 000 school students in 27 governorates and trained around 1 250 teachers and public mentors. In total, the awareness sessions reached out to 4.5 million young people.[22] Another element of the Rowad 2030 project, the "One Million Egyptian Entrepreneurs" initiative, provided a fully-online training programme to teach entrepreneurship to school students and equip them with the basic required skills.

…but entrepreneurship education at the technical secondary school level is more well-developed

Technical secondary education in Egypt, which is provided by theme-based academies with a focus on occupational learning, provides an alternative to the traditional academic pathway. The Ministry of Education and Technical Education (METE) has made great strides in infusing entrepreneurship into the curricula of technical secondary schools. In partnership with the ILO, the ministry has adopted the Know About Business (KAB) curriculum across the technical education system. This provides students with knowledge on starting an enterprise and also prepares them to become better employees. The KAB programme includes training of technical school instructors in delivering the KAB curriculum and providing career guidance for students.

The KAB curriculum is now reaching the 1.6 million students enrolled in the technical secondary schools each year.[23] However, this is only one element of Egypt's wider Technical and Vocation Education and Training (TVET) system. Consideration should be given to integrating entrepreneurship as a component of the curriculum of all TVET programmes. A challenge here is that the TVET system in Egypt is highly fragmented. While the METE is the main government institution for basic, secondary and TVET education, at least 17 line ministries are involved in technical and vocational training, mostly through their own training centres. For example, the Ministry of Industry has its own Vocational Training Centres (VTCs) and Technical Competence Centres, which deliver training in industrial skills and competencies. Meanwhile, the Ministry of Local Development has 79 VTCs in 27 governorates offering training programmes to youth, and the Ministry of Manpower delivers vocational training to semi-skilled and unemployed persons through 43 VTCs. The METE does participate in all aspects of TVET governance but does so with the support of other line ministries. It may be challenging for the METE to influence line ministries to adopt an entrepreneurship curriculum in all programmes offered through their VTCs, but in line with the priorities of Egypt Vision 2030, this may be a worthy pursuit.

Entrepreneurship education in universities

Currently, there is no mandatory requirement for universities to integrate entrepreneurship courses or programmes in their curriculum. The Ministry of Higher Education and Scientific Research (MHESR)'s new strategy, however, takes a stronger position on the importance of entrepreneurship and includes "innovation and entrepreneurship" as one of its seven strategic pillars. Under this pillar, the MHESR includes provisions for all universities to establish an entrepreneurship and innovation centre, which are to be united under one umbrella. An approach to introducing entrepreneurship in the academic curriculum of Egyptian universities is also to be considered.

Several universities, such as the American University in Cairo (AUC), the British University in Egypt (BUE), Nile University, Houris University and the German University in Cairo (GUC) have already integrated entrepreneurship courses as part of their curriculum in certain faculties. Furthermore, entrepreneurship-related extracurricular activities, such as entrepreneurship clubs, exist in most of the universities in Egypt, while several universities already also have an Entrepreneurship and Innovation Centre.

The ILO has trained a number of university professors as national KAB key facilitators, which included training for delivery of the online version of the KAB programme. Thousands of university undergraduates

have accessed the online KAP curriculum. Blended use of the online version with face-to-face training can reduce the number of classroom-based training hours and make the programme more accessible to a larger number of students.

Lessons learned from Egyptian universities that have successfully integrated entrepreneurship into the curriculum would be very helpful to the MHESR, in particular the AUC, the BUE, and Nile University. Given this, the MHESR should commission a baseline study of the state of entrepreneurship education in all universities in Egypt. Governments in a number of countries have commissioned similar baseline studies, including Canada, where the results of the study provided concrete evidence of the gaps and opportunities and led to transformative policy changes to strengthen the entrepreneurial and innovation roles of universities.

In the meantime, actions have been implemented to strengthen the integration of entrepreneurship within the curriculum at Egyptian universities. For example, in co-operation with the AUC and the University of Cambridge, a project of the Ministry of Planning, Economic Development and International Cooperation launched a Master's in Entrepreneurship and Innovation Management, with the first class of students graduating in 2020. In addition, the project implemented a fully funded "Professional Certificate in Entrepreneurship" (Mastering Business Skills for Entrepreneurs) programme, in co-operation with the the German University in Cairo, with 100 young people graduating from the first class in 2020.

The Academy of Scientific Research and Technology (ASRT), an arm of the MHESR, has supported many initiatives at the university level to provide entrepreneurship education and support programmes, such as the Entrepreneurship and Innovation Centres and university-based business incubators. The ASRT National Programme for Technological Incubators also incorporates the Entrepreneurship Club Programme, which supports the establishment of entrepreneurship clubs in universities. This has so far led to the creation of 65 clubs. Effective implementation of specific targets and action plans under the "innovation and entrepreneurship" pillar of the MHESR's new strategy will be key to its success in enhancing the role of universities as drivers of innovation and entrepreneurship in Egypt.

Entrepreneurship training

The ILO's "Start and Improve Your Business (SIYB)" training is one of the most prevalent entrepreneurship and small business management training programmes in Egypt. Over several years, more than 10 000 Egyptians have taken the training, with a 36% success rate in starting a business. MSMEDA is a long-term partner in delivering the SIYB training curriculum through its Regional Offices. The partnership was formalised in 2019 with the signing of a Memorandum of Understanding (MoU) between the ILO and MSMEDA, which allowed MSMEDA to become an independent provider of SIYB training, with the capacity to complement the training with start-up loans to youth across Egypt. The ILO trained and certified 60 MSMEDA lead trainers to deliver the programme and set up a Master Training programme so MSMEDA staff could deliver the ILO Train the Trainer programme to other SIYB trainers. Through the MoU, the ILO will be better able to scale up the implementation of the SIYB programme in Egypt. The ILO also collaborates with the National Council for Women (NCW) to deliver the Gender and Entrepreneurship Together (GET) Ahead training to women, with the use of ILO trained facilitators.

Meanwhile, the NilePreneurs Initiative, funded by the CBE and the banking sector, has provided entrepreneurship and innovation capacity building to 13 000 youth from all over Egypt over the past five years. The NilePreneurs Professionals programme offers technical and non-technical upskilling capacity building solutions for university students, fresh graduates, post graduates, career builders and entrepreneurs.

The TIEC EgyptInnovate platform is an example of providing online access to educational content and practical tools related to entrepreneurship and technology and innovation management. The platform is an online innovation hub for Egypt that exposes Egyptian innovators and start-ups to collaborative

communities in the innovation and entrepreneurship ecosystem. In 2022, the site reported over 5 000 registered users, 85% of which were students.[24]

The greater deployment in Egypt of Massive Open Online Courses (MOOCs) has been advocated by Egyptian stakeholders. With the recent announcement of MOOCs Arabic-language portal, universities in Egypt should prepare their own interactive web-based entrepreneurship and innovation courses covering a wide range of topics and featuring prominent professors and lecturers.

Box 5.10 presents the case of Türkiye's Online Entrepreneurship Training (E-Academy) and Entrepreneurship Support Programme", which is a good example of an entrepreneurship support programme that provides tailored training as a pre-requisite for the receipt of financial support in the form of grants.

Box 5.10. "Online Entrepreneurship Training (E-Academy) and Entrepreneurship Support Programme" in Türkiye

Description of approach

The "Online Entrepreneurship Training (E-Academy) and Entrepreneurship Support" programme is operated by KOSGEB, the Small and Medium Enterprises Development Organization in Türkiye. Based in the capital city Ankara, KOSGEB has offices throughout the country and is a key actor for the development of entrepreneurship culture in Türkiye. The programme is a two-phase initiative, with completion of the online entrepreneurship training a pre-requisite for participation in the entrepreneurship support component. The aim of the training component, which is provided free of charge via the e-Türkiye portal, is to increase the knowledge and skills of entrepreneurs in relation to business establishment, development and operation. The entrepreneurship support programme provides grants to entrepreneurs in certain sectors, with a 50-100% uplift in the grant size for women entrepreneurs in order to promote inclusive entrepreneurship. Indeed, businesses established up to one year ago can receive TL 20 000 (approximately EUR 547) from KOSGEB, rising to TL 30 000 (approximately EUR 820) if the entrepreneur is a woman. If the beneficiary is an individual rather than a business, the amount of support is TL 10 000 (approximately EUR 273), rising to TL 20 000 (approximately EUR 547) for women.

The programme has two streams:

- **Traditional:** This stream targets entrepreneurs who intend to operate primarily in the services sector. In order to benefit from the "traditional support programme", it is necessary to complete the "traditional entrepreneurship training", which comprises eight modules including entrepreneurship opportunities and idea creation and development, feasibility analysis, business models, customers, value propositions and revenue sources.
- **Advanced:** This stream targets entrepreneurs who aim to operate in the field of manufacturing. To access the "advanced support programme", the entrepreneurs must complete the tailored "advanced entrepreneurship training", consisting of eight modules covering topics such as networking, professional and strategic management, access and management of finance, and business plan development.

Entrepreneurs who complete the aforementioned trainings are rewarded with an on-line certificate. Those issued with certificates can then apply for financial support through the relevant stream of KOSGEB's Entrepreneurship Support Programme.

Success factors

An important success factor for the initiative is the two-phase design, which ensures that those in receipt of financial support from KOSGEB have benefitted from the training needed to successfully deploy these resources into a new entrepreneurial venture. This helps to ensure that the public funds are used more efficiently. In addition, the programme offering is adapted depending on the type of activity that the entrepreneur wishes to pursue, which ensures that the training content is relevant to the particular needs and challenges faced by businesses in the services and manufacturing sectors respectively.

Approximately 1 million people have completed entrepreneurship training of KOSGEB in the last 5 years, out of whom 17 % have gone on to establish their business. 30% of these founders are women, indicating that the efforts to encourage female engagement in the programme are having some effect.

Relevance for Egypt

Türkiye's E-Academy and Entrepreneurship Support programme offers a potential approach that could address many of the entrepreneurship development challenges in Egypt. The provision of easy and accessible to training to potential entrepreneurs with business ideas could help to strengthen the entrepreneurship culture in Egypt. The provision of small grants could also promote a shift towards the formal economy. Indeed, in Türkiye, the E-Academy supports individuals who already are engaged in small-scale commercial activities to help them to become "official entrepreneurs". Türkiye's programme also provides a model for increasing women entrepreneurs' engagement with public support initiatives, through the 50-100% uplift in available grant sizes. In the Egyptian context, this could be supplemented by targeted messaging and outreach activities to ensure that women entrepreneurs are aware of the opportunities attached to the programme. The E-Academy is a also good example of an entrepreneurship support initiative delivered via a digital platform, which can significantly increase accessibility and affordability both for the delivery entity and the participant entrepreneurs. Finally, to receive support from KOSGEB, enterprises must be registered in KOSGEB's database of SMEs and entrepreneurs, illustrating how public support programmes can also be a vehicle for improving the quality of data on SME and entrepreneurship activity.

Source: KOSGEB, Türkiye

Skills upgrading programmes for SMEs' workers

Public support for workplace-based training in SMEs is limited in Egypt

Governments can use multiple approaches to support the skills upgrading of SMEs' workers. Common among these approaches are information and guidance mechanisms, tax incentives for workforce training, and other subsidies, such as training vouchers. In Egypt, there is a death of public support programmes to support the training and skills upgrading of SMEs' workers. Notably, for example, the Ministry of Manpower does not offer any special skills upgrading programmes for existing employees, instead focusing on employability skills of the unemployed and marginally-employable individuals, such as persons with disabilities. Moreover, the current TVET system is geared more towards providing basic skills to labour market entrants and the unemployed than towards upgrading the skills of employed workers in response to the expressed needs of SMEs. The MSMEs Law does provide a cost-sharing incentive for SMEs in certain sectors to implement technical training for their workers. However, the Egyptian government lacks a targeted programme to support SMEs in upgrading the skills of their workers.

There are some programmes targeting productivity improvements in SMEs on a sectoral basis. For example, the IMC's "Creative Egypt" Programme was established in 2015 to support sustainable

development for Egyptian artisans. The programme provided technical assistance for more than 40 artisan clusters in 17 governorates and contributed to the sustainable development of more than 10 000 Egyptian artisans and craftsmen in the targeted industrial and handicraft communities, with a major focus on women, youth, and marginalised groups.

A number for donor-funded initiatives have sought to improve the ability of the technical secondary system to meet the needs of the labour market through linkages with the private sector. For example, the USAID Workforce Improvement and Skills Enhancement (WISE) project (2015-2019) aimed to better meet the needs of the Egyptian job market by establishing partnerships between TVET institutions, business associations and SMEs in order to understand the skills needed for employment, reduce the skills mismatch, create a pool of qualified candidates, and link students with jobs. The WISE project provided market-relevant skills and work-readiness training for more than 25 000 unemployed young people who were placed in jobs or in on-the-job training programmes, with participating employer-firms guaranteeing employment for the job seekers who successfully completed the on-the-job training or in-company internship. WISE also provided in-house training and improved human resource strategies to SMEs in the manufacturing and services sectors to develop skills of their current workers, enhance productive capacity, and reduce worker turnover. However, the scale of this project component was much smaller, as only about 40 companies participated in formal agreements with WISE to undertake training needs assessments and implementation plans. A major issue with donor-funded projects is the lack of sustainability of the programme once the funding ends.

One way in which the national TVET system could become more attractive to SMEs is by supporting more demand-led, enterprise-based training to upgrade the skills of employed workers. The SkillNet Ireland provides an example for Egypt on how to implement an institutionalised skills-based programme involving SMEs, their representative associations and the training system (Box 5.11). This example may also be particularly relevant to the Ministry of Industry, which should develop a strategy that emphasises collaboration with SMEs to identify specific skill gaps and training needs to ensure that workforce training is aligned with industry demands.

Another option is to implement targeted programmes to support SMEs in upgrading their workers, such as the ILO Sustaining Competitive and Responsible Enterprises (SCORE) Programme piloted in Egypt in 2018, which benefited 30 SMEs and their workers (see Box 5.12). Smaller firms are less likely to engage in formal management practices to improve the productivity of their workers, such as Total Quality Management or Lean Production. The SCORE project has found that training of SME managers and workers on workplace co-operation and the principles of lean manufacturing and continuous improvement contributes to cost reductions, improved product quality and other efficiencies in the production process (OECD and ILO, 2022[24]). The future challenge is to promote the sustainability and scalability of the SCORE programme across a wider range of manufacturing and service sectors, which is dependent on the co-operative efforts of the IMC, MSMEDA and other national entities.

Box 5.11. Public-private co-operation in enterprise-based workforce training - Skillnet Ireland

Description of the approach

Skillnet Ireland, established in 1999, is a national agency responsible for the promotion and facilitation of enterprise-led workforce training and upskilling. The Skillnet programme funds groups of companies in the same region or sector with common training needs, through training networks that deliver subsidised workforce training to address their future needs, and including the skills upgrading of their current workers.

Once the training network proposals have been approved by Skillnet Ireland, Skillnet contracts with the sponsoring organisation, a role played by industry federations, business associations and membership-based professional bodies, and Skillnet Ireland assists in co-ordinating the design, sourcing and delivery of the training to SMEs in collaboration with industry training providers and higher educational institutions.

Skillnet Ireland provides joint funding for delivery of the training plans and programmes, which is partly state-funded through the National Training Fund* of the Department of Further and Higher Education, Research, Innovation and Science, and partly financed from network members' contributions. Each training network appoints a Network Manager who manages the delivery of the network training and development plan. Trainees may include employees of the member firms, and also prospective workers.

In 2022, 72 Skillnet Learning Networks operated across sectors such as ICT, pharma, financial services, agriculture, hospitality, sustainable finance, green tech, construction, retail and transport, representing over 57 industry or sectoral representative bodies, Chambers of Commerce, and employee representative groups. Training was provided to 92 489 workers in 10 966 training programmes (representing 676 400 training days). Of the 24 747 member companies participating in the training programmes, 93% were SMEs (52% micro, 27% small, and 14% medium enterprises) (Skillnet Ireland, 2022[25]).

Skillnet Ireland has been recognised by the European Commission and the OECD as a best practice example of workforce skills development and a good example of active collaboration between public and private actors to facilitate enterprise-led workforce training and upskilling (OECD, 2019[26]; European Commission, 2019[27]).

Factors for success

Skillnet Ireland's greatest strength is its wide partner base of industry and trade associations, sectoral groups, chambers of commerce and professional bodies, which provides direct access to thousands of SMEs. By working closely with businesses and training providers (including TVET and higher educational institutions), the Skillnet Networks deliver upskilling programmes that are very closely aligned with the demands of the labour market. A key success factor is that Skillnet produces value-added for member firms. Much of the training undertaken through the Skillnet Networks would not have occurred without the programme, and the vast majority of employers would not have found training of similar quality. One of the greatest advantages of the Skillnet model is that it reduces the administrative costs of training, which is particularly helpful for SMEs.

Obstacles and responses

Considerable time and resources are required to establish the necessary infrastructure and processes for the development and growth of strong Skillnet Learning Networks. The establishment of Skillnet Ireland as an agency was guided by a clear financing model, supported by the government, as well as clear procedures for setting up new networks, which were key to overcoming these challenges.

One of the obstacles for network member companies, especially SMEs, is encouraging their employees to participate in the training. This requires strong communication about the benefits of upskilling. SMEs may also have a low motivation to pay a contribution fee to the Network. This can be overcome by demonstrating that the networks add value for the participating businesses.

Relevance for Egypt

Skillnet Ireland provides an example of a needs-driven training programme that is centred on SMEs and that hinges on a network approach to training delivery. This approach has become increasingly popular among SMEs because it allows them to pool resources and access training of higher quality at lower per-capita costs, in addition to encouraging peer learning. The engagement of the Egyptian government with industry federations, such as the Federation of Egyptian Industries (FEI) and the Federation of Egyptian Chambers of Commerce, and with business associations, such as the Alexandria Business Association, and other membership-based professional bodies would provide access to a significant number of SMEs that would benefit from skills upgrading programmes in concert with TVET and other training providers. This could be an efficient and effective institutionalised approach to upskilling the existing workforce to meet the current and future skills demands of Egyptian SMEs.

Note: * The National Training Fund (NTF) is a dedicated fund to support the training of those in employment and those seeking employment, financed through a levy on employers of 1% on reckonable earnings of employees, collected via the income tax/social security collection method, and transferred monthly to the Department of Further and Higher Education, Research, Innovation and Science. Over 90% of the NTF allocation to SkillNet Ireland is for in-employment training.
Sources: (OECD, 2019[26]; European Commission, 2019[27]; Skillnet Ireland, 2022[25])

Box 5.12. The Sustaining Competitive and Responsible Enterprises Programme in Egypt caters to larger small and medium enterprises

In 2018, the ILO partnered with the Federation of Egyptian Industries (FEI) and its Chambers of Engineering and Chemical Industries to pilot the Sustaining Competitive and Responsible Enterprises (SCORE) training programme in Egypt. The SCORE programme was delivered to 30 SMEs with between 30 and 275 employees. The median size of the selected SMEs for the pilot was 70 employees, indicating that the programme catered to larger SMEs. The aim of the programme is to improve the productivity and working conditions of businesses, through the involvement of owners, supervisors, managers and workers. To implement the SCORE approach, each SME first sets up of an “enterprise improvement team” in different divisions of the business to ensure the engagement of all workers in application of the training content.

The SCORE programme comprises five modules, each delivered in two-day classroom-based training sessions for managers and workers, followed by on-site consultations with industry experts to assist in applying the training:

1. Workplace co-operation module, which unites owners, management and workers in setting common targets and ensures the involvement of all parties in continuous improvement efforts.
2. Continuous quality improvement module, which focuses on improving company performance by identifying consumer needs, developing a culture of quality assurance, and systematically reducing the number of defects. A key approach is implementing the 5S system of organising the production floor (Sort, Set in Order, Shine [clean up], Standardise and Sustain).
3. Cleaner production module, which helps increase productivity and save costs by systematically

reducing waste and energy consumption.

4. Human resource (HR) management module, which supports the development of HR strategies in recruiting, motivating and developing the right people to do the right jobs.
5. Occupational safety and health in the workplace module, which focuses on eliminating or reducing many types of health and safety risks in the workplace.

The SCORE programme built the skills of over 250 workers and managers in the 30 pilot SMEs. Moreover, 3 246 employees benefited from the workplace improvements. After completing the SCORE programme, participating enterprises reported cost savings, an increase in their productivity, and a decrease in the rate of product defects (International Labor Organization, 2020[28]). Companies also experienced an improvement in workers' morale and decreased absenteeism, largely due to increased communication between management and workers. Based on the positive outcomes of the pilot programme, the Industrial Modernization Centre (IMC), MSMEDA, and the MTI Technical Centres have expressed interest in promoting and scaling the programme in Egypt to strengthen local manufacturing industries and improve working conditions for employees.

Source (International Labor Organization, 2020[28])

Public procurement programmes targeting SMEs

Public procurement has the potential to significantly expand market opportunities for SMEs. As a result, governments around the world are increasingly taking actions to improve SMEs' access to public procurement markets (OECD, 2018[29]). This entails addressing the specific characteristics of government contracts that may adversely affect SMEs, such as the complexity of procedures or high technical and financial capacity requirements.

In Egypt, the public sector is a major goods and services market. In 2017, the Egyptian government spent an estimated USD 42 billion on good and services, amounting to 17.9% of GDP (Open Contracting Partnership, 2020[30]). Egypt's New Public Procurement Law 182/2018 seeks to provide an enabling environment for SMEs to compete in the procurement process. Article 9 of the Law states that at least 20% of the value of procuring entities' purchases is to be awarded to SMEs. Moreover, the MSMEs Law states that 40% of public procurement is to be awarded to MSMEs (20% of public procurement is to be awarded to micro and small enterprises and a further 20% to medium enterprises). Public procuring entities must also submit annual plans for their procurement requirements and make this approved information available on the Public Procurement Portal. In addition, local tenders not exceeding EGP 2 million are reserved for MSMEs located in the governorate. Procuring entities are to give notice for local tenders to MSMEDA to inform SMEs in the governorate and encourage them to register and/or update their information in the Public Procurement Portal.

Thus, the legal and regulatory framework for MSME access to public procurement contracts is in place. However, the new Public Procurement Law does not apply to the procurement activity of state-owned enterprises (SOEs), potentially hampering MSMEs' access to parts of the market. In addition, given their generally lower capacity, many MSMEs may still have difficulty with obtaining information about opportunities and participating in the procurement process. These challenges may be remediated by expanding the scope of e-procurement and competitive tenders to a wider range of government projects and providing specialised support to encourage the participation of MSMEs.

Experiences in other countries reveal that establishing targets for awarding procurement contracts and holding information sessions may be insufficient to improve MSMEs' access to procurement opportunities. Adaptation of existing public procurement systems is often needed to reduce barriers to the participation

of new and small firms, such as high fixed cost administrative burdens, lack of transparency, large contract sizes, and a bias towards selection of established large firm suppliers. Egypt has overcome some of these issues but could place more emphasis on working with business associations, chambers of commerce, the Federation of Egyptian Industries and MSMEDA networks to provide instructions to MSMEs on the process of accessing and preparing proposals for tender bids, creating opportunities for MSMEs to meet with public procurement officials regarding opportunities, and, especially, building the capabilities of MSMEs to meet the requirements for becoming qualified bidders.

The example from the Korea Public Procurement Service (PPS) illustrates the type of supports to SMEs that can be put into place by a public procurement agency to facilitate the participation of SMEs in public procurement activities (Box 5.13).

In addition to its current role in encouraging MSMEs to pursue public procurement markets by disseminating information on tender opportunities and providing a list of certified MSMEs, MSMEDA could implement more proactive approaches. This could include an initiative to "prequalify" individual SMEs as capable public procurement suppliers (such as exist in other countries) and co-operating with the General Authority for Government Services (GAGS) to deliver capacity building information and training to SMEs on how to navigate the procurement system and improve their ability to meet procurement standards.

Box 5.13. Approach of Korea to SME public procurement

Description

The Korean Public Procurement Service (PPS) co-operates with the Ministry of SMEs and Start-ups to reflect SMEs as a priority in its policies and operations. Correspondingly, the PPS has taken several actions and initiatives to increase SME participation in government procurement:

- The Korean Online E-Procurement System (KONEPS), an electronic procurement platform enables e-bidding, e-contracting, e-payment, and also includes an online "shopping mall". This improves transparency in doing business with the government and provides easy access to tender information and broader bidding opportunities, which helps to boost SME participation.
- A set-aside policy for certain contracts to be exclusively procured from SMEs.
- Providing bid preferences to SMEs in the form of additional point allocations in the eligibility tests.
- Providing for advance payments of as much as 70% to qualifying SMEs for delivery of goods contracts exceeding USD 30 000 and service contracts exceeding USD 5 000.
- An SME network loan programme, through which SMEs can obtain loans from one of 10 partner banks to cover the costs of contract execution. SMEs that qualify for the PPS Surrogate Payment Programme can access loans of up to 80% of the relevant contract price, at low interest rates. In 2017, 13 385 network loans worth USD 412 million were awarded to SMEs.
- Procurement-related service fees collected by the PPS (from procuring authorities) through a revolving fund are applied to ensure early or timely payments to SMEs during contract execution.
- Waiving of SMEs' fees for various bidding procedures as part of the integrated PPS scheme to decrease SME barriers to entry.
- The annual "SME Excellent Government Supply Products Award", which aims to increase the visibility of SMEs' products among government suppliers, contractors and consultants. Under this award programme, high quality performance and innovative technology products provided

by SMEs are included in the KONEPS product catalogue accessed by government suppliers of goods, works and consulting services.

- The Multiple Award Schedule (MAS) contracts for SMEs, which provides a simplified process for the procurement of recurring, high volume purchases at more competitive pricing associated with volume buying through use of indefinite delivery contracts. SMEs are given an opportunity to provide continuing orders, assuming satisfaction of MAS bidding requirements, within the duration of the relevant indefinite delivery contract.

The PPS runs training for all suppliers through its Public Procurement Training Institute to provide information on framework contracts, quality management policies and how to use the e-procurement platform. The PPS also holds an annual Korea Public Procurement Expo (KOPPEX), which provides an opportunity for SMEs to make inroads into both domestic and overseas public procurement markets. During the COVID-19 pandemic, the PPS also implemented diverse policies for struggling SMEs, such as the alleviation of penalties and removal of various bond surcharge rules.

Sources: (OECD, 2018[29]; Seo, 2011[31])

Inclusive entrepreneurship programmes

The national agenda Egypt Vision 2030 aims to transform the country into a modern sustainable knowledge-based and sustainable economy and puts equity and inclusion among the core objectives. This signals an ambition to ensure that the economic and social benefits of the economic transformation are shared by all. The government and international donors deliver a wide array of support programmes to strengthen inclusion in entrepreneurship. These schemes largely focus on increasing the share of women among entrepreneurs and business owners, creating pathways to work for young people and boosting regional development through business creation.

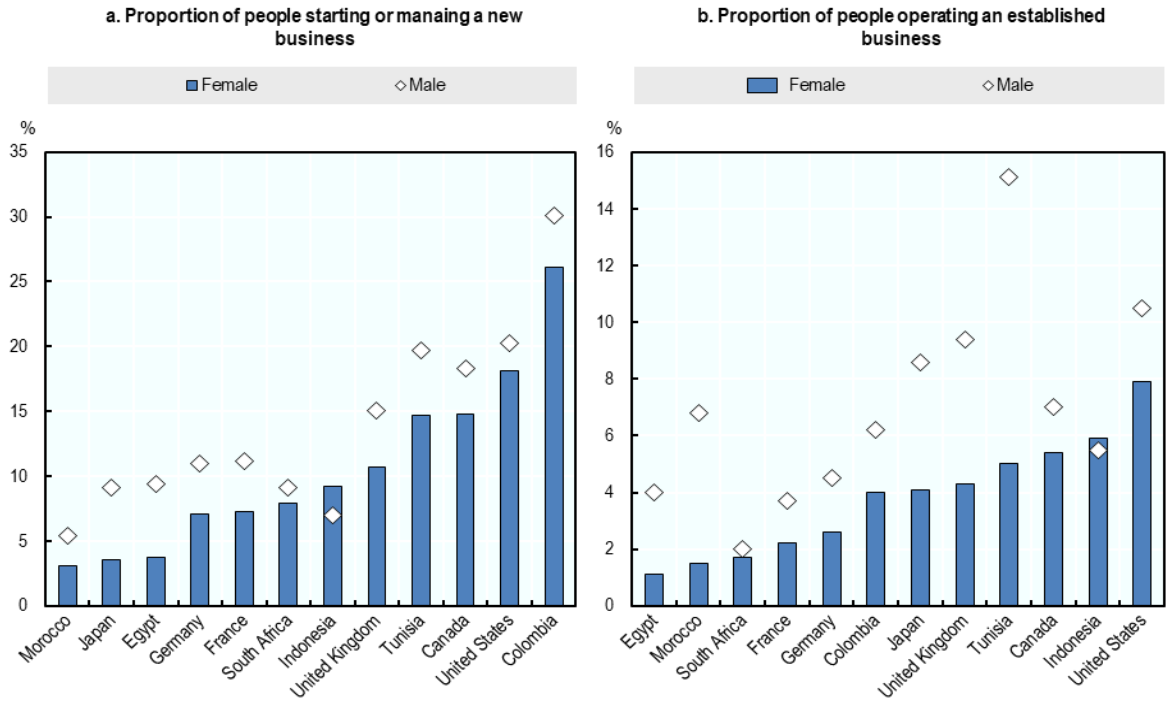
This emphasis on inclusion is consistent with policy objectives in OECD countries, although policies and programmes related to inclusive entrepreneurship are less developed in Egypt. SME and Entrepreneurship Ministers from OECD countries recently committed to promote diversity and equality of opportunity in entrepreneurship, notably by increasing support for people from under-represented groups such as women, youth, migrants and indigenous populations (OECD, 2023[32]). This reinforces the objectives outlined in the OECD Recommendation on SME and Entrepreneurship Policy (OECD, 2022[33]).

There is a very large gender gap among entrepreneurs

There are significant gender gaps in business creation and business ownership rates in Egypt. International survey data from the Global Entrepreneurship Monitor (GEM) show that women are only 39% as likely as men to be involved in starting and managing new businesses (Figure 5.1). This is the largest gap among similar economies, and also larger than the gap observed in all G7 countries except Japan. Similarly, there is also a large gender gap among business owners. Data from the GEM survey show that men are more than three times as likely as women to be owners of an established business (Figure 5.1). This gap is similar to the gap observed in Morocco and Tunisia but is substantially larger than the gap in most G7 countries. Moreover, business ownership data from the World Bank show that the gender gap in business ownership has increased in recent years (Figure 5.2).

Figure 5.1. The gender gap in entrepreneurship and business ownership is large in Egypt

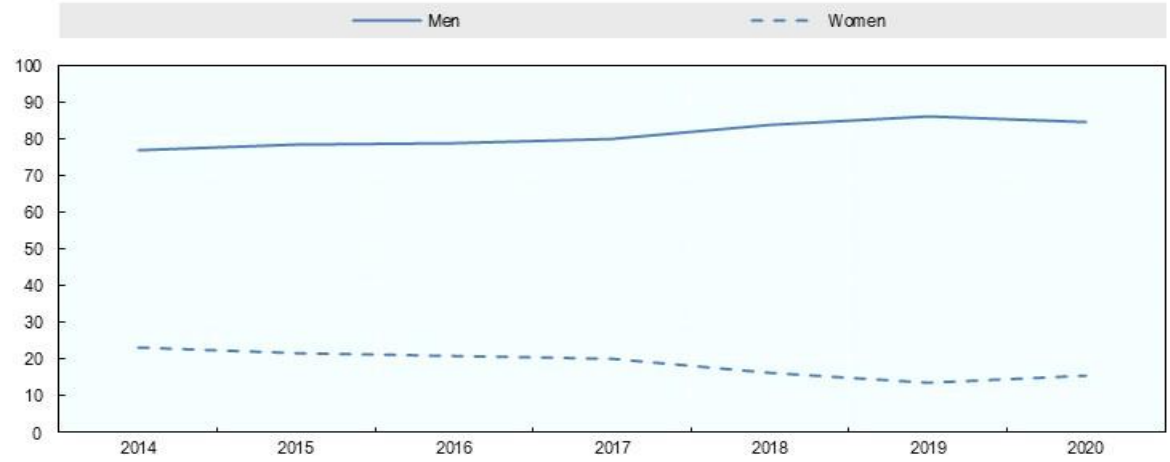
Early-stage entrepreneurship and established business ownership rates in G7 and comparator countries, 2022



Note: Early-stage entrepreneurship rates are an estimate of the proportion of the adult population who are actively working on a new start-up or managing a new business that is up to 42 months old. Established business ownership rates are an estimate of the proportion of the adult population who own and manage a business that is more than 42 months old.
Source: (GEM, 2023[34])

Figure 5.2. The gender gap in business ownership is growing

Proportion of business owners in Egypt



Note: The World Bank Entrepreneurship database is based on owners of registered, incorporated companies (limited liability companies or equivalent).
Source: (World Bank, 2023[35])

These gaps are due to a range of market and institutional failures faced by women in entrepreneurship, as well as a range of challenges stemming from social attitudes. In Egypt, many of the obstacles that women entrepreneurs face directly and indirectly stem from discouraging social attitudes towards female participation in entrepreneurship and paid work more generally. For example, findings from a 2019 survey of 1 542 Egyptians illustrates these attitudes: 77% of respondents believe that men are to be prioritised in times of job scarcity; 40% of respondents think it's inappropriate for women to work in places far from their residence; and 92% of respondents think that a woman's biggest achievement is well raising her children and building her family (Osman, 2019[36]). These social attitudes affect not only self-perceptions and motivations for entrepreneurship, but also access to assets and external resources. Many women have difficulties accessing family assets (e.g. land) that can be used as collateral because many families transfer assets (e.g. inheritance) through males who become the owners of assets. This hinders access to formal loans, pushing many women entrepreneurs into informal lending markets. Other barriers include skills gaps and a lack of suitable professional networks, both the result of low labour market participation and a lack of work experience.

The government has implemented a wide array of supports with international donors…

Overall, business regulations and support programmes are gender-neutral in Egypt. However, the government uses a two-pronged approach to support women entrepreneurs that includes offering dedicated programmes – often in collaboration with international donors – and by improving access to general entrepreneurship programmes. This is sometimes achieved by offering additional support as an incentive in some cases. MSMEDA and the National Council for Women (NCW) are largely responsible for managing and implementing programmes to support women entrepreneurs, although the Ministry of Communications and Information Technology and Central Bank also run programmes for women entrepreneurs. Other key partners include international donors such as UNDP, EBRD and USAID who provide financial support to women's entrepreneurship programmes and also help to design and implement schemes.

Women entrepreneurs can access a wide variety of programmes. These include a large variety of dedicated training schemes for different profiles of women (e.g. university graduates, crafts), financial support that is often delivered through financial intermediaries, matchmaking with angel investors, exhibitions to showcase products and services, and support with formalising informal activities. These schemes typically require that businesses are registered and schemes that offer finance often require that the entrepreneur is at least 21 years old. For example, the "She Trades" initiative is being implemented through the International Trade Centre, with support and financing from the International Islamic Trade Finance Corporation and the Islamic Development Bank through the Aid for Trade Programme for Arab Countries "AFTIAS". Its objectives are consistent with the direction and efforts of the Egyptian state to achieve the economic empowerment for women. The programme supports women entrepreneurs in the handicraft sector to enhance their capabilities to integrate into global value chains.

…but more is needed to achieve a systemic impact

The number of women operating micro- and home-based businesses has increased (CAPMAS, 2020[37]) but many of these businesses are informal and not picked up in many of the business statistics. Many stakeholders attribute this growth to the availability of entrepreneurship support schemes for women. However, few of the schemes have measured their impact and there has not been an evaluation of the full support system. While it is likely that schemes have contributed to the increase in business creation by women, there have also been large investments in women's education and the number of female university graduates has increased. This investment in education has also likely contributed to the increase in business creation by women.

Despite the increase is the number of micro- and home-based businesses operated by women, the support system could increase its impact by providing more support to help more women develop and grow their businesses. The biggest blockage is currently a lack of access to external finance. The vast majority of women entrepreneurs operate micro businesses out of their homes because they can be set up easily and require very little capital (UNDP and MoPED, 2021[38]). The main barrier to accessing finance for women entrepreneurs in Egypt is a lack of collateral. Women entrepreneurs are commonly disadvantaged in this respect because many families put the ownership of assets in the name of – and transfer assets through – the male heads of families. This puts women entrepreneurs at a disadvantage when seeking debt financing because they cannot provide collateral. As a result, many women entrepreneurs with larger businesses often obtain equity financing, which supports the growth of the businesses but diminishes the ownership stake held by women entrepreneurs.

Another area for improvement is to bring a greater level of cohesion to the support system, which is characterised by a dispersed collection of schemes and initiatives. This includes MSMEDA regional offices, the Central Bank Business Development Services (BDS) Hubs and the Ministry of Communications and Information Technology's Technology Innovation and Entrepreneurship Centre (TIEC), as well as an array of projects supported by international donors. Moreover, the availability of support schemes varies across governorates. This uneven support system has many entry points so it can be difficult for women entrepreneurs to identify appropriate support initiatives. In addition, there appears to be some duplication of offers across schemes and some stakeholders report an over-supply of some types of support. Moreover, women's entrepreneurship support schemes are not well-connected with broader entrepreneurship schemes. The government has taken some steps to address these issues such as overlap and duplication of activities, including for example GAFI's Entrepreneurship Development Unit that includes representation of many stakeholders (e.g. representatives from the cabinet, several ministries such as Planning and Economic Development, Finance, Communications and Information Technology, and Trade and Industry, MSMEDA and the Central Bank of Egypt). This could be further improved by have a stronger policy on women's entrepreneurship. Many OECD countries have developed a strategies and action plans to address the gender gaps in entrepreneurship. This helps to signal the importance of the issue and secures resources over the medium-term for implementing support. Canada's Women Entrepreneurship Strategy is a good example of how this can be co-ordinated (Box 5.14).

One of the main challenges faced by government in strengthening women's entrepreneurship support is that it is not always viewed as an important issue within ministries and many parts of the business support system. This could be addressed by strengthening the influence of entities such as MSMEDA's gender unit and the National Council for Women and by increasing awareness of gender issues within MSMEDA and other public actors involved in designing or delivering support to entrepreneurs.

Box 5.14. Women Entrepreneurship Strategy, Canada

The Government of Canada launched the Women's Entrepreneurship Strategy (WES) in 2018. This CAD 7 billion strategy is built on four pillars:

- WES Inclusive Women Venture Capital Initiative to build a more inclusive risk and venture capital environment;
- Women Entrepreneurship Loan Fund to provide loans to diverse women entrepreneurs;
- WES Ecosystem Fund to support women in starting and scaling their businesses
- Women Entrepreneurship Knowledge Hub to improve access to entrepreneurial knowledge, data and best practices.

The approach signals the political significance of supporting women entrepreneurs, outlines the methods of reducing the gender gap and provides direct support to a range of actors. First, women entrepreneurs can access direct financial support through the first two pillars of the strategy. The third pillar provides funding to business support organisations that provide business development services to women entrepreneurs. The final pillar funds research and data development to improve the measurement and understanding of women's entrepreneurship.

The Strategy is under the responsibility of the Minister of International Trade, Export Promotion, Small Business and Economic Development and was developed with many partners, including the Business Development Bank of Canada, Export Development Canada and several other federal government agencies. The development of the strategy also involved consultation with women's entrepreneurship researchers and women's entrepreneurship networks and support organisations.

The strategy was an important policy instrument during the COVID-19 pandemic because the government could quickly disburse additional support and funding to women entrepreneurs and support organisations through this framework. This allowed for a rapid response.

The strategy has demonstrated to successfully support a high number of women entrepreneurs. For example, the WES Ecosystem Fund has helped support more than 10 000 women in business creation and an additional 12 000 women grow their existing businesses.

Source: (ISED, 2022[39])

Support for other groups of entrepreneurs is uneven, leaving gaps in the inclusion agenda

While gender issues receive substantial attention in the inclusion agenda, youth and people in lower income governorates are also often targeted by inclusion policies. Support for youth entrepreneurship is anchored in the education system. The Supreme Council of Universities mandated entrepreneurship in the second year of university studies for all students and many universities have student entrepreneurship clubs and technology transfer offices to support the commercialisation of research. However, the impact of these activities is not clear. There are some successful initiatives such as the EBRD Youth in Business programme but many stakeholders note that a greater shift in mindsets is needed as not all role models (e.g. parents, teachers) support entrepreneurship as a potential career for young people. This calls for a stronger policy on youth entrepreneurship and a clear champion to help drive the change in social attitudes towards entrepreneurship.

Geography is often noted by entrepreneurship support actors as an important element of the inclusion agenda. However, it is not currently an explicit dimension of entrepreneurship policy. Each of the main public actors such as MSMEDA, the MCIT and the Central Bank have a network of support centres that deliver entrepreneurship support across all governorates. This decentralised approach gives visibility to available services across the country and allows for targeted support to meet the needs of each governorate. However, the current approach relies heavily on specialised staff to drive outreach efforts to attract entrepreneurs into the support offers. This works well when front-line staff are motivated and active in the community, but risks creating an uneven system where awareness levels among entrepreneurs and take-up rates are low when front-line workers are less active or have too many responsibilities. This could reinforce inequalities in the business environments across governorates. International donors have a role in mitigating this risk because they often provide targeted financial support to initiatives in lower income governorates to reduce the extent to which exclusion in entrepreneurship is driven by geography.

International donors and business support organisations operate a small number of initiatives to support the inclusion of other groups in entrepreneurship, including people with disabilities, immigrants, refugees and job seekers. However, the scale of support offered to these groups is very limited. They may help improve the well-being of individual participants but at the current scale, they are unlikely to have a wider impact on increasing diversity in entrepreneurship.

Programmes to support green entrepreneurship and SME greening

The OECD Recommendation on SME and Entrepreneurship Policy highlights the importance of governments enabling SMEs and entrepreneurs to participate in the green transition. This can be achieved both through supporting the greening of SMEs' operations and by tapping into the potential of entrepreneurs as a source of innovative green technologies and solutions.

SMEs and entrepreneurs have a critical role to play in addressing environmental challenges in Egypt

Egypt is a country that faces numerous environmental challenges, including water scarcity, waste management issues, and threats arising from rising sea levels and extreme weather events (Switchmed, 2020[40]) (Euro-Mediterranean Economists Association, 2023[41]). Moreover, the Ecological Threat Report ranks Egypt as the 76th most vulnerable country to ecological threats, out of a total of 224 countries (Institute for Economics and Peace, 2023[42]).

SMEs and entrepreneurs can play a key role in addressing these environmental challenges. Indeed, entrepreneurs can accelerate the green transition through their propensity to develop innovative solutions to environmental challenges (OECD, 2022[43]). Meanwhile, although the individual environmental footprint of SMEs may be small, their aggregate impact is substantial. Data are not available on the environmental impact of SMEs in Egypt, but at the EU-level, SMEs are estimated to account for 37-45% of business-driven greenhouse gas emissions and 64% of industrial waste production (OECD, 2023[44]). SMEs face particular challenges relating to the green transition, including regulatory hurdles, limited access to resources and networks, and a lack of information and awareness of opportunities and support options. Meanwhile, green entrepreneurs need support in overcoming long development timelines and uncertainty surrounding future market conditions, technologies and regulations, which can deter private investors (OECD, 2022[43]).

Regulatory factors are a barrier for SMEs and entrepreneurs in many green sectors of the Egyptian economy

A review by the Egyptian Regulatory Reform and Development Activity (ERRADA) found that regulatory barriers constrain the development of many green SMEs and entrepreneurs. For example, there are reported challenges in obtaining licenses to operate in the fields of recycling or biofertilisers. The former stems from the multiple government entities that are required to approve the operations, while the latter is attributed to the incomplete implementation of relevant laws. Furthermore, gaps in the legislative framework also constrain green SMEs. For example, the management of electronic waste is not covered in the Waste Management Law No. 202 of 2020. An inadequate enforcement of environmental regulations, particularly in sectors with high informality rates, may also be restricting the ability of green SMEs and entrepreneurs to maintain a competitive advantage over other (less sustainable) firms operating in the market (Euro-Mediterranean Economists Association, 2023[45]).

There are ad-hoc support programmes to foster SME greening and green entrepreneurship…

Initiatives to facilitate the greening of Egyptian SMEs are often implemented in co-ordination with international donors and partners. For example, the United Nations Industrial Development Organization's (UNIDO) Inclusive Green Growth in Egypt (IGGE) initiative is being implemented in collaboration with the Ministry of Trade and Industry (MTI), the Ministry of Environment, MSMEDA, local government entities, as well as private sector and civil society associations. The IGGE focuses on the sustainable agriculture and food production, waste management, and sustainable energy sectors in the governorates of Luxor and Qena. The project is providing technical assistance to service providers and financial institutions to improve the quality of support offered to green SMEs. As part of the IGGE, UNIDO is also working with the MTI to improve registration and licensing procedures for green businesses. Another relevant initiative is the Egypt National Cleaner Production Centre (ENCPC), which was established in 2005 by UNIDO in close co-operation with the Ministry of Foreign Trade and Industry. The ENCPC works regularly on issues surrounding SME greening and green entrepreneurship, including through implementing the Industrial Waste Management & SME Entrepreneurship Hub (IWEX).

UNIDO is also working with the Ministry of Environment and MTI to create markets for sustainable plastic products, including through efforts to raise awareness of the benefits of single use plastics and the provision of technical assistance to SMEs in the deployment of relevant technologies. Furthermore, UNDIDO is currently assisting MSMEDA to enable it to better support green SMEs and raise awareness of green SMEs' particular needs.

The 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27) was hosted in Egypt in November 2022, which provided some policy momentum in the area of green entrepreneurship promotion. For example, the Ministry of Youth and Sports, in partnership with the United Nations Development Programme (UNDP) and the British University in Egypt ran the COP27 Simulation Initiative, which was a mock climate conference for youth held in the build up to the COP27 event. This initiative introduced students to green entrepreneurship and innovation topics, including through a capacity building programme. COP27 was also the catalyst for the National Initiative for Smart and Green Projects. The initiative, which is organised by the MCIT, the Ministry of Planning, Economic Development and International Cooperation (MPEDIC) and the UNDP, aims to raise awareness of climate change issues and the role of green entrepreneurs in developing solutions to environmental challenges. The first round of the initiative received applications from 6 200 projects, 162 of which were selected (six from each governorate). The 18 strongest projects were then selected to be showcased at the COP27 in Sharm El-Sheikh. The second round of the initiative was launched in March 2023, and will select the next cohort of green projects based on a range of criteria including environmental impact, energy efficiency, economic feasibility, and level of innovation. The MCIT is raising awareness of the initiative through its

Creativa Innovation Hubs (see the SME and Entrepreneurship Programmes chapter of this report for further information), and is seeking to attract large IT companies to provide financial and technical support to shortlisted projects.

In addition, MSMEDA's Environmental and Social Conservation Strategy outlines a range of important steps to incentivise and support green entrepreneurship. In particular, the strategy sets out the integration of environmental and social considerations into all programmes, projects and activities that MSMEDA carries out or finances. The strategy also focuses on implementing environmental protection infrastructure projects in the different governorates of Egypt and on strengthening inter-governmental co-operation on the implementation of environmental regulations. The latter point is key to strengthening demand for green SMEs and entrepreneurs' products and services in Egypt.

Despite these important initiatives, there is an overall shortage of policy supports and incentives for SME greening and green entrepreneurship. Although, some of the largest banks in Egypt, including the National Bank of Egypt and the Agricultural Bank of Egypt, do have green financing facilities, more support is needed to enable SMEs and entrepreneurs to fund their green investments. There is also a lack of sector-specific accelerators and other support services that offer tailored and targeted assistance to green SMEs and entrepreneurs.

…but Egypt lacks a comprehensive policy framework to support green SMEs and entrepreneurs

At the recommendation of Egypt's National Climate Change Council, which is the national authority in Egypt concerned with climate change, the Ministry of Environment published the Egypt National Climate Change Strategy (NCCS) 2050 in 2022. The strategy presents a roadmap for addressing the challenges of climate change, with a focus on five pillars:

- Achieving sustainable economic growth and low-emission development in various sectors;
- Enhancing adaptive capacity and resilience to climate change and alleviating the associated negative impacts;
- Enhancing climate change action governance;
- Enhancing climate financing infrastructure, and;
- Enhancing scientific research, technology transfer, knowledge management and awareness to combat climate change.

The strategy provides a strong framework for climate change actions, with objectives, actions and performance indicators specified for each of the five pillars. However, the strategy has only a limited focus on SMEs and entrepreneurs, with few objectives and actions targeting the greening of SMEs or the fostering of green entrepreneurship. Similarly, the Egypt Vision 2030 Sustainable Development Strategy, which was launched in 2016, also has a strong focus on environmental challenges but, as is the case with the NCCS, there are limited dedicated initiatives targeting SMEs and entrepreneurs.

Egypt therefore lacks a comprehensive policy framework for supporting SME greening and green entrepreneurship. It would therefore be beneficial for the new MSME and Entrepreneurship Strategy, which is currently being developed by MSMEDA, to include a comprehensive set of objectives, policy actions (with responsible entities) and key performance indicators relating to the promotion of green SMEs and green entrepreneurship. Consideration could also be given to adding the green transition as a separate thematic pillar of the strategy.

Conclusions and policy recommendations

Evidence of programmes and support schemes responding to the list of OECD Recommendations on SME and Entrepreneurship Policy highlighted in the introduction section of this chapter are found in this review of the Egyptian support landscape, although in some instances, programme support could be further developed or enhanced. This may particularly apply to enabling SMEs to transition to the green economy, facilitating the transition of informal enterprises to the formal economy, and support SMEs to invest in the skills of their workers.

The use of legislative and regulatory mechanisms of the CBE and the FRA have done much to increase the supply of loan and micro credit financing of MSMEs through banks and non-bank financial institutions, although many micro and small businesses are not able to secure appropriate financing from these sources. The CGC is a well-established credit guarantee entity to reduce the risk of banks in lending to SMEs, but consideration should be given to expanding its capital base to enable the issuance of more guarantees and to, especially, increase the share of micro and small enterprises in its guarantee portfolio. In addition, the CGC should develop a greater diversity of guarantee products to accelerate the bank financing of innovative and technology-based start-ups and SMEs, and the digital and green transformation of SMEs, in line with the government's national priorities.

Considerable improvements have been made in recent years to expand and professionalise the microfinance industry, resulting in significant growth in the number of active borrowers and portfolio size, especially the licensing of Microfinance Companies and involvement of banks in issuing micro-credit loans. On the other hand, many of the NGOs involved in micro-credit at the local level, although licensed by the FRA, lack scale, efficiency, and the capacity to implement good microfinance organisational and management practices. Efforts are underway to upgrade the capacity, capability and professionalism of the smallest micro-credit-providing NGOs, and this initiative should continue, but the FRA and the CBE might consider other options to ensure effective delivery to micro and small enterprises in the governorates, such as the expanded use of digital products by the Microfinance Companies. To fill the financing gap between banks and MFIs, consideration could be given to either establishing a dedicated SME Bank or accepting proposals from the Microfinance Companies to become deposit-taking MicroBanks, issues currently being discussed by the CBE and the FRA. More could also be done to increase opportunities for SMEs to access leasing and factoring as financing options, an area of financing for SMEs that is underdeveloped in Egypt.

There is an impressive number of initiatives and programmes to foster the innovation ecosystem and support innovative start-ups, especially among young Egyptians and the research community. However, more focus could be placed on programmes to encourage and support innovation activity among existing SMEs. The delivery of business development support (BDS) services to SMEs is fragmented across public institutions. Creating a national BDS platform to match BDS providers to start-ups and SMEs would create more transparency for SMEs, reduce their cost of search, and potentially increase the demand.

The biggest overall area of improvement in most of the SME programme areas is in co-ordination. This applies to the areas of innovation programmes, incubator programmes, SME internationalisation programmes, the provision of BDS services, and the skills upgrading of SMEs' workers. Improved co-ordination could be achieved by designating umbrella organisations with responsibility for co-ordinating programme actions and promoting connectivity; encouraging the formation of industry and professional associations, such as an association of business and technological incubators and accelerators, an association of SME business advisors, mentors and consultants; an association of university entrepreneurship and innovation centres; a formal Business Angels Network (BAN), etc. Such associations could become important institutional partners with the government in mobilising public and private sector stakeholders, creating networks of delivery agents, and developing competency standards to assist in the delivery of higher quality services to entrepreneurs, start-ups and SMEs.

Key recommendations

Based on the assessment of SME programmes, the following recommendations are proposed.

Box 5.15. Key policy recommendations on SME and entrepreneurship programmes

Financing programmes

- Review the capitalisation base of the Egyptian Credit Guarantee Company (CGC) with a view to considering how an increase could increase the supply of credit among micro and small enterprises.
- The CGC to hold consultations with MSMEDA, GAFI, the banking institutions and other relevant stakeholders to discuss diversification of its guarantee product offerings to better align with the special financing needs of innovative start-ups and SMEs and better match government priorities to stimulate innovative start-ups, SMEs in priority sectors, e-commerce/digitalisation, SME greening etc.
- The CBE to advance its work on studying the issuance of licensing of Tier II banks as MSME Banks and to deliberate further with the FRA on the merits of allowing conversion of microfinance companies to deposit-taking MicroBanks.
- MSMEDA to create more awareness among SMEs of the merits of leasing options for the purchase of capital equipment and of factoring services to improve their cashflow, and create awareness among leasing and factoring companies of the growth potential from targeting SME clients.
- The CBE and FRA to continue with the next phase of improving efficiencies of more of the Category C microfinance NGOs through capacity building and oversight on their ability to meet regulatory requirements.
- Introduce tax incentives to private investors and venture capital firms to reduce their risks in investing in new start-ups and early-stage enterprises.
- Support the establishment of a network platform to create linkages between angel investors and venture capital firms to foster the flow-through of investee enterprises from the seed stage (angel investment) to the next stage of investments from venture capital funds. These actions would aid in addressing gaps in access to equity financing and the ability of start-ups and young firms to move more readily to the larger rounds of financing.

Innovation programmes

- Improve cross-government co-ordination of innovation support programmes.
- Increase the focus on the innovation activities of existing SMEs.
- Establish comprehensive support to spin-offs in universities and research centres, including entrepreneurship training and mentoring and support in the areas of IP, legal procedures, accounting, and market research, potentially drawing inspiration from the Leuven R&D programme in Belgium (OECD, 2025[46]).

Incubation and acceleration programmes

- MSMEDA to collaborate with the ASRT, the CBE, the Ministry of Planning, Economic Development and International Cooperation, the MCIT, NilePreneurs, and the AUC Venture Lab

on the formation of an Egyptian Business and Technology Incubator and Accelerator Association/Network.

- MSMEDA to partner with the key ministries and agencies to begin the process of mapping the various incubator programmes and making this information publicly available in order to create more transparency about the availability of these programmes to aspiring entrepreneurs.
- Improve the competency levels of Egyptian incubators by working with experienced incubators to develop a set of standards and certification processes for incubators at different levels of development that ensures quality while still facilitating innovation within incubators.
- Promote greater awareness of the NilePreneurs Incubator Management Bootcamp programme as a vehicle for building the capacity of incubator managers and staff.

SME internationalisation programmes

- Improve the level of co-ordination between the numerous entities supporting export development activity and the focus on SME exporters by creating an integrated Support Centre for SME Exports with an online presence and links to the programmes and services of all export support agencies.
- Improve hand-off of SMEs participating in export training programmes to other programmes to assist them in achieving their export goals.
- Design and implement special export and supply chain financing schemes for SMEs to be delivered through the banking system.

Business development services programmes

- MSMEDA to adopt and implement a BDS Strategic Action Framework, with specific priority given to:
  - Conducting a demand survey of MSMEs regarding their use of business advisory and training services to foster a better understanding of the demand for and use of BDS services and the barriers to access.
  - Implementing an initiative to increase the supply of qualified consultants/advisors who are able to deliver basic consulting services to MSMEs and to otherwise build the capacity of BDS providers, such as a training and certification programme.
  - Implementing a national BDS platform to promote matching of BDS providers and MSMEs (to include a locational map of BDS providers and the services offered).
  - Promoting the use of an online diagnostic tool, such as the Business Lens, to help MSMEs identify their critical BDS needs and areas for improvement.
  - Establishing a cost-shared voucher scheme to augment MSME demand for consultancy services.
  - Creating an organisational structure within MSMEDA to carry out its functions as a facilitator and co-ordinator of quality BDS services.
- MSMEDA to work with Regional Offices to design and implement a roster of qualified business advisors and trainers for use in the provision of local BDS services.
- Expand the CBE qualification of business advisors beyond its use for the BDS Hubs, in co-operation with the Egyptian Banking Institute and the ILO.
- MSMEDA to work co-operatively with the CBE BDS Hubs to encourage the formation of a national association of MSME business advisors and consultants.

Entrepreneurship education and training programmes

- Give due consideration to integrating an entrepreneurship curriculum as a component of all TVET programmes.
- The MHESR to commission a baseline study of the state of entrepreneurship education in all universities in Egypt.
- Expand opportunities for Egyptians to gain entrepreneurship skills through availability of online training programmes, with appropriate follow-up support to persons completing the training.

SME skills upgrading programmes

- Implement a skills training network addressing the training needs of SMEs and their workers.
- Introduce a training voucher to be used by SMEs to secure training to upgrade the skills of their workers from training providers.
- MSMEDA to negotiate a partnership with the ILO to implement the SCORE Programme to larger small and medium enterprises through co-operation with other government entities, such as the Industrial Modernization Centre.

Public procurement for SMEs

- Apply the Public Procurement Law regarding SME procurement to state-owned enterprises.
- The General Authority for Government Services (GAGS) to implement more conducive procurement rules to facilitate the participation of MSMEs in the procurement process, such as dividing contracts into smaller lots to make tenders more accessible to MSMEs, implementing an advance payment system for a certain percentage of the contract value, negotiating partnerships with public banks to provide loans to MSMEs so they are more able to fulfil the contract requirements, and meeting with MSMEs on a regular basis to provide information on public procurement opportunities and how to comply with the tendering and bidding processes.
- MSMEDA to adopt more proactive approaches to prepare MSMEs for the public procurement process, which could include a programme to build their capacity to compete as qualified suppliers.

Inclusive entrepreneurship programmes

- Develop a women's entrepreneurship strategy within the renewed national MSME development strategy that is under development, outlining the related targeted actions under each pillar of the strategy. The targeted actions should include the digitalisation of women-owned/led MSMEs and the greening of their businesses. This should be done jointly by MSMEDA and NCW.
- Provide training to MSMEDA policy officers on gender issues.
- Introduce more business development support for women to support them in building more impactful businesses, including for example business consultancy and loans.
- Build a network of youth entrepreneurship champions to help shift social attitudes, notably among important role models such as teachers and parents.

Green entrepreneurship and SME greening programmes

- Introduce a digital diagnostic tool for SME greening as part of MSMEDA's supporting offering, and added to the MSMEDA online platform. The tool should allow SMEs to benchmark their environmental performance against peers and identify concrete actions that can be taken to improve performance, with links to available supports.

- Include specific policy measures (with objectives, targets, KPIs and responsible entities) relating to the promotion of SME greening and green entrepreneurship in the new National MSME Strategy (potentially including the green transition as a separate thematic pillar of the strategy).
- MSMEDA to work with ERRADA to map i) regulations that inhibit SMEs' and entrepreneurs' activities in the green economy, and ii) environmental regulations where more effective enforcement is needed, identifying actions for facilitating more green activities and achieving greater enforcement of environmental regulations.

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Notes

[1] See: https://www.oecd.org/cfe/smes/strategy.htm/; https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/smes-and-entrepreneurship/2023-ministerial-documents/SME-Implementation-Toolkit-2023.pdf/

[2] The 41 NGOs were selected for upgrading based on a field review and evaluation of their governance system, human resources, lending system, risk management, internal audit, performance effectiveness, financing, ownership structure and profitability. The resulting gap analysis determined the required interventions and future training to complete the qualification process (to Category B), such as related to institutional structure, credit portfolios, boards of directors, and financing methods.

[3] The upgrading training will also include the provision of an automated system for microfinance associations, which will be hosted by the Egyptian Credit Bureau (I-Score). This automated system includes many services (a system for loan management, digital assessment, follow-up and collection, fiscal management, preparation of supervisory and financial reports, etc.).

[4] Information from MSMEDA officials during OECD mission to Egypt in March 2023.

[5] To lend money to microfinance NGOs for on-lending to micro-credit borrowers, MSMEDA requires a series of documentation from the requesting NGO, such as financial statements for the past three years and cash flow statement, copy of the NGO's bylaws with list of board directors or trustees, copy of the microfinance license approved by FRA, verification from the Ministry of Social Solidarity that the NGO has no financial or administrative violations, updated minutes of meetings of the NGO's board or the board of trustees that includes the approval of obtaining a loan from MSMEDA, ID of the board chairman, statement of the NGO's previous experience in microfinance and a statement of development activities if financed by other development agencies other than MSMEDA, negative credit and market inquiries, and a photocopy of the ownership, renting or wavering contract (stamped by the official stamp and registered officially and it should cover duration of contract).

6 See draft version of the Law of Georgia on the Activities of Micro Banks at the National Bank of Georgia website, https://nbg.gov.ge/en/legal-acts/projects/law-of-georgia-on-the-activities-of-micro-banks/.

[7] The participating banks and their initial capital investments are Banque Misr ((EGP 100 million), National Bank of Egypt (EGP 300 million), Banque du Caire (EGP 100 million), Ahli United Bank EGP 100 million), Suez Canal Bank EGP 100 million), United Bank (EGP 50 million), and Attijariwafa Bank (EGP 45 million), in addition to the Misr Insurance Holding Company (EGP 100 million) and Avans Capital Group (EGP 10 million).

[8] https://egyptinnovate.com/en/

[9] Specialised technology and innovation centres deal with: food and agri-business, plastics, mining and marble, engineering, furniture, leather and leather tanning, textile development, fashion and design, jewellery, cleaner production, quality improvement.

[10] The ECOSAYS+ Platform (http://www.ecosys.eg.net/service-hub/) is a recent EU-funded initiative with the Ministry of Industry and the Academy of Scientific Research and Technology (ARST) that connects innovators and entrepreneurs to innovation supports.

[11] https://tiec.gov.eg/English/Programs/Spark/Pages/default.aspx/.

[12] https://stdf.eg/web/page/64153/

[13] The individual incubators are sponsored by different Egyptian banks.

[14] https://sdgs.un.org/partnerships/rowad-2030-project/.

[15] The Startup Launch Pad, delivered by the V-Lab on behalf of the Information Technology Industry Development Authority (ITIDA), aims at growing the technology entrepreneurship ecosystem all over Egypt and helping entrepreneurs learn the practical fundamentals of building a technology start-up and designing solutions for real-world market needs.

[16] FEPS determined that nurturing the business ideas and start-ups of economics students would help them contribute positively to the economic development of their nation, even if it is on a micro scale. The FEPS incubator provides an entrepreneurship awareness-raising programme for young people, a 16-week incubation programme with intensive coaching, mentoring and seed funding for selected start-ups, and a business clinic programme where consultancy support is offered to established start-ups that have been on the market for more than two years to help overcome technical and operational challenges.

[17] https://np.eg/services/incubation-training/

[18] Examples of national associations or incubator networks include the National Business Incubator Association (USA), the Saudi Business Incubator Network (Saudi Arabia), the Canadian Accelerator + Incubator Network (CAIN), the German Association of Innovation, Technology, and Business Incubation Centres (ADT), the Indian Science and Technology Entrepreneurs Parks (STEP) and Business Incubator Association (ISBA), and the Association of Thailand Business Incubators and Science Parks (THAI-BISPA).

[19] The 13 Sector Export Councils, established by the former Ministry of Trade and Industry in co-operation with the private sector, include: Food Industries; Medical Industries; Building Materials, Refractories & Metallurgy Industries; Ready Made Garments; Chemicals and Fertilizers; Egyptian Furniture; Engineering; Home Textiles; Agricultural Crops; Handicrafts; Leather Sector. Councils support the export activities of member firms through trade shows and trade missions, and by providing export opportunities and buyers' lists, training and seminars, marketing studies, and individual consultancy.

[20] Mohamed Zain, "Egypt launches first export academy to boost trade, economic integration", *Bt Business Today*, 11 July 2023, www.businesstodayegypt.com/Article/1/2745/Egypt-launches-first-export-academy-to-boost-trade-economic-integration/.

[21] https://np.eg/bds-hubs/#branches/, accessed 2 October 2024

[22] https://sdgs.un.org/partnerships/rowad-2030-project/

[23] There does not appear to be any data on the percentage of graduates coming out of the technical secondary schools that end up starting their own business. This information would be useful in estimating the impact of the KAB programme on entrepreneurship rates. Another factor that might be considered is follow-up support to those graduates intending to start their own business.

[24] https://tiec.gov.eg/English/Programs/EgyptInnovate/Pages/default.aspx/.

6 The Local Dimension of SME and Entrepreneurship Policy in Egypt

SMEs and entrepreneurs are vital parts of local economies across Egypt, contributing to economic growth, job creation, income generation, and social inclusion. This chapter addresses spatial variations in SME and entrepreneurship activity and performance across Egypt, geographical differences in development conditions for SMEs and entrepreneurship in Egypt, key issues in Egypt and their implications for local SME and entrepreneurship policy, and the strengths and weaknesses of the local dimension of national policies. International learning models are identified from comparator countries, which inform a series of policy recommendations. The main conclusion is that there is potential substantively to improve SME and entrepreneurship policy in Egypt by developing and delivering a more decentralised and locally-sensitive approach.

Introduction

Conditions for SME and entrepreneurship development vary significantly within countries, as do the market opportunities and challenges that exist and the circumstances and characteristics of local SMEs and entrepreneurs. This geographical variation means that a one-size-fits-all approach to SME and entrepreneurship policy is rarely appropriate. By contrast, it is important for national and local policy makers to work effectively together to ensure that policy supports are sensitive and suitable to the needs of local SMEs and the characteristics of the local entrepreneurial ecosystem, as described in the following elements of the OECD Recommendation on SME and Entrepreneurship Policy:

- Recommendation 1: Co-ordinating and aligning SME and entrepreneurship policy across government entities and levels through effective governance mechanisms and place based-approaches, in line with each country's institutional setting, circumstances and needs.
- Recommendation 3: Taking account of the diversity of SMEs and entrepreneurs throughout policy making, by assessing implications for different types of SMEs, entrepreneurs and self-employed, adopting policy relevant typologies and collecting granular data on SME and entrepreneur key features, performance and behaviour.
- Recommendation 15: Strengthening entrepreneurial ecosystems at national and local level, including by developing networks and linkages along supply chains, between SMEs and with large firms, within and across sectors; and by enhancing SME access to and participation in public procurement.

This chapter examines the spatial variations in SME and entrepreneurship performance and characteristics in Egypt. It also assesses the effectiveness of current approaches to tailoring policies and programmes to local needs, identifying areas for improvement and presenting recommendations for the Egyptian government.

Spatial variations in SME and entrepreneurship performance and characteristics

Across the governorates of Egypt, there are marked differences in SME and entrepreneurship activity, which demonstrates a need for a diversity of locally-tailored policy supports. The business population is skewed towards large urban population centres. According to the most recent economic census, the five governorates with the highest number of establishments (Cairo, Giza, Dakahliya, Alexandria and Sharqeia) were home to 46% of Egypt's establishments in 2017 (Table 6.1). By contrast, the five governorates with the lowest number of establishments (South Sinai, North Sinai, New Valley, the Red Sea and Matrouh) accounted for just 2% of Egypt's establishments. These governorates tend to be smaller population and rural centres. Importantly, these census data exclude much of the agricultural sector which accounts for a large proportion of employment in many rural governorates.

In general, SME and entrepreneurship across Egypt is dominated by micro-enterprises, often informal, with limited growth and job creation potential (Euro-Mediterranean Network of Economic Studies, 2017[1]). Indeed, Table 6.1 shows that establishments with less than 10 employees make up more than 95% of establishments in 24 out of Egypt's 27 governorates. The share of establishments with less than 10 employees ranges from 93.0% in the Red Sea to 98.9% in Fayoum.

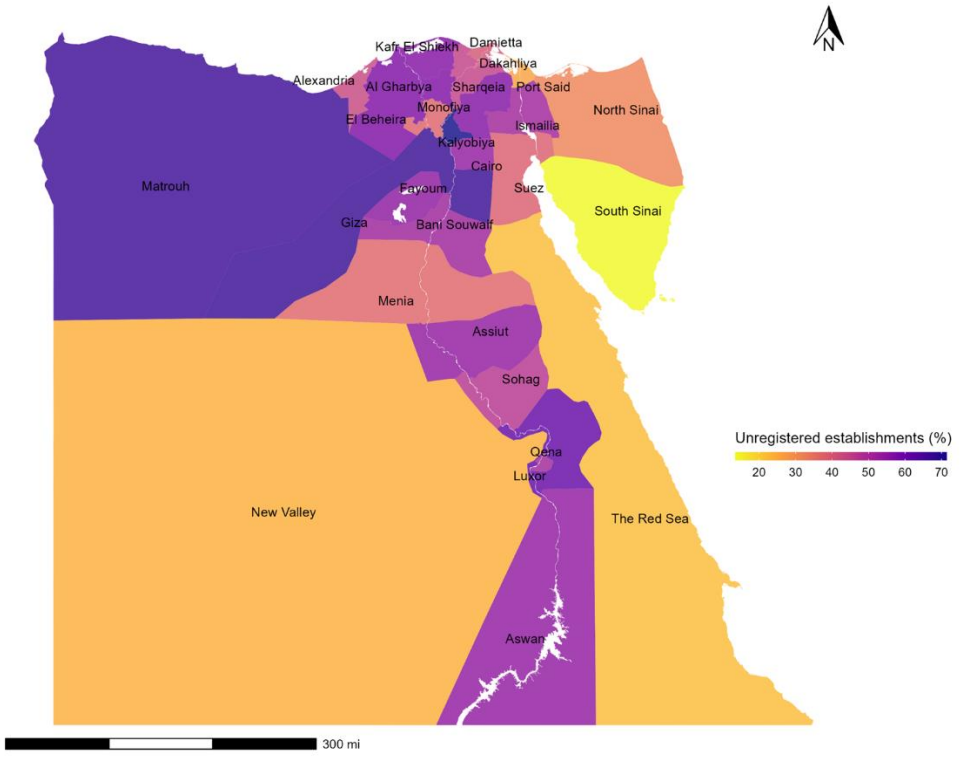
Table 6.1. Number of establishments by governorate, 2017/18

	Number of establishments	Share with less than 10 employees	Share with 10-50 employees	Share with more than 50 employees
Cairo	483 610	94.9%	4.4%	0.7%
Giza	347 984	95.6%	3.7%	0.8%
Dakahliya	320 197	98.4%	1.5%	0.1%
Alexandria	287 480	96.4%	3.2%	0.4%
Sharqeia	284 664	98.4%	1.4%	0.3%
Kalyobiya	237 566	97.2%	2.4%	0.4%
Al Gharbya	215 371	97.4%	2.4%	0.2%
El Beheira	214 412	98.4%	1.4%	0.2%
Fayoum	156 192	98.9%	1.0%	0.1%
Monofiya	152 005	98.2%	1.6%	0.2%
Menia	146 714	97.8%	2.1%	0.1%
Damietta	130 744	98.7%	1.2%	0.1%
Kafr El Shiekh	117 373	98.7%	1.1%	0.1%
Sohag	115 958	98.2%	1.6%	0.1%
Assiut	95 837	98.1%	1.7%	0.2%
Bani Souwaif	88 829	97.9%	1.9%	0.2%
Qena	81 295	98.2%	1.7%	0.1%
Ismailia	55 754	97.0%	2.6%	0.4%
Aswan	44 035	97.1%	2.7%	0.2%
Luxor	41 282	97.3%	2.6%	0.2%
Port Said	34 172	96.1%	3.2%	0.7%
Suez	32 037	96.4%	3.0%	0.5%
Matrouh	18 876	98.3%	1.4%	0.2%
The Red Sea	18 058	93.0%	5.3%	1.6%
New Valley	8945	95.4%	4.2%	0.4%
North Sinai	6627	95.7%	3.9%	0.4%
South Sinai	6545	94.1%	3.6%	2.3%

Source: (CAPMAS, 2018[2])

Significantly, a relatively high proportion of SMEs and entrepreneurs are based in the informal sector in Egypt. This is due to a variety of factors including a lack of knowledge about the benefits of formalisation, and fears about bureaucracy, complexity, and costs. Data from the 2017-18 economic census show that informality rates vary widely by governorate, with the share of unregistered establishments ranging from more than 66% in Kalyobiya, Giza, and Matrouh to less than 25% in South Sinai, the Red Sea, and New Valley (Figure 6.1). Again, the census data do not cover many agricultural enterprises, which will distort the estimates of informality rates, particularly in agricultural governorates. However, this spatial variation nonetheless demonstrates that the policy challenges of addressing informality and encouraging formalisation are geographically differentiated across Egypt.

Figure 6.1. Share of unregistered establishments by governorate, 2017-18



Source: (CAPMAS, 2018[2])

Spatial variations in SME and entrepreneurship development conditions

Local SME and entrepreneurship development is strongly influenced by the wider context in which these businesses operate. This context is shaped by a variety of economic, social and demographic factors. The local economic situation determines the extent to which there are opportunities for new business creation and small business growth. For example, prosperous local economies where people have high levels of disposable income to spend on goods and service provide a better environment for SMEs to grow. Meanwhile, areas where people have higher levels of accumulated assets and wealth are likely to have a larger pool of people with the means to start new ventures, either through borrowing or internal financing. The demography of a local area determines the numbers of potential entrepreneurs, the availability of different skills in the workforce, and the nature and scale of demand in the local economy. Social circumstances and contexts are also critical. For example, high poverty rates can stimulate business creation as a coping strategy and way of earning of living, while societal attitudes towards entrepreneurship and business development can either encourage or suppress entrepreneurial activity.

In the Egyptian context, urban and rural variations are marked in the economic and social conditions and business environments for SMEs and entrepreneurs, especially between Cairo and other cities and remote rural and desert areas. This section describes some of the key differences in SME and entrepreneurship development conditions across Egypt.

Economic conditions

Distribution of economic activity

Economic activity is highly concentrated in Greater Cairo, which accounted for 42% of Egypt's GDP in 2017/18. Greater Cairo's position as the dominant centre of national economic activity makes it a hub for SME and entrepreneurship across Egypt. With that being said, the regional contribution of Greater Cairo to national GDP did edge down slightly between 2012/13 and 2017/18. Central Upper Egypt makes the smallest contribution to national GDP, with a GDP share of 2.0% in 2017/18 (Table 6.2).

Table 6.2. Regional contribution to GDP (%), 2012/13 and 2017/18

	2012/13	2017/18
Greater Cairo	44.5	41.9
Alexandria	14.2	18.1
Delta	12.8	11.2
Suez Canal	12.6	17.5
Southern Upper Egypt	8.2	5.9
Northern Upper Egypt	5.7	4.0
Central Upper Egypt	2.0	1.4

Note: The economic regions comprise the following governorates: Greater Cairo (Cairo, Giza, Qalyubia), Alexandria (Beheira, Alexandria, Matruh), Delta (Gharbia, Menoufia, Kafr El Sheikh, Dakahliya, Damietta), Suez Canal (Suez, Ismailia, Sharqia, Port Said, North Sinai, South Sinai), Southern Upper Egypt (Aswan, Luxor, Sohag, Qena, Red Sea), Northern Upper Egypt (Fayoum, Beni Suef, Minya) and Central Upper Egypt (Asyut, New Valley). Government and economic body activities are not included in the value of regional GDP.
Source: CAPMAS

Sectoral focus of regional economies

There is a high degree of variation in economic structure within Egypt, with some governorates' economies dominated by natural resource extraction or agriculture while others are service-sector driven (Table 6.3). The regional economies of Kafr El Sheikh, the New Valley and Beheira are based on agriculture, which accounts for around half of gross domestic product (GDP) in these governorates. Meanwhile, the regional economies of North Sinai and Matrouh are principally driven by the extraction and refinement of petroleum, which accounts for 77% and 72% of GDP in these governorates, respectively. Large urban centres are much more services driven. Indeed, in Cairo and Giza, the services sector accounts for 63% and 59% of GDP. Interestingly, these are the only two governorates where the services sector makes up more than half of the economy. In Suez, the manufacturing sector makes up 33% of economic output, which is the largest share among the Egyptian governorates.

Table 6.3. Sectoral breakdown of governorate economies, 2020-2021

	Agriculture (share of GDP)	Crude petroleum extraction, other extractions and petroleum refinment (share of GDP)	Manufacturing (share of GDP)	Electricity and gas, water, sewerage, waste recycling, and construction (share of GDP)	Services (share of GDP)	Governorate GDP (EGP millions)
Cairo	1%	4%	10%	7%	63%	1877
Giza	4%	0%	23%	9%	59%	770
Alexandria	3%	27%	14%	7%	46%	566
Qalyubia	11%	8%	32%	7%	40%	339
Sharqia	25%	0%	30%	8%	31%	302
Dakahliya	19%	13%	7%	13%	43%	294
Beheira	47%	1%	6%	10%	33%	289
Port Said	10%	50%	9%	10%	19%	190
Gharbia	17%	1%	16%	13%	46%	174
Menoufia	18%	0%	26%	8%	42%	157
Kafr El Sheikh	50%	1%	6%	10%	29%	151
Fayoum	21%	15%	5%	19%	36%	134
Minya	23%	5%	5%	22%	38%	131
Asyut	17%	10%	10%	22%	34%	126
Suez	3%	18%	33%	19%	23%	119
Matrouh	6%	72%	1%	6%	14%	116
Damietta	25%	4%	19%	10%	38%	110
Sohag	20%	0%	5%	24%	43%	108
Ismailia	22%	1%	18%	27%	29%	91
Beni Suef	20%	0%	11%	21%	42%	87
Qena	21%	0%	19%	19%	34%	80
Aswan	19%	12%	8%	16%	40%	76
Red Sea	7%	38%	1%	7%	46%	76
South Sinai	2%	41%	1%	5%	50%	58
North Sinai	5%	77%	3%	2%	8%	49
Luxor	35%	0%	5%	20%	35%	47
New Valley	50%	2%	3%	6%	28%	17

Note: Services includes wholesale and retail trade; Communication; Information; Transportation and storage; Accommodation and food service activities; Real estate ownership; Business services; Education; Health; Other Services; and Financial Corporations.
Source: (Ministry of Planning and Economic Development, 2023[3])

Prosperity of regional economies

Economic prosperity and standards of living vary significantly across Egypt's governorates (Table 6.4). South Sinai has a GDP per capita (EGP 530 779 per capita) that is more than double the next highest governorate (Port Said, at EGP 243 788 per capita). However, South Sinai also has the highest unemployment rate in Egypt (34%) and the one of the highest population shares (52%) living below the poverty line. These seemingly contradictory results can be explained by the relatively high levels of economic output generated by oil production around Abu Rudeis and coastal tourism. Such prosperity is highly unequally distributed, however, especially between the Bedouin and people in the Nile Valley. In addition, while sparsely populated, South Sinai has witnessed high levels of population growth over the last decade (Nicolas Pelham, 2012[4]).

Egypt's poorest governorate is Sohag, which has a GDP per capita of EGP 19 416, 60% of the population living below the poverty line and an average monthly wage of EGP 2 061. Other relatively large population centres such as Qena and Minya also register low levels of GDP per capita and average monthly wages. The most impoverished governorate in Egypt is Assiut, where more than two-thirds (67%) of the population are below the poverty line. The governorate with the lowest poverty rate is Port Said, where 8% of the population are below the poverty line. This is also the governorate with the second highest GDP per capita, behind South Sinai.

As noted previously, the geographical variation in prosperity between governorates directly effects the prospects for SMEs and entrepreneurship in multiple ways. It also reveals the differentiated challenges for SME and entrepreneurship policy, which may include raising wages, increasing living standards and alleviating poverty, depending on potential and conditions in the local area.

Egypt's national unemployment rate fell to an estimated 6.4% in 2022, which was the lowest on record (International Labour Organization, 2024[5]). However, despite these positive trends at the national level, the unemployment rate varies substantially across the governorates. In 2021, the highest unemployment rate was in South Sinai (33.6%), which was more than 20 times the figure in Qena, which was the governorate with the lowest unemployment rate (1.6%). Meanwhile, the capital Cairo had an unemployment rate of 13.7% in 2021. This compares to a national average figure of 7.4%. Higher levels of unemployment can act as both a drag and a driver of SME and entrepreneurship development. On the one hand, high unemployment reduces spending power and market opportunities. On the other hand, it can be a potential stimulus for SME and entrepreneurship development by spurring necessity entrepreneurship and increasing the availability of workers for businesses to hire.

Table 6.4. Economic conditions by governorate

	GDP per capita (EGP)	Population below the poverty line (%)	Average monthly wage (EGP thousands)	Unemployment rate
South Sinai	530 779	52%	6 952	34%
Port Said	243 788	8%	4 579	25%
Matrouh	222 215	52%	6 446	5%
The Red Sea	194 544	52%	6 681	24%
Cairo	185 807	31%	4 156	14%
Suez	152 729	52%	6 126	13%
Alexandria	103 451	22%	3 831	13%
North Sinai	97 864	52%	6 053	-
Giza	82 626	34%	3 766	9%
Damietta	69 396	15%	2 529	19%
Ismailia	64 174	32%	3 257	10%
Aswan	47 370	46%	3 808	5%
El Beheira	42 985	48%	2 585	4%
Dakahliya	42 426	15%	2 592	3%
Kafr El Shiekh	41 384	17%	2 305	3%
Sharqeia	39 026	24%	2 803	6%
Luxor	34 289	55%	2 205	7%
Monofiya	33 894	26%	2 705	4%
Fayoum	33 628	26%	2 190	4%
Al Gharbya	32 540	9%	2 622	10%
Assiut	25 743	67%	2 822	3%
Bani Souwaif	24 984	34%	2 394	4%
Qena	22 775	41%	3 007	2%
Menia	21 297	55%	2 207	3%

Sohag	19 416	60%	2 061	3%
Kalyobiya	-	20%	2 991	10%
New Valley	-	52%	2 681	14%

Note: GDP 2020-21 data and prices and population 2022 data
Source: Ministry of Planning and Economic Development, CAPMAS, Source: Central Agency for Public Mobilization and Statistics, Results of the Economic Census 2017/18 cited in Ministry of Planning and Economic Development and UNDP (2021)

Demographics

The population of Egyptian governorates ranges from as the highest of 10.1 million people in the national capital Cairo to the lowest of 110 000 people in South Sinai (Table 6.5). Moreover, population growth is geographically concentrated in the largest urban centres and skewed towards a youthful age structure especially for males (Euro-Mediterranean Network of Economic Studies, 2017[1]). In common with other lower middle-income countries, rural to urban migration flows are significant (Abu Hatab, Mensah and Lagerkvist, 2022[6]). Typically, such movements are by the young, qualified, male, and ambitious seeking opportunities in larger urban centres. The places they leave struggle to encourage such people to stay locally and this reduces their resources for SME and entrepreneurship development. The population density also differs dramatically across the country, with 5 318 people per square kilometre in Kalyobiya in the Nile Delta regions to the north of Cairo to just 1 person per square kilometre in the expansion New Valley governorate.

Table 6.5. Population, area and population density of Egyptian governorates

	Population (millions)	Area (square km)	Population density (population per square km)
Cairo	10.1	2 889	3496
Giza	9.3	36 326	257
Sharqeia	7.7	5 334	1451
Dakahliya	6.9	3 492	1985
El Beheira	6.7	11 347	592
Menia	6.2	31 298	196
Kalyobiya	6.0	1 132	5318
Sohag	5.6	9 993	555
Alexandria	5.5	2 510	2179
Al Gharbya	5.3	1 974	2705
Assiut	4.9	16 428	298
Monofiya	4.6	2 146	2162
Fayoum	4.0	5 319	746
Kafr El Shiekh	3.7	3 265	1118
Qena	3.5	13 058	270
Bani Souwaif	3.5	10 614	329
Aswan	1.6	57 731	28
Damietta	1.6	753	2112
Ismailia	1.4	5 459	260
Luxor	1.4	596	2283
Port Said	0.8	980	796
Suez	0.8	9 358	83
Matrouh	0.5	158 456	3
North Sinai	0.5	26 582	19
The Red Sea	0.4	121 336	3
New Valley	0.3	426 843	1
South Sinai	0.1	29 378	4

Source: CAPMAS, United Nations Office for the Co-ordination of Humanitarian Affairs

Business environment

Spatial variations are evident across Egypt in the resources available for SMEs and entrepreneurs (Mansour, Sedita and Apa, 2018[7]). There are general difficulties and geographical differences in access to finance locally and regionally (Mansour et al., 2018[8]). Availability and costs of sites and premises also vary. For example, there are major challenges in some existing Industrial Zones (IZs) such as Dakahliya, where space constraints and rising land values are preventing existing SMEs in the IZs from expanding and new companies from locating in the IZs. Elsewhere, provision of sites and premises for SMEs and entrepreneurs are limited or non-existent. Business development services for SMEs and entrepreneurs are also unevenly provided across Egypt. Cairo is among the better served areas while remote and/or rural governorates have limited service availability and outreach (Mansour, Sedita and Apa, 2018[7]).

The World Bank's Doing Business metrics provide further insights into regional differences in business development conditions (World Bank, 2014[9]). The top performers with respect to the ease of starting a business are Alexandria, Cairo, and Giza, while the worst performers are Aswan and Kharga (Table 6.6). This can be explained partially by the fact that in some governorates, such as Cairo, provisional and temporary licenses can be granted in advance of official licenses to enable entrepreneurs to begin trading, and efforts have been made to digitalise such services. Other regional differences in the ease of doing business across Egypt are illustrated in Table 6.6. Interestingly, despite the aforementioned geographical differences, the top three business environment constraints reported by SMEs are consistent across all parts of the country: tax rates, political instability, and corruption (World Bank, 2020[10]).

Table 6.6. Ease of doing business, by city and governorate, 2014

City and governorate	Ease of starting a business	Ease of dealing with construction permits	Ease of registering property	Ease of enforcing contracts
Alexandria, Alexandria	1	15	4	11
Cairo, Cairo	1	12	13	15
Giza, Giza	1	11	7	4
Assuit, Assuit	4	7	10	14
Ismailia, Ismailia	4	3	5	2
Fayoum, Fayoum	6	13	3	3
Mansoura, Dakahliya	6	2	2	11
Tanta, Gharbia	8	6	14	5
Zagazig, Sharqia	8	7	11	13
Damietta, Damietta	10	5	15	1
Suez, Suez	10	1	8	9
Port Said, Port Said	12	10	1	7
Sohag, Sohag	12	9	6	6
Kharga, New Valley	14	4	8	10
Aswan, Aswan	15	14	12	7

Note: Cities and governorates ranked by score on 'Ease of starting a new business' (column 2)'.
Source: (World Bank, 2014[9])

Challenges for SME and entrepreneurship policy at the local level

This section discusses some of the main challenges for the design and implementation of SME and entrepreneurship policy at the local level:

- **Linking SMEs and entrepreneurship to local, regional and/or urban development.** Currently, there are few geographical dimensions to the national policy objectives for SME and

entrepreneurship development that are set out in key national strategies and plans such as the Egypt Vision 2030. Such geographical dimensions to national policy objectives could include an aim to further concentrate economic activities in Cairo in order national growth or, alternatively, to level up regional economies and achieve a more even distribution of economic activities and opportunities to reduce geographical inequalities across Egypt. In some instances, national SME and entrepreneurship programmes have included geographical targeting of specific kinds of places and the particular challenges they face. The national Decent Life initiative, for example, has prioritised working with the 1 400 poorest villages in 20 governorates across Egypt.

- **Macroeconomic challenges.** The macroeconomic issues facing the country, which include high inflation, rising interest rates, and currency devaluation, have impacted SMEs and entrepreneurs in geographically uneven ways across Egypt. For example, the rising costs of energy and raw materials has had a particular impact on industrial SMEs, which are more prevalent in some governorates than others. More generally, the difficult economic situation has intensified the fragility of SME and entrepreneurial activities and threatened their resilience, increasing the challenges for local policy makers in providing appropriate and responsive support.
- **Establishing the objectives and targets of local SME and entrepreneurship development.** It is important to establish what types of local SME and entrepreneurship activities policies are seeking to support, and to identify who, what, and where local policy interventions should be directed towards. Assisting low value-added economic activities can generate job opportunities and incomes for households which, in specific places and for some communities, are important objectives and contributions. Such entrepreneurs and micro- and small businesses may not want to grow, develop, or upgrade. This relative lack of qualitative development may not matter for people and communities in places with few other alternative job and income opportunities such as rural, remote, and desert areas. Indeed, SMEs and entrepreneurship in these places may be better focused and supported to produce socially useful innovations addressing unmet local social needs with appropriate technologies such as irrigation improvements and low-cost water filters. However, upgrading and moving SMEs and entrepreneurs into higher value-added economic activities are important too for some people and places given their potential to create higher productivity jobs, higher incomes, and higher living standards. Such improvements can contribute to national ambitions towards becoming an upper middle-income country and achieving its green transition and sustainable development goals. The different aims of policy translate into different kinds of policies, for example social innovation-oriented interventions may include capacity building and community engagement whereas upgrading could comprise support for research and development and technology adoption.. The overall role and objective of SME and entrepreneurship policy and its relationship to national and subnational development goals is important in helping local policymakers to decide which kinds of activities they use their limited resources to support and the kinds of services they develop and provide.
- **Reaching the informal economy.** Numerous and relatively successful organic clusters are evident across Egypt – for example in agricultural and food products such as vegetables and dairy as well as in handicrafts such as handmade carpets – but the businesses and entrepreneurs are often geographically dispersed, lack training and licenses, and represent difficult targets for local policy support. High rates of informality therefore limit the support policymakers can provide to local SMEs and entrepreneurs. Lack of data and indicators can lead to poorly informed decision-making. Further, it has historically proved difficult for local policymakers to develop effective incentives to encourage formalisation, although the measures set out in the MSMEs Law could improve this situation. In addition, MSMEDA has recently worked with the UN-ILO to support the new national strategy on business formalisation.
- **Reaching all parts of the country.** While Cairo is relatively well served for entrepreneurship programmes especially focused on educated youth and high-tech businesses (Ayman Ismail,

Ahmed Tolba and Shima Barakat, 2016[11]), the potential and talent in cities and regions beyond the national capital remains relatively untapped and unevenly supported.

- **Taking into account local attitudes and perspectives.** The culture and mindset of people towards business, entrepreneurship, and risk taking are geographically differentiated across Egypt. In some places, people prefer to work in the relatively large public sector because it provides a more stable income with more permanent and safer jobs relative to private sector employment, even though salaries are typically lower. There is a local dimension to this issue as people living in agricultural and rural areas demonstrate a particular reluctance to work in the private sector. The risks and uncertainties created by the difficult macro-economic conditions and cost of living pressures from high inflation are likely to have accentuated such local perceptions and behaviours.
- **Addressing skills gaps.** Knowledge and skills gaps exist among SMEs and existing and potential entrepreneurs across Egypt. Uneven and often limited understanding exists of market gaps and business opportunities locally and further afield. Locally, this lack of knowledge has led to limited innovation in new business start-ups and replication of ideas, especially in service trade activities with low barriers to entry such as cafes, ice cream shops, and mobile phone outlets.

The local dimension of national SME and entrepreneurship policies

MSMEDA and its network of regional offices

SME and entrepreneurship policy is designed and formulated at the national level in Cairo, with the MSMEs Law 152/2020 providing the national legal framework for policy (see the Strategic Policy Framework chapter for further detail). *The* Micro, Small and Medium Enterprises Development Agency (MSMEDA) is the lead organisation responsible for SME and entrepreneurship policy. Its national head office is based in Cairo. There is no geographical dimension to the MSMEs Law, and SME and entrepreneurship policy is centralised and nationally-based and led.

MSMEDA has a network of 33 regional offices in the 27 governorates, which are responsible for delivering national SME and entrepreneurship policy (see Box 6.1). Of the more than 1 500 staff employed by MSMEDA, 550 (37%) are based in the regional offices. Larger governorates, including Alexandria, Cairo, and Giza, have more than one regional office branch. The Cairo regional office is MSMEDA's largest regional office, and is organised around four sub-regions (north, south, east, and west) within Cairo. An advantage of this approach is that the regional offices provide a subnational structure for policy delivery and integrated provision of financial, non-financial and human and community development services that aim to improve the ecosystem for SMEs and entrepreneurs at the governorate level. Where evident, the regional offices' capabilities to implement policy within the governorates appear strong and the communication and networking between the regional offices and their local development partners works well.

MSMEDA is constituted as a civil society organisation (CSO), which has enabled its regional offices to receive grants from international donor organisations unable or unwilling to provide funding for Egyptian government institutions. On the other hand, as a CSO, MSMEDA and its regional offices have less power or authority than national government ministries and receive no core funding from the national government.

Box 6.1. MSMEDA regional offices' services and activities

Using a One-Stop Shop delivery model, the MSMEDA regional offices provide three main types of services:

- **Financial services:** These aim to improve the local financing environment for SMEs and entrepreneurs. Interest payments on loans from borrowers are also a revenue source for MSMEDA regional offices and help sustain their revolving funds disbursing future loans. Three types of funding programme are utilised locally:
  - Micro-credit which involves supporting CSOs such as community associations which in turn support local entrepreneurs.
  - Direct loans (for formal micro, small and medium-sized projects.
  - Redirections to local banks and non-banking financial institutions under existing agreements to finance small enterprises). These services aim to provide rapid decisions based on business feasibility and financial studies, and offer competitive interest rates compared to those available commercially from banks and non-banking financial institutions
- **Non-financial services:** These comprise programmes to support the initiation and development of SME and entrepreneurship activities. The more general supports include seminars, workshops, and awareness raising campaigns on entrepreneurship. These activities typically target groups such as the disabled, women, and youth, and also certain sectors including the digital and green industries. Initial diagnostic services are also provided for prospective entrepreneurs to assess the feasibility of their business idea and their financial needs, identify appropriate support, and signpost to relevant service providers. For existing SMEs and entrepreneurs, there are programmes offering advice, support, and training for accessing finance, and exporting. MSMEDA has recently established a new export department to support SMEs. There are also initiatives for business promotion and marketing, including trade exhibitions and fairs in Egypt and internationally. There are also supports provided for business development and upgrading, such as agricultural governorates developing complementary food processing activities and exporting. Specific programmes have also been developed to support the implementation of the public procurement provisions in the MSMEs Law by helping individual businesses bid for public contracts and bringing together SMEs to collaborate on bids. More technical programmes cover issues relating to licensing and permits, land, sites and premises, and engineering and technology support.
- **Human and community development services:** These services are focused on responding to community needs and providing social accountability. They are organised around three pillars: labour-intensive infrastructure, community development, and youth employment and employability. Furthermore, through their operations (e.g., supplying water and waste water networks, maintaining existing service buildings such as health centres, and paving new roads and maintaining existing rural roads to increase market mobility), community infrastructure projects also play a very significant role in providing the foundations for SME and entrepreneurship development. The services include geographical targeting, for example focusing on places to alleviate poverty and create short-term and permanent employment opportunities for youth. These programmes connect to women's empowerment and environmental protection agendas.

A five-stage model is used to differentiate services, based on the development stage of the enterprise or project supported: enterprise idea, initiation, establishment and licensing, financing, and marketing.

Service provision is free to users, although MSMEDA is considering charging to generate a revenue stream and contribution to income generation.

The financial, non-financial, and human and community development services are delivered by the MSMEDA regional offices with their local development partners. The nature of these partnerships differs by governorate. Generally, they can include: the regional governorate, banks, business associations, chambers of commerce, co-operatives, CSOs, further education colleges, the regional offices of other government departments, the Industrial Development Authority, international donor organisations, sports associations, unions, universities, and youth centres.

MSMEDA regional offices are key partners working with regional governorates and promoting civil society and community and human development. The local tailoring of national SME and entrepreneurship policies by MSMEDA's regional offices often intersects with local social development. In the large rural, border, and sparsely populated governorate of South Sinai, for example, the MSMEDA regional office has supported the acquisition of identity papers for the Bedouin community as a first step towards engagement and appropriate service provision and helped local businesses to aggregate demand and reduce costs for goods transportation to urban markets. Elsewhere, in El Minya, field staff visits to rural villages have sought to assess needs and support women's empowerment.

Tailoring of national programmes to local needs and conditions

MSMEDA has an operational plan for the implementation of the National SMEs and Entrepreneurship Strategy. This general plan is translated into specific plans, targets and budgets for MSMEDA's 33 regional offices according to local conditions and needs, with inputs from the regional offices. In this way, there is scope for small modifications in the delivery of the national strategy to ensure its effective implementation taking into account the local context. These adjustments may be based on the geography and location of the regional office (urban, suburban, rural etc.), the size of the population services, assessments of the level and type of local service needs, and previous years' performance.

The system therefore recognises that every regional office will have its own specificities and it allows regional offices some degree of local adaptation and tailoring of national programmes and in who they co-operate and collaborate with locally amongst their local development partners. The benefit of this approach is that it allows the regional offices, which are generally staffed by citizens from the governorate, to tap into their local knowledge and networks and familiarity with the culture of their governorate. For example, some regional offices have been working to identify how they can support specific development issues in their regions and target specific locally-important sectors such as glass decoration in Dakahliya, textiles in Mansoura, and berries and dairy in Ismailia. Other local and place-based initiatives are focused on so-called 'producer villages', where over 85% people work in a single sector such as handicraft, olive oil, vegetables, fruit, and fisheries in Al Fayoum, and tourism in South Sinai.

Box 6.2 presents the Mashrouy programme, which is a good example of a national programme that has been tailored by MSMEDA's regional offices.

Box 6.2. Good practice for local tailoring of a national programme – the Mashrouy programme

Introduced in 2015, the Mashrouy national programme – 'my project' in Arabic – aims to increase economic empowerment and create jobs and incomes. This national programme has been tailored by MSMEDA's regional offices and local partners especially banks. As a community development programme, it has been used by local actors specifically to target particular groups that face barriers to accessing micro-finance from conventional channels including women, youth, and individuals with special needs. The programme also serves as a tool to formalise businesses by making licensing a condition for loans. In collaboration with the Ministry of Planning, Economic Development and International Co-operation and Federation of Egyptian Industry, for example, the programme funded the 'Your Business in Your Village' project to provide business premises for micro- and small manufacturing businesses in a pilot initiative in Al Fayuom.

Prior to 2023, while there were allowances for some local tailoring of national policies by the MSMEDA regional offices, the scope of these permitted adjustments was relatively limited, and SME and entrepreneurship policy was largely top-down and centralised. Regional office plans and targets were negotiated and agreed with the MSMEDA head office in Cairo, and changes to these plans had to be proposed and agreed in advance with the MSMEDA head office. This procedure introduced delays and inflexibilities in responding to changing local needs. For example, it could take a long time to receive an answer on a requested adaptation from a regional office, especially if the change required some research and consideration by the MSMEDA head office. Capacity limits at the MSMEDA head office and regional offices constrained attempts to speed this process up.

More recently, however, there has been a shift in focus within MSMEDA, with a stronger focus on decentralising management. While the head office in Cairo still plays a crucial role, regional offices now have more autonomy to make decisions and adjustments that align better with local needs. There has been a concerted effort to streamline processes and reduce delays, making the system more flexible and responsive to urgent requests, in contrast to the previous, more rigid, and centralised structure. This has enhanced the decentralisation with respect to SME and entrepreneurship policy (Table 6.7).

Table 6.7. Types of decentralisation

Type of decentralisation	Description
Administrative	Administrative functions and responsibilities undertaken at the sub-national level.
Deconcentration	Dispersion of central government functions and responsibilities to sub-national field offices. Powers transferred to lower-level actors who are accountable to their superiors in a hierarchy.
Delegation	Transfer of policy responsibility to local government or semi-autonomous organisations that are not controlled by central government but remain accountable to it.
Political	Political functions of government and governance undertaken at the sub-national level.
Fiscal	Autonomy over tax, spending and public finances ceded by central government to sub-national levels.
Devolution	Central government allows quasi-autonomous local units of government to exercise power and control over the transferred policy.

Source: (Pike et al., 2016[12])

Capacity of MSMEDA regional offices

The effectiveness of the current system depends upon the capability and capacity of the MSMEDA regional offices to analyse and understand their local situations, needs, and opportunities for SMEs and entrepreneurship. This capability and capacity are geographically differentiated across Egypt. The current system affords the MSMEDA regional offices only relatively limited autonomy, resources, and incentives. While the more capable regional offices with greater capacity are able to make strong cases for the potential growth, expansion, and/or upgrading of their services to increase their targets and budgets to address local needs, the weaker regional offices are less well placed to develop and improve.

The importance of the strategic vision of the regional office director was mentioned during stakeholder discussions. However, the ability to articulate and pursue this vision is dependent on the region and culture of the particular governorate and, in general, appears to be limited. In addition, the planning horizon for the MSMEDA regional offices is annual, whereas a 3-5 year horizon would be helpful for developing a strategic vision for SME and entrepreneurship development in the relevant governorate, with a corresponding plan to achieve it. Another issue is that, beyond the MSMEDA national head office level, there appears to be limited usage of ideas such as regional entrepreneurial ecosystems as frameworks for organising and conceptualising local SME and entrepreneurship policy.

Geographical differences exist in the capability, capacity, and resources of the MSMEDA regional offices. The regional offices are assessed according to a three-fold classification based upon their size, staff capacity, and portfolio of services, from the highest A to the lowest C. Sixteen regional offices are in category A (Table 6.8). Regional offices are evaluated periodically based on their performance which can result in staffing changes for poorly performing offices. Good practices are shared between regional offices within their geographical zones.

Table 6.8. Classification of MSMEDA regional offices

Regional office classification	Number of regional offices
A	16
B	6
C	9

Source: MSMEDA

Regional office performance varies geographically for several related reasons. Economic situations, sectoral structures, and investment opportunities are different in each governorate. The effectiveness of the regional office depends upon the knowledge, skills, experience, and proactivity of their director, manager, and staff especially on leadership and communication and willingness to change and implement the General Law 152. Relations between the regional offices and the national head office are geographically differentiated, with some more dependent on direction from the head office within the centralised system. Each regional office has different sets of local development partners and types and levels of engagement, collaboration, and inputs from them for policy delivery. Strong co-ordination and information sharing has helped identification of service provision gaps and the development of tailored programmes to address the gaps. For example, specialised technical support provision for sectors important to each regional office such as agriculture in South Sinai and handicraft sectors in Al Fayoum.

Increasing the autonomy and resources of MSMEDA and its regional offices is a key change needed to facilitate the move towards a more locally-sensitive, decentralised, and bottom-up approach to local SME and entrepreneurship policy. This would enhance the ability of MSMEDA regional offices to articulate a strategic vision and differentiate their strategies and targets to better match the needs of people and businesses in their local areas and improve the effectiveness of their service delivery. More specifically,

MSMEDA regional offices could use the concept of the regional entrepreneurial ecosystem to guide their activities, for example by:

- Identifying duplication and gaps in the provision of local advice, support and infrastructure.
- Tailoring national programmes better to address regional needs.
- Exploring greater selectivity, prioritisation, and targeting in support provision.
- Complementing cluster-based policies
- Building networks such as rural SMEs and entrepreneurs connections to urban opportunities.
- Supporting knowledge exchange and sharing
- Strengthening monitoring and evaluation.

Stronger regional offices with more autonomy and resources in a more decentralised system will increase their self-sufficiency and reduce their dependence and demands upon the MSMEDA head office.

As a starting point, a pilot capacity building programme could be developed to work with the most able and willing MSMEDA regional offices and match stronger performers with weaker performers to support less developed offices to start the improvement process. Another key action is to increase the number of branches, resources, and staff working within the governorates to deliver SME and entrepreneurship policy. More staff able to reach out and work with local communities in more areas can identify needs and provide appropriate support. This increase in staff needs to be accompanied by training, in particular diagnostic skills to understand local SME and entrepreneur needs and potential.

MSMEDA has established a new Central Sector for Policies and Legislation, with responsibility for all functions related to the co-ordination of MSMEs system and for policy development and assessments. This is a vital change to support the enhanced autonomy and resources for MSMEDA. There is potential for the new sector to have multiple and complementary roles, including:

- Research, analysis and intelligence gathering
- Data clearing house especially for information from local development partners
- Strategy and policy development
- Monitoring and evaluation.

A future step that would be of benefit is to establish a pilot scheme for regional offices to develop their own research, analysis, intelligence gathering, and policy making capacities to support local tailoring of national programmes and, over time, local policy design. Initially, this additional capacity might be set up at the larger scale regional zones – north, south, east, and west – in which the regional offices are organised. This change is key to strengthening the role of the MSMEDA regional offices in addressing local SME and entrepreneurial potential within their regions, for example supporting the related diversification of existing sectoral activities and strengths concentrated in their areas. It will also help the MSMEDA regional offices move towards a quality-based rather than quantity-based approach to support provision, with greater selectivity including supporting people and places locally with strong potential, connecting to local cluster development and FDI linkage programmes, and addressing barriers to local SME and entrepreneurship development in places with weaker or less potential.

Co-ordination between government entities and other ecosystem actors

The effectiveness of the current system also relies upon co-ordination between multiple national government ministries at the centre including those responsible for environment, investment, industry, planning and local development. Centralisation, working in ministerial silos, and lack of co-ordination means each have their own regulations and internal procedures, and contracts and funding are subject to delays. Overlaps and duplications between national government ministries in relation to SME and entrepreneurship policy creates a complex and confusing system for MSMEDA, its regional offices, and

individual business owners and entrepreneurs to try to navigate. Mapping clusters of economic activities across Egypt, for example, is being undertaken by several national ministries as well as MSMEDA. Licensing responsibilities are split between different national ministries.

The institutional framework locally within governorates can lack clarity in the duties and responsibilities of key institutions and their local co-operation and co-ordination. General Law 152 has provided some clarity and incentives but there remains an implementation gap between the legal and administrative reform and practice on the ground. This gap varies across Egypt. Regional governorate and MSMEDA regional office relationships differ geographically. Some governorates are supportive of the MSMEDA regional office and implementation of General Law 152, while others are less supportive and can therefore impede its implementation. The relationship between the governorate and MSMEDA depends on the governor and the elected members. Some regional governorates request more services and offices from MSMEDA, for example in Cairo. Institutions and authorities overlap in some areas, for example responsibility for land allocation in IZs. In addition, there is still no local government tier in Egypt within the governorates currently due to deliberation over electoral law at the national parliamentary level (Ahmad Saleh, 2018[13]).

It is crucial to recognise that even the strengthened MSMEDA regional offices and branches cannot operate alone in delivering the more decentralised and locally-sensitive SME and entrepreneurship policy across Egypt. Collaborating with local development partners within regional entrepreneurial ecosystems remains vital. Building connections and aligning, co-ordinating, and synchronising regional office and local development partner activities at the local level are key. Within the regional entrepreneurial ecosystems, MSMEDA regional offices can become coordinators and facilitators rather than sole providers of services and work with key local anchor institutions the regional governorate, business associations, universities, and other business development services providers. Mapping and visualising regional entrepreneurial ecosystems can make them more visible and legible to participant organisations and more accessible and navigable for SMEs and existing and potential entrepreneurs.

Monitoring and evaluation

MSMEDA relies on three mechanisms for monitoring and evaluating: i). monitoring conducted by its regional offices, ii). monitoring by an external company or association on the use and benefits of MSMEDA's financial and non-financial services, and iii). analyses conducted by third-parties on the impact of service delivery. Monitoring and evaluation of MSMEDA regional office activities are largely focused on documenting inputs, activities, and outputs rather than assessing outcomes and impacts. There is a wide variety of programmes being delivered and both MSMEDA head office and the regional offices lack monitoring and evaluation capacity, resulting in a shortage of evidence on local programme impacts. Currently, there are relatively small monitoring and evaluation units within each of the central sectors in the MSMEDA head office in Cairo. Regional offices submit monitoring reports monthly and quarterly to MSMEDA head office. These reports are assessed in terms of actual versus planned achievements and deviations from plan and targets. They include, for example, the overall value of loans disbursed and their breakdown by gender, new start-up and existing businesses, sector, and location, and loan performance in terms of repayment arrears and defaults. Field staff monitor and follow up with projects, for example ensuring payments are occurring and activity is happening as well as identifying further support needs and interventions if required.

While such monitoring activity is important and feeds into the annual planning cycle for MSMEDA's head office and the regional offices, there is a need to establish the causal impacts of policy interventions on targeted outcomes in the medium and longer-term, such as business survival or growth. This can be achieved through the adoption of reliable evaluation studies, which should leverage guidance and advice from international monitoring and evaluation good practice. Such an approach is key in moving from a monitoring-oriented counting of inputs, outputs, and activities towards more evaluative assessment of outcomes and impacts. Earlier assessments of MSMEDA's activities have also highlighted this issue

(UNDP, 2019[14]). The new Central Sector for Policies and Legislation can support activities in this area, for example by drawing upon international practice in measuring and assessing regional entrepreneurial ecosystems (Bell-Masterson and Stangler, 2015[15]). Progressing digitalisation will also support monitoring and evaluation capacities, for example by providing real time data for internal management information systems to support effective monitoring and building the evidence base for later evaluation.

Targeting of supports provided by MSMEDA regional offices

There is scope for the MSMEDA regional offices to increase their selectivity in the provision of support services to SMEs and entrepreneurs. While approaches vary between offices, in general, a demand-led and reactive approach appears to be taken whereby services are provided to whichever SMEs and entrepreneurs happen to engage with the MSMEDA regional offices and/or their local development partners. Echoing earlier evaluations of MSMEDA's activities (UNDP, 2019[14]), there is continued scope for greater selection, prioritisation, and targeting of specific types of SMEs and entrepreneurs deemed important locally. The current rationale appears to be to help all people and all industries that come forward in the hope that some will survive and/or grow. This has been a quantity rather than quality-based approach which risks missing opportunities for more effective allocation of scarce resources and locally appropriate service provision and development. The approach may end up supporting low value added and unsustainable business ventures with little chance of achieving continued viability and bearing the risk of potentially undercutting and displacing existing producers in the short-term. Scarce resources may be allocated in a more locally effective and productive way with greater selectivity, prioritisation, and targeting. Potential exists where available local entrepreneurs and SMEs with financial resources can be supported towards investing in sectors deemed appropriate for development locally. Without greater autonomy and resources, it is not clear how a MSMEDA regional office could develop, expand, and/or upgrade their services in any move towards this more quality-based approach.

In recognition of these challenges, MSMEDA has already started, with guidance from its Board of Directors, targeting specific sectors with a focus on quality alongside quantity. The priority sectors include industrial and agricultural production, as well as information technology. A major goal is to boost the exports of projects in these sectors, in addition to integrating the informal sector into the formal one. This shift aligns with the need for greater selectivity in the support offered to SMEs and entrepreneurs, as mentioned in earlier evaluations of MSMEDA's activities. A more targeted and strategic approach, focusing on sectors with high growth potential, is crucial for maximising the impact of limited resources and fostering sustainable development.

Box 6.3 presents the approach to promoting women entrepreneurship among the Bedouin in South Sinai, which is an example of a good practice approach for the local targeting of specific groups.

Box 6.3. Good practice for local targeting of specific groups – Bedouin women's entrepreneurship in South Sinai

Women entrepreneurs in the Bedouin community in South Sinai face barriers to their empowerment and wider roles in economy and society in this nomadic and traditionally conservative community. The reluctance of male heads of families to let women work outside the home or travel limited their entrepreneurial potential. The MSMEDA regional office and local partners created a programme to encourage and help Bedouin women producers to develop projects and participate in domestic trade fairs in Cairo and international fairs in France, Morocco, and Saudi Arabia to promote and market their products. The project was formulated and adapted to address particular local conditions. The long-term aim of the programme is to change attitudes and mindsets towards women's entrepreneurship and economic and social contributions. Women participating in the programme are now being trained to become trainers to extend the programme throughout the South Sinai region.

The national strategy for the development of organic clusters aims to enable private sector enterprises, academic institutions and service providers at the local level to mobilise economic potential and develop regionally and internationally competitive poles of activity (Entrust, 2018[16]). The strategy and policies are based around three economic pillars – research, innovation and technology transfer, specialised skills development, and access to finance – and three cross-cutting themes – governance, gender equity, and legal and regulatory reform. The clusters can include both local SMEs and entrepreneurs and established larger businesses. The roll-out and delivery of the strategy at the governorate level is uneven, generally at an early stage of development, and is reliant upon MSMEDA's regional offices working effectively with their local development partners (Fatma Abdelaziz et al., 2018[17]). Some of MSMEDA's regional offices are combining support for all types of projects and sectors with targeted support for organic local clusters, while others are attempting to identify transformative industries to contribute to a positive step change in local economic fortunes. Reflecting the lack of selectivity of the demand-led and quantity-based approach noted previously, other regional offices are merely assisting the available projects in the local services and trade sectors that reach out for support.

Local economic structures and conditions have an important influence on the strategies, plans, and activities of MSMEDA's regional offices. Those in agriculture-based governorates will, for example, necessarily be dealing with SMEs and entrepreneurs operating in this sector. Questions exist of how to formulate local cluster support programmes with services centred on places to work with and upgrade these existing sectoral strengths, develop localised clusters and scale them up, and/or attract and embed other – related or unrelated – economic activities, and link clusters to wider local economic and social development. There is potential to build upon and better connect and co-ordinate the MSMEDA and Ministry of Investment and Foreign Trade and Ministry of Planning, Economic Development and International Co-operation's cluster mapping.

Box 6.4 describes South Africa's policy approach to supporting SMEs in the clothing and textiles sectors, which are also important industries in many parts of Egypt.

Box 6.4. Promoting eco-innovation and upgrading of SMEs in the clothing and textiles sector in South Africa

Description of approach

The clothing and textiles industry is an important sector in South Africa, formally employing nearly 100 000 people in manufacturing. The sector forms part of the national Industrial Policy Action Plans and the Department of Trade, Industry and Competition's Clothing Textile Footwear and Leather (CTFL) master plan. Local clusters in the Cape and KwaZulu-Natal are growing and upgrading but face sustainability challenges (Kaplinsky and Morris 2019). In response, the Innovative Business Practices and Economic Models in the Textile Value Chain (InTex) project aims to increase knowledge, provide training, support business model transformation, and improve data access and impact assessment of socio-economic and environmental impacts among both SMEs and policymakers. The project seeks to increase SMEs' engagement with the concepts of resource efficiency, life cycle models, circularity, and eco-innovation in the clothing and textiles value chain. The project is being implemented by the United Nations Environment Programme and is funded by the European Union (EU).

Success factors

Interim evaluation of the project has identified the importance of the tailored support for SMEs, the need for increased access to environmental, lifecycle and socio-economic data, and robust procedures to identify and engage with technical intermediaries and SME beneficiaries to ensure high ambition and impact (Chaidas 2023). Further key factors include collaboration with technical intermediaries in South Africa with a specialised focus. For example, the Centre for African Resource Efficiency and Sustainability supports SMEs in sustainability tools and skills, while the National Cleaner Production Centre of South Africa advises SMEs on resource efficiency and cleaner production models that help to reduce costs. International connections to project partners in Kenya and Tunisia provide further opportunities for knowledge and experience sharing.

Problems and responses

The central challenge has been shifting SME business models and the orientation of policy support frameworks from high volume, low value-added and disposable products focused on meeting demand for 'fast fashion' in developed country markets towards lower volume, higher value-added and longer lasting products. Central to the project is introducing SMEs to concepts such as eco-innovation, product environmental footprint, and circularity, alongside the provision of practical tools, training and technical advice to assist selected SMEs to introduce and adapt these ideas. The aim is to overcome any potential reluctance of businesses or entrepreneurs to attempt such transformation by demonstrating the benefits for SMEs in terms of the resilience, flexibility and competitiveness created by adapting to new market trends more concerned with social and environmental sustainability. The target of 10 assisted companies will be developed into case studies and training and capacity building activities to share the impacts and encourage further SME uptake.

Relevance for Egypt

Clothing and textiles are important economic sectors in Egypt. Egyptian SMEs in these sectors face the same challenges of economic, social and environmental upgrading as well as market development (especially for export) as those in South Africa. There is a need in Egypt to disseminate more widely across the clothing and textiles sector the experiences of SMEs involved in multinational value chains and exporting, for example to EU markets. This example connects directly to MSMEDA's contributions to the green transition in its joint project with UNDP.

Source: https://www.unep.org/intex

National and local policies to link Foreign Direct Investment (FDI) to SMEs and entrepreneurship are currently limited but are being considered. By utilising their local knowledge and contacts to identify potential FDI firms and potential partner SMEs in their governorates and by designing and implementing appropriate linkage mechanisms, MSMEDA's regional offices have a potentially key role to play in this area. Other important policy actors are the Ministry of Investment and Foreign Trade and Ministry of Planning, Economic Development and International Co-operation, who could distribute their investment mapping and develop a more systematic programme for connecting SMEs and entrepreneurs with supply chain opportunities in larger international as well as domestic firms. Some MSMEDA regional offices are already supporting matchmaking and networking between smaller and larger businesses (for example, through co-operations between milk and cheese producers and quarry and cement factor linkages in El Minya), although these initiatives do not necessarily involve foreign investors. An obstacle that exists currently is that the difficult macroeconomic conditions in Egypt have undermined business confidence and led to capital flight, meaning that FDI attraction is currently a challenge. This situation limits the potential linkages for local SMEs and entrepreneurs. Box 6.5 shows Malaysia's policy experience in stimulating linkages between FDI and local SMEs.

Box 6.5. Foreign direct investment and local SME linkage policy in Malaysia

Description of approach

As an emergent industrialising country from the 1970s, the Malaysian government sought to attract foreign direct investment (FDI) and link its business opportunities to local SMEs (UNCTAD, 2011[18]). Following the international model of improving the investment climate through strategic FDI attraction, strengthening absorptive capacity and introducing specific linkage policies, Malaysia has taken a systematic approach that has evolved over time (GRIPS Development Forum, n.d.[19]). The Vendor Development Programme (VDP) was Malaysia's initial FDI-SME linkage programme, which was succeeded by the Industrial Linkage Programme (ILP) in 1997. This programme focused on cluster-based development and deepening FDI procurement from local as well as non-local SMEs. Having successfully supported FDI-SME linkages for several decades, Malaysia now emphasises the creation of innovative SMEs, many of which have FDI connections.

Success factors

Key success factors include attracting a critical mass of FDI in specialised clusters to generate opportunities for local suppliers, identifying and placing local sourcing requirements with anchor firms (e.g. Proton, the national car company), building the capacity and accrediting local SMEs to meet FDI supplier standards, and creating effective selection and matching mechanisms to support FDI-SME linkage development. Furthermore, a lead agency – the Small and Medium Industry Development Corporation (SMIDEC) – was assigned to integrate business matching and SME capacity building. SMIDEC worked closely with the Malaysian Investment Development Authority, the agency responsible for FDI attraction. Affiliation with Japan's Ministry of International Trade and Industry also provided key knowledge, skills and experience.

Problems and responses

Each policy has encountered challenges that have prompted the evolution of the approach. Several FDI firms were reluctant to participate in the VDP due to the low technical capability of local firms, necessitating further capacity building efforts. The ILP targeted SMEs in selected sectors and strengthened SME capacity building support through fiscal incentives and technical assistance grants for lead FDI firms and expanded support packages for local SMEs. These support packages covered

technology development, skills upgrading, and export and market development through a Global Supplier Programme.

Relevance for Egypt

Malaysia's experience in the early stages of its industrialisation and FDI attraction is highly relevant. Egypt is at a relatively early stage of seeking to attract FDI and has many domestic SMEs in manufacturing looking for new and growing markets. Malaysia's approach demonstrates the importance of policy co-ordination between FDI attraction and SME capacity development, a sustained and evolving approach to addressing challenges, and the potential to leverage FDI-SME linkage programmes.

Source: https://smecorp.gov.my/images/Publication/handbook/smehandbook.pdf

Disbursements via direct lending and support to micro and small enterprises provides an indication of the geographical differences in policy delivery and resource allocation of MSMEDA's regional offices. In 2022, Menia had the highest value of disbursements out of the Egyptian governorates, followed by Bani Souwaif and Sohag (Table 6.9). However, on a per capita basis, SMEs in South Sinai received by far the greatest support from MSMEDA's regional offices. Indeed, the disbursement per capita in 2022 (EGP 894) in South Sinai was more than twice as high as in any other governorate.

MSMEDA's latest accomplishment report states that women-led projects account for 45% of MSMEDA's portfolio. Table 6.9 shows that in all governorates, the majority of disbursements were directed to men in 2022. However, the share of disbursements directed towards women ranges widely from 15% in North Sinai and 18% in Matrouh to 47% in Port Said and 48% in the New Valley. Meanwhile, the share of disbursements channelled to those aged less than 36 years old ranged from 23% in Cairo to 44% in Bani Souwaif.

Table 6.9. MSMEDA disbursements, by governorate, 2022

	Number of projects supported	Disbursement (EGP millions)	Disbursement per capita (EGP)	Share of disbursements to women	Share of disbursements to youth
Menia	30 094	683	111	38%	38%
Bani Souwaif	22 673	562	161	42%	44%
Sohag	15 939	507	91	36%	41%
Dakahliya	11 882	428	62	31%	30%
Qena	12 157	410	116	36%	39%
Sharqeia	12 709	402	52	31%	37%
Assiut	11 293	367	75	34%	38%
Fayoum	13 703	350	88	44%	40%
Cairo	13 478	345	34	32%	23%
Al Gharbya	8 062	282	53	30%	33%
Kafr El Shiekh	6 722	266	73	26%	32%
El Beheira	7 574	260	39	29%	33%
Alexandria	5 779	240	44	23%	27%
Aswan	8 979	232	144	39%	40%
Kalyobiya	6 873	207	34	33%	34%
Giza	7 346	196	21	26%	27%
Luxor	4 286	182	134	27%	34%
Monofiya	6 406	177	38	31%	34%
The Red Sea	1 994	160	409	29%	30%
Ismailia	3 405	119	84	28%	27%
Damietta	3 821	106	67	35%	35%

South Sinai	865	98	894	22%	30%
Port Said	1 979	68	87	47%	29%
Suez	1 752	58	75	22%	27%
New Valley	1 236	56	214	48%	40%
Matrouh	321	27	52	18%	25%
North Sinai	446	11	23	15%	38%

Note: Disbursements values include direct lending and supports to micro and small enterprises. Youth is up to age 35 years.
Source: MSMEDA (2022)

Conclusions and policy recommendations

The size of Egypt and its geographical structure are important characteristics for local SME and entrepreneurship policy. Cairo is a dominant capital city in economic and population terms. Governorates that are long physical distances from Cairo and other large cities find it harder to do business due to their relatively small local markets and high transportation costs. Meanwhile, social and climactic conditions also vary widely across the country, with implications for SME and entrepreneurship development. For example, the presence of illiterate and nomadic communities in South Saini and desert regions limits the range of viable economic activities in these areas.

Such varied geographical conditions warrant a locally-sensitive policy approach. SME and entrepreneurship policy in Egypt historically has had a centralised and top-down approach with only limited tailoring to particular local conditions and opportunities. This centralised management system reduced autonomy and flexibility locally and introduced delays. It also was reliant upon effective policy implementation at the governorate level, which is uneven, and co-ordination between national government ministries, which is lacking. MSMEDA's regional offices had relatively limited autonomy, resources, and incentives to understand and formulate SME and entrepreneurship policies that were matched to addressing the needs of people and businesses their areas. Moreover, once their plans, targets, and budgets were agreed, local adaptations had to be authorised by MSMEDA head office in Cairo. However, MSMEDA's approach has evolved significantly in recent years and there is now a renewed focus on achieving greater decentralisation in the design and delivery of SME and entrepreneurship policy.

Potential exists significantly to improve SME and entrepreneurship policy in Egypt by developing and delivering a more decentralised and locally-sensitive approach. The greater local differentiation of policy can provide a clear focus and help to identify and prioritise particular assets, conditions, and constraints for SMEs and entrepreneurs in particular places. This can be achieved through providing more autonomy and resources to MSMEDA's regional offices. However, the government should avoid imposing immediate requirements for the highly centralised national ministries to decentralise more of their powers and resources, which might be impractical and unrealistic and not solve the problem of lack of capacity and resources at the local level. Instead, over time as MSMEDA's regional offices and other actors in the regional entrepreneurial ecosystems evolve and demonstrate their effectiveness, national ministries should become more confident about decentralising the roles of policy implementation and, eventually, policy development. The new organisational strategy for MSMEDA currently in development provides a timely opportunity to address numerous of the strategic and operational issues raised in this review.

More broadly, greater recognition is needed of the multiple contributions that local SMEs and entrepreneurs can make to national development, achievement of green transition and sustainable development goals, and moving towards becoming an upper middle-income country. Across Egypt, SMEs and entrepreneurs can contribute to economic growth, industrialisation, expanding the private sector, import substitution, jobs, incomes, economic opportunities for particular groups especially women and youth, and broader wellbeing. Greater national recognition and emphasis will enable better decisions about

which kinds of SMEs and entrepreneurs to support and in which kinds of places, making policy more attuned to local differences, needs, and aspirations across Egypt.

Key recommendations

Moving from the currently national, centralised, and top-down national system towards incorporating a more decentralised, bottom-up, and locally-sensitive approach underpins the following policy recommendations:

Box 6.6. Key recommendations on the local dimension of SME and entrepreneurship policy

- Increase the number of branches, resources, and staff working within MSMEDA's regional offices. This increase in staff should be accompanied by training, particularly in the application of diagnostic skills to better understand the needs of local SMEs and entrepreneurs. Many of such services are in use internationally, for example Enterprise Ireland's Innovation Diagnostic Tool that aims to identify weaknesses in SME innovation management capacity and potential responses guided by the ISO 56000 Series of guidance standards on Innovation Management.
- Introduce and evaluate a pilot capacity building programme to support less developed regional offices to improve their capabilities in supporting local SMEs and entrepreneurs.
- Assign focal points for the Central Sector for Policies and Legislation in MSMEDA's regional offices to build local capacities to support the tailoring of national programmes and, over time, local policy design.
- Improve monitoring and evaluation of the activities of MSMEDA's regional offices, engaging guidance and advice from international monitoring and evaluation good practice to move from a monitoring-oriented counting of inputs, outputs, and activities towards more evaluative assessments of outcomes and impacts. International good practice examples include the UK government's 'What Works Network' that aims to improve the way evidence is used in policy making.
- Strengthen the engagement and collaboration of MSMEDA's regional offices with local development partners, including regional government actors, business associations, universities, colleges and other business development service providers. This could be facilitated by mapping regional entrepreneurial ecosystems. Numerous good practice approaches are available, for example the Deutsche Gesellschaft für Internationale Zusammenarbeit's (GIZ) guide.
- Increase the staff and resources of the governorate level offices of the national government ministries and agencies, in order to support the development of a more decentralised and locally-sensitive approach, facilitate better co-ordination at governorate and national levels, and strengthen feedback channels to national ministries.
- Foster innovation hubs and incubators that connect SMEs with research institutions.

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7 SME Digitalisation in Egypt

This chapter analyses policies to support the adoption of digital technologies by SMEs in Egypt. It assesses the current level of digital development by SMEs in Egypt and identifies strong and weak points compared with other countries. It also assesses existing Egyptian government actions to enable SMEs and entrepreneurs to undergo a digital transformation, feeding into a set of policy recommendations.

Introduction

The digital transition presents sizeable opportunities for SMEs and entrepreneurs to become more efficient, resilient and competitive in domestic and global markets. However, the digital transition also brings challenges, and there is an important space for policies and programmes that support SMEs and entrepreneurs in overcoming these challenges in fully tapping into the opportunities offered by digital tools and technologies. This forms the basis of the following element of the OECD Recommendation on SME and Entrepreneurship Policy:

- Recommendation 5: Supporting the adoption of digital technologies, services and data by all SMEs and entrepreneurs in line with their needs, digital maturity and aspirations by enhancing access to digital infrastructure; strengthening digital skills, data literacy and management of digital security risk; and ensuring open and well-functioning markets for digital goods and services.

This chapter sets out in more detail the benefits of SME digitalisation and the current state of SME digitalisation in Egypt. It also assesses Egypt's current policy approach against the principles embedded in the OECD Recommendation, concluding with a series of policy recommendations.

The role of digitalisation in SME and entrepreneurship development

Benefits of SME digitalisation

Performance and competitiveness

Digitalisation is the multifaceted process involving the adoption and application of a broad array of digital technologies across various business functions. This transformative journey encompasses tools and practices such as Enterprise Resource Planning (ERP) systems, which optimize back-office efficiency and strategic planning, and Customer Relationship Management (CRM) software, enhancing front-office integration and operations. Also integral to digitalisation are technologies like Cloud Computing, offering flexible and scalable IT solutions, and Big Data Analytics, crucial for efficient decision-making and strategic business insights. Additionally, digitalisation includes the use of social media for expanding market outreach and customer engagement, as well as e-commerce. Digital technologies can significantly increase performance and competitiveness of SMEs via a number of channels (OECD, 2021[1]):

- Digital technology such as cloud computing, data analytics, and Internet of Things devices allow SMEs enhance the efficiency of their operations through automation, supply chain optimisation, improved inventory management, better collaboration with suppliers and partners, and improved customer engagement.
- Online platforms, e-commerce, and digital marketing provide SMEs with opportunities to expand to new international markets. This can drive increased revenues, as well as a more diversified customer base and reduced dependence on local markets.
- The Software as a Service (SaaS) model provides SMEs with cost-effective, scalable, and accessible software solutions. By outsourcing IT infrastructure and software management to SaaS providers, SMEs can benefit from automatic updates, quick deployment, and reduced IT complexity, allowing them to focus on their core competencies and improve collaboration. SaaS enables SMEs to access powerful software tools without large upfront investments, helping them stay competitive and agile in today's business environment.
- Digital tools such as social media, online reviews, and customer relationship management (CRM) systems enable SMEs to better understand customer preferences, tailor their offerings, and provide personalised and differentiated goods and services. This can lead to increased customer loyalty,

repeat business, and positive word-of-mouth marketing, helping SMEs to build a stronger and more stable customer base.

- By lowering operation and transaction costs, reducing information asymmetries, and unlocking economies of scale, digital tools and technologies can help to offset some of the key factors that have historically placed SMEs at a competitive disadvantage relative to larger businesses.

Table 7.1 outlines in more detail the transformational benefits of SMEs performing business functions via digital platforms and services.

Table 7.1. SME business functions performed through online platforms

SME business functions	Matchmaking		Main benefits for SMEs	Examples
	SME end-user	**Other end user(s)**		
Marketing, advertising, branding, customer services and external communication	All SMEs	Potential clients, business partners	Positive indirect network effects, access to markets, access to advanced analytics/AI e.g. for targeting/market segmentation or impact analysis.	Google, Facebook, YouTube
E-commerce	SMEs (e.g. manufacturing, retail)	Companies (B2B), individual customers (B2C)	Positive indirect network effects, access to markets, access to advanced analytics/AI e.g. for targeting/market segmentation or impact analysis, lower transaction costs (e.g. payment, shipping, logistics), enhanced client trust (i.e. reviews systems, platform insurance)	Amazon, Ebay
Service delivery (*Aggregators of incumbents**)	SMEs in accommodation and food services, media and entertainment etc.	Individual customers	Positive direct and indirect network effects, access to global markets, lower transaction costs (e.g. payment, shipping, logistic, customer care), enhanced client trust (i.e. reviews system, platform insurance)	Deliveroo, DoorDash, Uber Eats, Booking, Netflix, Spotify, Sony Playstation
Service delivery (*Disruptors for new entrants into the market**)	Self-employed, entrepreneurs	Individual customers	Positive indirect network effects, standardisation of offer, standardisation of contracts, reduced asymmetry of information, access to markets, enhanced client trust.	Airbnb, Taskrabbit
Financing	SMEs looking for financing sources and financial products	Financial institutions, retail investors, banks	Positive direct network effects, access to markets, reduced financing costs, reduced asymmetry of information.	GoFundMe, Kickstarter, Lending Club, Funding Circle, Campeon, We.trade
Payment	Selling SMEs (merchants)	Individual customers	Positive direct and indirect network effects, lower cashing delays, reduced asymmetry of	PayPal, Square, Revolut

			information (funders).	
Communication, remote working, teleconferencing	All SMEs	Individual customers, Suppliers, workers	Positive direct and indirect network effects, lower to zero costs for implementation.	Whatsapp, Zoom, Microsoft Teams, Google Meet
R&D, Design, exploration	SMEs (application developers)	Other programmers, Individual users	Positive direct network effects, lower production and diffusion costs, for example through common standards, open source code etc.	GitHub, Apple App store, Google Play

Note: The "SME end-user" column is used to highlight the different types of SMEs using different online platforms, and it is by no means exclusive as also large firms, non-profits etc. can (and generally do) use the same platform.
* The distinction between "Aggregators" and "Disruptors" is a qualitative assessment of the platforms' business model proposed in (Bailin Rivares et al., 2019[2]). It distinguishes between online platforms focused on allowing incumbent service providers to reach their customers more effectively ("aggregators", e.g. Booking, Deliveroo) and online platforms opening markets to previously almost non-existing competitors, usually self-entrepreneurs ("disruptors", e.g. Uber, Airbnb).
Source: (OECD, 2021[1])

The population of SMEs in Egypt is dominated by the retail sector. Digital technologies can offer many benefits to these businesses specifically. Internet of Things (IoT) technologies can optimise stock management and transportation, and GPS apps can address logistical challenges and promote e-commerce. In areas where postal codes are lacking, GPS-enabled apps can help locate recipients using phone numbers, facilitating last-minute deliveries. Meanwhile, cloud services can alleviate financial and talent constraints by reducing upfront ICT (information and communication technologies) capital expenditures, providing ICT expertise, improving digital security, and offering cost-effective cloud-based communication services (Lukonga, 2020[3]). Box 7.1 explores further how SME digitalisation can boost the competitiveness of retail SMEs.

Box 7.1. SME digitalisation can boost the competitiveness of retail SMEs and yield favourable outcomes for local communities

The digital transformation of retail SMEs represents a crucial aspect of the rejuvenation and modernisation of local retail sectors, thereby playing a significant role in revitalizing both rural and urban areas (European Commission, 2017; European Commission, 2018). Notably, brick-and-mortar retail SMEs actively contribute to the communities in which they operate. They exhibit a tendency to reinvest their revenues back into the local economy, as evidenced by studies indicating that their proportionate contribution to the community, relative to their revenue, surpasses that of larger chain retailers. Consequently, a local multiplier effect is established, resulting in amplified benefits for the community (Civic Economics, 2012; Rybaczewska and Sparks, 2020; Paddison and Calderwood, 2007). In this context, the adoption of digitalisation can serve as a catalyst in reinforcing the business activities of retail SMEs, enabling them to sustain their valuable contributions to the local economy.

Source: (OECD, 2023[4])

Resilience to shocks

By leveraging digital technologies, SMEs can better navigate economic disruptions, market fluctuations, and other challenges, and emerge stronger and more resilient (OECD, 2021[5]). This has become even more relevant in the face of recent economic shocks, such as the COVID-19 pandemic and geopolitical disruptions like Russia's war of aggression against Ukraine. SMEs that have adopted digital technologies have demonstrated greater resilience in navigating these challenges in a number of ways (OECD, 2021[6]):

- SMEs that had already integrated digital technologies into their operations prior to the COVID-19 pandemic and ensuing social distancing measures could adapt more quickly to the need to adopt remote working and digital collaboration tools. This meant they were better able to maintain business continuity and continue serving their customers.
- Traditional brick-and-mortar SMEs with established e-commerce channels or online sales capabilities were able to continue selling products or services through online channels, mitigating the impact of reduced foot traffic in physical stores. Digitalisation enabled SMEs to quickly pivot to online sales, expand their customer base, and diversify revenue streams, thereby reducing their reliance on a physical presence and mitigating the economic impact of the crisis.
- Disruptions in global supply chains have been a significant challenge during recent economic shocks. SMEs that have implemented digital supply chain management systems can better monitor and manage their supply chains in real-time, allowing them to identify potential bottlenecks and make adjustments as needed. This agility in supply chain management allows SMEs to quickly adapt to changing market conditions, switch suppliers, and maintain operational continuity.

Supporting inclusion

SMEs are often key drivers of employment and inclusive economic growth. By reducing barriers to entry and providing SMEs with tools and resources to compete and grow, digitalisation can contribute to reducing income, geographic, age and gender inequalities within society. Digitalisation offers other employment advantages beyond job creation, including the ability to adjust to new technological demands and more flexible working cultures, such as self-employment and remote work. This is particularly relevant in the Middle East and North Africa (MENA) region, where women's labour force participation and youth unemployment are pressing issues, as digital solutions can provide women and youth with more opportunities to participate in the labour force (Lukonga, 2020[3]).

Encouraging enterprise formalisation

In Egypt, a significant portion of economic activity occurs in the informal sector, where businesses operate outside the formal regulatory framework. Digitalisation can help SMEs in the informal economy to formalise their operations by facilitating access to formal financial services, improving record-keeping and accounting practices, and enabling compliance with regulatory requirements. Formalisation can in turn help SMEs to access formal markets, gain credibility with customers and suppliers, and contribute to broader economic development. On the government side, the digitalisation of registration systems for enterprises and workers can simplify administrative procedures, saving time and costs for businesses and individuals (Chacaltana, Leung and Lee, 2018[7]). This also allows SMEs to access government support programmes more easily, which can be a powerful incentive for formalisation. MSMEDA can play a major role in this regard through Law 152 of 2020 on small, medium, and micro companies by digitising the law’s services and facilities and making them available via the MSMEDA digital platform. A case in point is a government programme in Mexico (see Box 7.2) that promotes the adoption of digital tools in small businesses to encourage formalisation and increase productivity while also creating a broader tax revenue base. Similar initiatives are also underway in Egypt, where the government, through the Ministry of Communications and Information Technology (MCIT), has launched programs like the G-2-G initiative to unify the SME

ecosystem. These efforts focus on restructuring government services for SMEs and creating governed digital solutions to facilitate formalisation and increase productivity.

Box 7.2. Digitalisation to formalise the economy: The case of Mexico

Concanaco Tablet Programme

The Confederation of National Chambers of Commerce, Services, and Tourism of Mexico (*Concanaco Servytur*) partnered with the National Committee for Productivity (CNP), the Tax Authority (SAT), and the National Institute for the Entrepreneur (INADEM) in 2014 to promote productivity and formalise the economic activities of Mexican SMEs. The programme was designed to provide digital tools to micro- and small enterprises to formalise their operations, with beneficiaries receiving an Android tablet that could be used as a sales point terminal. The tablets were equipped with credit and debit card readers, allowing entrepreneurs to accept card payments, record sales, and manage inventory. In addition to the tablet, on-site training was provided to the beneficiaries on how to use the tablet and manage their businesses.

The cost of the tablet was approximately MXN 5,600 (approximately USD 350), and businesses were only required to cover one-seventh of the cost. For each transaction, a bank commission fee of 2.86% was charged, in addition to VAT. Furthermore, one year of Internet connection was provided to the businesses free of charge.

By 2018, four years after the launch of the programme, a total of 15 086 micro- and small businesses benefited from the programme, including 2 000 youth entrepreneurs. The programme contributed to an increased tax base by formalising businesses' activities, with around 90% of the beneficiaries making tax declarations. The use of the tablet also facilitated the formalisation of the workforce, with many SMEs going on to register their employees. An assessment of the programme showed that over 25 600 workers benefited from the programme, 54.5% of who were female workers.

Source: (Chacaltana, Leung and Lee, 2018[7])

Facilitating the green transition

Digitalisation can play a crucial role in enabling SMEs to undergo a green transition and participate in a more sustainable economy. By adopting digital technologies, SMEs can optimise resource use, reduce waste, and improve environmental performance. For example, digitalisation can enable remote work, thus reducing commuter journeys and the associated carbon dioxide (CO_2) emissions. Digitalisation can also support the implementation of more sustainable production practices, for example through the use of data analytics for better energy management or through the adoption of circular economy models. SMEs can therefore contribute to sustainable development goals through their digital transformation efforts.

Barriers to SME digitalisation

There are several important barriers that hinder the adoption and implementation of digital technologies among SMEs, particularly in developing countries and the MENA region. These can be broadly categorised into supply-side and demand-side barriers (OECD, 2021[1]).

On the supply-side, connectivity challenges can be a bottleneck for SME digitalisation. This is because access to fast and reliable internet is crucial for effective digitalisation. In the MENA region, SMEs face challenges in accessing high-speed broadband in certain areas, limiting their ability to fully leverage digital technologies. Another supply-side obstacle is SMEs' lack of access to affordable financing options for

investing in digital technologies coupled with the high costs of undergoing a digital transformation, which can prevent SMEs from adopting and implementing digital solutions.

On the demand-side, digital skills are critical for SMEs to effectively adopt and utilise digital technologies. However, many SMEs may lack the necessary digital skills among their workforce, which can limit their ability to fully embrace digitalisation. SMEs may also face concerns related to digital security and data protection, including cyber threats, data breaches and privacy risks. These concerns can erode trust and confidence in digital technologies. In addition, SMEs often operate within fragmented digital ecosystems, which can create challenges in integrating various digital tools and platforms, further hindering digital adoption. SMEs may also face concerns related to intellectual property (IP) protection, as the shift to digital operations increases the risk of IP theft or misuse, especially when working across disparate systems or with third-party providers. As SMEs go online, effective risk management is crucial to mitigate digital security concerns. SMEs are particularly vulnerable to digital security risks due to a lack of in-house IT expertise and cybersecurity skills.

State of Play of SME digitalisation in Egypt

Digital readiness

Egypt performs relatively well compared to other MENA region countries with respect to the strength of the foundations for digital transformation. The Network Readiness Index[1] – which combines indicators on internet speed, firm-level technology absorption, government online services, and the extent of businesses' internet usage – ranks Egypt 73rd out of 131 countries in 2022. This marks a significant improvement from a ranking of 92nd in 2019, indicating Egypt's ongoing efforts to enhance its digital infrastructure and readiness. (Portulans Institute and World Information Technology Services, 2023[8]).

As shown in Table 7.2, Egypt is one of the strongest players in the MENA region, with only Türkiye (ranked 48th) and Jordan (ranked 70th) scoring higher on the Network Readiness Index. Morocco, Tunisia, Lebanon, and Algeria all rank below Egypt, highlighting the country's competitive advantage in digital readiness compared to several regional peers. For example, Tunisia and Morocco, which have historically been seen as digitally progressive in some areas, are now trailing behind Egypt, ranked 84th and 79th, respectively. Egypt's improvement over the past few years underscores its commitment to digitalisation, but there is still room for growth, particularly in areas such as internet speed and firm-level technology absorption, which would allow it to close the gap with higher-ranked countries like Türkiye.

Table 7.2. Egypt is a regional leader in Network Readiness

Network Readiness Index 2022

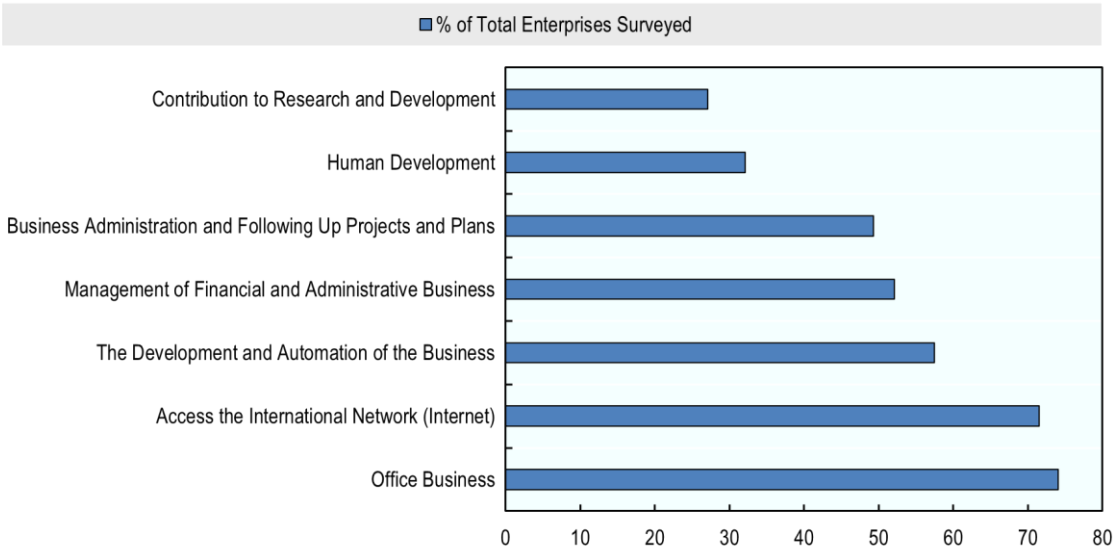
Country	Score (out of 100)	Rank (out of 131)
Türkiye	55.77	48
Jordan	48.31	70
Egypt	47.76	73
Morocco	46.50	79
Tunisia	45.46	84
Lebanon	42.30	91
Algeria	39.48	100

Source: (Portulans Institute and World Information Technology Services, 2023[8])

There is substantial variation in the use of different digital tools by businesses in Egypt. A 2019/20 survey conducted by the Ministry of Communications and Information Technology (MCIT) and the Central Agency for Public Mobilization and Statistics (CAPMAS) found that over 70% of surveyed enterprises use

computers for accessing the internet and for office business (Figure 7.1). More than half of surveyed businesses use computers for the automation of business processes and for financial management and accounting. Meanwhile, nearly half of survey respondents use computers for project management, while less than a third use them for research and development or human capital development (Ministry of Communications and Information Technology, 2020[9]). It is important to note that this survey reflects private sector enterprises in general, primarily registered and official businesses. The situation for SMEs, particularly in non-urban regions, is more challenging, with higher rates of digital illiteracy and lower levels of digital adoption. This discrepancy highlights the need for targeted policies to support SME digitalisation, especially outside major urban centres.

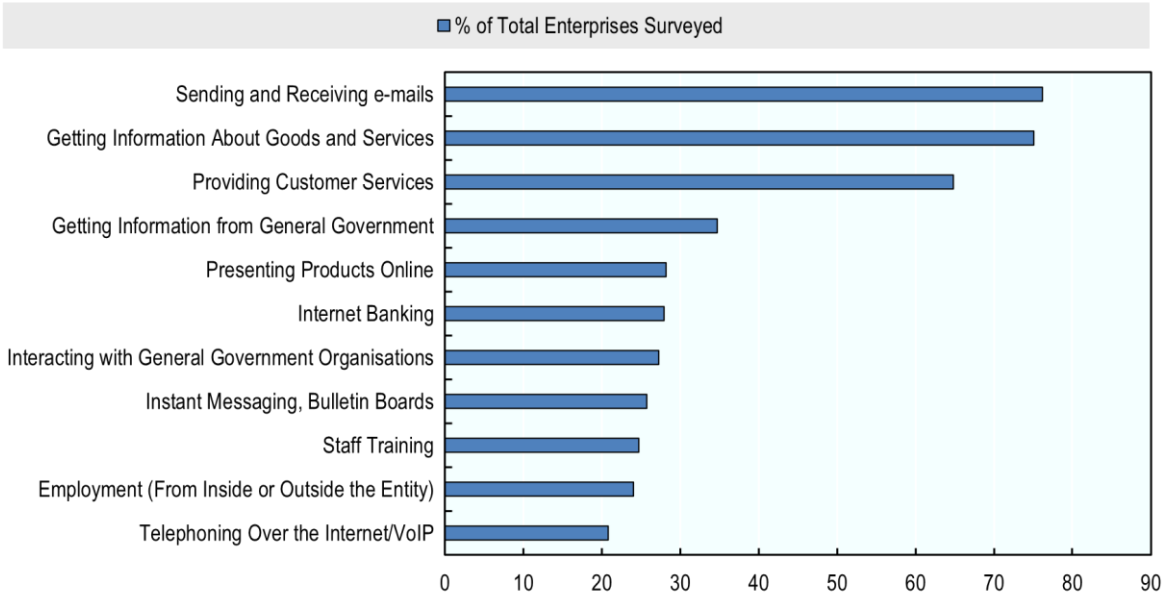
Figure 7.1. Activities undertaken by enterprises using computers



Note: "Survey of ICT usage in government and public sector enterprises," conducted by the Ministry of Communications and Information Technology (MCIT) in co-operation with the Central Agency for Government and Public Mobilization and Statistics (CAPMAS), 2019-2020
Source: (Ministry of Communications and Information Technology, 2020[9]), https://mcit.gov.eg/Upcont/Documents/Publications_2332022000_ICT_Indicators_Report_2017_2021_23032022.pdf

Among Egyptian firms active on the internet, between two-thirds and three-quarters use the internet to send and receive emails, research goods and services and provide customer service (Figure 7.2). Around one in three internet-using firms use the internet to acquire information from the government, with a slightly lower share using the internet to interact with the government. Other activities, such as instant messaging, staff training, or hiring processes were performed using internet-connected digital tools by only around quarter of respondents.

Figure 7.2. Activities undertaken by enterprises using the internet



Note: "Survey of ICT usage in government and public sector enterprises," conducted by the Ministry of Communications and Information Technology (MCIT) in co-operation with the Central Agency for Government and Public Mobilization and Statistics (CAPMAS), 2019-2020
Source: (Ministry of Communications and Information Technology, 2020[9]), https://mcit.gov.eg/Upcont/Documents/Publications_2332022000_ICT_Indicators_Report_2017_2021_23032022.pdf

Funding digital investments

One of the obstacles for SMEs in Egypt that are seeking to undergo a digital transformation is the limited access to finance. SMEs may require capital to invest in hardware, software, and other digital technologies, as well as to train their workforce and implement digital solutions. For example, cloud computing services, which are a key enabler for digitalisation, can represent a significant financial burden for SMEs in Egypt. While cloud solutions avoid the incurrence of fixed ICT costs, such as the installation and maintenance of servers, the fees charged by cloud service providers limit the affordability of these services for Egyptian SMEs. The high costs of digital technologies and tools mean that SMEs are reliant upon external financing in order to acquire them. However, as previously noted, accessing financial services is a challenge for many SMEs in Egypt, especially those with limited credit history or collateral.

Digital financial tools, including those that facilitate digital payments, can help in building a credit profile for SMEs by enabling financial institutions to perform more reliable credit assessments based on, for example, transaction and repayment histories. There are many initiatives conducted at the global level by fintech players in co-operation with traditional financial institutions to support the uptake of such tools by SMEs, with the goal of expanding financial inclusion through digitalisation. This is discussed in more detail in the chapter of this report on the role of fintech in SME and entrepreneurship development in Egypt.

SMEs in Egypt also face challenges in identifying and adopting cost-effective digital solutions, with a potential lack of awareness among SMEs about affordable or free digital tools and technologies. SMEs could therefore benefit from guidance and support in identifying and selecting cost-effective solutions that align with their businesses' needs and financial capabilities. Training, mentoring, and digital skills development are key in helping to address this challenge. Such measures should adopt an "ecosystem approach", by involving national and local government entities, private sector partners, universities, and business associations (OECD, 2021[6]).

In Egypt, the fintech sector is experiencing significant growth, particularly in the field of lending for SMEs, which is becoming an important channel for funding digital investments. Fintech solutions are gaining traction due to increasing internet and smartphone penetration, coupled with supportive government initiatives to promote financial inclusion and entrepreneurship. Several fintech companies in Egypt are focusing on developing innovative lending solutions tailored specifically for SMEs, leveraging technologies such as artificial intelligence, big data analytics, and digital platforms to streamline lending processes, improve access to credit, and reduce the traditional barriers faced by SMEs in obtaining financing. These fintech solutions offer SMEs faster approval times, flexible repayment options, and lower transaction costs compared to traditional banks, empowering them to grow their businesses and contribute to the country's economic development. Despite the progress, challenges remain, including regulatory hurdles, access to funding, and building trust among SMEs in adopting digital financial services. However, the overall outlook for fintech lending to SMEs in Egypt is promising, with increasing investor interest and continued innovation driving the sector forward.

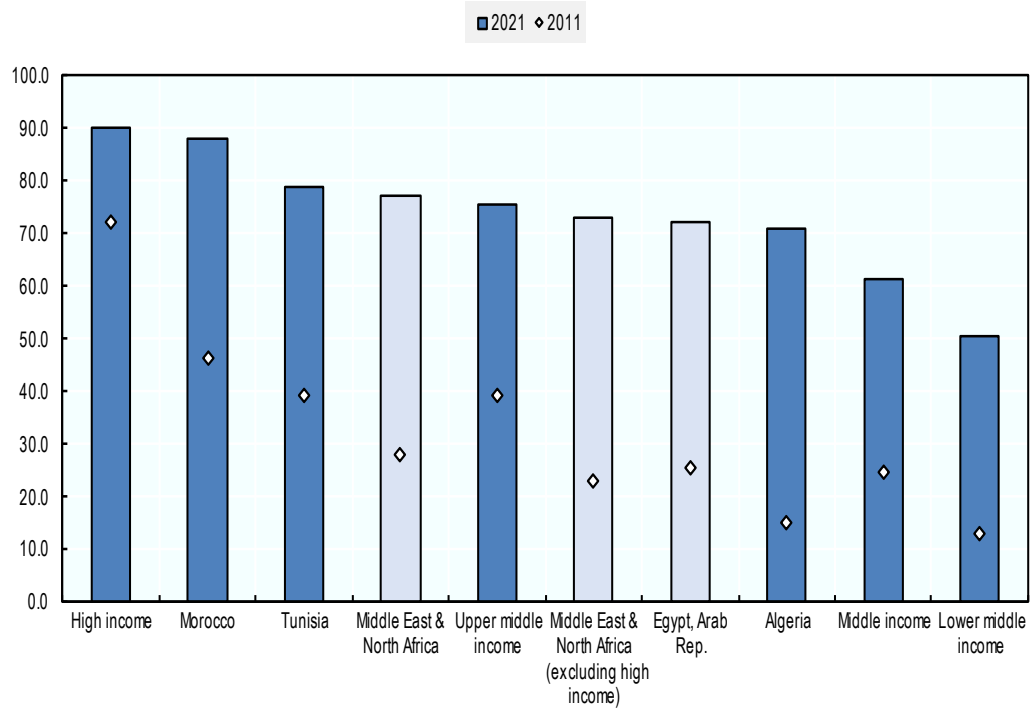
Access to digital infrastructure

Internet access

Internet access in Egypt has increased considerably over the last 10 years. Indeed, according to data from the International Telecommunication Union (ITU), more than 70% of the population were internet users in 2021, bringing Egypt in line with the average among upper-middle income countries (Figure 7.3).

Figure 7.3. Internet users in the MENA region and Egypt have grown rapidly in the last 10 years

Internet users per 100 inhabitants



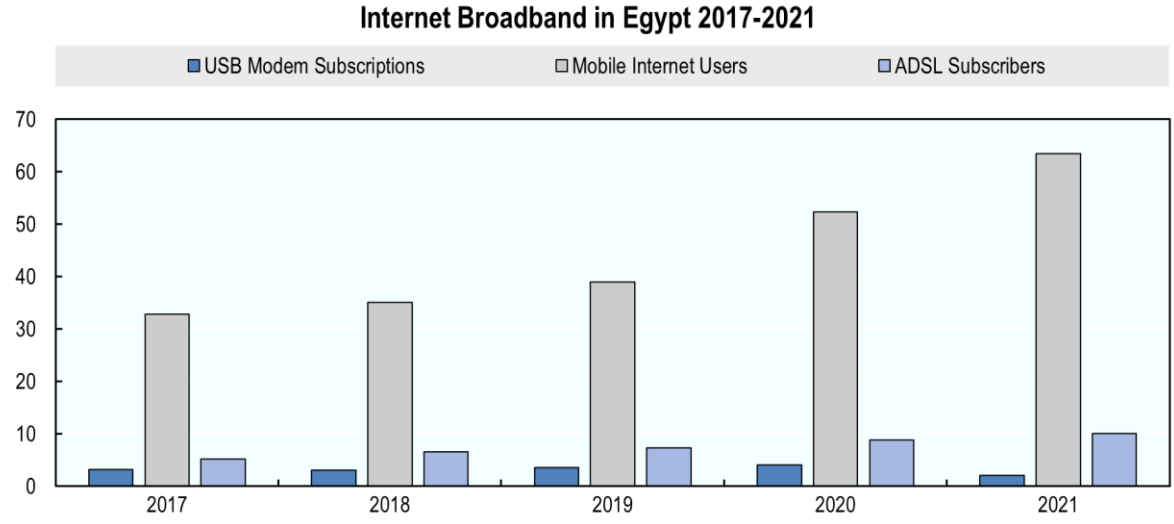
Note: Internet users are individuals who have used the Internet (from any location) in the last 3 months. The Internet can be used via a computer, mobile phone, personal digital assistant, games machine, digital TV etc.
Source: International Telecommunication Union (ITU) World Telecommunication/ICT Indicators Database; Accessed 2 June 2023

Egypt has a notably high mobile phone penetration rate of 94.2% (as of December 2022), with more than 99 million mobile subscriptions across the country (Ministry of Communications and Information Technology, 2023[10]). These results bode well for future digitalisation efforts. However, it is worth noting that the mobile phone penetration rate in December 2022 was lower than the corresponding figure (99.8%) in December 2021.

The results of a MCIT survey indicate that there were 69.1 million mobile internet subscriptions and 2.4 million USB modem subscriptions in December 2022. This compares to 63.4 million mobile internet subscriptions and 2.1 million USB modem subscriptions in December 2021. The MCIT estimates that the overall internet penetration rate in Egypt was 72.2% in 2021/2022, which is broadly consistent with the ITU's estimates described previously (Ministry of Communications and Information Technology, 2023[10]). Despite recent improvements, there remains considerable scope to increase the number of mobile internet users and the overall internet penetration rate in Egypt. This would help to foster SME digitalisation.

Figure 7.4. Internet broadband use in Egypt has increased significantly

Change of rate of internet broadband users in Egypt 2017 – 2021



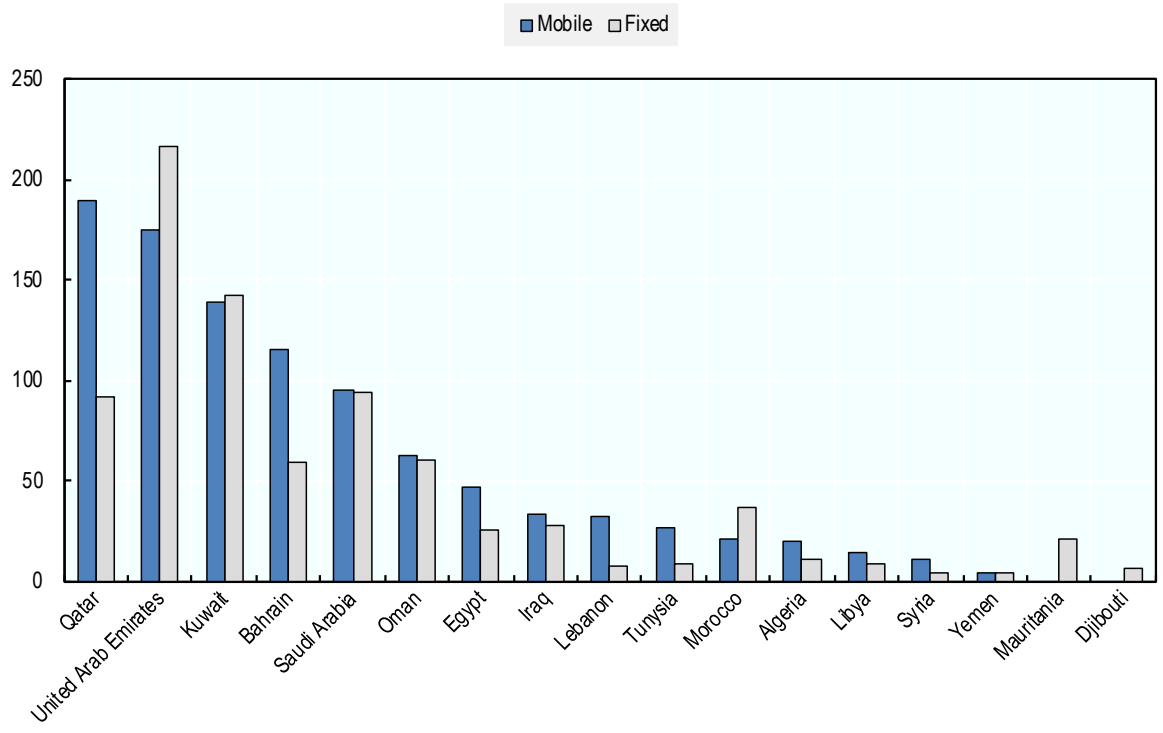
Source: (Ministry of Communications and Information Technology, 2022[11])

Internet speed

Internet connection speeds impact the types of digital technologies that SMEs can use. To use basic digital tools such as web browsers and social media apps, SMEs do not necessarily need faster internet connections. However, fast and reliable connections become essential for the use of more advanced tools, especially when using cloud services. Indeed, OECD data show that there is a positive correlation between internet speed and usage of cloud computing services (OECD, Forthcoming[12]). April 2023 data from Ookla show that Egypt ranks 84th globally for fixed broadband connection download speed and 91st for mobile connection download speed. Egypt's fixed broadband connection speed is similar to that of other MENA region countries, while mobile connections are faster, with a median speed of up to 47 Megabits per second in Egypt, as shown in Figure 7.5 below (Ookla, 2023[13]).

Figure 7.5. Egypt has higher mobile download speed than other lower middle-income countries in the MENA region

Median download speed, Mbit/s, April 2023



Source: Ookla Speedtest Global Index

Geographical variations

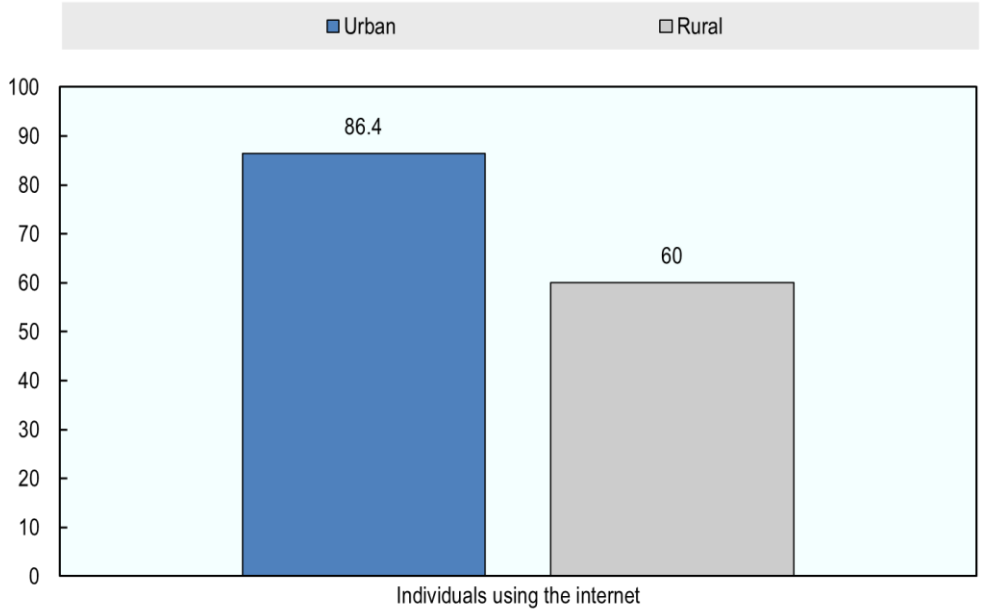
Digital infrastructure in Egypt is mostly targeted towards the Cairo region. As shown in Figure 7.6, there is a significant urban-rural divide in individuals using the internet. Only 60% of people living in rural Egypt using the internet in 2020, compared to a figure of 86% in urban areas. This gap in internet usage will have a knock-on effect for the rates at which SMEs connect online and access digital tools, which can stimulate economic growth and innovation, making these regions more attractive for investment and entrepreneurship. This development can also help balance urban-rural migration, as people find more opportunities and amenities in their local areas. Significantly, Figure 7.7 shows that the urban-rural divide in the proportion of individuals using the internet is widening, rather than narrowing. The case of Norway provides a good practice example of improving access to digital infrastructure in rural areas to reduce regional inequalities among SMEs (see Box 7.3).

Improving infrastructure and connectivity in underserved areas across Egypt, such as Upper Egypt can help SMEs overcome digitalisation barriers by creating a more territorially balanced availability of broadband services. Towards this objective, Egypt needs to expand the geographical coverage of mobile 4G+ broadband networks and increase fixed fibre optic broadband access. This could be achieved by promoting competition in fixed digital infrastructure through licensing specialised private wholesale carriers and developing and implementing a national spectrum[2] plan in co-ordination with industry and government stakeholders. These reforms could drive innovation, improve service quality, and create a competitive environment that fosters economic growth in Egypt. It is recommended that the government carefully

assesses the market conditions and engages in consultations with relevant stakeholders to ensure effective implementation of these measures (World Bank Group, 2020[14]).

Figure 7.6. Individuals in urban areas have higher rates of internet usage than those in rural Egypt

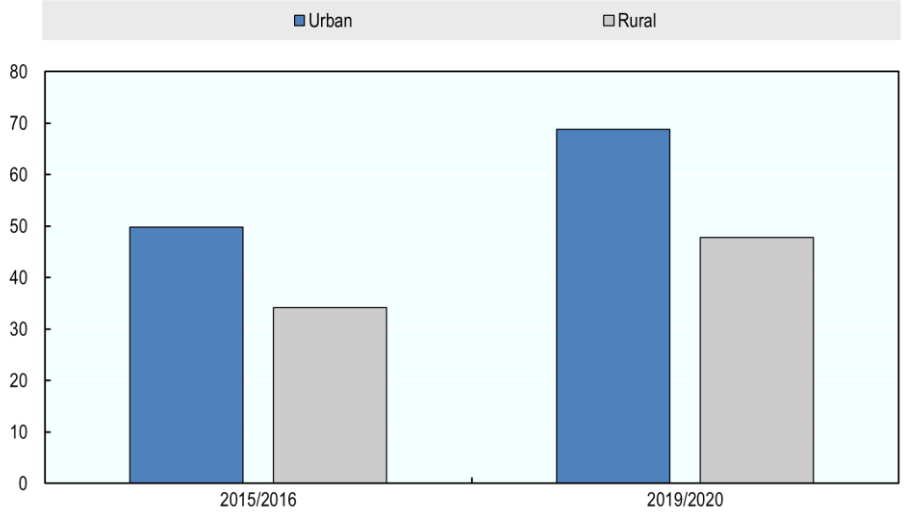
Individuals using the internet by urban and rural location (%), 2020



Source: (ITU, 2020[15])

Figure 7.7. The gap between individuals using the internet in urban and rural areas is widening

Change of rate of proportion of individuals using internet in urban and rural areas



Note: "Survey of ICT usage in household and individuals," conducted by the Ministry of Communications and Information Technology (MCIT) in co-operation with the Central Agency for Public Mobilization and Statistics (CAPMAS), 2019/2020, included 15000 households
Source: (Ministry of Communications and Information Technology, 2020[9]), https://mcit.gov.eg/Upcont/Documents/Publications_2332022000_ICT_Indicators_Report_2017_2021_23032022.pdf

Furthermore, gender gaps in digital skills and accessibility represent significant barriers to ensuring equal participation in the digital economy. Women, particularly in non-urban areas, are often disproportionately affected by limited access to digital tools and the necessary skills to leverage them for entrepreneurship. Addressing these gaps is crucial for fostering inclusive digitalisation and promoting women's empowerment through entrepreneurship.

Targeted policies that improve digital literacy and access for women are essential, as they can help bridge these divides and encourage more women to participate in the entrepreneurial ecosystem. Promoting female-focused digital skills training and increasing access to affordable digital infrastructure can contribute significantly to reducing the gender gap, enabling more women-led businesses to emerge and thrive in the digital economy.

Box 7.3. Norway's digital Infrastructure for Rural Areas

The Norwegian government recognises that in the coming years, digitalisation and the effective usage of data will hold considerable importance in various regional industries and puts a strong emphasis on supporting local communities through the development of digital infrastructure and digital skills. Since 2012, private developers have invested NOK 80 billion in digital infrastructure in mobile and broadband networks. Further, government efforts to expand broadband coverage in rural areas, including through grants for broadband expansion in underserved areas amounting to NOK 1.06 billion since 2014, have yielded positive results, most notably a five-fold increase in fibre broadband provision for rural households, from 11% to 55% between 2013 and 2020.

In line with the efforts to pursue the consolidation of the digital infrastructure network, the Norwegian government has focused on the development of the data centre industry in recent years. A data center is a physical room, building or facility that houses IT infrastructure for building, running, and delivering applications and services, and for storing and managing the data associated with those applications and services. Norway was in fact the first country in the world to launch a data centre strategy in 2018. The establishment of these data centres is perceived as an opportunity to better reap the benefits of the data economy with important impacts on rural areas. Data centres currently contribute to 2 400 jobs in Norway, and this trend is anticipated to persist, particularly in rural regions. Several data centres have successfully been established in rural areas, such as in Lefdal Mine and Bluefjords in Western Norway and Green Mountain at Rjukan. Additionally, digitalisation and enhanced utilisation of data play a critical role in the advancement of industries such as aquaculture and agriculture, which are typically associated with rural areas. The efficient use of data in these industries requires a well-developed infrastructure to access data centres. Overall, the development of the data centre economy along with the emergence of 5G technology, the Internet of Things (IoT) and Artificial Intelligence will create important opportunities for growth in rural areas, bolstering the competitiveness of Norwegian suppliers compared to imported goods.

Finally, the Norwegian government has sought to increase the resilience of the trunk network[3], with significant investment in the development of alternative transmission routes. It has also set objectives to continue performing risk analysis in vulnerable regions. This is done in conjunction with continued investment by state-owned companies like Bane NOR and Statnett in fibre infrastructure, which is key for establishing new data centres in rural Norway.

Source: Norwegian Ministry of Local Government and Modernisation (2021), Norwegian Data Centres – Sustainable Digital Powerhouses. Available at: https://www.regjeringen.no/en/dokumenter/norwegian-data-centres-sustainable-digital-powerhouses/id2867155/?ch=1

The implementation of digital innovation hubs across Egypt has the potential to accelerate the digital transformation for rural SMEs

Digital innovation hubs, which act as one-stop shops for digital technology use, could help bridge the gap between rural and urban areas, enabling SMEs in rural areas to compete on a more equal footing with their urban counterparts. Modelled off the European Digital Innovation Hubs, these centers across Egypt would connect players in the digital ecosystem and provide accessible and high-speed broadband connection to SMEs. Digital Hubs can also serve as information and resource centers for SMEs in rural areas, providing access to mentoring, access to funding opportunities, digital tools, training programmes, and resources for business development, such as diagnostic tools (European Commission, 2023[16]). By bringing SMEs together, these hubs can also facilitate knowledge-sharing, business partnerships, and peer-to-peer learning, which can further contribute to their digital transformation. In addition, Digital Hubs can provide incubation and innovation support services, helping SMEs in rural areas to develop and test innovative ideas, products, and services. Another function of the hubs can be to work with local governments and policy makers to advocate for policies that promote digitalisation in rural areas.

Digitalisation of government services

For a number of years, digital technologies have been a strategic driver to improve the efficiency of the public sector and support the creation of more transparent, innovative, participatory, and trustworthy governments (OECD, 2014[17]). The OECD proposes a Digital Government Policy Framework, which indicates that a government is digitally mature when it is “digital by design”, “data-driven”, “acts as platform”, “open by default”, “user-driven”, and “proactive” (OECD, 2020[18]).

Egypt has taken substantial steps towards the adoption of digital technologies for government services, including through increasing digital service availability and quality, improving digital infrastructure, and enhancing the capacity of government institutions to implement the digital transformation. This progress aligns with the strategic goals of Egypt's digital transformation journey, which focuses on:

- Citizen-centric digital services;
- Infrastructure development;
- Institutional reforms;
- Industry capacity building, and;
- Fostering a digital-first culture and mindset.

Egypt has been actively promoting digital transformation in government services, aligning with its strategic objectives. This includes initiatives specifically tailored for SMEs, such as the implementation of online business registration systems, e-government procurement platforms, digital licensing and permitting processes, and the promotion of digital financial services. For instance, SMEs can now register their businesses online, apply for government contracts electronically, obtain licenses and permits through digital portals, and access digital financial tools to support their operations. These efforts aim to streamline administrative procedures, enhance transparency, and improve access to services and resources for SMEs, ultimately fostering their growth and competitiveness in the digital economy.

This shift is illustrated by the examples of the Central Bank of Egypt issuing mandates for cash payments and government bodies such as the Industrial Development Authority digitalising internal processes with electronic contracts and signatures. As explained in Box 7.4, the Egyptian Postal service is central to the delivery of electronic government services, especially for SMEs.

Box 7.4. Egypt Post for the delivery of digital government services

In recent years, Egypt Post has made significant strides in enhancing its services and expanding its offices, with a focus on digital government services. With over 4 200 post offices across the country, Egypt Post has become a destination for accessing a wide range of digital government services, including those related to Digital Egypt, civil status, traffic, consular, and various certificates such as birth, marriage, divorce, and death certificates. Other services offered include National ID renewal, utility bill payment, pension disbursement, current accounts, money transfer, mail, parcels, and express shipping.

As part of its expansion plan, Egypt Post has recently opened 238 new post offices and introduced 110 mobile post offices equipped with cutting-edge technologies to provide financial, postal, and government services to communities nationwide. This expansion is in line with Egypt Post's comprehensive plan, which involves re-engineering the office structure and services to establish itself as a prominent outlet for Digital Egypt services and a key pillar of the national financial inclusion strategy.

To support these efforts, Egypt Post has invested over EGP 4 million in upgrading and optimising its digital infrastructure, with the aim of improving the customer experience and keeping pace with global advancements in fintech and e-commerce. This comprehensive overhaul seeks to provide postal, financial, and governmental services in an efficient, reliable, and safe manner, while also ensuring affordability for Egyptian citizens. Through these developments, Egypt Post is committed to meeting the evolving needs of its customers and contributing to the digital transformation of government services in the country.

Egypt Post facilitating e-commerce

Through its shipping of products and services, Egypt Post has enabled SMEs to transport products and receive payments efficiently and increase domestic e-commerce. One of Egypt Post's key initiatives is its shipping service, which allows SMEs to ship products through its network of 4 300 post offices and request payment upon delivery. Payments can be received on a savings or current account with Egypt Post or via a prepaid electronic card. Once the money is deposited, an SMS notification is sent to the merchant. Since its launch in July 2020, over 4 800 merchants have used this service to ship more than 140 000 parcels, providing a convenient and reliable shipping solution for SMEs.

In 2022, Egypt Post introduced “Wassalah”, a shipping app that further enhances its services for SMEs. Wassalah allows customers to request and communicate with a courier, manage shipments, and track orders and financial deposits. This digital platform streamlines the shipping process and provides SMEs with real-time tracking and communication capabilities, improving their efficiency and customer service. Meanwhile, Egypt Post’s “Yalla” Super App offers a broader range of e-commerce services, including online marketplaces, payment solutions, and digital marketing tools. These apps provide SMEs with digital platforms to reach customers, promote their products, and facilitate transactions, contributing to the growth of e-commerce among SMEs in Egypt.

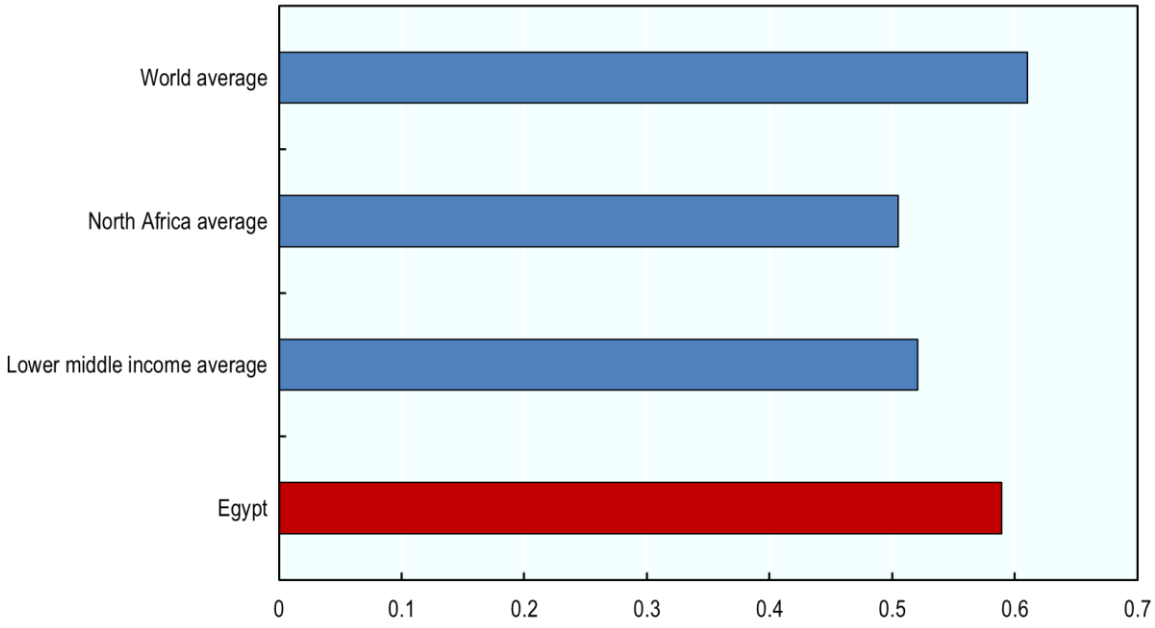
Source: MCIT

These steps have resulted in Egypt making significant progress in enhancing its digital government services and capabilities, bringing the country ahead of others in the region. Indeed, in 2022, Egypt was categorised as a “Group A” country in the World Bank's GovTech Maturity Index (GTMI)[4], which indicates a high level of digital maturity. This represents a strong improvement from Egypt’s “Group B” classification

in 2020 and "Group C" classification in 2018 (The World Bank, 2023[19]). Meanwhile, as shown in Figure 7.8, Egypt is above the average of other North African countries and lower middle-income countries in terms of the quality of digital government services, as measured by the UN's E-Government Development Index (United Nations, 2022[20]). Egypt is, however, just below the world average, ranking 103rd out of the 193 measured countries.

Figure 7.8. Egypt fares better than peers in terms of e-government services

UN E-Government Development Index, 0 to 1 with 0 = lowest EGDI value and 1= highest EGDI value



Note: The EGDI is based on a comprehensive Survey of the online presence of all 193 United Nations Member States, which assesses national websites and how e-government policies and strategies are applied in general and in specific sectors for delivery of essential services. The assessment rates the e-government performance of countries relative to one another as opposed to being an absolute measurement.
Source: (United Nations, 2022[20])

In order to encourage more SMEs to go online to access government services, there are further steps the Egyptian government could take in delivering its services digitally. These could include the creation of online platforms for business registration, licensing, and other administrative processes, as well as the provision of digital access to information and resources. To ensure accessibility, it is crucial to ensure that e-services are user-friendly and do not require expensive equipment or software investments.

Digitalising public procurement processes also makes a difference for SMEs. Indeed, the use of digital tools to simplify, standardise, and streamline procurement processes has a disproportionally high impact on smaller businesses. For example, online tendering information and processes lower administrative costs for SMEs, while automation allows for shorter processing times and increased access, allowing SMEs to work more with governments at both the national and local level (OECD, 2018[21]). In 2018, Egypt adopted Law No. 182 of 2018 on Regulating Contracts Entered by Public Entitles, which includes specific provisions for SMEs and for local content, including the requirement to publish bids online on the Public Procurement Portal (Sharkawy & Sarhan Law Firm, 2019[22]). This, as well as the other provisions in the law, will help to improve SMEs' access to public procurement opportunities in Egypt.[5]

In addition to general government services, there are sector-specific digitalisation initiatives designed to support key industries like agriculture. The Academy of Scientific Research and Technology, in

collaboration with the Central Bank of Egypt through the NilePreneurs initiative, is providing digital extension services through AgroGate Masr, an online platform that has served 90,000 users over the past two years. AgroGate Masr offers agricultural knowledge content, economic feasibility assessments, and access to finance information, helping farmers and agribusinesses leverage digital tools to enhance productivity and access financial resources.

Digital skills

Increasing access to digital infrastructure and the expansion of e-government services have improved the framework conditions for SME digitalisation. These improvements need to be matched by demand-side measures to stimulate an increased uptake of digital tools and technologies among SMEs. The requirement to enhance digital skills has been magnified by the COVID-19 pandemic. Stakeholders report that many businesses across Egypt are lacking the internal capabilities to capitalise on the benefits of digitalisation, notably due to a lack of digital skills. There is also a digital skills gap between large and small firms. Moreover, outside of the ICT sector, many owners, managers, and employees of more traditional SMEs do not understand the importance of digitalisation, which results in them failing to capitalise on the opportunities it offers.

Overall, Egypt demonstrates a relatively strong penetration of basic digital skills, but the presence of more advanced digital skills, particularly in frontier technologies like artificial intelligence (AI), remains modest. More than 75% of the occupations listed on LinkedIn Egypt report the utilisation of digital literacy skills, signifying a substantial proportion of professionals possessing essential digital competencies (Zhu, 2019[23]). Notably, however, the growth of frontier tech skills has lagged behind the expansion of basic digital skills. This trend is in line with the experience of other developing countries. The LinkedIn data show that in daily job roles, frontier tech skills, such as for example AI, robotics, genetic engineering, cloud computing, cybersecurity, nanotechnology and data science, are predominantly utilised by professionals in OECD countries and certain large middle-income countries (Zhu, 2019[23]). The challenges Egypt faces with respect to digital skills gaps are shared by many other countries in the region. In the MENAP region, which includes the Middle East, North Africa and Pakistan, digital skills levels are rated as the second lowest after Sub-Saharan Africa in basic, standard, and advanced digital skills. The skill gaps are particularly pronounced in areas such as cloud computing, AI, machine learning, mobile technologies, blockchain, data analytics, and advanced security (Lukonga, 2020[3]). To address these issues, more timely and high-quality data are needed on the level of digital skills within the Egyptian SME community and the specific digital skills gaps that exist.

Egypt should also prioritise the expansion of sophisticated digital skills to meet future demands. This entails developing intermediate skills such as data analysis, digital marketing, and utilizing professional software, as well as advanced skills required by ICT specialists, computer engineers, and digital finance experts. To achieve this, there is a need to increase the quantity and quality of STEM graduates, including women. Furthermore, efforts should be made to upgrade digital skills training for the existing workforce, with a focus on effective delivery methods. Scaling up initiatives, forming partnerships with the private sector, and utilizing ICT bootcamps can facilitate continuous and rapid upskilling and reskilling of the workforce, particularly targeting the youth (World Bank, 2020[24]).Egypt, like other MENA countries such as Lebanon, also faces the challenge of the “brain drain”, with highly skilled individuals leaving for other countries, including Gulf countries. This exacerbates the digital skill gaps described previously. Egypt is recognised as the largest source of migrant labour in the Middle East and has one of the world's largest diaspora populations. The key factors driving the emigration of Egyptian skilled talent are low wages, an unfavourable climate for research and development, and the unemployment rate among educated people in Egypt (Abdelbaki, 2019[25]). These are all areas that policy should target to minimise the loss of digital (and other) skills.

Despite these challenges, ongoing efforts to address the digital skills gap are underway, and while initiatives and policies aimed at enhancing digital skills may be introduced, their effectiveness may not be immediately apparent due to the complexities involved in implementation and the time required for tangible outcomes to materialise. Furthermore, there is a collaboration between the government, educational institutions, the private sector, and civil society organisations to achieve sustainable progress in bridging the digital skills gap. By leveraging the expertise and resources of multiple stakeholders, Egypt can develop comprehensive and tailored solutions that address the specific challenges faced by different segments of the population and various industries.

Overall, while the task of addressing the digital skills gap in Egypt is complex and ongoing, it is also critical for the country's future prosperity. By investing in digital education, training, and capacity-building initiatives, Egypt can position itself to fully harness the benefits of digitalisation and emerge as a competitive player in the global digital economy.

E-commerce

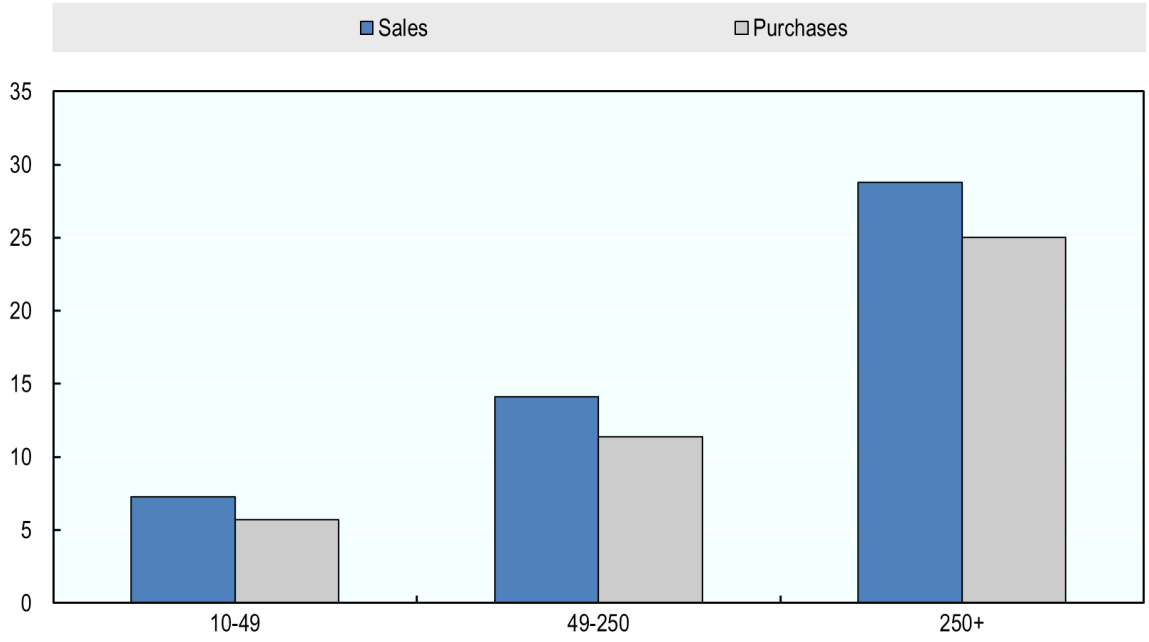
The majority of SMEs in Egypt are retailers, which means that e-commerce is one of the most important elements of SME digitalisation. The absence of official e-commerce statistics makes it challenging to accurately assess the market size, but estimates place the 2018 market between USD 552 million and USD 878 million, with retail e-commerce sites selling around USD 77 million worth of products (World Bank Group, 2020[14]). Data on e-commerce transactions by SMEs are limited, and e-commerce accounts for less than 2% of total sales and less than 1% of the global e-commerce market in the Middle East and North Africa (MENA) region (World Bank Group, 2020[14]).

Although there are new digital solutions available for both business-to-business (B2B) and business-to-consumer (B2C) transactions and interest in e-commerce is growing, data from a survey conducted by the MCIT finds that the share of SMEs that have embraced online trading as a consumer sales channel remains small.

Figure 7.9 shows that larger firms with more than 250 employees are significantly more likely to engage in e-commerce than smaller firms. Notably, the survey data do not include firms with less than 10 employees, which may well have even lower rates of e-commerce participation.

Figure 7.9. Large firms significantly sell online more than smaller firms

Percentage enterprises dealing with e-commerce according to enterprise size. Size defined by number of employees.



Note: "Survey of ICT usage in government and public sector enterprises," conducted by the Ministry of Communications and Information Technology (MCIT) in co-operation with the Central Agency for Government and Public Mobilization and Statistics (CAPMAS), 2019-2020
Source: (Ministry of Communications and Information Technology, 2020[9]), https://mcit.gov.eg/Upcont/Documents/Publications_2332022000_ICT_Indicators_Report_2017_2021_23032022.pdf

Egypt lags behind other countries in the use of e-commerce platforms. This is despite the significant growth of digital platform usage in the areas of food delivery, ride-hailing, advertising, and even online shopping. Indeed, in the United Nations Conference on Trade and Development's (UNCTAD) 2019 B2C E-Commerce Index, Egypt is ranked 102nd out of 152 countries (UNCTAD, 2019[26]).

There are a number of important barriers to SMEs selling online that exist within Egypt, which need to be overcome in order to realise the potential of digital trade:

- Egyptian SMEs face red tape and burdensome regulatory hurdles when selling online. In order to incorporate an e-commerce company in Egypt, Law No. 10 of 2003 on Telecommunications Regulation stipulates the firm must obtain a license from the National Telecommunications Regulatory Authority (Saleh, 2022[27]). The cost of obtaining the necessary licensing, when added to the costs of the digital tools needed to initiate e-commerce operations[6], may be prohibitive for some SMEs, particularly those with limited experience or resources to establish and manage e-commerce operations., which may deter many firms. The time taken to obtain licensing and approvals is also an issue. It is reported that setting up a payment gateway from the CBE and receiving official approval to sell online takes approximately two months. These issues also exist internationally. A recent OECD "Digital for SMEs" (D4SME) E-Commerce survey and report on hybrid retail in six OECD countries indicates that complex e-commerce regulations are a key barrier to selling online, with 86% of survey respondents citing "understanding e-commerce laws and regulations" as a notable issue when engaging in online sales (OECD, 2023[4]).

Egyptian SMEs would benefit greatly from a streamlined and simplified regulatory framework for SMEs engaged in e-commerce. This framework could include business registration, licensing, taxation, customs procedures, and consumer protection. The aim should be to create a favourable and enabling environment for SMEs to sell online, while ensuring compliance with relevant laws and regulations. Similarly, to promote cross-border e-commerce and digital trade for SMEs, the government should facilitate customs clearance procedures, simplify export and import documentation, and explore opportunities for international co-operation and partnerships. This may include leveraging existing regional and international trade agreements, as well as negotiating new agreements to facilitate digital trade.

- Access to finance for selling online remains a key barrier, with Egyptian firms reporting high costs of digital marketing and social media advertising as a barrier to engaging in e-commerce. This finding is again in line with recent OECD analysis, which shows that 74% of businesses express the need for financial support to facilitate their entry into the online marketplace (OECD, 2023[4]).
- Online marketplaces and digital payment instruments are limited in Egypt, and many SMEs lack the skills to develop effective websites.
- Due to the size of its informal economy, Egypt has a large population that is unbanked and unconnected, limiting the demand for e-commerce.
- Another significant challenge to e-commerce adoption in Egypt is the lack of cybersecurity awareness, which contributes to widespread concerns among online buyers about the safety of their financial information. Many consumers fear their bank details could be compromised during online transactions, especially given the frequent exposure to bank fraud attempts. This lack of trust in the security of digital payments creates a major barrier for expanding e-commerce, particularly in an environment where financial inclusion is already limited.

Egypt faces several challenges in promoting e-commerce among SMEs, such as limited digital literacy, inadequate infrastructure, and regulatory barriers. Many SMEs also lack trust in online transactions and are not fully aware of the tools and platforms that could help them enter the e-commerce space. Despite these obstacles, the government has introduced initiatives aimed at increasing the adoption of digital platforms, including financial incentives, digital literacy programs, and support for SMEs to establish an online presence.

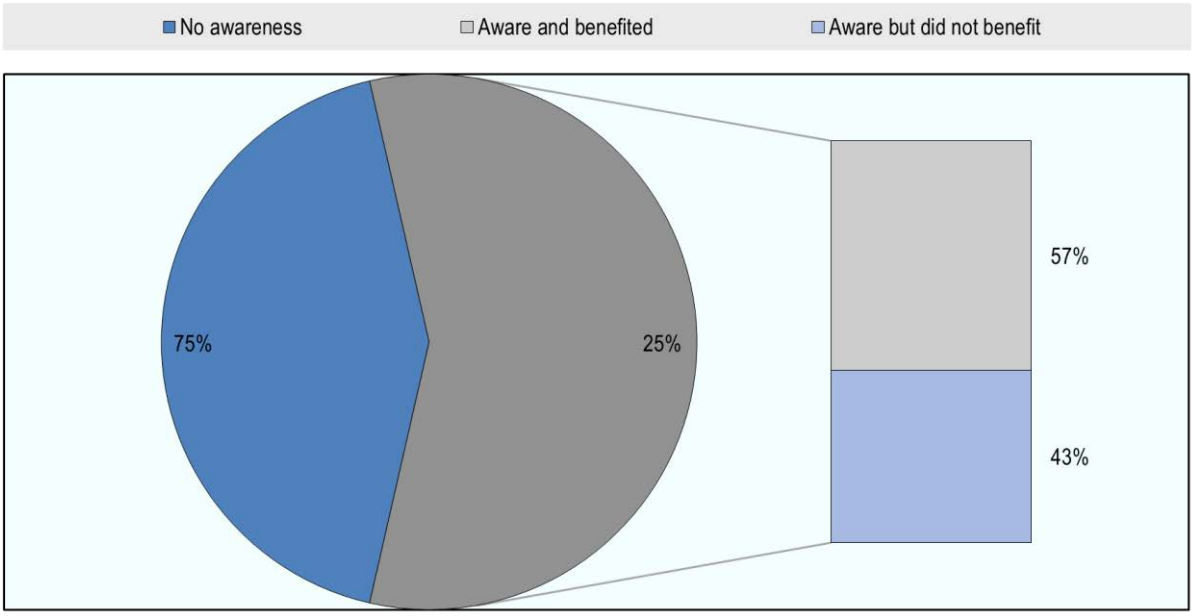
While Egypt faces these challenges in promoting e-commerce among SMEs, there are promising initiatives aimed at addressing these barriers and fostering a more conducive environment for digital trade. However, to fully unlock the potential of e-commerce, more targeted policies are needed. These include streamlining regulations, investing in digital infrastructure, and improving awareness of support programs. By doing so, Egypt can empower SMEs to thrive in the digital economy and position itself as a competitive player in global digital trade. The ongoing efforts to support SMEs in e-commerce adoption—such as online business training programs and initiatives to improve payment systems—are steps in the right direction. However, continued investment in these areas will be crucial to creating a sustainable e-commerce ecosystem that enables SMEs to grow and compete internationally.

Much support is needed to increase the internal capacity of Egyptian SMEs to sell online and accordingly to boost SME exports. However, awareness or uptake of support programmes among SMEs can often be limited. Indeed, according to the OECD D4SME E-Commerce survey, only 7% of SME respondents from the six OECD countries covered by the study reported benefiting from policy initiatives to foster their digital efforts. Possible explanations for these results include limited convenience in terms of service accessibility due to geographical or time factors, or a general lack of awareness regarding the availability and existence of these training programmes (OECD, 2023[28]). For the Egyptian government, learning from these results and investigating the underlying factors behind the low e-commerce adoption rate is of paramount importance. It is noteworthy for Egyptian policy makers that the OECD survey indicates that SMEs display a willingness to participate in government programmes once they become aware of their existence. As

shown in Figure 7.10, the uptake of government support programmes among businesses aware of such programmes is a substantial 57%. This finding underscores the potential for a considerable number of businesses to benefit from support measures through enhanced dissemination of information regarding policy programmes.

Figure 7.10. Awareness and uptake of government supports for selling online

As an average percentage of responses from France, Italy, Japan, Korea, and Spain.



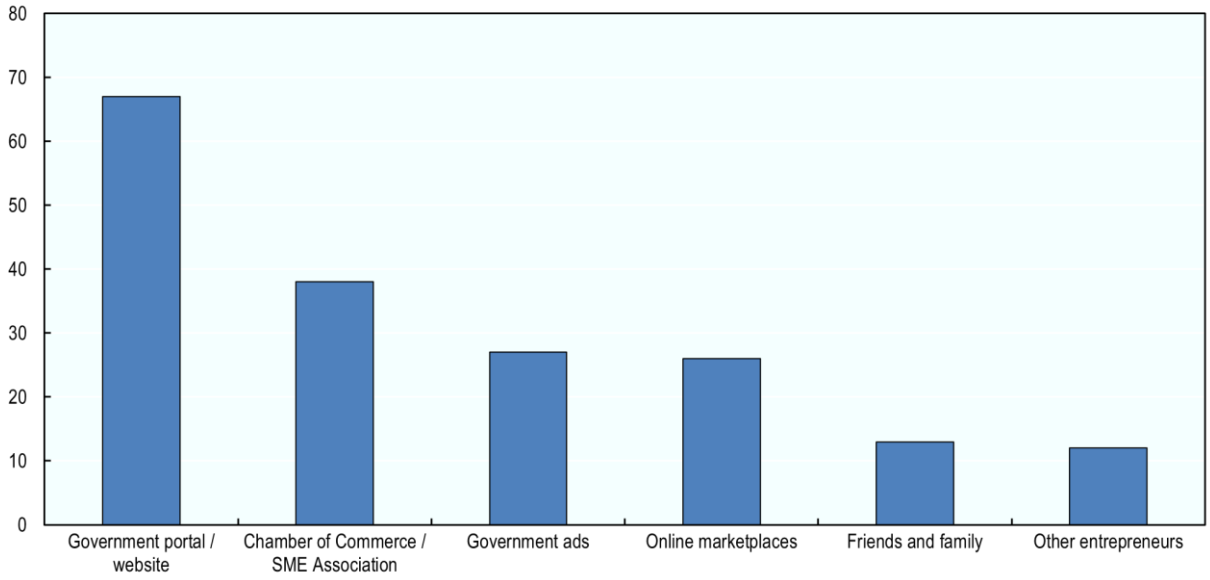
Source: OECD D4SME E-Commerce Survey (OECD, 2023[4])

Governments can leverage diverse communication channels to effectively raise awareness of support programmes among the business population (OECD, 2023[28]). As seen in Figure 7.11, approximately 67% of businesses with knowledge of government support for online sales obtained information through government portals or websites directly operated by the government, while approximately 38% accessed this information via chambers of commerce or associations dedicated to supporting SMEs (OECD, 2023[28]). These findings emphasise the crucial role played by business associations within the SME ecosystem.

Social media platforms, such as Facebook, have been identified by stakeholders as instrumental for Egyptian SMEs selling online. These platforms can provide a quicker and less costly (notwithstanding high advertising costs) way of selling online than other alternatives, such as selling through SMEs' own websites. In Egypt, while many SMEs have turned to social media platforms as an alternative to selling through their own website, there is a still a large gap between small and large firms in terms of social media usage. 70% of Egyptian firms with more than 250 employees engage with social media, compared to just over 40% of firms with 10-49 employees (see Figure 7.12).

Figure 7.11. Source of information for government support programme

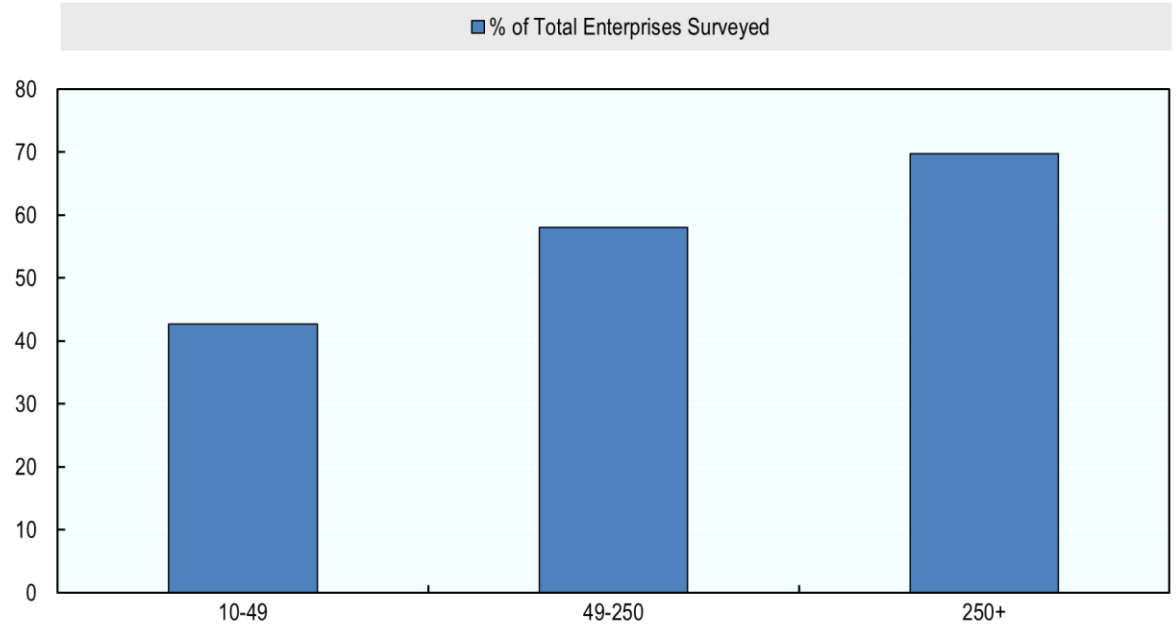
As an average percentage of responses from the surveyed countries (France, Italy, Japan, Korea and Spain).



Source: OECD D4SME E-Commerce Survey (OECD, 2023[4])

Figure 7.12. Size related gaps remain between large and small firms using social media

Enterprises Using Social Media according to Enterprise Size



Note: "Survey of ICT usage in government and public sector enterprises," conducted by the Ministry of Communications and Information Technology (MCIT) in co-operation with the Central Agency for Government and Public Mobilization and Statistics (CAPMAS), 2019-2020
Source: (Ministry of Communications and Information Technology, 2020[9]), https://mcit.gov.eg/Upcont/Documents/Publications_2332022000_ICT_Indicators_Report_2017_2021_23032022.pdf

Current policies and programmes to support SME digitalisation in Egypt

This section reviews the strategies, policies and programmes to support SME digitalisation in Egypt. Many of the policy initiatives reviewed in other chapters of this report also impact upon SME digitalisation. Such policies are not covered in this section.

Policy framework for SME digitalisation

Egypt has several national strategies that are of relevance to SME digitalisation:

- The MSMEs and Entrepreneurship National Strategy (2017-22) had technology and innovation as one of its cross-cutting themes. Specifically, the strategy calls for measures to increase the creation and utilisation of ICT and promote technology-based financial services.
- Law No. 152 of 2020 (the MSMEs Law) establishes a robust legal framework for the digitalisation of SMEs. This legislation is aligned with Egypt's policy priorities of fostering entrepreneurship, innovation, and digital transformation. It will help to create a supportive environment for SMEs to embrace digital technologies and enhance their competitiveness, for example through the streamlining of administrative procedures and simplification of regulations. The law also plays an important role in facilitating access to funding and resources for SMEs, enabling them to invest in digital technologies and skills.
- The MCIT's Digital Egypt Strategy aims to transform Egypt into a digital society. It encompasses three main pillars:
    - **Digital Transformation:** The objective is to digitally transform existing government services to eventually deliver all public services digitally across the country. Online payment methods have already been implemented to facilitate service fee transactions. The Digital Egypt e-platform has also been introduced, in order to improve access to public services by offering a wide range of fully-digitised services across multiple channels with various payment methods. Other initiatives under this pillar include digital infrastructure upgrading and the establishment of secure and technologically advanced big data centers to support data security. It is also recognised that the implementation of an electronic signature system plays a crucial role in digital transformation. The Egyptian Root Certificate Authority, overseen by the Information Technology Industry Development Agency (ITIDA), ensures the regulation and use of e-signatures for digital transactions.
    - **Digital skills and jobs:** The focus of this pillar is on developing the digital capabilities of individuals in order to strengthen workforce skills. Recognising the need for a skilled workforce to support the digital transformation, the MCIT provides training and capacity building for various segments of society, including youth, students, graduates, professionals, women, and people with disabilities. Collaboration with major technology companies and international universities facilitates the integration of traditional and remote digital learning models, establishing a comprehensive strategy to enhance digital competences. This strategy adopts a hierarchical approach, starting with digital literacy and progressing to intermediate and advanced technological training programmes.
    - **Digital innovation:** The MCIT endeavours to foster an ecosystem that promotes entrepreneurship, creativity, research and development, and innovation in the field of ICT. To this end, it has adopted policies to help convert ideas into commercialisable products, and is engaging stakeholders from across the innovation ecosystem, including government entities, academic and research institutions, financial institutions, the private sector, entrepreneurs, and support networks.

- The “Our Digital Opportunity” initiative aims to foster collaboration between the public and private sectors while enabling SMEs to contribute to national digital transformation projects. Managed by the Information Technology Industry Development Agency (ITIDA), the initiative provides SMEs with a digital platform that offers various opportunities for participation, collaboration, and skills enhancement. The platform serves as an information hub, offering three distinct pathways for SME participation in digital transformation projects:
  - SMEs can collaborate directly with government entities on digital transformation projects.
  - SMEs can engage with partner companies associated with these government entities.
  - SMEs can participate in competitions that provide training programmes to enhance their expertise in data science and Artificial Intelligence before undertaking projects.

The platform lists ongoing digital transformation projects across various government entities, with each project outlining a set of opportunities that can be assigned to SMEs for execution. For each opportunity, information is provided on the scope of work, technical specifications, implementing bodies, and key performance indicators. This transparent approach enables stakeholders to closely monitor project phases and track announced opportunities. Furthermore, the platform serves as a means to announce the selected SMEs responsible for project implementation. In total, the Our Digital Opportunity initiative has provided 33 participation opportunities to SMEs, with an estimated total business volume of EGP 90 million.

There is a need for the Egyptian government, led by MSMEDA, to develop a comprehensive SME digitalisation strategy

The Egyptian government is aware of the importance of SME digitalisation, as reflected in the various strategies and plans described above. However, there is a need for a national SME digitalisation strategy that can provide a comprehensive roadmap for future policy. The strategy should outline clear goals, priorities and actions to foster digitalisation in Egyptian SMEs, address challenges, and capitalise on opportunities.

Currently, support for SME digitalisation is fragmented across many different ministries and agencies, as illustrated by the range of strategies and initiatives presented above. To address this, Egypt's strategy should aim to co-ordinate efforts among various ministries, industry associations, and technology providers to facilitate efficient resource allocation, streamlined implementation and the tracking of progress over time. Singapore's whole-of-government approach in its national SME digitalisation strategy provides an illustration of how this can be achieved (see Box 7.5). The proposed strategy should also include sector-specific plans targeting strategically important industries. This aligns with the OECD's recommendation of a clear vision of how digital tools can advance the country's wider ambitions. Sectors such as agriculture, manufacturing (4th industrial revolution), tourism, and textiles (as an avenue for women empowerment) could be targeted, following Singapore's Industry Digital Plans (IDPs) approach. The Singapore case also shows how robust monitoring and evaluation mechanisms to track implementation progress are an important facilitator of data-driven policy refinements.

Box 7.5. Singapore's SME Go Digital

Singapore's SME Go Digital programme is a successful example of a national SME digitalisation strategy. Launched in 2017 by the Infocom Media Development Authority (IMDA), it outlines the national plan to provide SMEs with access to digital tools, training and funding support to embark on their digitalisation journey. The programme brings together government agencies, industry associations, and technology providers in a coordinated effort to drive SME digitalisation. In 2022, 80 000 SMEs had adopted digital solutions from the programme.

More specifically, the services offered by the programme include:

- **Chief Technology Officer as-a-service (CTO-as-a-Service):** A comprehensive platform that helps SMEs assess their digital readiness, identify their specific digitalisation needs, receive tailored recommendations and information about relevant financial support options. They can also access a pool of consultants who can assist in developing project implementation plans and tracking progress. The initial usage of these services is provided free of charge, and further assistance is available based on commercial agreements.
- **Industry Digital Plans (IDPs):** Sector-specific guides that provide SMEs with information on digital solutions and relevant trainings based on the Industry Transformation Maps (ITMs) of each sector. These plans are regularly updated to incorporate the latest technological advancements and best practices. SMEs also have access to pre-approved, cost-effective, and market-proven digital solutions.
- **Start Digital Packs:** Run in partnership with Enterprise Singapore (ESG) to offer digitalisation solutions to newly founded or non-digitalised SMEs. These packs cover various categories, including Human Resource Management Systems (HRMS), digital transactions, and cybersecurity. Banks and partner telecommunication companies offer these packs at competitive prices, with the possibility of obtaining cost waivers.
- **Grow Digital Programme:** In collaboration with ESG, this programme enables SMEs to engage in pre-approved e-commerce platforms, allowing them to sell overseas without a physical presence.
- **Advanced Digital Solutions Programme:** Supported by lead agencies and industry players, this programme facilitates the adoption of emerging technologies such as Artificial Intelligence (AI) and cloud-based solutions. SMEs can apply for funding support to cover costs related to hardware, software, connectivity, cybersecurity, and more.

Source: IMDA (2022), Factsheet SME Go Digital. Available at: https://www.imda.gov.sg/-/media/Imda/Files/Programme/SMEs-Go-Digital/SMEsGD-Factsheet.pdf

Box 7.6. Success factors for national digital transformation

Success factors for setting priorities and managing the digital transformation process

- Leadership from a central body such as a president's or prime minister's office helps identify needs and strengths, build support, and manage trade-offs
- Political backing helps turn strategies into reality, generating the required underpinning finance, skills, and long-term and integrated approach to building digital systems
- A clear vision of how digital tools advance the country's wider ambitions can guide strategic decisions
- Prioritising voices of those most likely to be disadvantaged by digital transformation strengthens the strategy process
- Quick gains relevant to local context can indicate the opportunities
- A whole-of-government approach can manage sectoral interdependencies in policy areas such as trade, taxation, social protection, energy and environment, and support for new business models
- Partnering with the private sector helps manage network quality

Success factors for becoming a digital government

- Build capacity to regulate specialised technical areas
- Align government processes, such as procurement, to remove barriers to putting digital solutions in place
- Support e-government capacity to expand access to services such as social protection and digital payments. Simply digitalising a service, however, does not necessarily mean more people are reached or outcomes improved
- Keep pace with the changing technology landscape using context-specific approaches to agile policy making. Working towards agreed principles can guide regulation and technical standards

Source: OECD, "Development Co-operation Report 2021: Shaping a just digital transformation".

Consideration should be given to establishing a national panel of industry representatives that feeds into government decision-making and strategy formulation. This panel can serve as a platform for dialogue and consultation between the government and private sector stakeholders, providing valuable insights and feedback on policies related to SME digitalisation. By ensuring private sector perspectives are taken into account during policy formulation, the panel can also enhance the inclusivity of the digitalisation process. Box 7.7 provides a description of the approach taken in Korea.

Box 7.7. National SME Law good practice: *Act on the Promotion of Technology Innovation of Small and Medium Enterprises, Korea*

According to the "Act on the Promotion of Technology Innovation of Small and Medium Enterprises," which was implemented in 2001 as part of the policy efforts to enhance competitiveness of Korean SMEs, the government has established a legal basis for promoting technological innovation and providing policy support to SMEs. This Act designates the Ministry of SMEs and Startups as the responsible government institution for implementing SME innovation-related policies, granting the Minister the authority to formulate strategies related to SME innovation and request data from other government agencies.

Digitalisation is explicitly included as a category of technical innovation under the Act, and the Ministry is mandated to support the development of ICT infrastructure necessary for digitalising SMEs and facilitating the diffusion of technologies among small businesses. Furthermore, the Act emphasizes the Ministry's responsibility in developing and disseminating digital standards of business systems targeted at SMEs.

As a result of the introduction of the Act, the Korea Technology and Information Promotion Agency for SMEs (TIPA) was created as a dedicated government agency to support SMEs' innovative activities and their efforts towards digitalisation. TIPA, in accordance with the Act, also conducts policy research and evidence gathering, and carries out detailed annual surveys on SME digitalisation.

Source: Korea Legislation Research Institute, “Act on the Promotion of Technology Innovation of Small and Medium Enterprises”.

The Egyptian government, led by MSMEDA, could look to replicate elements from the successful SME digitalisation strategies of Singapore and Korea. For example, drawing inspiration from Singapore's SME Go Digital programme (Box 7.5), Egypt could establish a dedicated platform that offers services like "Chief Technology Officer as-a-service" (CTO-as-a-Service), to assist SMEs in assessing digital readiness, identifying digitalisation needs, and accessing tailored recommendations and financial support options. By adopting this approach, Egypt can prioritise the voices of those most likely to be disadvantaged by digital transformation, a key success factor highlighted by the OECD (see Box 7.6).

On the basis that MSMEDA and other relevant government entities have identified digital trade to be a priority for SMEs, a strategy for SMEs selling online should also be developed alongside the national digitalisation strategy. The strategy could include measures to promote digital literacy and export training development, as well as support mechanisms to stimulate an SME export culture and provide export financing solutions. The Egyptian government could consider implementing a programme similar to Türkiye's International Market Support Programme by the Small and Medium Enterprises Development Organisation (KOSGEB) (see Box 7.8). Türkiye’s initiative aims to develop the skills and capabilities of SMEs for foreign market entry, with a focus on increasing the number of SMEs engaging in overseas sales through e-commerce.

While drawing inspiration from successful SME digitalisation strategies in Singapore, Korea, and Türkiye holds promise for Egypt, it's essential to carefully consider the suitability and adaptability of these approaches to Egypt's specific context. Several factors should be taken into account:

- Egypt faces its own socio-economic challenges, including a large informal economy, high unemployment rates, and varying levels of digital literacy among SME owners and workers. Any initiatives implemented should be tailored to address these specific circumstances.

- Egypt's regulatory framework may differ from those of Singapore, Korea, and Türkiye. It is essential to align any proposed initiatives with Egypt's laws and regulations and address potential regulatory hurdles that could impede their implementation.
- Egypt may face resource constraints, both financially and institutionally. Therefore, initiatives should be designed to be cost-effective and feasible within budgetary limits. Building the institutional capacity to support SME digitalisation efforts is also critical.
- Technology adoption may be influenced by local cultural norms and behaviours. Digitalisation strategies must resonate with Egyptian SMEs' preferences and practices to ensure successful implementation.

In line with these considerations, the Prime Minister has issued a decree to establish a sector for the follow-up and evaluation of national strategies at the Information and Decision Support Center (IDSC). This sector is actively involved in the formulation of many national strategies in partnership with key stakeholders, drawing on best practices from other countries to ensure Egypt's strategies are effective and contextually appropriate. By leveraging this institutional mechanism, Egypt can ensure that its SME digitalisation initiatives benefit from global insights while being tailored to local needs.

Box 7.8. Supporting SME participation in e-commerce: the case of Türkiye

The Turkish government has a number of programmes in place to promote SME integration in global value chains and the take up of e-commerce (OECD et al., 2019[29]). For instance, the International Market Support Programme by KOSGEB – the Small and Medium Enterprises Development Organisation under the Ministry of Industry and Technology – was implemented in 2020 to develop the skills and capabilities of SMEs entering foreign markets. The aim was to increase the foreign market share of SMEs and enable them to effectively compete international markets, as well as to increase the number of SMEs engaging in overseas sales through e-commerce (KOSGEB, 2020[30]).

The Turkish e-commerce sector is fast growing, with rising internet penetration rates and increased use of credit cards driving the growth of online shopping in the years leading up to the pandemic. To support SMEs during COVID-19 pandemic, the Ministry of Trade set up a platform ("e-ticaret Bligi Platformu") with easily accessible information regarding e-commerce and guidelines for SME e-traders (Republic of Türkiye Minitry of Trade, 2020[31]). The government has recently introduced additional measures specifically targeting e-commerce. For instance, in 2022, the government committed to subsidise 60% of the expenses incurred by companies for their membership in e-commerce sites approved by the Ministry of Trade (Republic of Türkiye Ministry of Trade, 2021[32]).

SME exporters can additionally benefit from financial support. The Ministry of Trade provides a wide range of supports including export refund aid, buyer credit and support for logistics centres. Furthermore, the Turkish export credit bank Turk Eximbank offers specialised export credit through loan programmes like the SME Export Readiness Credit (Republic of Türkiye Ministry of Industry and Technology, 2023[33]). Additionally, as the KOSGEB's International Market Support Programme, grants are offered for software and hardware related expenses, participation in international fairs and service procurement expenses.

Strengthening collaboration across relevant stakeholders is key to accelerating SME digitalisation

In order to accelerate SME digitalisation in Egypt, it is crucial to strengthen collaboration with non-government bodies, such as the Chamber of Commerce, sector associations and private sector actors. This should include the formation of partnerships between MSMEDA and different sector associations across Egypt to enable networking and matchmaking services that connect "traditional" SMEs with SMEs operating in the ICT sector. For example, the IMC (Industrial Modernization Centre) programme can be expanded to facilitate connections between traditional SMEs and tech start-ups, promoting knowledge exchange and collaboration. Communication channels between the government and non-government bodies involved in SME digitalisation should also be strengthened. This could involve the organisation of regular meetings, workshops, and forums to facilitate knowledge sharing, exchange of best practices, and co-ordination of efforts, thus helping to create synergies and avoid the duplication of efforts.

Collaboration over digitalisation should not be limited to national and sub-national authorities but should also include other stakeholders such as civil society, private sector representatives, academia, and international institutions. This multi-stakeholder approach can bring diverse perspectives, expertise, and resources to the table, resulting in more holistic and effective policies for e-commerce and SME digitalisation in general. Particular attention should be given to including representatives from lagging and underserved regions, as well as population sections that are excluded from digitalisation processes, in order to address the digital divide and ensure inclusive growth (Sidlo et al., 2019[34]).

Capacity building programmes for SME digitalisation

The Egyptian government has undertaken many initiatives to upskill and build the capacities of individuals and SMEs to participate in the digital transformation. Table 7.3 provides a summary of these different policies and programmes.

Several common threads emerge from these initiatives, including a strong focus on capacity building and technology transfer. Each initiative addresses specific challenges faced by SMEs in their digital transformation journey. For example, while TIEC focuses on incubation, mentorship, and access to funding and resources, AMELI serves as a comprehensive digital hub offering website development, e-commerce capabilities, online payment systems, and digital marketing support. Both Archemus, a component of AMELI, and Nilepreneurs emphasise knowledge-sharing and capacity building. While not all programmes are SME specific, the vast majority of firms operating in Egypt are SMEs. There is also a focus on minorities in some of these upskilling programmes, for example "Our Future is Digital" on youth, and the Qodwa-Tech Initiative on women empowerment.

Table 7.3. Training, information, and assistance programmes

Initiative Name	Programme led by	Description
The Technology Innovation and Entrepreneurship Center (TIEC)	MCIT	The TIEC offers various to support SMEs in their digitalisation efforts, including incubation, mentorship, and access to funding and resources for technology adoption.
MSME Platform	MSMEDA	MSMEDA has initiated the MSME Platform, a digital platform designed to support SMEs and entrepreneurs in Egypt. The platform serves as a comprehensive hub, offering access to various service providers and a wide range of information services tailored to SMEs. In addition to providing valuable information, the platform features a simplified set of interactive electronic services aimed at facilitating the digital transformation of SMEs. These services include tools for website development, e-commerce capabilities, online payment systems, and digital marketing support. SMEs can leverage the platform to establish their online presence, expand their customer base, and conduct business transactions more efficiently, helping them navigate the digital economy with ease.
Archemus	MSMEDA	Archemus is a specific component of the AMELI platform. It focuses on providing knowledge-

		sharing resources and training programmes to enhance the digital capabilities of SMEs. Through Archemus, entrepreneurs gain access to educational materials, video tutorials, online courses, and workshops that cover various aspects of digital marketing, financial management, and business development.
Nilepreneurs	Central Bank of Egypt, Banking Sector, Ministry of Planning and Economic Development, MSMEDA, and Academy of Scientific Research	The Nilepreneurs programme aims to raise awareness about entrepreneurship and provides technical capabilities through capacity-building initiatives, including website development. It places particular emphasis on the agricultural sector and offers a Digital Pathway for Employment (DPE) to equip individuals with the skills needed for digital jobs. The programme has supported 291 start-ups, helping them to grow and develop their entrepreneurial ventures. Under the COMPETE initiative, Nilepreneurs supports various sectors such as creative products, handicrafts, software as a service, engineering, sustainability, deeptech, and cutting-edge technologies. An export center has been established to assist SMEs in building websites and implementing digital marketing strategies. Nilepreneurs has contributed to a sales increase of EGP 2 billion for the supported companies and facilitated the growth of 800 companies, with a total investment of EGP 176 million.
Central Support Unit	Ministry of Higher Education	The Central Support Unit (CSU) in the Ministry of Higher Education provides technical assistance and capacity building programmes for SMEs. This includes helping SMEs develop their digital infrastructure, such as website development and software implementation, as well as providing guidance on data analytics and cybersecurity. By equipping SMEs with these technological capabilities, the CSU empowers them to effectively leverage digital tools for business growth. The CSU recognises the importance of technology transfer and data sharing. It encourages informal connections between traditional SMEs and SMEs operating in the ICT sector. By facilitating interactions between these sectors, the CSU promotes knowledge exchange and digital innovation. The CSU also plays a pivotal role in fostering collaboration between academia, research institutions, and SMEs. This collaboration supports the transfer of technology and expertise, allowing SMEs to access the latest advancements and best practices in digitalisation.
Qodwa-Tech Initiative	MSMEDA	The Qodwa-Tech Initiative aims to contribute to the social and economic empowerment of Egyptian women, particularly in remote areas, by enhancing their capabilities in ICT and fintech and motivating them to become entrepreneurs. The initiative is implemented by the Central Administration for Community Development at the Ministry of Communications and Information Technology and focuses on using information and communications technology to drive women's empowerment. It prioritises craft industries, entrepreneurship, and small businesses. Qodwa-Tech offers free training sessions that promote the use of IT applications in digital marketing and e-commerce, specifically for promoting handmade products. Additionally, the initiative works towards strengthening the ICT industry's skill pool by awarding specialised practical master's degrees to thousands of learners annually. This further enhances the capacities of individuals in the ICT field, aligning with Egypt's goal of fostering a skilled workforce in the digital realm.
The Digital Egypt Builders Initiative (DEBI)	MCIT	The initiative seeks to empower the next generation of Egyptian young graduates of engineering and computer science colleges to become leaders at the global level and be capable of implementing Egypt's digital vision. The initiative offers, annually, a free scholarship to 1,000 top graduate students from engineering and computer science colleges; they will be selected according to specific conditions and admission criteria to be prepared as young cadres in various fields, including data science, artificial intelligence, cybersecurity, robotics, automation, and digital arts. In addition, they will be assigned to a training program on leadership and management skills.
Future Work is Digital	MCIT	The Ministry of Communication and Information Technology's (MCIT) Future Work is Digital initiative seeks to train young Egyptians to develop ICT skills such as web page development, data analysis, and digital marketing. As of 2022, the programmes had provided training to 105,000 young people. The second iteration of the programme aims to reach 250,000 young Egyptians to develop the skills necessary to enter into employment in the tech sector (MAGNiTT and ITIDA, 2022[35]).
Google Digital Skills Training	MSMEDA	MSMEDA has partnered with Google to offer a comprehensive digital skills training programme. This initiative encompasses various aspects of digital marketing and aims to equip MSMEDA staff with the necessary expertise to provide training for SMEs. As part of the programme, trainers from Google have conducted sessions to enhance the digital marketing knowledge of MSMEDA staff. The training covers three key types of skills: orientation and awareness of digital importance, assessment of clients' digital needs, and both basic and advanced digital skills training. The advanced training is delivered directly by Google to MSMEDA, ensuring high-quality instruction.

Source: OECD Study Mission to Cairo

The Egyptian government should take proactive measures to provide targeted support to SMEs in Egypt for the development of digital skills. This can be achieved through the implementation of training programmes, workshops, and capacity building initiatives aimed at bridging the skills gap and fostering a culture of continuous learning and innovation among SMEs. MSMEDA could play a key role in promoting existing initiatives and developing an awareness campaign to highlight the benefits of digitalisation for SMEs, particularly those that are not at the technological frontier.

It is important to differentiate between general digital upskilling and reskilling programmes and those targeted at SMEs with more ambitious digital plans involving advanced technologies such as artificial intelligence, data analytics, and the Internet of Things. The demand for advanced digital skills in Egypt is growing rapidly due to various ICT initiatives undertaken by the government, but the country still lags behind the MENA (Middle East and North Africa) average in terms of the supply of digital skills (World Bank Group, 2020[14]). Therefore, recent programmes initiated by the MCIT and MSMEDA to improve digital skills need to be further strengthened to meet the evolving demand for human capital in the era of Digital Egypt.

The Creativa Innovation Hubs project is a notable initiative implemented through the Technology Innovation and Entrepreneurship Center (TIEC). With eight hubs spread across a range governorates in the country, including Sohag, South Valley – Qena, Menoufia, Minia, and Mansoura, the hubs provide spaces conducive to ideation, mentorship, co-working, networking events, workshops, venture demos, and product launches. The project's core objective is to support and empower students, entrepreneurs, SMEs, and startups to advance the digital transformation and actively participate in the digital economy. Additionally, the MCIT is concurrently developing six technology parks in Minya, Menoufiya, Mansoura, Sohag, Qena, and Aswan. These technology parks will further augment entrepreneurship and innovation by offering hardware design labs, startup incubators, training institutions, and integrated systems for artificial intelligence training, data science, and cybersecurity.

Sector-specific digitalisation programmes

Emphasising the heterogeneity of the SME population, Egypt has developed sector-specific digitalisation support initiatives that are tailored to strategically important industries.

Creative and textiles sectors

The creative and textiles sectors are central to the Egyptian economy. The Industrial Modernization Center’s (IMC) Creative Hub Egypt initiative provides non-financial assistance to creative sector SMEs, offering supports in digital marketing, website development, export readiness, customer relationship management (CRM), and enterprise resource planning (ERP). Notably, the hub conducts online sessions focused on digital marketing for handicraft SMEs, fostering knowledge dissemination and capacity-building within the sector. For this initiative, the IMC acts as an intermediary, connecting approximately 75 businesses each year with relevant service providers, facilitating access to business development services and technical support.

Industry and Agro 4.0

Policies targeting technology uptake in manufacturing SMEs and the adoption of Industry 4.0 and Agro 4.0 technologies are a focus of Egyptian policy makers. Industry 4.0 and Agro 4.0 are the digital transformations of manufacturing and agricultural practices respectively, characterized by the integration of advanced technologies such as the Internet of Things, artificial intelligence, and machine learning to enhance productivity, flexibility, and decision-making in real-time, ultimately aiming to increase profitability and sustainability. As an example, the Industry 4.0 Innovation Center (IIC) is a collaborative initiative between ITIDA, the IMC and Siemens Egypt. Under this initiative, the first IIC has been established in the

Knowledge City in the New Administrative Capital. The centre aims to increase the deployment of Industry 4.0 and digital transformation technologies within local industry. The IIC started its operations in the first quarter of 2023. It provides tools, equipment, simulations, best practice sharing, workspaces, and consultation services in order to support local start-ups and SMEs in developing and integrating Industry 4.0 technologies. In addition, ITIDA has contracted with 26 local and international companies specialised in designing electronics to establish their branches in the IIC.

Egypt could build out the IIC to raise awareness and capacities among SMEs. Specifically, the IIC can serve as a hub for providing information, resources, training, and technical assistance to SMEs interested in adopting or developing Industry 4.0 and Agro 4.0 technologies. It could also promote partnerships with universities, federations of industry, and other sources of knowledge and expertise in the local ecosystem (OECD, 2021[36]). Encouraging partnerships between SMEs and academic institutions would be particularly valuable for fostering innovation, enabling SMEs to access cutting-edge research and technological advancements that can drive their digital transformation and competitiveness. Furthermore, integrating sustainability into digitalisation initiatives would ensure alignment with national and global sustainability goals. Promoting environmentally-friendly technologies and practices, such as energy-efficient production processes and sustainable supply chains, can contribute to the green transformation of SMEs while enhancing their resilience and long-term growth prospects.

Greece's "Acceleration for Smart Manufacturing" programme provides an international learning model for supporting SMEs in the adoption of digital technologies through the provision of grants (see Box 7.9).

Box 7.9. Greece's Acceleration for Smart Manufacturing programme

Description of approach

"Acceleration of Smart Manufacturing" is a state-aid programme financed by the EU's Recovery and Resilience Facility. It supports manufacturing SMEs through the provision of grants. It is implemented by the Hellenic Ministry for Development according to the European Union's regulatory framework for competition, the European Commission's Regional Aid Map for Greece and the EU's General Block Exemption Regulation (GBER) 651/2014.

The aim of the programme is to accelerate SMEs' digital transition and their adoption of Industry 4.0 production models in order to increase their competitiveness. It does this by supporting SMEs in upgrading their operational and production processes. The adoption of digital technologies helps manufacturing SMEs to improve their productivity and competitiveness, stimulate their access to new markets and create more quality jobs. The main condition for the support of SMEs through the programme is the submission of an investment plan which includes expenses for digital production equipment, consulting services and vocational training. The investment plan is evaluated by the Ministry of Development with certain criteria to certify:

1. The scope of the investment plan aligns with Industry 4.0 requirements regarding artificial intelligence and big data analysis, smart manufacturing technologies such as Machine to Machine (M2M) learning, Manufacturing Execution Systems (MES), Supervisory Control and Data Acquisition Systems (SCADA) or robotics and automation systems.
2. Grants are determined and circulated according to the EU competition regulatory framework and European Commission's Regional Aid Map for Greece, and.
3. The sustainability of the SME and its investment plan.

SMEs whose investment plans have been approved during the evaluation process are beneficiaries and will receive a grant covering a certain percentage of the approved budget which is determined

according to their size. SMEs are supported to implement an approved investment plan to upgrade their production equipment and infrastructure with smart manufacturing and artificial intelligence systems. 70% of the programme's budget is allocated to micro and small enterprises while 30% is allocated to medium-sized enterprises in the manufacturing sector.

Success factors

"Acceleration of Smart Manufacturing" is a focused programme which covers a significant part of manufacturing SMEs' digital transformation gap in Greece. It contributes to the modernisation of SMEs' production equipment with contemporary technologies which accelerate their adoption to Industry 4.0 production models and help them increase their productivity and competitiveness. A crucial factor for the success of the programme is that it addresses a certain problem of manufacturing SMEs, the digital transformation of their operational and production processes. Another success factor is that it offers significant aid in the form of grants to manufacturing SMEs according to their size and the region they are activated in. Finally, the evaluation procedure for SMEs' investment plans takes place electronically through the Ministry's digital platform for state-aid programmes, which contributes to transparency and increased accountability. The programme stands as a good practice and a guide for the implementation of more focused actions for the digital transformation of Greek SMEs in other sectors.

Relevance for Egypt

Initiatives similar to Greece's "Acceleration of Smart Manufacturing" could significantly support Egyptian SMEs in the digital transition. MSMEDA could design and implement similar state-aid programmes to finance SMEs' investment plans focused on the adoption of emerging technologies, innovative business models, or the digitalisation of their operational and production processes. Such state-aid programmes could mitigate Egypt's lag in the adoption of frontier technologies such as Artificial Intelligence, robotics, data science, cloud computing, cybersecurity, or nanotechnology.

ICT sectors

The Information Technology Industry Development Agency's (ITIDA) Export-IT programme is specifically geared towards supporting SMEs to develop their resources, enhance competitiveness, and reduce export-related costs. With a primary focus on assisting Egyptian ICT SMEs in penetrating key markets, the programme aims to provide financial incentives that contribute to boosting companies' competitiveness and improving the quality and pricing of their exports. Companies receive direct cash support up to 10-35% maximum of the value-added exports based on their size (micro / small / medium). The program accepts local ICT companies with more than 50% of Egyptian ownership, have a headquarter in Egypt, and export ICT services, embedded software, and IT-enabled services such as call centre services, consultation and training services related to IT. By fostering SMEs' development and increasing their ICT services' exports, Egypt has earned recognition as a regional leader in providing export support to its ICT industry.

Over 170 Egyptian exporting companies, all of which were SMEs, participated in the 30th round of the Export-IT programme, which launched in 2022 with a budget of EGP 70 million. The programme has been instrumental in empowering SMEs to expand their business and promote their ICT exports. Throughout the past 12 years, ITIDA's support to SMEs in this programme has surpassed EGP 549 million in incentives, culminating in cumulative revenues from beneficiaries' exports estimated at over EGP 9.6 billion, reflecting the substantial impact on SME growth and export promotion in Egypt's ICT sector.

To increase the adoption of Industry 4.0 and Agro 4.0 technologies by SMEs, the Egyptian government should update its policy mix to ensure firms across all sectors can benefit from government support. This can be achieved by creating incentives (e.g. tax credits for R&D, training) and services specifically targeted

at SMEs, as well as by establishing institutions for technology diffusion to facilitate SMEs' adoption of Industry 4.0 and Agro 4.0 technologies (OECD, 2021[36]). Here, Egypt can draw inspiration from Malaysia's approach, as described in Box 7.10. In particular, Malaysia's use of tailored policy tools, such as the Readiness Assessment programme, can help identify gaps in SMEs' readiness for Industry 4.0 and direct financial assistance accordingly.

Egypt should also amplify the support targeted at SMEs by strengthening the programmes implemented by MSMEDA (for example, AMELI, Archemus, Qodwa-Tech initiatives) and the IMC (Creative Hub Egypt initiative and Industry 4.0 Innovation Center) and expanding their digital components. This can include providing matching funds and services to SMEs to facilitate their adoption of Industry 4.0 and Agro 4.0 technologies, as well as improving the accessibility and affordability of testing and certification processes for SMEs to enhance their competitiveness in the agro-food sector (OECD, 2021[36]).

Egypt should increase cross-ministerial and institutional co-ordination to facilitate the implementation of Industry 4.0 and Agro 4.0 initiatives. This can be achieved through effective collaboration among relevant government entities, such as the Ministry of Trade and Industry, Ministry of Agriculture and Land Reclamation and the MCIT (OECD, 2021[36]). Moreover, as seen in the good practice of Malaysia, collaboration with the private sector ensures that the Industry 4.0 policy agenda is driven by industry needs (see Box 7.10).

Box 7.10. Breaking silos for Industry 4.0: The example of Malaysia

In Malaysia, the Ministry of International Trade and Industry (MITI) launched Industry4WRD, the country's strategy to promote Industry 4.0, in 2018. To operationalize the strategy, Malaysia has allocated at least USD 107 million in 2019 for various support actions, along with making up to USD 1.2 billion available in low-interest loans and guarantees. These funds are utilized through a combination of tools, including matching grants for investment in automation equipment, R&D and innovation activities, soft loans, and tax allowances. In line with the strategy's focus on inclusive involvement of small and medium-sized enterprises (SMEs), Malaysia has also implemented policy tools specific to SMEs, such as the Readiness Assessment (RA) programme.

The RA programme involves online questionnaires and on-site visits to identify potential gaps in SMEs' readiness for Industry 4.0. Based on the outcomes of the assessment, SMEs can apply for reimbursement of up to 70% of eligible expenditures, up to approximately USD 120,000. Industry4WRD was developed through extensive consultation with the private sector and in co-operation with several different ministries. The strategy also features multi-ministerial and multi-stakeholder mechanisms for its implementation. MITI oversees and chairs an Industry4WRD council that includes stakeholders from government and industry, and meets twice a year. High-level task forces and specialized technical working groups, led by different ministries and co-chaired by the private sector, have also been established under the Council. These encompass areas such as funding, infrastructure, regulations, skills and talent, and technology, and they meet quarterly to drive the implementation of the strategy.

It's important to note that Malaysia's Industry4WRD strategy is aimed at promoting Industry 4.0 and supporting SMEs through a combination of funding, policy tools, and multi-stakeholder collaboration. The strategy's implementation is overseen by a dedicated council and supported by high-level task forces and working groups, indicating a comprehensive and coordinated approach towards driving Malaysia's Industry 4.0 agenda.

Source: (Cayzer, 2020[37])

Retail sector

MSMEDA has introduced a series of innovative initiatives in collaboration with private sector partners and prominent online platforms such as Amazon, Jumia, Alibaba, and Huawei to support SMEs in expanding their exports by selling online. Through the strategic protocol with Amazon, SMEs receive valuable assistance in exhibiting their products on the platform, including support with photo sessions and access to training programmes for digital marketing and export readiness. MSMEDA collaborates closely with Amazon to identify specific product demands, based on consumer needs and market trends. This tailored approach enables SMEs to introduce new products through the platform and access Amazon.eg's seller support and account management services, enhancing their online presence and global exposure. Amazon further strengthens SMEs' online presence by providing professional product images and valuable data insights to help them improve their performance on the platform. The partnership also includes advice on packaging and technical support, with Amazon covering the associated costs. As Amazon Egypt extends its market reach to 16 countries from 2024, SMEs can benefit from the scalability potential and global exposure offered by the platform. In addition to the partnership with Amazon, MSMEDA is working towards an initiative with Alibaba to support digital exports through Alibaba. A promising deal with DHL is also currently in the pipeline.

Financial incentives for SME digitalisation

Financial incentives for digitalisation are needed for SMEs to overcome the challenges associated with the cost of digitalisation and limited access to finance. This represents a gap in Egypt's SME digitalisation policy framework.[7] Egypt would benefit from financial support programmes that specifically target the adoption of digital tools and services in key industries. This could include digital vouchers that can be used for e-commerce, website development, cloud hosting services, customer relationship management (CRM) systems, social media advertising, or consultants for advanced digital projects. Box 7.11 explains the OECD best practices for governments developing innovation vouchers, while Box 7.12 describes the Brazilian case of innovation vouchers aimed at supporting technology adoption in micro and small enterprises through the provision of subsidised consulting services and the facilitation of partnerships with larger firms. Furthermore, tax incentives could be introduced for SMEs that adopt digital practices, such as moving their invoicing online. Grace periods could also be provided for previously unregistered SMEs that choose to transition from the informal economy to the formal digital economy (Sidlo et al., 2019[34]).

Box 7.11. Main success factors for innovation vouchers

- **Simplicity**: given the small sums involved, the administration of innovation vouchers should be as simple as possible, for example avoiding heavy reporting on the use of the funding.
- **Effective promotion**: because innovation vouchers also aim to overcome an information barrier between SMEs and knowledge institutions, it is important that they are advertised widely among potential users.
- **Clear purpose**: Applications should be simple but still ask firms how they plan to use the vouchers. This will facilitate the match of the enterprise with the appropriate knowledge institution.
- **Effective brokerage**: Brokerage of the scheme is best performed by a government agency, rather than by another organisation such as a university. Government institutions are, in fact, in a better position to connect voucher users with other national support programmes.

Source: https://www.oecd.org/innovation/policyplatform/48135973.pdf.

Box 7.12. Innovation Vouchers Brazil

Brazil has implemented two technology voucher programmes aimed at supporting micro-enterprises and small companies:

- The SEBRAETEC programme offers consulting services in areas such as design, intellectual property, quality control, innovation, sustainability, and digital services. Brazilian Micro and Small Business Support Service (SEBRAE), which manages the programme, operates a national web portal and 13 state-level portals to facilitate the matching of the demand and supply of technology-oriented services. The programme subsidises up to 70% of the consulting costs for eligible companies. Between 2015 and 2017, the SEBRAETEC reached a total of 268 000 companies with a budget of BRL 603 million (equivalent to BRL 2 250 per company).
- The Ministry of Science, Technology, Innovation and Communication (MCTIC) and the National Council for Scientific and Technological Development (CNPq) operate Bonus Tecnológicos, which provides vouchers for partnerships between micro or small companies and medium to large companies in the field of advanced manufacturing. The funds are typically used for sharing technological R&D infrastructures, contracting specialised technical services, or technology transfer. The most recent public call for vouchers in the third quarter of 2018 offered a total of BRL 2 million.

Source: (OECD, 2020[38])

The financial risks are not equal for all digitalisation journeys, with advanced digitalisation projects requiring an often-riskier investment. Financial support provided should therefore be tailored to the specific needs of each SME and their digitalisation project. To encourage SMEs to undertake relatively risky or advanced digitalisation projects, it is recommended that the Egyptian government pilot a financial support programme tailored specifically for such projects. This programme could be designed to provide targeted financial

assistance to SMEs that are pursuing digitalisation initiatives with a higher level of risk or complexity compared to traditional projects. The programme should adopt a risk-based approach, providing higher levels of financial support to SMEs undertaking digitalisation projects that are more complex. This could include projects that involve emerging technologies, innovative business models, or significant changes to operational processes.

Box 7.13 describes a French initiative that offers loans to support SMEs in making significant investments required for adopting modern production processes. A similar scheme could be implemented in Egypt to encourage Egyptian SMEs to embrace the opportunities of digitalisation, potentially aligning with the Egyptian Industry 4.0 strategy. As seen in the case of France, strict eligibility criteria should be established to identify SMEs that are eligible for the financial support programme. This could include criteria such as the level of digital maturity, the potential impact of the digitalisation project, and the capacity of the SME to manage the risks associated with the project.

Box 7.13. The Industry of the Future Loan - Technologies and uses of the future offered by Bpifrance, France

The *Prêt Industrie du Futur - Technologies et usages du futur* (Industry of the Future Loan - Technologies and uses of the future) programme was introduced by Bpifrance, the French public investment bank. The programme provides co-financing for investment projects that focus on increasing the industrial capacity of SMEs in France through the adoption of modern technologies and processes, resulting in the development of new products. Notably, the programme targets investments in technologies that are new to the firms, rather than just capital expansion. This approach incentivises SMEs to adopt unfamiliar production technologies, which can be perceived as daunting. The programme encompasses five themes: production and control technology, augmented humans, connected, piloted, and optimised company, innovative digital technologies, and customer relations, suppliers, and the supply chain.

The strict eligibility criteria of the *Prêt Industrie du Futur* programme are expected to enhance its effectiveness in achieving its goals of modernising the capital stock of French SMEs. The programme specifically targets SMEs that are over three years old and in good financial health. The loan has a duration of seven years, with amounts ranging from EUR 100,000 to EUR 5 million. The loan must be co-financed on a one-to-one basis with bank credit or capital contributions from shareholders or private equity companies for a minimum period of five years. Administrative fees amount to 0.4% of the loan amount.

Source: https://www.bpifrance.fr/Toutes-nos-solutions/Prets/Prets-sans-garantie/Pret-industrie-du-futur-Technologies-et-usages-du-futur

The Egyptian government could also explore subsidising the expenses incurred by companies for their membership of approved e-commerce sites. Similar to Türkiye's approach, such incentives can encourage more SMEs to participate in online trade (see Box 7.8). Providing such financial support to SME exporters can boost their capacity to compete globally. The Egyptian government can also consider offering export refund aid, buyer credit, and support for logistics centers, akin to Türkiye's initiatives. Moreover, specialised export credit programmes, such as the SME Export Readiness Credit, can cater to the specific financing needs of SME exporters. Offering grants for expenses related to software and hardware, participation in international fairs, and service procurement can help SMEs enhance their global reach and competitiveness, as exemplified in Türkiye's International Market Support Programme.

Technical assistance, mentoring, and capacity-building could also be included alongside the financial supports to help SMEs plan, implement, and manage their digitalisation initiatives. Given the likely high

costs of the programmes, robust monitoring and evaluation mechanisms should also be in place to track the impacts so that adjustments can be made, where necessary. Collaboration with relevant stakeholders, such as industry associations, academic institutions, and private sector partners, should be fostered to ensure that the financial supports align with the needs and realities of SMEs in Egypt. Furthermore, regular consultations with SMEs should be established to gather insights and incorporate feedback into the programmes' design and implementation.

Conclusions and policy recommendations

Digitalisation has the capacity to enhance the performance and competitiveness of SMEs in Egypt significantly. Key technologies like ERP systems and CRM software are essential for enhancing back-office efficiency and front-office operations, while the adoption of cloud computing and big data analytics is critical for decision-making and strategic insights, and digitalisation through social media and e-commerce platforms significantly expands market outreach. Despite these benefits, SMEs in Egypt encounter considerable challenges in adopting digital technologies. Supply-side barriers include limited access to high-speed broadband in certain areas, restricting the ability to fully leverage digital tools. Another notable obstacle is the lack of affordable financing options for digital investments. On the demand side, a significant gap in digital skills and concerns about digital security and data protection are prominent, inhibiting the full embrace of digitalisation.

Egypt's digital readiness is relatively commendable, especially compared to other countries in the MENA region. The country shows increasingly stronger foundations for digital transformation, evidenced by its ranking on the Network Readiness Index which climbed from its 92nd position in 2019 to 73rd out of 131 countries in 2022. This reflects advancements in internet speed, technology absorption by firms, and the expansion of government online services. However, the use of digital tools varies significantly among businesses. While a majority use computers and the internet for basic operations, more sophisticated uses like research and development or human capital development are less prevalent. This uneven digital readiness signals the need for strategic initiatives focused on specific sectors and regions.

Internet connectivity is a crucial aspect of digital readiness. While there has been a substantial increase in internet users over the past decade, with over 70% of the population online, the digital divide between urban and rural areas remains pronounced. High mobile phone penetration and a considerable number of mobile internet subscriptions indicate potential for future digitalisation. However, the speed and quality of internet connections, especially for mobile broadband, still require improvement.

In Egypt, a commendable and forward-thinking approach towards the digitalisation of SMEs is evident in the comprehensive policies and initiatives spearheaded by MSMEDA. This proactive stance is instrumental in paving the way for a more inclusive and digitally advanced economic landscape for SMEs. MSMEDA, under the ambit of the MSMEs Law (Law No. 152 of 2020), has played a pivotal role in establishing a robust legal framework that not only facilitates the digital transformation of SMEs but also aligns with Egypt's broader policy priorities of fostering entrepreneurship, innovation, and digital progression. This law serves as a cornerstone, creating a nurturing environment for SMEs to embrace digital technologies, thereby enhancing their competitiveness and operational efficiency. The agency's efforts in streamlining administrative procedures and simplifying regulations have been critical in enabling SMEs to navigate the digital landscape with greater ease and confidence.

The Egyptian government has implemented various strategies and initiatives to boost SME digitalisation, including the MSMEs and Entrepreneurship National Strategy and the Digital Egypt Strategy. These strategies encompass broad goals like improving digital service availability and quality, upgrading digital infrastructure, and fostering a digital-first culture. However, there is a need for more cohesive policy frameworks to streamline these efforts effectively. The government's commitment is evident in the comprehensive strategies and laws enacted to support digital transformation. However, the need for further

improvements in connectivity, especially in rural areas, and more cohesive policy implementation to ensure the equitable spread of digital advantages remains a priority.

Going forward, it will prove crucial to:

1. improve collaboration and communication across ministries and agencies, as well as with private sector actors such as sector associations;
2. continue to implement a mix of financial and non-financial instruments, as well as a combination of broad-based policies and narrowly targeted interventions;
3. improve data collection capacities to closely monitor and evaluate the impact of the policy changes and revise public initiatives accordingly.

In Egypt, the formulation of policies directed towards SMEs must continue to acknowledge the diverse and varied characteristics of the SME landscape. By aligning policies with the specific needs of key industries to digitise, Egypt can optimise its SME support mechanisms.

Box 7.14. Key policy recommendations on SME digitalisation

- Establish a national SME digitalisation strategy that can provide a comprehensive roadmap for SMEs in Egypt to embrace digital technologies effectively.
- Enhance SME access to high quality and affordable broadband internet and data centres.
- Improve collaboration with non-government bodies such as Chambers of Commerce, sector associations and private sector actors in the SME ecosystem.
- Establish digital innovation hubs across the country to provide rural areas with reliable and high-speed broadband connection, provide access to digital tools and training programmes on digital skills, and resources for business development such as diagnostic tools.
- Provide targeted support for SMEs in their early stages of digitalisation through support to develop digital skills and business development services. This can be achieved through the implementation of training programmes, workshops, and capacity building initiatives aimed at bridging the skills gap and fostering a digital culture.
- Provide incentives for traditional SMEs to digitalise, including financial support programmes (digital vouchers) and tax incentives. Pilot a financial support programme to encourage SMEs to undertake advanced SME digitalisation projects. Provide targeted financial assistance to SMEs that are pursuing digitalisation initiatives with a higher level of risk or complexity compared to traditional projects, e.g. projects that involve emerging technologies, innovative business models, or significant changes to operational processes.
- Develop a more coordinated and coherent effort on fostering ecommerce and digital trade, including removing regulatory barriers for SMEs selling online, improving access to finance for ecommerce and increasing the awareness of programmes to enable SMEs to sell online.
- To ensure wider adoption of Industry 4.0 and Agro 4.0 technologies, extend digitalisation support (e.g. training and investment support and institutions for technology diffusion) to firms across all sectors of the economy and strengthen the elements of digitalisation support within existing business development services and supports.

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Notes

[1] The Portulans Institute Network Readiness Index (NRI) is a global index on the application and impact of information and communication technology (ICT) in economies around the world.

[2] A strategic framework or policy designed by the Egyptian government to manage and allocate the radio frequency spectrum, particularly for mobile and broadband services like 4G+ and potentially 5G in the future. The radio frequency spectrum is a limited resource that is essential for various types of wireless communication, including mobile telephony, data transmission, and broadcasting.

[3] A network trunk is a communications line or link designed to carry multiple signals simultaneously to provide network access between two points.

[4] The GTMI index of the World Bank takes into consideration various dimensions of GovTech, including the availability and quality of digital services, the maturity of digital infrastructure, the capacity of

government institutions to implement digital transformation, and the mindset and culture towards digitalisation.

[5] Since the law came into force in 2018 authorities issuing tenders have been required to consider SMEs when drafting the pre-qualification conditions of the tenders and to direct at least 20% of their contracting to SMEs. Moreover, the law also gives a 15% price preference to bidders that can demonstrate to integrate the minimum "local component" percentage in their services or products, which should also impact Egyptian SMEs (Riad&Riad, 2018[39]).

[6] In a 2022 OECD survey among retail SMEs selling through e-commerce platforms in six OECD countries, the main investment for starting to sell online was identified as "product inventory", followed by "Setting up e-commerce website-marketplace" (OECD, 2023[28]).

[7] During the COVID-19 pandemic, one of the key financial products offered by MSMEDA was preferential loans tailored specifically to incentivise SMEs to invest in digitalisation tools. Additionally, MSMEDA provided preferential loans to support the process of digitalisation itself. This financial scheme aimed to assist SMEs in their transition from traditional business practices to digital platforms and systems. These loans could be used for various digitalisation initiatives, such as adopting e-commerce solutions, implementing digital marketing strategies, upgrading IT infrastructure, and incorporating online payment systems.

8 Fintech for SME and Entrepreneurship Development in Egypt

This chapter examines the role of fintech in improving access to finance for Egyptian SMEs and entrepreneurs. It highlights the potential of fintech solutions to address SMEs' and entrepreneurs' financing challenges. It also provides an overview of the growing fintech sector in Egypt, the key barriers to the development of the sector, and an assessment of the current regulatory and policy landscape. The chapter concludes with recommendations to leverage fintech's potential for supporting SME and entrepreneurship development in Egypt.

Introduction

As described in earlier chapters of this review, access to finance is one of the most significant and persistent obstacles to SME and entrepreneurship development, both in Egypt and in other countries. However, fintech solutions underpinned by digital technologies have considerable potential to alleviate the financing gaps faced by SMEs and entrepreneurs. The importance of new fintech technologies and products in enhancing access to finance is captured in the following element of the OECD Recommendation on SME and Entrepreneurship Policy.

- Recommendation 13: Enhancing SMEs and entrepreneurs' access to a diverse range of financing instruments, sources and channels that are adapted to their needs in terms of development, growth and sustainability, by implementing evidence-based policies and regulatory approaches conducive to transparent and resilient SME finance markets; leveraging the role of new technologies; encouraging timely payments; and strengthening SME financial skills and vision.

This chapter describes the potential role of fintech in stimulating SME and entrepreneurship development in Egypt and explores the role of policy in tapping into this potential.

The role of fintech in strengthening Egyptian SMEs' and entrepreneurs' access to finance

Fintech has considerable potential to improve SMEs' access to finance....

SMEs in Egypt face challenges in accessing external financing. Indeed, only 4% of Egyptian businesses with 5-19 employees having taken out bank loans, compared to a MENA average of 20% (World Bank, 2020[1]). While Egypt's SME financing gaps are mitigated to some extent by the recent growth of the microfinance sector, this is not sufficient to support the growth, productivity and competitiveness of the SME sector.[1]

Fintech is a term used to describe any technology that delivers financial services through software. This includes online banking, mobile payment apps and cryptocurrency (US Chamber of Commerce, 2020[2]). Fintech solutions can be deployed both by traditional financing providers and alternative lenders. Over the past decade, fintech has had a transformational impact on the financial services sector, reshaping financial products, markets, payments and business models (World Bank, 2022[3]).

The fintech sector has emerged as an important driver of financial inclusion for SMEs and entrepreneurs, with many fintech companies taking advantage of rapidly digitalising economies to increase the affordability and accessibility of finance for SMEs and entrepreneurs.[2] Fintech solutions can address SME financing constraints in several ways:

- **Service automation and facilitation:** On the lenders' side, the automation of services enabled by digital technologies can facilitate the provision of financing and reduce its costs. Processes such as client onboarding, credit analysis, due diligence and payment collection, which traditionally require considerable time and resources from bank staff, can be largely automated through fintech solutions. This results in simpler, faster and more cost-effective client acquisition, credit provision and monitoring.
- Meanwhile, on the SMEs' side, fintech companies can provide solutions that improve productivity and financial performance through the digitalisation and automation of processes such as sales, purchasing, billing and consumer engagement. These solutions also create a digital footprint for SMEs that financial institutions can subsequently use to develop tailored financial products.

- **New financial products:** Digital financial technologies can enable the development of alternative financial products for SMEs. For example, factoring firms traditionally manage credit risks by purchasing the invoices of well-known and creditworthy borrowers. However, fintech solutions enable factoring firms to purchase the invoices of SMEs that have a more indirect supplier relationship with the more well-established larger enterprises in the supply chain (ADB, 2019[4]). Other alternative sources of funding that fintech can facilitate include peer-to-peer lending platforms, crowdfunding, revenue-based financing and tokenised assets.[3]
- **Alternative data sources and credit scoring:** The use of alternative data, analytics and algorithms based on artificial intelligence and machine learning can make it easier for lenders to assess the credit worthiness of SMEs and verify the information provided in financing applications. This allows financial institutions to lend to SMEs without the high collateral requirements and the need for an extensive credit history that have historically restricted SMEs' access to finance. Alternative data sources and the use of digital documentation can also facilitate the data verification process in financing applications, reducing processing and approval times. Furthermore, credit scores generated by fintech providers can be used to enhance national credit databases and registries, which in turn can contribute to improving the effectiveness of existing credit guarantee programmes or support the development of new initiatives (ADB, 2019[4]). The alternative data sources that fintech solutions can leverage include:
  - Geolocation data, which can verify SMEs' home and work addresses.
  - Reputational data, such as those provided by parties who interact with an SME, which can be used to predict future behaviour.
  - Social media profiles, which can corroborate the information provided by SMEs and can be used to assess their market presence and customer reputation.
  - Customers' visits and engagements with SMEs' websites
  - Digital transactions data, such as bill payment or revenues, can be used to assess creditworthiness.

Increased transparency: Technologies such as blockchain can be particularly useful for Islamic finance as they can improve the transparency and traceability of assets and cashflows. This is a core principle of Islamic finance (IMF, 2020[5]).

… but fintech companies need suitable data, infrastructure, regulatory support and workforce skills

The provision of fintech services is only feasible if SMEs have an adequate digital footprint. The digitalisation of SMEs' operations is, therefore, an important ingredient for the development of the fintech sector. This is a function of:[4]

- The quality of digital infrastructure.
- The digital literacy of entrepreneurs and SME owners.
- The interoperability of digital payment systems.
- The availability of digital public services (e-government).
- The provision of support for SMEs' adoption of digital tools and technologies.
- The prevalence of digital payment methods through, for example, e-commerce and electronic wallets.
- The penetration of mobile phone services.

Another important factor for the development of fintech services is the collection and sharing of data across entities. The implementation of open banking, for example, which allows third-party financial service

providers access to consumer banking information, transactions and financial data from financial institutions via application programming interfaces (APIs), can have a profound impact on the development of the fintech sector. By enabling fintech companies to securely and consensually access (potential) customers' account data and other relevant information, open banking can facilitate the development of more tailored products, the provision to clients of services that were previously unavailable to them, and the integration of fintech solutions in traditional banking and other financial services.

The market entry and innovative activities of fintech companies is challenging in the highly regulated financial sector. These challenges require bespoke regulatory solutions. For example, regulatory sandboxes enable start-ups with innovative solutions to test and develop their products in a structured environment without needing to undergo the regulatory approvals and administrative procedures required of firms operating in the market. Sandboxes also help new market entrants to better understand the expectations of financial market supervisors. Likewise, they give supervisors a more in-depth view and understanding of the new financial solutions entering the market and the potential new risks that can emerge from these entries (Parenti, 2020[6]).

Finally, the development of the fintech sector is contingent upon the availability of relevant technological and digital skills in the workforce. As a technology driven sector, fintech companies require people with skills in programming and software design. The sector is also driven by many new and innovative technologies, including machine learning, artificial intelligence, and blockchain, each of which require very specialised knowledge. Other important skills include knowledge of finance as well as soft skills such as languages and communication, adaptability, and teamwork (SMU, 2023[7]).

The adoption of fintech solutions also comes with important challenges

As the spread of the fintech sector is relatively new in Egypt, the deployment of fintech solutions raises concerns surrounding the inclusivity of the new products and services entering the market. Users with limited to no access to digital technologies are heavily disadvantaged in accessing fintech services. This affects those living in remote or economically disadvantaged areas, as well as specific groups including women. The use of alternative data sources and machine learning algorithms can also have differentiated impacts for different groups of borrowers. For example, an analysis of US mortgage data found that the use of machine learning algorithms increases the discrepancy in interest rates given to White or Asian borrowers compared to Black or Hispanic borrowers (Fuster et al., 2021[8]). It is important for policy makers to monitor closely the impacts of fintech-enabled lending practices on access to finance gaps between certain groups.

The widespread adoption of fintech has also brought with it data privacy and security challenges. Indeed, personal and financial data are now at greater risk of wrongful acquisition through electronic data breaches and cyberattacks. Given the nearly instantaneous nature of digital payments and transactions, there are further concerns about potential fraud and theft through the use of digital payment technologies. Addressing these issues requires strong regulatory frameworks and the effective enforcement of data privacy and protection and cybersecurity measures.

Some concerns have been raised about the opaqueness of credit scoring methodologies and potential inconsistencies between credit scores across different fintech providers. This can be a drawback for the use of these data to enhance public credit databases and guarantee schemes. Policy makers can alleviate these concerns through efforts to boost transparency, foster data sharing within the financial system and increase the alignment of credit scoring methodologies.

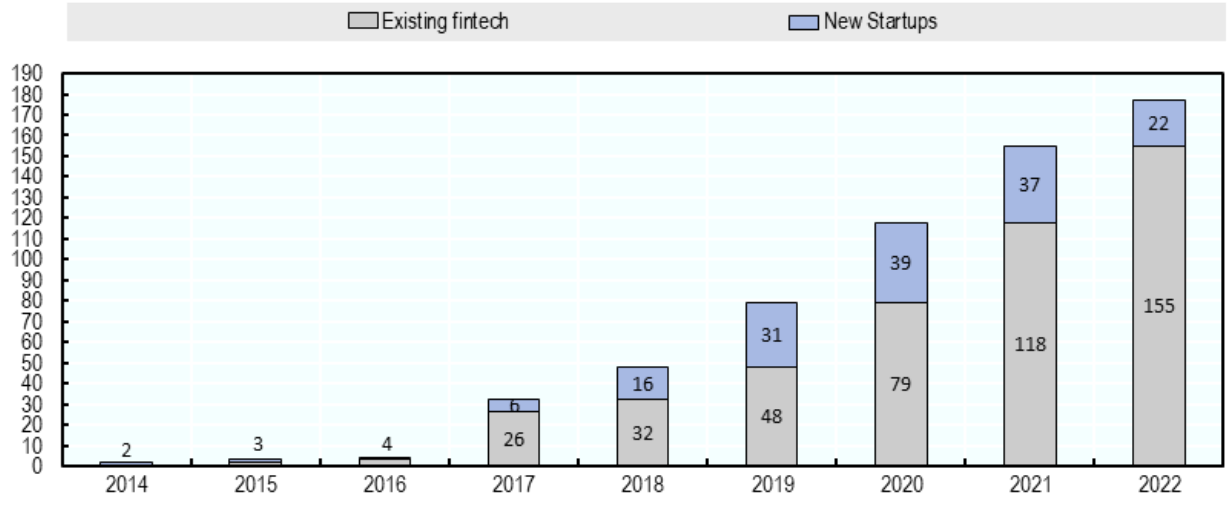
State of fintech in Egypt today

Overview of growing fintech sector in Egypt

Fintech is a relatively new but rapidly growing sector in Egypt, spurred by the significant rise in digital activity in the wake of the COVID-19 pandemic. Figure 8.1 shows that over the past five years, the number of fintech and fintech-enabled start-ups in Egypt has increased by 5.5 times from 32 in 2017 to 177 in 2022 (Central Bank of Egypt, 2023[9]). Egypt is also now the second largest provider of fintech solutions in the Middle East and North Africa region after the United Arab Emirates, accounting for 14% of fintech solutions in the region (Figure 8.2) (CGAP, 2020[10]).

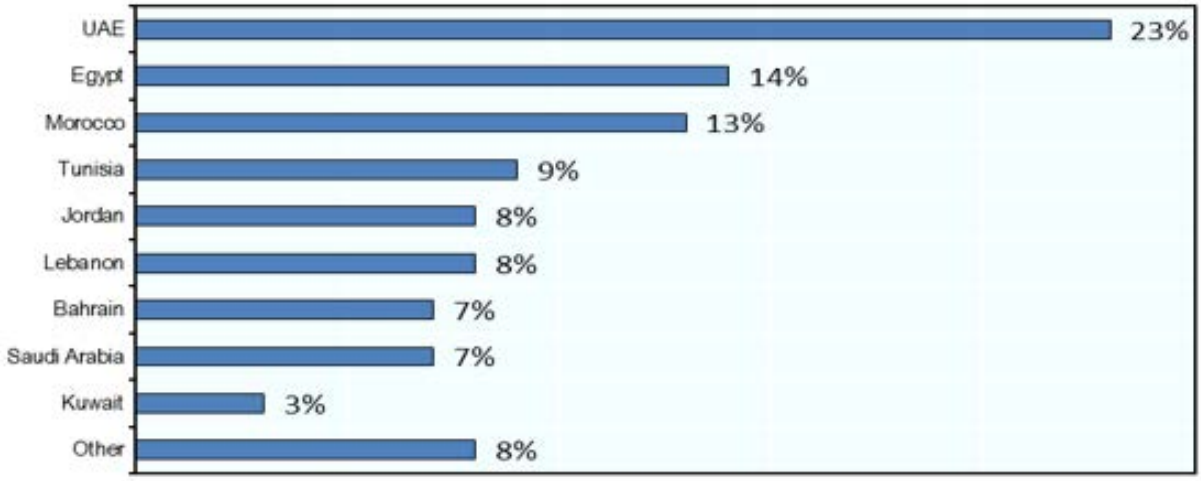
The fintech sector in Egypt is dominated by two major sub-sectors: payments and remittances (36%) and lending and financing (11%) (Figure 8.3). Other businesses operate in business administration, personal finance, "insuretech" (tech innovations that improve the efficiency of the insurance industry), and "investtech" (fintech solutions that facilitate personal or business investment) (Central Bank of Egypt, 2023[9]).

Figure 8.1. Growth in the number of fintech firms in Egypt



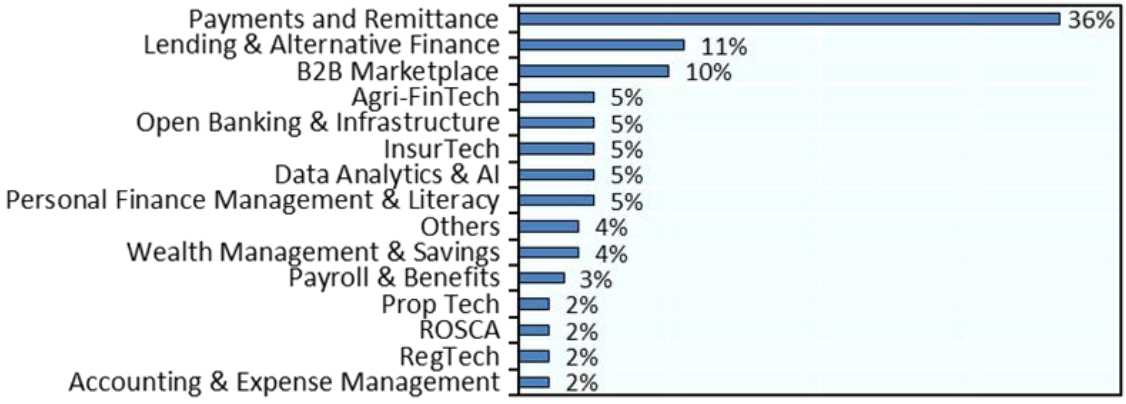
Note: The figure refers to enterprises classified as fintech and fintech enabled start-ups
Source: (Central Bank of Egypt, 2023[11])

Figure 8.2. Fintech solution providers in the Middle East and North AFrica



Note: The figure refers to enterprises classified as fintech and fintech enabled start-ups
Source: (CGAP, 2020[10]).

Figure 8.3. Fintech sector in Egypt is growing across different sub-sectors



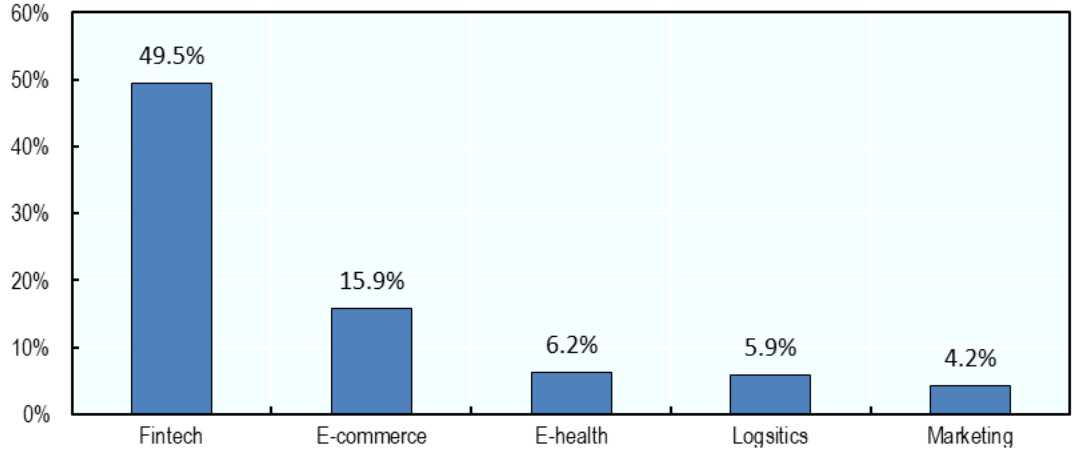
Note: The figure refers to enterprises classified as fintech and fintech enabled start-ups
Source: (Central Bank of Egypt, 2023[12])

The fintech sector accounts for the second largest share of start-ups in Egypt after e-commerce and retail-tech. It also accounts for the largest share of venture capital investments, with fintechs raising approximately a quarter of total start-up funding between 2017 and 2021 (MCIT, 2021[13]). In 2022, fintech companies accounted for 49.5% of the record high venture capital investments in Egypt (Figure 8.4).The fintech start-up sector in Egypt has also proven to be quite resilient, with a 5-year survival rate of nearly 80% for Egyptian fintech start-ups (CGAP, 2020[10]).

The pandemic spurred significant growth in the sector by accelerating the digitalisation of the economy. Recent years have seen a significant increase in the use of e-commerce and digital payments in Egypt. According to Mastercard's New Payments Index 2022, 88% of people in Egypt have used at least one emerging payment method over the previous year, including tappable smartphone mobile wallets (35%), digital money transfer applications (27%) and QR codes (24%). The same survey found that over 60% of Egyptian consumers feel safe using digital applications for sending money through their mobile phones

and 42% are willing to share their financial data with applications in order to have access to payment tools that help them manage their finances (Mastercard, 2022[14]).

Figure 8.4. Egyptian funding share in the start-up ecosystem



Source: (Disrupt Africa, 2022[15])

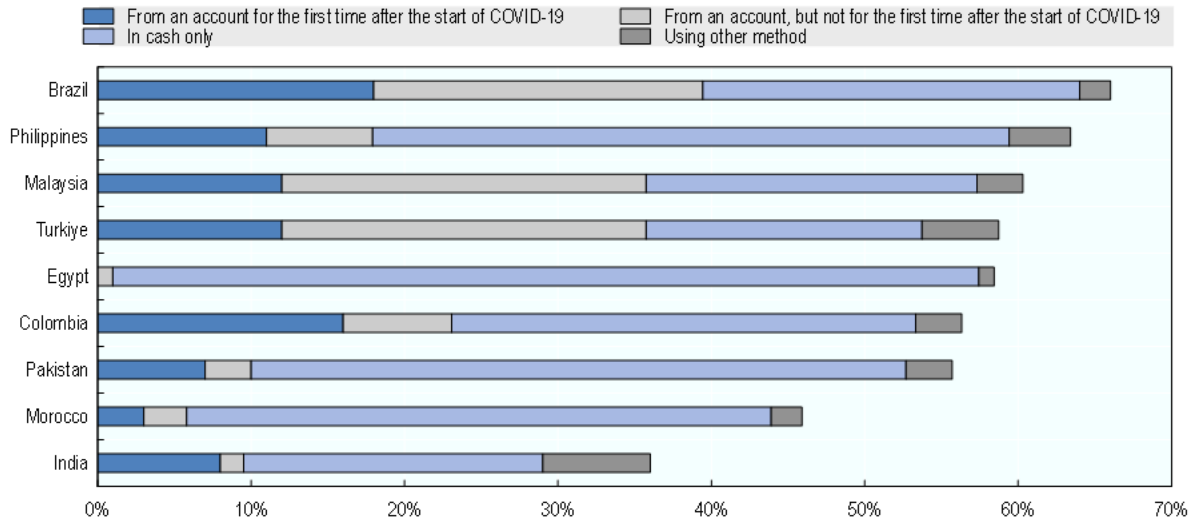
Development bottlenecks

The cash-based economy and low digital financial literacy

Though there has been notable growth in electronic payments and e-commerce since the COVID-19 pandemic as well as the greater openness of consumers to electronic payments, Egypt remains a largely cash-based economy and digital financial literacy is relatively low among the population. Consumers and businesses prefer to conduct transactions via cash, and since there is no legal limit on the size of cash-based transactions, this practice remains prevalent even for large transactions. A 2022 survey found that 95% of Egyptians still make everyday payments and receive their salaries in cash, while 30% do not know what mobile wallets are and 22% have never heard of basic financial products such as loans or savings accounts (IFC, 2022[16]).

The propensity to favour cash-based payments is considerably stronger in Egypt even compared to peers in other middle-income and developing economies. Indeed, Egypt accounts for about half of the 20 million adults in the MENA region that receive private sector salaries in cash (Findex, 2021[17]). Moreover, a Findex survey analysing utility bill payment methods finds the share of account-based payments (both pre- and post-Covid) is low in Egypt compared to peer economies (Figure 8.5). The rise in electronic payment methods for utility bills post-COVID has also been more muted in Egypt than in other countries. However, the use of credit card payments in e-commerce experienced significant growth in Egypt during the COVID-19 pandemic, which facilitated the adoption of digital payments and accelerated the growth of e-commerce. In response to this, the Central Bank of Egypt launched the e-commerce initiative in 2021, with the aim of increasing the number of MSMEs that use e-commerce in the private sector, through waiving all fees incurred by private sector merchants from transactions with MSMEs until December 2023. The launch of this initiative has contributed to the growth of e-commerce transactions both in value and volume (Central Bank of Egypt, 2024[18]).

Figure 8.5. Payment methods for utility bills in developing economies



Note: Percentage of adults paying utility bills after the beginning of the COVID-19 pandemic
Source: (Findex, 2021[17])

Most international remittance services in Egypt are also cash-based. Banks enable cash-to-cash services through bilateral arrangements with foreign exchange houses and banks in Gulf Cooperation Council countries. Given the large size of the Egyptian diaspora, remittances represents an area where fintech can offer valuable alternatives that can enhance account ownership and digital payments (World Bank, 2020[19]).

There is also a sizable gender gap in financial literacy and the use of digital payment services. In Egypt, women's usage of digital payments is 12% lower than men's. By contrast in most developing economies, the digital payments gap between men and women is relatively narrow (Findex, 2021[17]).

As a result of the limited data, alternative credit scoring in Egypt is currently relatively limited and mainly relying on historical credit data rather than alternative data from social media and other sources. However, as Egypt transitions towards digitalization of payments, alternative credit scoring has potential to enable more access to finance in Egypt.

Workforce skills gaps

Skills gaps can affect fintech companies directly by creating challenges in finding suitably skilled workers. Indeed, in 2021, approximately about 45% of fintech companies in a CBE survey cited difficulties accessing talent as a major operational challenge (Central Bank of Egypt, 2022[20]). The main skills/knowledge that are difficult to find are technology and software skills (cited by 57% of respondents), compliance skills (21%), and business development and project management skills (19%) . Digital skills gaps also affect fintech companies indirectly by reducing the uptake of fintech solutions by SMEs and entrepreneurs, making it more difficult for fintechs to establish a customer base.

Regulations, policies, and programmes to strengthen the role of fintech in SME and entrepreneurship development in Egypt

Egypt has undergone a period of intense regulatory and policy development in the area of fintech…

The development of the fintech sector is a key priority for the Central Bank of Egypt (CBE) and the Financial Regulatory Authority (FRA), which are the main regulatory bodies for the sector. In 2019, the CBE launched its Fintech and Innovation Strategy and established a dedicated department for fintech and innovation. The vision of the strategy is for Egypt to become a "regionally recognised FinTech hub in the Arab world and Africa". In line with this objective, the CBE has significantly advanced the regulatory agenda on fintech, along with the Financial Regulatory Authority (FRA). Among the notable undertakings are:

- The introduction of the Fintech Act, which regulates robo-advisory, nano-finance, insuretech, and tech-enabled consumer finance. Under the law, the FRA is established as the sole entity that can license and regulate all non-banking fintech activities. The law also sets out transparency and governance standards and the protection of consumer rights (MAGNiTT and ITIDA, 2022[21]). All banked clients have the right to escalate complaints to the CBE against any registered banks which are licensed by the CBE.
- The passage of the Egyptian Banking Law, with the goal of increasing financial innovation in Egypt. This law introduces key provisions on FinTech and regulatory technology. The law authorises the CBE to take proactive measures to foster the adaptation of modern technology across various financial and regulatory services including online banking, electronic transactions, and authorization processes, among others (Global Legal Insights, 2023[22]).
- The introduction of additional regulations that cover mobile payments and e-money. Digital remittances are covered in the general sector framework for remittances developed by the CBE and FRA, while regulations for equity crowdfunding and peer-to-peer lending are forthcoming (see Table 8.1).

The CBE and FRA are currently working on developing a framework for using alternative credit scoring data for financial institutions and allowing financial institutions to start looking at these alternative sources of data. However, as mentioned in the previous section, currently most initiatives rely on historical lending data rather than alternative data sources due to the relative scarcity of the latter.

The CBE has also recently launched an initiative to create a digital financial identity, designed to streamline KYC processes across financial institutions. This initiative aims to allow customers to provide their identification data just once, which will be stored in a secure government database accessible by various financial providers, including fintech companies. By implementing this solution, customers will no longer need to undergo the KYC process multiple times, facilitating broader access to financial services and enhancing the overall efficiency of the financial ecosystem.

The CBE has further launched the electronic payment initiative in 2020 to increase the spread and reach of electronic acceptance channels by publishing new electronic point of sale machines (POS) and quick response (QR) codes. These are distributed across all governorates in Egypt, with the aim of promoting digital financial services.

Lastly, the CBE has strengthened the security and resilience of its digital services infrastructure, through conducting thorough examinations of the infrastructure of fintech systems prior to granting them licences to operate in the market of digital services.

Table 8.1. Regulatory approach to fintech across specific fintech areas

Egypt regulatory frameworks in detailed fintech areas

	Mobile Payments	E-Money	Remittances	Equity Crowdfunding	Peer-To-Peer
Egypt	Fintech Specific Framework	Fintech Specific Framework	General Sector Framework	Regulatory Framework in Development	Regulatory Framework in Development

Note: Illustrates the regulatory stance towards fintech in various significant fintech sectors, highlighting Egypt's distinct provisions within its broader regulatory frameworks, which align closely with the common regulatory frameworks of the MENA region.
Source: (Cambridge Centre for Alternative Finance, 2021[23]) with updates by authors

Multiple regulations govern e-money and mobile payments in Egypt, including the third version of the mobile wallet regulation, which encompasses digital lending and savings features and enables receiving international remittances in Egyptian Pounds (EGP) through mobile wallets. Additionally, regulations for Technical Payment Aggregators and Payment Facilitators, as well as interoperability for cash-in and cash-out services via agents, have been established to strengthen the payment system. The CBE is further enhancing cross-border remittance services by enabling remittances through digital channels and bank accounts.

…but outstanding issues in the regulatory framework are hampering progress

Egypt has made significant progress in developing the regulations for the fintech sector in recent years, however there are still some important gaps in the regulatory framework. In particular, there are areas in which fintech companies can create opportunities for SME and entrepreneurship finance that are still not regulated. Start-ups or existing enterprises that wish to provide services in these areas thus cannot obtain operating licenses. The CBE and the FRA are currently working on issuing new laws to regulate some of these alternative finance activities, including peer-to-peer lending, crowdfunding platforms, ROSCAs, and digital savings. Additionally, some of these activities, such as ROSCAs and lending-based crowdfunding, are currently being tested in the CBE's regulatory sandbox. Implementation of the new regulations remains a challenge. For example, there are areas where legislation exists but executive regulations have not been put in place. This can deter investments in such activities until there is more clarity on the implementation of the regulations.

Existing regulations also create difficulties for fintech companies, with 44% of surveyed start-ups in the fintech sector citing regulatory compliance as a top focus area for their growth in the near future (Central Bank of Egypt, 2023[9]). This mirrors the situation across many sectors of the Egyptian economy, where complex legal frameworks with overlapping or sometimes contradictory provisions and limited guidance creates challenges for businesses, particularly SMEs and entrepreneurs that have limited resources and capacities to keep track of emerging and changing regulations. Likewise, regulatory approval is needed for any change in a product that already has been put in place in the market, which can lead to frequent need for interactions with regulators and wait times for up to a few months for each needed approval.

Open banking is an important enabler of fintech solutions but its reach in Egypt is currently limited

Open banking has considerable potential to foster innovation and competition in the financial sector. If the right regulatory framework is set in place and appropriate safeguards are implemented to protect consumer data, open banking can enable a wider range of financing providers to enter the market. This in turn can stimulate the development of a higher number of tailored financing solutions that serve a wider population of SMEs and entrepreneurs. Critical enablers of open banking include strong regulatory frameworks in

cybersecurity and data protection and their proper enforcement. Open banking also requires digital authentication mechanisms such as national digital identities and e-signatures.

In March 2022, the CBE was authorised to regulate open banking in Egypt (see Table 8.2). The passage of the Cybersecurity Law in 2018 and the Consumer Finance Law in 2020 laid the foundations for open banking. The establishment of a national payment infrastructure through Instapay also provides an important basis for open banking.

However, some concerns have been raised during the fact-finding meetings in Egypt about the competitiveness of the open banking environment. Notably, there have been considerable delays in the issuances of APIs for financial institution and fintech companies wishing to operate in the business-to-consumer (B2C) space. The fact that the infrastructure provider Instapay has also entered the B2C space themselves has also raised concerns about the incentives for fostering a competitive field in the provision of B2C financing services.

Table 8.2. Egypt cross-sectoral regulatory frameworks for fintech

	Data Protection	Cybersecurity	Consumer Protection	Open Banking
Egypt	Financial Services Specific Law / Framework	General Law with Financial Services Agency Strategy	Financial Services Specific Law / Framework	Law / Regulatory Framework

Source: (Cambridge Centre for Alternative Finance, 2021[23])

Box 8.1 presents different international approaches that have been taken to promote the adoption of open banking.

Box 8.1. Promoting the adoption of open banking

There are two main (non-mutually exclusive) approaches to promoting the adoption of open banking:

- A regulation led approach that mandates the sharing and disclosure of information.
- An incentive led approach that works on a voluntary basis to promote open banking.

Regulation led approach

As part of a regulation led approach to promoting open banking, policy must align itself with existing data protection laws. The European Union's Payment Services Directive 2 (PSD2) represented one of the first policies to target open banking. It mandated that, upon customer request, third party providers are given access to payment accounts of customers at banks and other payment service providers. Israel, Australia, Brazil, Colombia, Korea and Türkiye have adopted similar legislation that explicitly defines open banking and empowers third parties to access customer data in specific instances.

Incentive led approach

Governments are also leveraging incentives to drive traditional financial institutions to adopt open banking. One way to incentivise large financial institutions to engage in open banking is through the creation of data sharing frameworks. Under these agreements, all participating parties receive reciprocal access to customer data. Such agreements have been established in countries such as Türkiye and Brazil. Amid concerns surrounding whether such agreements conform with existing data privacy laws, other countries such as Australia and Canada, are creating an accreditation process to make sure only certain institutions qualify for these data sharing frameworks.

Another measure that can incentivise financial institutions to embrace open banking is the establishment of open API registries. These facilitate open banking adoption by reducing the time and investment cost of establishing secure platforms. An open API registry is a centralized platform that lists available APIs from various financial institutions and organisations, promoting standardisation, documentation, and support. It facilitates interoperability, compliance, and security, while also encouraging innovation and collaboration within the open banking ecosystem. For example, the Monetary Authority of Singapore (MAS) has introduced a Financial Industry API Registry that hosts a collection of open tested APIs made available by financial institutions. The Hong Kong Monetary Authority (HKMA) adopted a similar approach, instituting the Open API Framework that provides a secure, controlled operating environment for publishing APIs. These APIs include digital solutions for the purpose of sales, marketing, servicing and transactions.

Improving cybersecurity

Regardless of whether governments adopt a regulation or incentive led approach, open banking can only prosper in cases where systems are trusted and data is secure. To alleviate cybersecurity concerns, the EU's PSD2 required that banks create special interfaces through which third parties can access customer data with technical considerations made to prevent screen scraping. PSD2 also aligns itself with the General Data Protection Regulation of 2016 by establishing strict regulations that forbid the use, access or storage of any data by third parties outside the requested transaction. To ensure the proper implementation of the PSD2, the European Banking Authority has adopted technical standards and guidelines on how to build data sharing platforms to ensure third-party providers only receive the intended data.

The promotion of data exchanges among institutions can both pave the way for open banking and help institutions hedge themselves against cyber-security risks. In Italy, the Banca D'Italia has sponsored data sharing among financial institutions as a way to mitigate cybersecurity risks. Türkiye is also

considering the establishment of a cyber-security intelligence framework that would rely on data sharing arrangements across institutions.

MAS is also trying to ease cyber security concerns and enable open banking by establishing public digital infrastructure for the sake of data sharing. The Singapore Financial Data Exchange acts as a centralised gateway for data sharing, providing non-bank financial institutions with secure access to bank infrastructure. This allows for better planning by financial institutions and access to a reliable payment infrastructure.

Source: (OECD, 2023[24]), (OECD, 2023[25]), (HKMA, 2018[26])

Regulators are creating programmes to trigger the development of fintech solutions

Regulatory sandbox

The CBE established a Regulatory Sandbox in May 2019, to promote fintech adoption, reduce time and cost barriers, and encourage innovation in Egypt's financial sector. The sandbox aims to provide a live testing environment for fintech businesses in the country that cannot be regulated under the current regulatory framework.

The regulatory sandbox enables fintech developers to focus on their core business with a reduced regulatory burden. It is open to start-ups, established institutions, and registered fintech providers, including international participants. The CBE operates the regulatory sandbox in cohorts with specific start dates. The testing period typically lasts six months but can be extended. Participation is free, but companies need working capital (Central Bank of Egypt, 2019[27]). In order to join the regulatory sandbox, the fintech developers must meet the following eligibility criteria:

- Their solutions must be an innovative solution within the area of fintech.
- The solution must have identifiable benefits to customers directly or through market competition.
- The solution should support financial inclusion and digital transformation in Egypt.
- The solution must be ready for testing (idea-level solutions are not accepted) with a well-developed business plan with metrics to measure the solution’s performance.
- The solution is unable to operate in the current regulatory framework.

The CBE launched its first cohort in 2019 focusing on innovation for e-Know Your Customer (KYC) and the remote opening of mobile wallet accounts. An open-theme cohort was subsequently launched in 2020, but there was a gap of several years in the opening of cohorts with the latest - for lending-based crowdfunding - opened in 2023. The limited number of cohorts has constrained the utility of this regulatory tool to many fintech companies, as have the strict eligibility criteria that have excluded those without fully developed solutions. E-KYC was the priority for the first cohort in the regulatory sandbox, for developments like digital on-boarding for new account owners through information extraction and facial recognition. During the COVID-19 pandemic, the Central Bank of Egypt (CBE) also temporarily simplified the onboarding process for mobile wallets by imposing specific requirements. Customers were required to sign the consented KYC after a designated period, and banked customers were also entitled to self-register for mobile wallets.

The sandbox has supported efforts to bolster fintech innovation, but there is considerable untapped potential from this regulatory tool. Stakeholders report that the sandbox has had limited utility for many companies that have taken part already. The focus on mature fintech companies that have already finalised their solution is further constraining the innovation potential of the sandbox. In addition, the limited number of cohorts has restricted the opportunities for many innovative companies to benefit from the sandbox’s

services. However, the CBE has other programs and initiatives available which support start-ups at various stages including the matchmaking programme, the digital solutions programme, FinTekers, and Accelerate'ha. Evaluating the sandbox's performance and impact may be useful to better understand and address key design and implementation challenges.

Box 8.2 below presents the evolution of Malaysia's regulatory sandbox for the fintech sector.

Box 8.2. The evolution of Malaysia's fintech regulatory sandbox

Malaysia is one of many countries that have introduced a fintech regulatory sandbox in order to support the development of the fintech sector. The sandbox, established in 2016, has so far supported over 110 enterprises across many different sectors including insurance, money services, payments, banking and lending. The sandbox is currently open to applicants who can demonstrate that their solution can strengthen the accessibility, efficiency, security and quality of financial services. It also requires that applicants have a business plan that demonstrates a viable business model upon the exit of the sandbox. The sandbox further requires that firms identify potential risks in areas such as financial stability and consumer protection. Interim and final reports help the sandbox operator and participants to assess the viability of the innovation, to address key issues and mitigate risks before the solution is placed in the market.

Since its inception, the sandbox has evolved to reflect changing market needs. Notably, in 2018, the central bank introduced so-called "Specialised Sandboxes' with thematic tracks that enable more specialised testing. Moreover, in early 2023, the central bank proposed a revision to the sandbox framework in response to the changing fintech landscape and the need for more efficient testing of digital solutions. The new proposed framework includes two main changes:

- Simplifying the eligibility criteria to enable early stage fintech start-ups to also quality for the sandbox, in order to help these companies secure the resources needed to support further develop their products. The new proposal allows for the assessment of proposed solutions at conceptual level, which can be validated further during the testing period, without a requirement to demonstrate evidence of impact at the application stage. The proposal also provides more room to develop and demonstrate risk management capability and a suggested three-month timeframe to deploy the solution for testing within the sandbox.
- The so-called Green Lane is proposed to encourage financial innovation among financial institutions by enabling faster-track validation processes. The alternative track is designed to reduce the cost of compliance and time to market for existing financial institutions (i.e. not fintech companies unless they have developed a joint solution) that are in the process of market validation for their solutions in the sandbox.

Source: (IMF, 2020[28]); (IFNFINTECH, 2023[29])

Fintech Fund Nclude

One of the main pillars of the CBE's Fintech & Innovation Strategy is the provision of funding for innovative ventures in finance, with a specific focus on FinTech and FinTech-enabled businesses. The Fintech fund Nclude was established in March 2022 led by three commercial banks (Banque Misr, National Bank of Egypt, and Banque du Caire), in co-operation with the Egyptian Banks Company (EBC), the E-finance Investment Group and Mastercard. Nclude aims to catalyse Egypt's transformation into a digital and financially inclusive economy, by supporting early and growth stage fintech start-ups. The fund aspires to

become the largest focused fintech fund in the MENA region with target capital of USD 150 million (Central Bank of Egypt, 2023[30]).

Fintech and Innovation Hub

The GRID Fintech and Innovation Hub is a 2022 initiative by the CBE to develop a unified platform for fintech innovation by bringing together fintech start-ups, financial institutions, regulators, technology and service providers, and investors. Additionally, the hub's headquarters in Cairo provides coworking and office spaces, conference rooms, and auditoriums to host fintech start-ups from Egypt and across the region (Central Bank of Egypt, 2023[12]). The main goals of the hub are to become a one stop shop for the fintech ecosystem, foster innovation, and contribute to the expansion of the fintech sector. It further aims to initiate programmes in collaboration with banks, global financial service providers and regional fintech hubs to stimulate the growth of fintech startups, and accelerate their market compliance. The Fintech Egypt Portal was launched in 2019, and acts as a complementary online gateway for the hub, through unifying fintech companies and facilitating matchmaking between different stakeholders.

The government is taking steps to address the cash-based nature of Egypt's economy, which remains a major bottleneck to fintech development

Although there is increased digitalization in Egypt, the limited use of digital payments in Egypt results in businesses having a limited digital footprint. As a result, fintechs do not have access to the data needed to make assessments of businesses' credit worthiness and borrowing and repayment capacity and determine appropriate financing terms. This restricts their capacity to deliver alternative credit scoring and financing solutions to unbanked SMEs and entrepreneurs. Egypt's cash-based economy also inhibits the growth of the fintech sector by reducing the demand for fintech solutions among SMEs and entrepreneurs. Furthermore, regional and gender gaps in access to digital technologies limit fintech companies' ability to provide services to important unbanked populations of SMEs and entrepreneurs, which raises concerns about the intrinsic biases and equity of distribution of fintech solutions.

Fostering the digital payments ecosystem and promoting digital transactions is therefore critical for the development of the fintech sector in Egypt. Creating a conducive ecosystem for digital payments can help accelerate the creation and adoption of digital payment solutions. Towards this goal, Egypt's Cashless Transaction Law, passed in 2019, and in effect since September 2021, requires public entities and private entities exceeding a specified size threshold to pay salaries, loans, donations, subsidies, rent or land expenses, governmental payments, and insurance premiums by digital means. Failure to comply results in a fine of 2-10% of the total value of the cash payment (capped at EGP 1 million). However, most private sector salaries, including those in the informal and formal sector, are still paid in cash.

Egypt has taken several initiatives to to build up the digital payments infrastructure. This includes the establishment of the National Payments Council (NPC), the Less Cash Transformation Framework and the national payment scheme "Meeza''. The Meeza card, implemented by the CBE in 2019, promotes digital payments, available to any Egyptian with a national ID and access to a bank branch or bank agents and service providers. The Meeza card is available either as a debit card or a prepaid card. The latter option is the most popular, with the prepaid card having accumulated 34.5 million users since 2019 , of which 10 million are currently active. All public sector employees receive their salaries through Meeza, which is one of the factors behind the scheme's strong uptake. Meeza Digital provides the option for a mobile wallet, which have shown particular success, with mobile wallet accounts reaching 39 million by the end of 2023. This service encompasses various transactions, such as paying for traffic services, making donations to charitable organizations, and issuing virtual card numbers (VCN). Furthermore, individuals can receive pensions and salaries directly into their mobile wallets, facilitate account value loading through bank cards (AVL), and receive international money remittances. Availing e-commerce purchases can be completed through scanning QR codes and utilising Request to Pay (R2P)

functionalities, which accept mobile wallet payments remotely. The introduction of the Instant Payment Network (IPN) has facilitated financial transactions between bank accounts, Meeza prepaid cards, and mobile wallets through the InstaPay mobile application, enabling customers to seamlessly perform transactions. The Egyptian government has further introduced the farmer smart card for the agricultural sector, which is one of the country's most cash-based sectors. With this card, Egypt can digitize farmers data, allowing them to make digital payments, and use alternative sources of data to have access to financial instruments based on their digital profiles in the new agricultural marketplace called e-Aswaaq Misr. In 2021, 3 million farmers had obtained a farmer smart card, of which 1.5 million were active users of the card (FinTech Egypt, 2019[179]) (IFC, 2022[52]).

The Less Cash Law has played a notable role in restricting cash usage for payments exceeding 500 EGP at government entities, and subsequently mandating all payments to be conducted electronically. This initiative extends to Government-to-Person (G2P) and Person-to-Government (P2G) transactions, promoting the digitalisation of salary payments, pensions, and public service fees. Furthermore, the CBE's electronic payment initiative, launched in 2020, aims to increase electronic acceptance channels by deploying new POS machines and QR codes across all Egyptian governorates, improving accessibility to digital financial services. The Covid-19 pandemic resulted in the CBE taking additional measures to increase digital payments including the issuance of mobile wallets and prepaid cards for free, as well the cancellation of commissions and fees on transfers between different bank accounts and mobile wallet accounts.

Measures have also been taken to increase the efficiency and accessibility of electronic banking services. The Egyptian Banks Company enables interoperability across various payment methods, ensuring accessible financial services, while the Instant Payment Network (IPN) enhances payment ecosystem efficiency.

The Egyptian banking sector also offers a mobile wallet service tailored to meet diverse needs, including P2P transfers, mobile top-ups, and bill payments. This service encompasses various transactions, such as paying for traffic services, making donations to charitable organizations, and issuing virtual card numbers (VCN). Moreover, individuals can receive pensions and salaries directly into their mobile wallets, facilitate account value loading through bank cards (AVL), and receive international money remittances. Additionally, availing e-commerce purchases by scanning QR codes and utilizing Request to Pay (R2P) functionalities to accept mobile wallet payments remotely as well as using cards, provides users with a financial solution for non-cash payment acceptance.

Measures to strengthen the digital payments ecosystem should be complemented with direct incentives for consumers and merchants to use digital payments. The case of India provides an example of an effective, multi-pronged approach to promoting the use of digital payments (Box 8.3). The Central Bank of Egypt implemented several precautionary measures in response to the COVID-19 pandemic, including waiving fees on mobile wallets and local transfers, simplifying mobile wallet account openings, and eliminating fees on points of sale and ATM withdrawals. Further efforts to boost account ownership for savings and payments should also be encouraged, including, for example, mandating the electronic payment of utility bills, which are still overwhelmingly paid in cash in Egypt.

Box 8.3. India's approach to fostering the digital payment ecosystem

The Indian Ministry of Electronics & IT (MeitY) in collaboration with the central bank have taken a number of important steps to promote digital payments:

1. The incentive scheme for promotion of RuPay Debit cards and low-value BHIM-UPI transactions. The Bharat Interface for Money (BHIM-UPI) is a payment app that facilitates money transactions and requests through a Unified Payments Interface (UPI). Customers can make a payment to anyone on the UPI using their UPI-ID or QR through the BHIM app. This initiative supports banks in establishing a strong digital payment infrastructure, promoting the adoption of RuPay Debit cards and BHIM-UPI transactions across various sectors and demographics, and fostering the expansion of digital payments throughout the country.
2. MeitY has introduced several other incentive or cashback schemes to encourage both customers and merchants to adopt digital payments at a faster pace. These include the BHIM Cashback Scheme for Individuals & Merchants, the BHIM Aadhaar Merchant Incentive Scheme, the BHIM-UPI Merchant On-boarding Scheme, and the Merchant Discount Rate Reimbursement scheme.
3. MeitY has issued advisories to other government entities, urging them to improve the acceptance payment infrastructure such as Internet banking, mobile banking, and mobile applications. This initiative aims to enable citizens to make payments conveniently using different digital methods.
4. MeitY's "Pradhan Mantri Gramin Digital Saksharta Abhiyan (PMGDISHA)" scheme aims to promote digital literacy in rural areas of India by providing the skills and knowledge necessary to effectively use digital technologies and participate in the digital economy.
5. MeitY has advised banks and payment service providers to conduct awareness campaigns to promote secure payment practices and raise awareness about information security.
6. To promote digital payments, including the BHIM app, MeitY has organised awareness campaigns (including newspaper, radio, billboard and social media campaigns) in major cities in Northeast India.
7. To commend India's growth in digital payments, MeitY organised the 'Digital Payment Utsav' celebration. This brought together leaders from the government, banking sector, fintech companies, and startups. Top banks were given awards in different categories to recognise their accomplishments in promoting digital payments.
8. MeitY has collaborated with the Ministry of Consumer Affairs (MoCA) to integrate Digital Payment Grievances into the National Consumer Helpline (NCH) platform, which is managed by the Department of Consumer Affairs (DoCA). This integration allows consumers to report grievances related to digital payments through the NCH platform. Major banks and financial service institutions have been included in this initiative, ensuring that consumers can address their digital payment issues through this centralized platform.

Source: (Ministry of Electronics and IT of India, 2022[31])

Promoting digital financial literacy is also critical for boosting the uptake of the growing supply of digital financial solutions. This is a particular priority for women, given the large gender gap in the use of digital payments. However digital financial literacy programs can also be developed for young people, including within formal education curricula, for the elderly, who have limited awareness but are an important consumer group, and for SMEs. The CBE is currently in the process of drafting a National Financial Literacy

Strategy to address these issues. Some examples of programmes specifically targeted at women and SMEs within the OECD and other peer countries are presented in Box 8.4.

Box 8.4. Promoting digital financial literacy

Women

The Reserve Bank of India has co-ordinated with the National Rural Livelihood Mission, an agency focusing on livelihoods and skill generation for rural women, to share financial education messages. The messages, available in regional and local languages, have been disseminated widely through various platforms, including instant messaging applications such as WhatsApp.

In New Zealand, the Sorted at Work seminars offered by the Commission for Financial Capability (CFFC) provide dedicated sessions for women, which focus on financial situations women are likely to face. The sessions aim to help women develop knowledge, attitudes and beliefs that increase positive financial behaviours and give them confidence to take action to secure their financial future.

SMEs

In France, the central bank has designed a website (mesquestionsdentrepreneur.fr, “my questions as an entrepreneur”) to support entrepreneurs with tailored financial education resources and digital tools to support business creation and development, with a view to increasing the financial resilience of targeted entrepreneurs. It includes guides on topics such as effectively calculating selling prices and adequately insuring business operations, and it also offers guidance on administrative and legal procedures.

In Morocco, the Financial Education Foundation has a dedicated section on entrepreneurship on its financial education website. Through this, SME owners can test their knowledge of accounting and other important aspects of business creation and development, access calculators to better manage their businesses’ finances, and navigate tax issues. During the COVID-19 crisis, the Foundation stepped up its digital initiatives to support SMEs, including through social media campaigns, videos, and expert interviews on topics linked to digital financial services and managing a company in times of crisis.

In Portugal, the website of the National Plan for Financial Education has a dedicated area to support entrepreneurs who intend to launch a company. The information and tips available in this area provide an overview of what entrepreneurs need to be aware of before starting a business, such as the legal procedures required to set up a company and the different forms of financing they can benefit from. This area also includes a section aimed at managers whose firms are facing difficulties, in which a set of tips is available to help them overcome hard times.

To help micro and small businesses recover from the COVID-19 crisis, the Bank of Italy partnered with business associations to launch a financial education initiative in 2021/2022, specifically aimed at developing the financial and entrepreneurial skills needed to run a small business. The initiative includes a mix of online lessons and opportunities for participants to discuss and ask questions in person.

In Peru, the Ministry of Production has implemented a virtual financial education programme to educate owners of micro and small enterprises on how to access credit for working capital, to inform them about business support programmes, and to teach them how to manage their businesses’ finances.

Source: (OECD, 2021[32])

There is significant potential to foster the fintech sector by addressing skills gaps

Policymakers in Egypt have taken large steps to address skills shortages affecting fintech development. The Egyptian Banking Institute, affiliated with the CBE, provides many financial educational materials in addition to the training courses that were provided through the Decent Life Initiative. Further, the CBE's FinTech for Youth initiative aims to raise awareness on fintech and digital solutions among university students. The scheme incorporates fintech projects into students' curricula so that they can participate in Egypt's "National Fintech Problem Statement". Currently there are 25 universities that are part of the initiative, which has already expanded to other governorates in the country. (MAGNiTT and ITIDA, 2022[21]). The CBE also offers talent programmes for undergraduate and postgraduate students, including the FinYology graded project, the FinTech got Talent competition, the Accelerate'ha' and the Digital Academy. Box 8.5 provides some international examples of upskilling programmes and programmes to promote fintech and digital skills among youth. The SME digitalisation chapter of this report examines the policies and programmes in place in Egypt to address digital skills gaps more generally, which in turn can boost the demand for fintech solutions.

Box 8.5. Developing skills in fintech: the case of Singapore, the United Kingdom, and Hong Kong

The Monetary Authority of Singapore (MAS) in 2020 authorised a USD 90 million support package aimed at strengthening the workforce capabilities of the financial services and fintech sectors. This includes a job support scheme that offers allowances for workers and subsidies for businesses to cover the costs of worker training through accredited courses. The MAS has also launched a set of grant schemes to employers who hire recent graduates and place them into talent programme management schemes. For fintech, additional support is provided as part of the support package launched in 2020.

The United Kingdom (UK) has rolled out a pilot "Upskill in Cyber" programme, which seeks to upskill existing workers and connect them with employers. The programme runs for ten-weeks, with options to complete the course online or in-person. Candidates who complete all the requested courses are guaranteed an interview with partnering employers. Another relevant UK initiative is the National Centre for Computing Education, which has established a set of technical digital education options for 16–19-year-olds. These technical courses include subjects such as Digital Business Services, Digital Production, and Digital Support Services.

Meanwhile, the Hong Kong Monetary Authority (HKMA) launched the Industry Project Masters Network (IPMN) scheme as a way to develop fintech talent. The programme assigns postgraduate students from local universities to fintech projects for a duration of up to eight months. During these projects, students are supervised by industry mentors from financial institutions, consulting firms and tech companies.

Source: (MAS, 2020[33]), (HKMA, 2022[34]), (UK Gov, 2022[35]), (UK Gov, 20233[36])

Fintech start-ups face exciting challenges and there's room for streamlining the administrative process to enhance their journey towards success

The licensing process for fintech companies in Egypt can be complex and time consuming, which is a major deterrent for market entry both of domestic and foreign enterprises. Specifically, new market entrants face considerable ambiguity over what is needed to obtain license(s), a lengthy process to obtain the license(s) and considerable financial costs that are particularly burdensome for start-ups and micro and small enterprises. Stakeholders also report that shortages of technical expertise within regulatory bodies

are another challenge faced by fintech companies. Reducing the administrative burden on fintech start-ups can promote greater innovation in the financial sector, the growth of new fintech companies and the expansion and diversification of digital financial solutions that can address the financing needs of Egyptian SMEs entrepreneurs. Some examples of approaches that have been taken to lighten the burden on start-ups in OECD countries and beyond are provided in Box 8.6.

Box 8.6. "Light" licensing schemes

Public entities across the world are adapting their licensing and regulatory regimes in order to pave the way for the development of fintech companies and services:

- The European Commission (EC) has taken major steps in introducing flexible licensing as a means of promoting the growth of new fintech firms. Previously, crowdfunding firms in EU member states were regulated and authorised according to the same standards as investment services. Through the "European Crowdfunding Service Providers for Business" regulation the EC has since introduced more relaxed authorisation requirements for crowdfunding services by removing minimum initial capital requirements and product governance requirements and increasing insurance flexibility.
- Australia offers licensing exemptions for fintech companies that have a small number of clients or who offer products of only small sums. Additionally, Australia has instituted a modular licensing scheme that allows companies to bypass certain regulatory hurdles and obtain licenses only for the specific services they provide.
- The Hong Kong Monetary Authority (HKMA) as part of its Banking Made Easy initiative streamlines regulatory requirements for remote customer onboarding, account maintenance, online finance and online wealth management. Banks under this initiative may use technology such as big data and consumer behaviour analytics to determine credit worthiness for a part of their portfolio instead of relying on traditional metrics such as borrowers' proof of income.
- In Lithuania, additional efforts are being taken to lower business' administrative burdens and bypass . Licensing requests can be made remotely and are fast-tracked with guided government support. The government has also established CENTROlink, which allows for institutions without a banking license to access the Single Euro Payments Area (SEPA).

Strategic use of sandboxes can also be used to lower licensing requirements. For instance, the United Kingdom's sandbox offers a temporary form of authorisation for a defined period of time, after which companies can apply for full authorization if needed. To ensure that consumers are protected, a dedicated advisor is assigned to each authorisation to follow the process and check the outcomes. Meanwhile, in Abu Dhabi, companies can operate for up to two years in the "RegLab" without a traditional license. Certain restrictions are imposed as a safeguard, such as limits on the number of products, types of customers, size of transactions, and the geographical area where products can be offered.

Source: (European Banking Institute, 2023[37]), (OECD, 2018[38]), (Invest Lithuania, 2023[39]), (HKMA, 2017[40])

Conclusions and recommendations

Egypt has made considerable progress in strengthening the regulatory and policy environment for fintech and establishing measures to support the sector. As elaborated in the section on the state of fintech in

Egypt today, there are many opportunities for public sector action to further foster the development of the fintech sector and strengthen its ability to close the SME financing gap.

Fostering the expansion of the fintech sector will require a more adaptive and agile regulatory framework that can promote financial sector innovation, enable market entry for new Fintech players and enable integration of Fintech services with the traditional banking sector. This means that the regulatory sandboxes established under the CBE and FRA should seek to maximise the opportunities for entry for diverse fintech solutions, including solutions at idea level, and should be complementary in their operations. In order to reduce the regulatory burden on smaller firms and new market entrants, the regulators should also consider implementation of tiered licensing and other regulatory procedures that take into account enterprises size and contribution to system risk when defining their regulatory and licensing requirements.

Growing the digital payments ecosystem is also critical to generate the data and digital footprint that can facilitate the development of tailored digital financial solutions for SMEs and entrepreneurs. This can entail the provision of incentives, such as cashback or discount programmes, for the use and acceptance of digital payments among consumers and merchants, including mobile wallets; the provision of incentives for digital payment of utility bills; tax incentives for utility companies and the provision of digital financial literacy trainings or education programmes, particularly for women and SMEs.

Promoting a conducive business environment for Fintech companies, underpinned by a National Fintech Strategy, would also be critical to enable the development of more diverse and cost-effective financing solutions for small businesses. Some proposed solutions in this area include providing incentives (e.g. tax breaks or regulatory exemptions) for financial institutions that partner with fintech companies, as this is identified as a key challenge for many fintech providers currently. Fostering more competition in the B2C space and the issuance of APIs for financial institutions and fintech companies wishing to provide financial services to SMEs is critical in this regard.

Access to talent and skills is critical for the growth of the fintech sector and is currently an important bottleneck for the fintech providers. Fostering relevant skills in the formal education system and its better alignment with labour market needs is critical in this regard. This should be accompanied by initiatives for upskilling and reskilling of the existing workforce to meet the demands of this growing and high-potential sector in Egypt.

Box 8.7. Key policy recommendations to strengthen the role of fintech sector in SME and entrepreneurship development

Improving the regulatory and policy environment for fintech companies

- Develop a National Fintech Strategy to underpin the comprehensive reform agenda in the sector.
- Implement tiered regulatory and licensing procedures for fintech companies to facilitate market entry and reduce the regulatory burden for smaller financing providers.
- Implement a cohort-free model of the regulatory sandbox or otherwise open more cohorts to enable a greater number and a more diverse set of solutions to gain access to the Sandbox services, including ideas at earlier stages of development.
- Ensure complementarity between the CBE sandbox and the newly-established FRA sandbox.
- Create a regulatory framework for revenue-based financing and other financing solutions that fintech companies can tap into to close the financing gap for MSMEs and entrepreneurs.

Foster the digital payments ecosystem

- Provide incentives, such as cashback or discount programmes, for the use and acceptance of digital payments among consumers and merchants, including mobile wallets.
- Provide incentives for digital payment of utility bills through, for example: cashback or discounts, waiving of processing fees, awards for consumers, and tax incentives for utility companies.
- Provide digital financial literacy training or education programmes, particularly for women and SMEs.

Foster a conducive business environment for Fintech companies wishing to operate in the B2C space

- Provide incentives (e.g. tax breaks or regulatory exemptions) for financial institutions that partner with fintech companies.
- Promote more competition in the B2C space and issuance of APIs for financial institutions and fintech companies wishing to provide financial services to SMEs.

Support fintech education and skills

- Upgrade the digital skills of the existing workforce through trainings, such as ICT bootcamps, possibly provided in collaboration with the private sector.

Strengthen the quality of STEM education and encourage more students, especially women, to pursue STEM education.

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Notes

[1] The Business Environment chapter of this report provides a more comprehensive summary of SMEs' and entrepreneurs' access to finance in Egypt.

[2] Studies in economies with more developed fintech sectors have also found that unsecured lending through fintech providers can enable SMEs to invest in assets that they can subsequently collateralise to access bank financing, providing enterprises with a more diversified portfolio of financing options.

[3] An SME can issue a blockchain token, that enables the digital representation of an asset (tangible or intangible). This asset can be then traded, discounted, or financed as a collateral through a distributed ledger (an electronic system that allows information registration from more than one entity).

[4] The SME digitalisation chapter of this report discusses the above points in greater detail.

OECD Studies on SMEs and Entrepreneurship

SME and Entrepreneurship Policy in Egypt

This report presents the findings of an OECD review of *SME and Entrepreneurship Policy in Egypt*, including two thematic chapters on fintech and digitalisation. The report is produced within the framework of the OECD Egypt Country Programme. It examines the challenges and opportunities for SME and entrepreneurship development and offers recommendations for future policy, taking into account the principles of the OECD Council Recommendation on SME and Entrepreneurship Policy and good practice policy approaches from other countries with transferable lessons for Egypt.

Egypt is making strides in advancing the SME and entrepreneurship economy, where the government has been working on developing an inclusive ecosystem, improving SME performance and enhancing their contribution to national economic growth. There is a strong entrepreneurial spirit, a growing start up scene and a large and diverse population of SMEs and entrepreneurs. Future priorities are to grow more medium sized, innovative and export oriented SMEs, boost productivity and increase business formalisation.

The government has a strong policy agenda in place to achieve these aims and has made a number of important policy reforms. The Micro, Small and Medium Enterprises Development Agency (MSMEDA) has the lead responsibility for SME and entrepreneurship development in Egypt and has developed a range of effective support instruments, working in collaboration with other key national and international agencies. Future policy development priorities include further easing of the regulatory burden, improving access to financing, strengthening R&D exploitation, improving policy monitoring and evaluation, and strengthening business advice.

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