



LEGAL EMPOWERMENT OF THE POOR

THE INFORMAL SECTOR IN EGYPT: PROBLEMS AND ATTEMPTS FOR REFORM

[UNOFFICIAL TRANSLATION]

By

Amal Refaat

The Egyptian Center for Economic Studies (ECES)

Introduction:

This paper deals with the informal business sector in Egypt, its volume and specific traits. It also tackles the most important problems and the projected alternatives for reform. The distinction between the so-called official and unofficial activities depends on the adherence to the rules set by the government to regulate business. Based on this definition, the unofficial business activities are those activities that are not registered at government authorities and do not comply with the rules that regulate business development, procession and relations. The paper distinguishes between two basic types of unofficial business: Survival activities which basically include domestic and roving activities as well as unofficial activities within establishments whose owners prefer to stay outside the official sector with a view to avoiding the obstacles imposed by the legal and institutional framework regulating unofficial business activities.

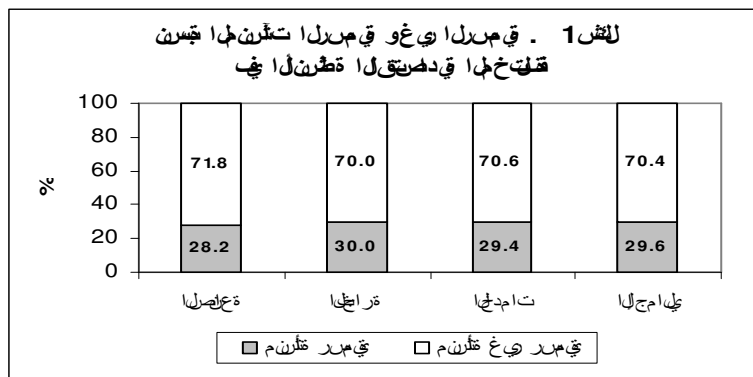
The paper is divided into 3 main sections: it begins with specifying the unofficial business sector and its relationship with the broader concept of unofficial economy. The second section deals with the most important problems and reform endeavors in the last few years. The third section reviews the most important alternatives projected for reform.

1. The informal sector in Egypt: Dimension and characteristics. According to the definition used in some studies on the informal sector in Egypt, the enterprise is considered unofficial if it does not fulfill any or all of the following conditions:

Founding, licensing and regular book-keeping. According to this definition some estimates indicate that the informal sector in Egypt includes about 82% of the small and micro-enterprises (Al.Mahdi 2002) or 70% if we exclude the activities conducted outside establishments (Al.Mahdi 2006). Pursuant to the survey conducted on small and micro enterprises in 2003 which included the activities inside establishments only, the informality is focused on the establishments in which one individual works (82, 6%). Such informality decreases with an increase in the number of employees and it amounts

to 17.5% in the units that employ between 10 - 49 employees. Likewise, informality decreases with an increase in the value of the capital invested in the enterprises. Results of the survey show that there is an increase in informality in the countryside (81%) compared to urban areas (63%) and in Upper Egypt (80%) compared to Lower Egypt (75%). The survey also indicates that there isn't much discrepancy between official and unofficial enterprises in the various economic activities. However, this result needs to be scrutinized since many industrial operations are usually conducted in larger establishments, therefore they are more vulnerable to government inspection and tend to adhere more to legal procedures. (Figure 1)

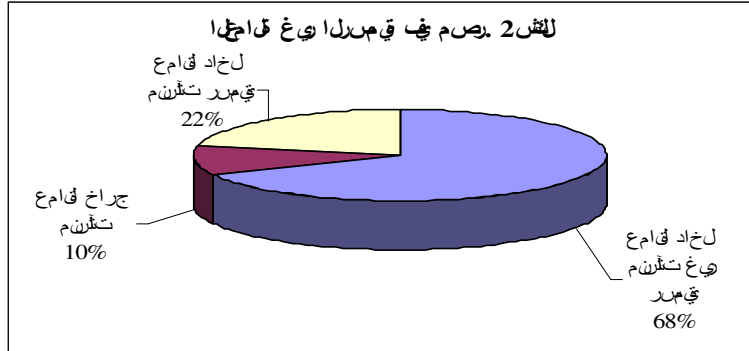
Regarding the relationship between gender and informal business, results indicate that there isn't much discrepancy between the degree of the formality and the gender of entrepreneur. According to the results of the survey, the legal and institutional framework governing the formal economy is the primary drive for establishments to work outside such formal economy to avoid the various barriers. (Al- Mahdi 2006).



Source: Al – Mahdi 2006

In the last few years, a broader concept for the informal sector had been projected: i.e. the informal economy. The new concept focuses on informal business relations in the official and unofficial establishments so as to include unwaged labor in the unofficial establishments and cover also those employees who work without official contracts or social insurances in the official and unofficial establishments. The volume of unofficial

economy in Egypt, in 2003, was estimated by 8.2 million employees, 68% of them work in unofficial establishments as indicated in figure (2) (ILD ECES 2004)



Source: ILD / ECES, 2004

2. The most important problems Facing the Informal Enterprise Sector.

The informal enterprise sector is not homogeneous as it covers the domestic and roving activities along with those activities conducted inside fixed establishments. The expansion of the informal sector involves discrepancy in the nature of problems facing this sector that will be tackled in this section in details. However, we will first review the most important problems confronting the survival activities and later we will deal with the problems of the unofficial activities inside establishments.

1-2. Survival Activities

In Egypt, we have a number of governmental and non-governmental supported programs and enterprises that aim at promoting survival activities, at the top of which what is so-called "Productive Families" which has been in operation since 1960s and is sponsored by Ministry of Social Affairs (currently Ministry of Social Solidarity).

The enterprise is targeting the marginalized families and the poor, with the purpose of transforming the houses of these families into production units to contribute to income generation through provision of financial, training and marketing services. (Khair El-Din & El – Leithy 2004). The total number of the enterprise beneficiaries amounted to

1.85 million families in 2005. The training services of the enterprise cover 3.474 centers in various governorates, along with marketing service through 136 permanent exhibitions (Table 1). In addition to the said enterprise, the economically active poor could obtain micro loans from non-government organizations or banks against affordable guarantees (1).

Despite the significant efforts exerted, there are some deficiencies, including lack of coverage and access to the entire target categories, in addition to insufficient training and technical assistance. The informal enterprise sector still suffers from some problems such as funding and marketing of products along with the risks facing the hawkers such as police chasing and product confiscation (Rizk 2001, Khair El Din and El-Leithy 2004, EBI ISDF 2005, Al-Mahdi 2002).

In view of the various problems that hinder survival activities, we will focus on the funding problem for 2 reasons:

(1) The deep gap of funding in micro-finance market in Egypt which constitutes an obstacle confronting the development of enterprises for the poor. Despite the difficulty we encounter in determining the demand for the micro- enterprise finance, there are some estimates indicate that 29% of the demand is only covered. Thus we need to shed more light on this problem and its causes (Table 2) (2).

(2) Special attention has been given to these problems has been recently crystallized in the formulation of a national strategy for the micro-enterprise finance. It is useful in this context to discuss the projected solutions for some of those problems that encounter the informal enterprise sector in Egypt.

Table 1: The productive Families enterprise: The Beneficiaries' characteristics, funded enterprises, loans and assessment of beneficiaries (percentages) (1)

	Urban	Rural	Total
Beneficiaries Characteristics			
Distribution of beneficiaries by gender:			
Percentage of women in the sample (%)	30.7	20	24.9
Percentage of men in the sample (%)	69.3	80	75.1
Distribution of beneficiaries by poverty status			
Percentage of the poor in the sample (%)			53,33

Percentage of the non-poor in the sample (%)			46,67
Enterprises Characteristics			
Distribution of loans by the status of the enterprise: existing – new			
Percentage of loans offered to a new enterprise	60.3	40.1	49.4
Percentage of loans offered to an existing (%)	39.7	59.9	50.6
Distribution of the enterprises by enterprise location			
Percentage of enterprises inside homes (%)	22.9	63.5	44.8
Percentage of enterprises outside homes (%)	77.1	36.5	55.2
Loans Characteristics			
Distribution of Loans by amount (% of the total sample)			
Less than L.E 1500	21.9	42.1	32.8
L.E.1500 - L.E.3000	29.4	48.1	39.5
more than L.E. 3000	48.6	9.8	27.7
Distribution of loans by period (% of the total sample)			
1 year or less	14.5	26.2	20.8
2 Years	56.4	33.1	43.9
3 years or more	29.1	40.7	35.4
Interest rate :	8% annually on total loans or actual interest rate.5%		
Distribution of loans by installments (% of the total sample)			
Monthly	79.8	42.8	59.8
Quarterly	2.3	2.8	2.5
Every 6 months	17.8	52.4	36.4
Annually	0.1	2.1	1.2
Assessment of borrowers for some aspects of the loan			
Obstacles of the loan (% of the total sample)			
Lengthy procedures	32.4	32.2	32.3
High interest rate	26.1	34.6	30.1
Difficulty in securing a guarantee	20.6	15.5	18.2
Short grace period	18.9	17.2	18.1
High administration fees	2	0.5	1.3
The average annual rate	16.8		
The annual turnout			

† results of a 1532 sample of the productive family enterprises beneficiaries.

Source: Khair El-Din & El-Leithy 2004

Table (2) Estimate of the demand surplus of Micro-Enterprise finance in Egypt

Total Population (Million)	66.372
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No. of people below poverty – line (Million)	15.265
No. of Families below poverty-line (million)	2.180
No. of families in need of credit ⁽²⁾ (Million)	0.872
No. of active borrowers 2003 (Million)	0.256
Percentage of borrowers against the market capacities (%)	29
Market gap (No.)	0.616
Market gap (% of total)	71

1- assuming that the average of the poor family is 7 members

2- assuming that the 40 % of the poor families is able to develop income-generating enterprises

Source: United Capital Development Fund 2004

Problems confronting Micro – Enterprise Finance in Egypt

Although the micro-enterprise finance market has witnessed positive development represented in the increase in the number of active borrowers in the last few years, mostly due to the introduction of diversified lending by adding the collective lending along with the already existing individual lending ⁽³⁾. However, a considerable part of the demand on micro-enterprise finance is still un-covered.

The finance services in this market, which are primarily focused on lending, are provided by civil societies under the supervision of the Ministry of Social Solidarity according to the provisions of law 84/2002. Banks also provide such services under the supervision of the Central Bank pursuant to law 85/2003 (Mussa 2006) ⁽⁴⁾. The Social Fund for Development (SFD) under law 141/2004, works on co-coordinating and

assisting in the procurement of finance for these small and micro-enterprises (in addition, SFD manages a portfolio for micro finance through NGOs) ⁽⁵⁾

The SFD Cooperative Insurance Society for Small Enterprises (CIS-SE) and the Credit Insurance Company provide credit guarantee services. It is noteworthy to mention that the micro – enterprise finance initiatives in Egypt are supported by government circles or international donors.

The NGOs play an important role in the micro-enterprise finance market in Egypt as they provide about 70% of the available finance. NGOs are also considered the most capable bodies to provide this type of finance because of the relative friendly relationship with the target categories. However, these societies suffer from some of institutional and legal restrictions that negatively affect their activity and coverage. As NGOs are unable to mobilize savings or present one of its assets as a guarantee to banks in order to secure loans and as credit guarantee services are not available for all NGOs, they are incapable of procuring enough funds needed for their activities.

Moreover, NGOs are unable, according to the institutional point of view, to meet the demands and requirements of the donors and banks such as notification and reporting, the matter that affect their procurement of enough funding.

The legal framework of these micro finance-oriented NGOs does not make distinction between them and the other ones that do not pursue such activities and as such there are certain restrictions imposed on their activities.

Thus the micro-enterprise finance institutions face lengthy and complicated procedures in obtaining finance from banks or donors; moreover, the steps of pursuing the financial transactions ⁽⁶⁾, administrative procedures ⁽⁷⁾ and accounting criteria ⁽⁸⁾ stipulated in the NGOs law don't fit with micro-finance institutions. Law No. 88/2003 on banks constitutes unbridgeable hurdle for the transformation of the micro-finance oriented NGOs into banks or allow for the introduction of new banks specialized in micro-finance ⁽⁹⁾.

Unlike the NGOs, banks have surplus of funds, yet they aren't into micro-finance although there are no legal hurdles. One of the reasons why banks avoid entering into this field is their lack of awareness that such activity is highly profitable, rather they

consider it as a risky activity since it is directed to the poor in view of lack of information about clients of such type of credit ⁽¹⁰⁾.

To overcome micro-finance problems in Egypt, a framework was recently developed to stimulate the market. We will refer to this in the following section of this paper. Now, we will review the most important problems confronting the unofficial establishments which differ in their nature compared to the problems facing survival activities as they are more related to legal and institutional framework governing enterprises.

2.2 The unofficial activities inside establishments

It is noteworthy to indicate that assistance programs targeting small and micro-enterprises in Egypt (with the exception of some programs such as the productive families enterprise, Shorouk enterprise and the micro-enterprise finance services) require that the enterprise beneficiary shall register at the concerned authorities and have a license (El-Mahhdi 2002) so as to benefit from the finance, marketing and training services provided. If this condition deprives the unofficial enterprises of the services available to their counterpart in the formal sector, then this is justifiable in terms of justice and formal sector promotion. It is not feasible that the informal enterprises benefit from the services available for formal enterprises without bearing the costs such as founding fees, taxes and other ancillary expenses.

As for the reluctance on the part of unofficial enterprises to enter the formal economy several studies have shown that the legal and institutional framework governing enterprises is a primary reason. We will now review the main characteristics of the legal and institutional framework governing the establishments in Egypt with a view to highlighting reform endeavors in the last few years and the major obstacles facing the official enterprises.

Legal & Institutional Framework of Small and Micro Enterprises

The legal framework governing enterprises has an impact on such enterprises in different stages of their life cycle starting from founding stage and procuring the operation license, the operation stage itself and later the exit of from the markets.

It is noteworthy to mention here that according to the provisions of law No. 141/2002 enacted to promote small enterprises, the social development fund is responsible for the promoting small and micro-enterprises in Egypt⁽¹¹⁾. This includes the process of planning, co-coordinating and promoting with a view to obtaining finance and services⁽¹²⁾.

A: Founding Stage & Issuance of operation license:

a number of government agencies are in charge of registering enterprises in Egypt. The act of registering enterprises of individuals is conducted through commercial registration, preliminary court, financing companies affiliated to Financing Companies Sector - the General Authority for Investment (this is regarding the companies of law No. 159/1981) and the General Authority for Investment (this is regarding the companies of law No. 8/1997). Upon the request of the companies, the social fund for development acts also as a body in charge of registering the small and micro-enterprises according to law No.141/2004⁽¹³⁾.

The issuance of operation licenses is governed by a number of laws in accordance with the activity of the enterprise and its location. There are more than 15 agencies that regulate this issuance and the district at the end determines whether the enterprise has met the requirements needed for obtaining the license.

To facilitate the procedures of entry into the market (which were lasting for 232 days in 2003 for each individual enterprise and 372 days for joint stock companies). The single window system was applied in registration and license issuance in the Social Fund for Development and the General Authority for Investment. According to Law No. 141/2004, the Social Fund for Development establishes, in its offices or its branches, units conducting all measures necessary for small and micro- enterprises, upon the request of the owners, such as registration, license issuance, approvals and cards imposed by the legislations in order to practice its activities within a period that does not exceed 30 days from the date of submitting the documents to the concerned administrative agencies that are authorized to issue the licenses The units issue a temporary license to the enterprise owner to practice the activity upon filling in the form designed for this purpose along with the required documents and until the final licenses are issued from the

other agencies . If such agencies do not respond within a 30 day period, the temporary licenses become a final one and the final license are recorded in a special register at these units. Each enterprise is given a national number that is used in all its dealings.

The registration through the SFD offers a number of benefits for the enterprises, one of which is the services offered by the fund such as finance, technical support and marketing. The ministries and public authorities allocate 10% of its purchases along with 10% of the available land for investment in the industrial, touristic and urban communities and the agricultural reclamation land to develop small and micro enterprises. So far the social fund for development has established the single window system in 10 governorates with a view to spreading such offices all over the republic.

B: Operation Stage:

Throughout the operation stage the establishment undertakes a number of required procedures to maintain the official nature it has acquired in the previous stage including tax payment, insurance and license renewals. The establishments undertake other optional procedures designed to broaden its activity such as export and credit procurement. Following is an analysis of the legal framework for the most important activities that need to be completed during this stage.

Inspection and Investigation:

The establishments are selected to be inspected from a number of various agencies to ensure their commitment to operation in accordance with the criteria determined by these agencies, some agencies are concerned with inspecting all sorts of activities such as the Authority for Social Insurance, local governments, Labor Bureau and Taxation, while some other agencies are concerned with inspecting specific activities such as health offices, Ministry of State for Environmental Affairs and the General Authority for Specifications and Quality Control. Random inspection is usually conducted in connection with timing and number of inspection rounds. The inspectors have wide estimation authority in determining the extent of the enterprise commitment. They have also the right to impose fines, the thing which represents an obstacle to

practice the activities and a reason for complaints on the part of many entrepreneurs (El – Meehy 2003, Megacom 2005)

Taxation:-

Establishments have suffered for a long time from random and exaggerated estimate by the Tax Authority. As for taxation petitions against these estimates were the rule and not the exception (Meehy 2005). The taxation statute No. 91 / 2005 on income rectified this and considered the statement submitted by the entrepreneur is true until the contrary is proven. Sample inspection on the basis of objective principles has become the rule, the law has also reduced the tax rate from 42% to 20%. According to law No. 91/2005, the average entrepreneur practicing commercial, individual or professional activity is exempted from book-keeping and regular register if the invested capital is less than 50,000 pounds (and this applies to micro enterprises) provided that a decree shall be issued from the Minister of Finance with simplified rules of tax accounting principles fit with the natures of these enterprises and facilitate tax treatment. The new enterprises which are developed and funded by the SFD have a special characteristic as they are exempted from the income tax for 5 consecutive years from the date of operation, if they are commercial and service enterprises, and 10 years if they are industrial enterprises (Social Development Fund).

Resolving Disputes

Article No. 17 of 141/2004 law stipulates that a permanent committee shall be formed through a decree of the governor to review the petition submitted by entrepreneurs in connection with suspension decrees or any other dispute with any of the agencies referred to in the law. As for the enterprises that have completed registration through the General Authority for Investment, there is a committee for resolving disputes which is obligated to open enquiries into the investors complaints or any dispute arises between them and other government agencies.

Although this represents facilitation for small enterprises in connection with their disputes with government agencies, yet the enterprise is still confronting some problems when a dispute arises between it and other enterprises. These problems are represented

primarily in the slow procedures of litigation and signature attestation (ILD / ECES 2004).

According to World Bank report on the activities pursued by enterprises, Egypt ranked 157 out of 175 country in the field of contracts enforcement, and 161 in dispute settlement duration (1,010 days) and 186 in matters related to the procedures followed to resolve disputes (55 procedure) (World Bank 2007).

Procurement of Finance:

The small and micro- enterprises face a number of choices when it needs finance to procure working capital or to buy fixed assets represented in obtaining micro-finance from bank or civil societies (this choice was covered in the first section of the paper) or lending from the portfolio of small enterprises agency affiliated to the Social Development Fund or resort to the Banking Institute directly or financial leasing. The following are the choices in details.

The small enterprises loan institute:-

They are soft loans provided by the Social Development Fund for enterprises that operate within the formal sector. The advantages resulting from procuring this kind of funding lie in the fact that the entrepreneur is exempted from taxes for 5 consecutive years. If the beneficiary is unable to meet the required guarantees, the Cooperative Insurance Society affiliated to the SFD submits a guarantee that amounts to 90% of the loan, which shall not exceed 200,000 Egyptian pounds after the beneficiary pays the subscription fees.

Direct lending from the Banking Institute:-

The bank loan represents 3.5 % of the invested capital in the small and micro enterprises as indicated in the pertaining survey conducted in 2003. (El. Mahdi 2006). This small percentage is due to the inability of many enterprises to offer appropriate guarantees or submitting acceptable financial statements. Even if these guarantees do exist, this does not provide enough rationale for banks to grant loans since banks see that

such loans are more costly and risky compared to grants provided to the medium and macro enterprises (El- Meehy 2003) ⁽¹⁴⁾.

According to the World Bank report concerning the enterprises activities practice, Egypt ranked 159 out of 175 countries in the field of credit procurement. This indicator of cause includes the efficiency of bankruptcy laws and guarantees in supporting creditorship (172 out of 175 countries) and credit information (World Bank 2007)

Financial leasing:

This choice to procure fixed assets is not utilized to a great extent in Egypt especially by small and micros – enterprises; this is due to lack of a database concerning the small enterprises which leasing companies can refer to and also the lack of financial statements that these companies can depend on in making decisions. Moreover, the operational leasing along with financial leasing are not permissible to an extent that conforms with the capabilities of the small enterprises ⁽¹⁵⁾.

D: Exit from the market

Exit from market occurs through liquidation (voluntary exit) or bankruptcy (mandatory exit if the debtor stops the payments). The voluntary liquidation of individual enterprises in Egypt takes 37 days and costs about 576 Egyptian pounds ⁽¹⁶⁾. The liquidation of companies takes 244 days and costs 9,963 Egyptian pounds ⁽¹⁷⁾. Closing administrative records (by sending notification to labor office, the General Authority for Social Insurance, Taxation Authority or Sale Tax Department) is a procedure that takes longer time in the case of liquidation (33 days for individual establishments and 125 days for companies). According to the World Bank report on enterprises activities practice, exit from the market in Egypt through liquidation takes an average of 4.2 years and costs approximately 22% of the ownership value of the bankrupted enterprise. The rate of retrieval amounts to 16.6 cents for each and every debt dollar (World Bank, 2007). Generally, Egypt ranks the 120th country out of 175 in terms of time consumed in completing the exit through liquidation along with the cost of this procedure. To sum up, the last few years have witnessed some positive developments in connection with the small and micro-enterprises as there is now one agency in charge of developing

small and micro enterprises in coordination with the other concerned agencies. The entry to the market has become also costly although the single window system is still in need of some support for expansion. The 141/2004 law provides several advantages for enterprises that register through the SFD which offers the funding, marketing, technical assistance, land and lastly a share from government purchases. However, some enterprises are not aware of such advantages; the discussions conducted with a number of small entrepreneurs for the benefit of developing the policies of small and medium enterprises (SMEPOL). The discussions of the participants have revealed the lack of information on the part of most of them in connection with the single window system of the SFD as well as the new tax law. In general, the discussions have also revealed the low confidence among them in whatever the government does in connection with the procedures adopted. However, there remains a pressing need to study how far the small enterprises have benefited from the advantage and services provided by the SFD while assessing their impact.

What is more important is the reform of the enterprises environment at the level of the entire economy as it is extremely difficult that the Social Fund covers the great number of enterprises that constitute 95% of all enterprises in Egypt.

Finally, there are several obstacles against the operation of the enterprises. They are represented in resolving disputes with other enterprises, procurement of finance, utilizing financial leasing as an alternative for lending, random inspection of enterprises and exit from the market. In other words, despite the reform endeavors, the enterprise climate in Egypt suffers from several problems, thus it is imperative to introduce the reforms that have been conducted in the last few years. The following section of the paper tackles such alternatives.

3- The projected reform alternatives:

This section of the paper continues to focus on the problem of micro-finance and enterprises environment in Egypt, and the solutions to deal with these two problems, namely, the national strategy of micro-finance and the promotion of formal business program.

3-1 Features of the national strategy for micro-finance in Egypt.

At the end of 2005, a national strategy to promote micro-finance market in Egypt was declared. The strategy aims at providing sustainable financial services to the poor and delimiting our dependence on aids from lending institutions through integrating micro-finance into the formal financial sector. The Development Fund, the Egyptian Banking Institute and other agencies concerned with micro-finance have participated in the preparation of this strategy.

The strategy is based on the premise that the best avenues to offer micro-finance to the poor (and the micro-enterprises) lie in providing them with the chance to procure various services at affordable prices and choosing between different service providers. The strategy involves three principal axes:

- 1- Promoting financial institutions for micro-enterprise finance that have the element of continuity and capable of competing to offer various financial services.
- 2- Developing an infrastructure with a view to supporting micro-enterprise finance.
- 3- Creating organizational environment and providing policies to encourage the promotion of micro-enterprise finance (EBI and SED 2005).

Following are the most important tools proposed through the strategy to achieve the above mentioned objectives.

Developing effective financial institutions competing to offer micro- finance:

The achievement of this objective largely depends on the entry of more banks in the field of micro-finance to benefit from the financial surplus that these banks have with a view to raising the awareness among bankers of the benefits of such finance. Based on the specific nature of lending the micro-enterprises, the strategy asserts the necessity of having training programs to solidify the competence of bank employees to provide loans and investigate the possibility of utilizing the National Postal Authority network in widening the lending services.

To provide developed and varied financial services, the strategy recommends the cooperation of the lending institutions and the Social Fund to support developing new

products in the micro-finance market with a view to distributing the finance over the deprived sectors of the market such as rural lending and lending to women.

One of the bases upon which the strategy is built is to encourage the micro-lending institutions to commit themselves to unified criteria on reporting and performance and the promotion of their competence to offer training services and develop information systems and make them accessible for the financial institutions.

Developing a supportive infrastructure for the micro-finance institutions:

The strategy asserted the importance of sustainable mechanisms with a view to providing and updating information on everything related to supply (service providers, services and means of provision) and demand (volume and characteristics of geographic distribution for the active demand) in the micro-finance market, provided that such information is paid for to ensure their maintenance and updating of databases.

To ensure the provision of information infrastructure with a view to serving the market it is necessary to establish an institute to collect data on the clients' credit history to promote banks participation.

The strategy aims at promoting the ability of the micro-finance institutions to procure the necessary funding from internal sources on the basis of their commitment to the best practices to ensue internal capacity building for the public establishments (APEX) such as the Social Fund to enable them analyzing and assessing the micro-finance institutions. One avenue to achieve this objective is to conduct a study to explore the possibility of encouraging the banks to cooperate with the micro-finance institutions. The banks will play the role of whole micro-finance institutions and depend on the ability of civil societies to reach the clients.

To promote the services environment of the micro-finance institutions, the strategy aims at finding private institutions that compete among themselves to provide training programs and technical assistance that is paid for, along with personnel to follow up their activity to ensure the existence of a quality service and prepare lists of the agencies that present a variety of services and thus facilitate the procurement of high quality services at competitive prices.

Creating an organizational environment to promote and develop the growth of micro-finance:

The strategy aims at creating more coordination among the agencies concerned with the market including those lending agencies to achieve the best type of possible supply for the business programs along with executing broadened awareness with micro-finance. The strategy asserts the importance of developing the legal framework with a view to increasing access to the clients and removing of barriers to market entry (for instance, recognizing the specialized lending civil societies and promoting the establishment of non-banking micro-finance institutions) and establishing an independent self-organized entity to organize business operations in the micro-finance institutions.

The time-span to implement this strategy is 5 years. So far, a micro-finance network has been established as it is one of the strategy recommendations. This network represents the operating institutions in this field at the national level to solidify dialogue with the decision makers and support financial institutions to offer their services.

In addition, the micro-finance sector affiliated to the Social Fund has organized a workshop for banks to familiarize bankers with micro-finance and consequently an understanding memorandum was signed with St. Pauls – Alexandria Bank to provide the finance through specialized units in the 80 branches of the bank (Badr 2006). Despite all these positive developments, it is necessary to intensify the efforts to implement the strategy in the coming stage in an integrated manner and according to the set timetable.

3- The principal features of promoting the formal business programs:

Despite the positive developments that have affected the legal and institutional framework governing enterprises in Egypt during the last few years, the enterprises climate is still suffering from many problems. Thus, a reform program has been lately projected with a view to mitigating the severity of these problems. The program offers an integrated number of prospects to confront the problems facing the establishment of enterprises in Egypt and their operation so as to help such informal enterprises registering with a new agency to be responsible for the implementation and management of the reform program.

The reform proposals include measures to be adopted to reduce the cost of formal enterprises and take into consideration the market entry and exit procedures and the cost of maintaining the formal nature of the enterprises, along with other measures to promote the advantages of the formal enterprises (table 3). As soon as the reforms package is implemented in its integrated form, it is expected that the end result would be an environment favorable for the establishment of the formal enterprises (ILD/ECES 2004).

Table 3: the most important problems and the proposed solutions:

Problem	Proposed solution
Informal productive activities	
The high cost of market entry	<ul style="list-style-type: none"> • Establishing offices for recording activities related to the establishment of the enterprise and matters of licensing in accordance with simplified procedures. These offices are affiliated to the new agency whose responsibility is to set standards for the informal economy. • Allowing for the establishment of private enterprises with limited responsibility along with reducing the minimum capital required for joint stock companies and companies with limited responsibility registering with the authority.
The high cost of maintaining the formal nature due to the high cost of adhering to the tax, insurance and labor laws	<ul style="list-style-type: none"> • Developing a simplified accounting and tax system • Developing the procedures of employees' enrollment and payment the social insurance.

<p>The high cost of exit form the market in case of liquidation – lengthy period taken to cancel administrative records.</p>	<ul style="list-style-type: none"> • Liquidation procedures are the responsibility of the offices established to record the activities. These offices are affiliated to the new authority in accordance with simplified measures and defined time limit for completion.
<p>Difficulty in obtaining finance due to high cost of mortgage and high risk involved in lending to small enterprises due to lack of pertaining information.</p>	<ul style="list-style-type: none"> • Developing a system to record movables mortgage at the new registration offices with no need to transfer the possession and adopting speedy procedures. • Developing an information register for economic activities.
<p>Limited benefit in credit sale / purchase due to high cost of non-commitment as a result of:</p> <ul style="list-style-type: none"> • Delay in litigation procedures • Signature verification 	<ul style="list-style-type: none"> • Developing a system whereby signatures are documented through offices that register enterprises activities along with provision of legal justification for the documented signatures. • Developing preliminary judicial committees to resolve disputes related to the new authority and the implementation disputes on mortgage.

¹The proposed tax system aims at stabilizing the tax rates at a fixed percentage of the total sale activities provided that the tax payment should be done on a monthly basis. Tax rate is based on a statement submitted by the enterprise owner indicating the volume of his sales. To apply this system, the financier should have purchases book and sales book.

² Movables mortgage system as a guarantee for the due debts is considered more appropriate guarantee for small enterprises than real estate mortgages since the volume of dealings in this sector is limited and the high informality level in the Egyptian real estate sector. The proposed system in ILD / ECES study doesn't allow for transfer of

possessions from the debtor to the creditor, thus it isn't an obstacle against the sustainability of these activities. The efficiency of this proposal might be further strengthened in supporting the chances to procure finance by developing arrangements to guarantee quick implementation in case debt payments are stopped.

³ The objective behind developing an information system on the registered activities is to provide a complete and integrated data on these activities to enable enterprise owners to procure finance and broaden such activities. The information system includes financial and legal data about the enterprise through the enterprise itself and other agencies including taxes, insurance, the Central Bank and utility companies. These services should be paid for to ensure the continuity of the services and updating the data. .

Source: ILD / ECES 2004.

The proposed reform program should be implemented by a new authority that has full competencies to undertake the assigned tasks. This new authority isn't only responsible for the initial registration of facilities, but also shall do whatever necessary to guarantee the sustainability of such facilities within the formal economy. The purpose of establishing a new authority is attributed to the fact that dealing with the informal sector requires huge amount of flexibility which isn't available at the existing entities, not to mention the large volume of such sector. The reform program highlights the need for such an entity to coordinate with the various government bodies to overcome the problems that face government-affiliated facilities. The authority shall set the principles of dealing with the registered facilities regarding the means of accepting the submitted statements as valid ones until the contrary is proven, publishing a manual for administrative measures every two years that would include all measures and fixed period for the completion of each measure. No licenses shall be renewed except when significant changes take place. Moreover, inspection measures should be applied to the authority-affiliated facilities.

The proposed reform program was based on an in-depth study of the Egyptian informal sector which lasted for two years. The formulation of the program was conducted by the Institute for Freedom and Democracy (Peru) in cooperation with the Egyptian Center for

Economic Studies under the auspices of the Egyptian government represented in Ministry of Finance. So far the program is still in its proposed form and hasn't been fully implemented with the pretext that there are some ongoing reforms in the economy that deal with the problems in the ILD / ECES study. Other reform proposals will be considered for implementation but in a different framework.

To sum up, we can say that the situation in Egypt (the transfer to the formal sector) swings between: continuing the current type of reform based on partial programs as proposed in the standardization in the status of the informal sector. Based on the limited effects of the partial reforms, we should reconsider the current trend of reform. Partial reforms in the small and micro enterprises may not be felt by the owners of informal facilities. Even if they felt such partial reforms, there will be unclear vision regarding the aftermaths of registration since there is no direct contact with such category which is mostly attributed to the unclear vision as for what should be done with this sector. The decision to transfer into the formal sector requires radical changes in the mentality of the owners of the informal sector and regains the confidence between the government and the entrepreneurs.

The adoption of wider scale (more costly) reforms has its justification since the informal enterprises affect a wider sector of citizens and studies have shown the importance of dealing with this sector and offering assistance to it.

- According to a survey conducted on small and micro enterprises (2003) the productivity of the formal enterprise is higher compared to its counterpart in the informal sector. The formal sector enterprises tend more to use advanced technology which means that promoting formal enterprises will positively reflect on them and on the economy as a whole.
- The positive impact is doubled if the transfer is completed to a favorable enterprise environment. One study has revealed the fact that standardization of the informal sector status in Egypt along with the implementation of an integrated reform program and specifically the proposed program in (ILD / ECES) study help to achieve an annual increase in the gross domestic product (1.3%). This benefit will reflect on the category of entrepreneurs (from broadening their activities and

increasing the productivity) and the workers category (as a result of obtaining higher levels of wages and spreading the social insurance umbrella to include them) and the government (as a result of widening the tax base) leading to benefits for the low-income people in the form of higher level of health and educational services. Promote chances available to support our endeavors to reform the entire economy. The consumers, moreover, benefit as a result of the availability of high quality commodities in the markets (Glal 2005)

- In the field of making micro-finance available, studies have shown their positive impact on its beneficiaries. Field studies conducted on the productive families enterprises have shown that 95.8% of the urban beneficiaries and 82.8% of the rural beneficiaries assert the importance of the enterprise in their lives. Another study has proved that the enterprise has given them an employment opportunity and additional income. The field study also has rendered that 2 thirds of the male beneficiaries and 3 quarters of the female beneficiaries have saved money after developing these enterprises (Khair El-Din & El-Leithy 2004).
- Offering finance to small and micro enterprises helps to provide job opportunities, increase productivity and develop labor skills especially if the loans are provided to the actually existing enterprises. (El-Mehdi and Osman 2003)

Summary:

Dealing with informal economy is a necessity not only for those working in it but for the economy as a whole. Promoting and supporting the establishment of income generating enterprises is the most important thing to do to support the poor. The productive assets outside the formal sector are capable to provide legal and economic advantages for those who wish to be socially advanced. Thus if we deprive them of those chances, this will reflect negatively upon the society socially and economically. Supporting the informal enterprises in Egypt requires reassessment of the projected alternatives for reform in light of a strong political will; we need to look at the special arrangements taken as step by

step arrangements. This does not mean that we neglect to reform the general climate in the economy as the best alternative to support job opportunities at the economic levels as a whole.

الحواشي:

- 1) Al Shrouq Enterprise is one of the other enterprises that aim at assisting the informal sector. Such enterprise provides loans for small enterprises in rural areas. The enterprise is affiliated the Ministry of Local Development (MLD) and it aims at achieving decentralization in planning and implementing rural development in order to improve living standards and promote community participation in the different phases of development.
- 2) The assessments of the size of demand on micro funding in Egypt depends on determining the number of individuals under poverty line, then the number of families living under poverty line is determined through supposing a definite number of family members (7 persons). Supposing that each family includes just one person who obtains a micro funding and that a certain percentage of families (40%) can conduct an income-generating activity, the size of demand on Micro Funding is assessed. (United Capital Development Fund 2004)
- 3) Collective Loans is targeting the poor while focusing on women. The expansion of such kind of loans has contributed to the increase of percentage women to (out of) the total number of debtors from 25% in 1989 to 46% by the end of 2003 (UNCDP 2004).
- 4) Banks participation in this field is limited since it is confined to a limited number banks such as Banque de Caire, Banque Misr (the former has been possessed by the latter recently), the Principal Bank for Development and. Agricultural Credit, (which provides loan for farmers in rural community) and, from private sector banks, the National Bank for Development.
- 5) According to the Social Fund for Development (SFD), Micro loans range between L.E. 200 and L.E. 10,000 and are provided with simple guarantees (warrants) such as trust receipts with the loan value. These loans target women, active poor

- families, young graduates, people of special needs who are willing and capable of work, and small farmers. Loans are used in implementing home-based project often working in the informal sector.
- 6) Loans withdrawn shall be signed by the chairman of the board of directors and the fund trustee, a fact which hinders the extension of works especially if this work is carried out by volunteers (Moussa 2007).
 - 7) Administrative measures include dispatching (sending) a copy of the board's meeting to the Ministry of Social Solidarity in order to be approved. This may impede the commitment to the international best practices (the Ministry of Social Solidarity has once rejected the decision of the board's chairman of a society regarding imposing penalties on the default in paying the customer's commitment guarantee in due time) (Moussa 2007).
 - 8) Auditing carried out by the Ministry of Social Solidarity concerning the nongovernmental societies that provide micro loans is confined to auditing expenses and revenues while the nature of the work of such societies requires a different type of accounting (Moussa 2007).
 - 9) Under the provisions of Law No. 88 of 2003, the actual capital totally paid –up to the bank shall be no less than five hundred million EGP. The banks shall pay a registration fee valuing L.E. 10,000 for each principle centre and L.E. 7,000 for each branch (Law No. 88 of 2003).
 - 10) Credit information offices currently working in Egypt follow up loans of more than L.E. 30,000 only (Moussa 2006).
 - 11) According to Law No. 141/200, a micro- small enterprise is defined as any company or individual establishment whose maximum paid- up capital is fifty thousand Egyptian Pounds and the small enterprise as any company or individual establishment whose paid-up capital ranges between fifty thousand and one million Egyptian Pounds with a number of employees (workers) no more than fifty persons. Based on these definitions the SDF works on developing 95% of productive establishments working in Egypt.
 - 12) According to the Executive regulation of law No. 141/2004, this includes developing an annual plan to raise awareness of the importance of establishing

- such enterprises, expressing viewpoints regarding draft laws and resolutions pertaining to establishments, coordination between different bodies to remove any obstacles that face the activities of such establishments, encouraging the establishment of marketing companies to guide small-scale businessmen concerning the market needs and of technical care companies to help enterprisers develop their products and to guide them to worker habilitation places and service and commodities source, and developing training centers to provide enterprise owners with the essential skills to better manage their enterprises.
- 13) The executive regulation of the law concerning joint-stock companies, partnership limited with shares and limited liability companies has been recently amended. Such regulation demonstrates the detailed provisions of Law No. 159 of 1981 and its amendment includes decreasing the minimum capital essential for establishing joint liability companies from fifty thousand Egyptian Pounds to one thousand pounds. The aim of such amendment is encouraging small and medium-sized enterprises to take the form of a joint liability company that limits the partners liabilities based on their placement in the company's capital.
 - 14) When applying for a mortgage-secured loan, Mortgage stands as the most time consuming procedure since it takes about 98 days (ILD/ECES 2004).
 - 15) There are other factors that negatively affect the Egyptian Finance Lease Market such as the inability to transfer the ownership of assets to a second party as means for supporting companies' liquidity and the prolonged legal measures for asset recovery in case of the lessee's (frequent default in payment).
 - 16) The asset value of an individual establishment is L.E. 20,000.
 - 17) The Company's assets value is about (approximately) L.E. 100,000

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