

# Reforming Entrepreneurship

## Ecosystems in Egypt

Entrepreneurship is increasingly recognized as a key ingredient to economic growth, job creation, and expanding both civic participation and economic opportunity, particularly for youth and women, in the Middle East and North Africa (MENA). In an effort to address the high rates of unemployment in the region, especially among youth, the number of initiatives supporting entrepreneurship in MENA has increased exponentially since the 2011 popular uprisings. However, few of these initiatives address the need to improve the enabling environment for entrepreneurship.

CIPE and Stanford University's Center for Democracy, Development, and the Rule of Law (CDDRL) produced "Reforming the Entrepreneurship Ecosystem in Post-Revolutionary Egypt and Tunisia," an extensive report on the environment for entrepreneurship in both countries after their respective 2011 revolutions. The report was based on a comprehensive study of existing literature, field interviews with more than 130 entrepreneurs in Egypt and 100 entrepreneurs in Tunisia, and interviews with key policymakers and opinion leaders in the business and financial

sectors, all completed by CDDRL Post-doctorate Fellow Dr. Amr Adly in cooperation with CIPE staff in Egypt and CIPE partner in Tunisia, *L'Institut arabe des chefs d'entreprises* (IACE). The study lends insight into important components of socio-economic development and opportunities for public and private sector reform in Egypt and Tunisia through a macro-level analysis of private sector dynamism and productivity as well as an examination of barriers to market entry and legal and social obstacles to small- and medium-sized enterprise (SME) growth.

Following the study's release, CIPE and IACE convened roundtables in Egypt and Tunisia, respectively, to discuss the study's findings with stakeholders and to engage stakeholders in the process of translating the findings into concrete, actionable policy recommendations for their respective countries. This policy paper summarizes the Egypt-specific policy recommendations that came out of CIPE's September 2014 roundtable in Cairo with Egyptian entrepreneurs and SME owners. The policy recommendations put forth in this paper focus on the two most important issues, as identified by the roundtable participants, necessary to improve the entrepreneurship ecosystem in Egypt: access to finance and the informal sector.

### Resources

- Comprehensive study conducted by Stanford University's Center for Democracy, Development, and the Rule of Law, in cooperation with the Center for International Private Enterprise, on understanding the entrepreneurship ecosystem in Tunisia and Egypt.
- Interviews and meetings with young entrepreneurs in Egypt as well as business owners of small- and medium-sized enterprises (SMEs)
- Focus group with representative sample from SMEs and the informal sector.

### Major Questions

- Why were free market reforms not coupled with unleashing entrepreneurship, which remained at a very low rate?
- How can we build an ecosystem that accommodates youth, encourages them to start their own businesses, and creates a highly productive and just investment climate?

### The most urgent and important issues from the perspective of entrepreneurs

- Access to finance
- The informal sector

# Access to Finance

Entrepreneurs face a critical financing problem when starting or expanding their businesses. As a result of the absence of different financing tools, most start-ups remain small.

## The Problem

- There is an absence of financing alternatives for small businesses. The only existing channels are banks, which have difficulties in assessing a start-up's significance and in estimating its risks.
- Banks do not have enough liquidity to fund the private sector due to high rates of internal debt, which are caused by the constant issuance of government bonds.
- The financing resources for entrepreneurship are personal savings, support from family and friends, and financing institutions.

## Proposed Solutions

- Promoting a legal and institutional environment for non-banking financial institutions that unlike traditional banks, can support new ideas
- Creating incentives by establishing special funds to support SMEs
- Supporting the establishment of venture capital companies
- Listing of SMEs in Nile Stock Exchange
- Adopt monetary policy aimed at expansion, and not contraction, by facilitating loans with low interest rates for small businesses and entrepreneurs

# The Informal Sector

The informal sector in Egypt continues to expand, which has a negative impact on registered businesses. Entrepreneurs and workers in the informal sector do not qualify for social insurance or healthcare. Moreover, they cannot receive loans through banks or other financing institutions. The government is affected as well because it cannot collect taxes or registration and license fees from the informal sector.

## The problem

- Many officially registered companies still work without licenses, which places these companies in the grey zone of semi-formality.
- A huge amount of registered companies working with licenses depends on informal subcontractors and procurement in their work.
- Laws governing registration, licensing, and taxes are very complex, in turn forcing businessmen to work outside the formal sector.
- Laws governing market exit are also very complex and treat business in crisis as criminal cases based on the current penal code.
- There is no trust in legal contracts because of the government's weak enforcement of contractual agreements and disputes.
- There are no incentives to encourage informal businesses to register and integrate in formal markets.

## Proposed Solutions

- Unifying registration, licensing, and tax filing procedures
- Reforming the bankruptcy law so it does not treat the bankrupt as a criminal
- Establishing special economic courts on the regional/ local level in order to expedite the process of law enforcement
- Providing tax incentives for the informal sector to register officially
- Reforming banks' financing tools in order to encourage the informal sector to register and benefit from it
- Issue new healthcare legislation that protects both business owners and workers' rights in order to incentivize the informal sector to formalize