

“It’s fine to celebrate success but it is more important to heed the lessons of failure.” –
Bill Gates

Entrepreneurship in Egypt

Opportunities, Challenges and
Recommendations

Egypt Network for Integrated Development

Policy Brief 003

Entrepreneurship in Egypt

Current Situation

A range of studies have been conducted on youth employment tackling entrepreneurship as an approach to labor-market entry, livelihood improvement and economic empowerment of young people (GEM 2010, UNDP and INP 2010, SYPE 2009, and Population Council 2012). The findings show that entrepreneurship is a very promising opportunity if well considered on economic, socio-cultural and policies levels.

According to the Global Entrepreneurship Monitor Survey (GEM) 2010, the early – stage Entrepreneurial Activity rate (TEA)¹ in Egypt in 2010 was 7%, almost half the rate in 2008 (13%). That sizeable decrease in the TEA shows the decline of the entrepreneurial environment in the past five years. Of the total population in Egypt, the entrepreneurially active are estimated at 2.7 million, of which 0.8 million are nascent entrepreneurs (0-4 months old enterprises), 1.9 million are owners of young business (4-42 months old enterprises) and 1.72 million are owners of established businesses (more than 42 months old enterprises).

	2008	2010
TEA rate	13.1%	7.01%
Nascent Entrepreneurs	7.9%	2.1%
New Firm Entrepreneurs	5.5%	4.9%
Established Business Owners	8.8%	4.5%
Business Discontinuance Rate	6.3%	3.8%

Source: GEM 2008, GEM 2010

A demographic analysis of the Egyptian population shows that the highest TEA rates are among the age group of 25-34, those with a higher degree, those in household income group of LE 6,001 – 8,000, those living in Cairo and those that are self-employed. 42% of early stage enterprises and 38% of established businesses are mainly focused with consumer-oriented services such as restaurants and retail trades. Young business owners are operating mainly in utilization², transportation, storage and communication whereas nascent entrepreneurs are focusing on the manufacturing sector. About 20% of early stage enterprises and established businesses have customers outside of Egypt. Export orientation is not attractive to Egyptian entrepreneurs. Also, more than 99% of all new businesses operate in sectors that do not utilize high or medium technology.³

¹ TEA measures the percentage of the population (18 – 64 years old) that either have been actively trying to start a business that is less than four months old (nascent entrepreneurs) or already owning and managing a business that is less than three and a half years old (young business owners).

² Early-stage enterprises and established businesses are concentrated in consumer oriented services (42% and 38%, respectively) such as the retail trades, hotels and restaurants, etc. Whereas nascent entrepreneurs are actively operating in the manufacturing sector, young business owners are operating mainly in utilization, transportation, storage and communication.

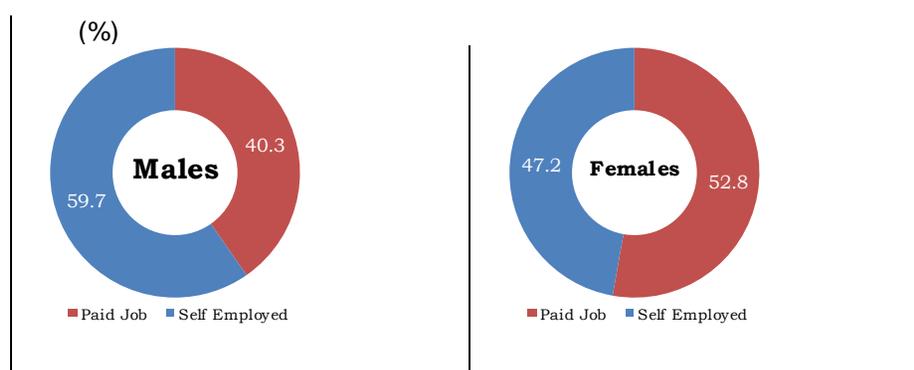
³ Almost 99% of new enterprises operate in sectors which employ low-to-no technologies, 1% of enterprises employ medium technology whereas there are no enterprises to speak of that employ advanced technologies. Thus there is ample room for growth and innovative in the ICT sector and in innovating new technologies.

A further dissection of the state of enterprises in Egypt reveals that 68% of nascent enterprises, 60% of young enterprises and 56% of established enterprises employ between 1 and 5 employees. The grand majority of early-stage enterprises and established businesses are small-sized; between 16% and 24% of businesses in Egypt do not have any employees other than the owner.

Opportunities for Entrepreneurship:

Entrepreneurship is a crucial asset which a developing country such as Egypt can benefit from. A demographic analysis of the Egyptian population shows that 29% of Egyptians are between the ages of 15 and 29 years in the year 2013. A deep analysis for this segment was conducted by the Population Council based on the statistics of SYPE 2009⁴. The findings show that entrepreneurship is seen as an attractive employment option by many youth. The majority (53.7%) reported that they prefer to have their own business rather than working for pay (59.7% of young males and 47.2% of young females see figure 1). This was interpreted by the independence entailed in having and running own business, higher income than a regular job, and the lack of other job opportunities. Nearly, third of youth entrepreneurs started their own business due to the lack of wage work, indicating that high unemployment and difficult labor market conditions do push some youth into entrepreneurship (2010 Egypt Human Development Report and Sieverding, 2012).

Figure 1: If you had a choice, would you prefer to secure a paid job or be self-employed?



Source: *Reformulating Labour Market Policies for Egypt* by Heba Handoussa and Mohamed Ramadan based on Survey of Young People in Egypt (SYPE 2009)

Even more, young entrepreneurs are more likely to hire fellow youths. In 2010 the 0.8 million nascent entrepreneurs who were effectively trying to start approximately 30,000 new enterprises had an average of 2.7 adults in each enterprise, whereas the 1.9 million Egyptians working in young businesses worked in approximately 731,000 enterprises with an average of 2.6 adults per enterprise.⁵ Furthermore, youth have generally better computer skills, as well as being more present in high growth sectors and more responsive to new economic opportunities and trends, and promoting innovation which lead to increasing competition in the market place (Hattab, 2010).

⁴Survey of Young People in Egypt was conducted by the Population Council in 2010 in cooperation with IDSC on a nationally representative sample of 15,000 youth aged 10-29.

⁵Hattab, Hala, 2010. *Egypt Entrepreneurship Report 2010*. Global Entrepreneurship Monitor (GEM).

More youth are looking to entrepreneurship for employment. According to Handoussa and Ramadan, "Egypt's young population gives it a strong "entrepreneurial" advantage." Egypt has a considerably large market, the largest in the MENA region. There is room for growth and for new innovative and entrepreneurial ideas. The ICT sector shows amazing promise in the field of entrepreneurship. Egypt faces a multitude of challenges that can be overcome with simple entrepreneurial ideas. Costs of labor, living and rent are very low in rural Egypt, making investment in these parts extremely appealing. And although interest rates are high in Egypt, compared to their counterparts in developed nations, corporate taxes are much less.

Challenges and Constraints on Entrepreneurship:

Despite the statistics that show that entrepreneurship is an attractive option to many youth, few have actually started a business or even have taken steps towards starting one. According to SYPE 2009, only 15.5% of youth (aged 15-19) reported that they have considered, at least once, establishing a business. All the studies have reached almost same challenges amongst youth and that could be summarized as the following:

Financial resources and risks. When it comes to financing, 55% of all nascent enterprises require up to LE 10,000 to kick-start the business whereas less than 10% require more than LE 500,000 (Hattab, 2010). Nascent entrepreneurs look for funding with their personal money, family members and friends rather than going to financial institutions. Nascent entrepreneurs pursue external funding when the amount required to start the business is bigger than what they can afford⁶. Among youth in Upper Egypt, financing was perceived as a major obstacle to entrepreneurship. Micro-credit schemes, while well known, were poorly understood by some youth and were also widely seen to have disadvantages, including the small size of loans, the complexity of the loan process, and the risk entailed in taking a loan in general.

In addition to the confusion about micro-credit, some youth in Upper Egypt thought that in order to take a loan from SFD they would be required to sign a paper sacrificing their right to any future government employment, a step few were willing to take. Official from SFD explain that this is not the case, however, it is true that Egypt's social insurance law makes it impossible for a recipient of an SFD loan to take a government position while he or she is running the business.

Lack of business and marketing information. A proper enabling environment for entrepreneurship must include education and training, research and development. Egyptian youth are not exposed to any sort of formal entrepreneurship education by the government. Entrepreneurs cannot benefit from the research done by public research institutes because they focus on and develop theoretical state of the art technologies and sciences and neglect practical sciences and practical advances in technology.

Entrepreneurs face considerable difficulties when trying to export. Most entrepreneurs prefer producing their services domestically with a very small percentage exporting. Because of lack of marketing information, entrepreneurs cannot easily find export markets.

⁶Hattab, Hala, 2010. *Egypt Entrepreneurship Report 2010*. Global Entrepreneurship Monitor (GEM).

Access to knowledge and information in Egypt is not easy. It can prove to be extremely hard for entrepreneurs to find relevant data for their business plan. The government does not share what little information it has. A lot of important information is deemed classified for supposed security reasons and gathering information is illegal.

Bureaucracy and complication of procedures. According to the Ease of Doing Business Report⁷, in the years 2010, 2012 and 2013, Egypt was ranked 106, 110 and 109 respectively out of 185 nations. Government bureaucracy weakens entrepreneurship and hardens the road to starting a new enterprise. Licenses take more time than they should, corruption is rampant and there is no free access to information. Government policy does not favor new and growing firms; instead all business subsidization goes to big businesses. There are also ineffective antitrust laws and regulations that do not stop major companies from keeping out new and small competition. The cost of closing a business is also very high for all entrepreneurs and requires a review of the Bankruptcy Law.

Gender perspective. Despite the fact that female entrepreneurs have started to increase since 2008, as mentioned earlier, Female youth in Lower Egypt were also particularly concerned about being disadvantaged in starting a business because of their gender. Furthermore, while micro-credit schemes were perceived as being largely for women, many female youth in Upper Egypt saw the risk of taking out a loan and starting a business as inappropriate for girls.

It's important also to note that the level of education attained as well as gender affect the TEA. Educated males are most likely to start businesses whereas the least educated females are more likely to start businesses. That disparity between the two genders is, in fact, because of historical cultural restraints. Women with less education work and become entrepreneurs out of necessity not out of opportunity. Also the probability of being entrepreneurially active varies with income. Households with incomes ranging from LE 6,001 to 8,000 have shown to be the most entrepreneurially active. In households with incomes that are more than LE 10,000/month, women become more entrepreneurially active than men.

Entrepreneurship is not necessarily seen as a secure means of combating youth unemployment. Youth were found to make a strong distinction between entrepreneurship, starting a project and regular wage employment, and do not necessarily see them as alternatives to one another. In Upper Egypt for instance, entrepreneurship are not necessarily seen as a substitute for wage employment, but rather as an income-generating activity. Likewise, youth in Cairo were also worried about establishing a business before building themselves in their field. Thus, many of them proclaimed that starting a project is something they would like to do in their middle age.

⁷The Ease of Doing Business index measures the procedures, time, cost and minimum capital to open a new business, to build warehouses, to obtain a permanent electricity connection for a newly constructed warehouse, to register commercial real estate, to export and import, to enforce a debt contract; the strength of legal rights index, the depth of credit information index, indices on the extent of disclosure, extent of director liability, ease of shareholder suits, number of taxes paid, hours per year spent preparing tax returns, total tax payable as share of gross profit, number of documents, and recovery rate (%) under bankruptcy procedure.

Recommendations

Unemployment in Egypt is well-known to be the major youth problem, and particularly a problem of youth labor-market entry (Asaad 2008). Development programs have been promoting for several years to entrepreneurship as mean of combating the high level of youth unemployment. However, many youth don't see it as a secure method of labor-market entry. Therefore, a range of measures must be undertaken in order to enable a much safer and welcoming environment:

- Entrepreneurship classes and the culture of entrepreneurship should be inculcated at a young age and continued throughout the educational process. As mentioned before, since the level of education positively affects male participation in entrepreneurial feats, formal education by itself should be encouraged and made to encompass more Egyptians, causing a surge in entrepreneurship. Money should be poured into researching and developing a model for entrepreneurship that is customized for developing nations.
- According to youth perception towards entrepreneurship, they think that starting a business should be at middle age after creating a network of people that enable marketing their products. In this regard, Organizations providing business support and financial services should seek to link youth entrepreneurs to local trade unions and business associations, in order to help them build their networks.
- Business Development Services to be more easily accessed and tailored to fit the needs of youth. According to Law 141 of 2004 to promote micro and small enterprises (MSEs), SFD is responsible for providing MSEs support in terms of identifying investment opportunities and preparing feasibility studies, as well, as information on regulations, potential risks, and marketing channels (Attia 2009). However, youth complaints about financing and financial risks show that Law 141 has fallen short of its goal.
- Another unmistakable problem that young and aspiring entrepreneurs face is access to credit. It is noticeably hard for Egyptian entrepreneurs to acquire credit. The Social Fund for Development encourages self-employment through giving micro-credit and help with entrepreneurship classes. Yet the barriers are still too high for young entrepreneurs to acquire credit from the SFD.
- Since women, on average, face more difficulties and obstacles in starting businesses, women empowerment is of utmost importance. The gender gap in entrepreneurship can be remedied, or at least reduced if targeted services for female entrepreneurs, with a particular focus on business information and peer-to-peer mentoring systems, were conducted.