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Amr A. Bary

SMEs SECTOR: A KEY DRIVER TO THE EGYPTIAN ECONOMIC DEVELOPMENT

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SMEs SECTOR : A KEY DRIVER TO THE EGYPTIAN ECONOMIC DEVELOPMENT

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Abstract

The focus of this paper is the discussion of the competitiveness facing SMEs in the global business environment by examining the opportunities and supports from the government. The purpose of this paper is to review the experiences of some countries that have benefited greatly from SME development and have been able to achieve high economic growth rates. On the other hand, presented the problems facing the Egyptian economy in order to achieve rapid growth rates at the level of small and medium enterprises and finally propose the strategies that can contribute effectively to the development of these projects

Keywords:
Small and Medium Enterprises (SMEs), Challenges, Competitiveness, SME Development.

Introduction

Small and Medium Enterprises (SMEs) have been identified as productive drivers of inclusive economic growth and development in South Africa and around the world. Some researchers have estimated that, in South Africa, small and medium-sized enterprises make up 91% of formalized businesses, provide employment to about 60% of the labour force and total economic output accounts for roughly 34% of GDP.

(Karadag, 2016), in his study mentioned that, after the research studies indicating “a robust, positive relationship between the relative size of the SME sector and economic growth, even when controlling for other growth determinants”, SME sector started to attract a growing attention both from policy-makers and academic scholars. However, various categorizations of SMEs, across economies and sometimes institutions of the same country.

There is no doubt that economic activities are moving in the direction of globalization. The system of production and distribution is evolving worldwide. The important role that international trade plays in connecting countries around the world is clear. Globalization creates new structures and new relationships, with the result that business decisions and actions in one part of the world have significant consequences in other places. Underlying and reinforcing these globalization trends is the rapidly changing technological environment, particularly in information processing, and telecommunications. Changes in telecommunications and data processing capabilities make it possible to coordinate research, marketing and production operation around the world. Almost instantaneous communications make it possible to trade financial instruments twenty-four hours a day, and thus more return-sensitive are location of resources within firms, industries and countries.

While contributing significantly to the economy, SMEs foster diversification through their development of new and unsaturated sectors of the economy. In addition, innovative and technology-based small and medium enterprises can provide a platform for local, regional and international growth, especially in Brazil, Russia, India, China, South Africa (BRICS) economies (Muhammad, 2010). According to The World Bank Small and medium scale
enterprises (SMEs) have contributed immensely to the growth and development of the global economy in terms of GDP and employment opportunities. In developed countries

The paper aims to address the important research question “What is the relationship between the SME sector and economic growth in the future of Egypt?” based on a number of previous studies indicating a strong and positive relationship between economic growth and size of the SME sector, when controlling for other determinants.

Theoretical background

Peter Drucker said that small enterprises represent the main catalyst of economic development. Those small businesses contribute intensely to achieving the fundamental goals to any national economy, becoming the backbone of social-economical progress (Drucker, 2009). The SME sector plays an extremely important part in modern economy, proving to be the most attractive and tremendous innovative system. The vital contribution to SME in economic development is a reality unanimously recognized. Showing their economically and socially beneficial effects led to the consideration of the SME sector as a field of strategic interest for the economy (Neagu, 2016).

Karadag, 2016 explain that, the new and existing small and medium sized businesses in Turkey, are faced with significant constraints mainly stemming shrinkage of global demand and tightened financial resources six years after the crisis 0F 2008. Also, he find that the performance indicators of SME numbers and employment in SMEs were positive, similar to other emerging economies, the composition of enterprises, dominated by low technology micro businesses did not reflect a significant change after the crisis and the value-added share of SMEs continued to decrease.

Graham Bannock (2005), finds that, small and medium enterprises have always played a very important role in economic and social life of any country, being the basis of the development of the economy. Dynamism, flexibility, adaptability, mobility and their innovative potential are considered to be essential for the harmonious development of the economy of any state, and may ensure the cohesion of the economic structure, good economic growth and, of course, creation of new jobs.

Lazăr et al. (2006) explained that, the small and medium-sized enterprises management is influenced by certain factors, such as: the type of SME market (local or regional), the competitive and atomized character of the offer, generated by the large number of companies and their reduced capacity, and the fact that most of the SMEs are micro-enterprises or small enterprises which offer various goods.

(Lin, 2012), in his study explained that, three approaches explaining the behaviors of SMEs’ internationalization are proposed in the literature: the stage approach, the network approach and the international entrepreneurship approach. The purpose of his article was to review and assess each approach with the aim to better understand the internationalization process of SMEs. He finds that, the internationalization of SMEs can be considered as a process that combines different resources and competences grasped by the enterprise. Each enterprise has its own internationalization process realized by the construction of resources and competences in different places: certain SMEs progressively combine the resources and competences, going to foreign markets by steps; others grasp the combination of resources and competences from the very beginning of their foundation and therefore become international immediately and rapidly.

On the other hand, The review of the literature revealed that the causes of the failure of new SMEs are both internal and external. Internal factors include lack of management experience, lack of functional skills and poor staff training and development and poor attitudes towards customers. External factors include non-availability of a logistics chain and a high cost of distribution, competition, rising costs of doing business, lack of finance and crime. In that context, we can say that, SME failure development is usually the results if expectations are
not meet, even though the concept of failure means different things to different people. Business failure also can be classified under four headings. There are several reasons behind the failure of a business such as poor plan poor preparation, poor management, lack of finance, lack of location, lack of inventory control, lack of experience, failure to invent proper strategic plan, not successfully make an entrepreneurial transition and poor plan (Van Aardt, 1997). Fatoki, (2014), explain that, the high failure rate of new SME paints a bleak picture of the SME sector’s potential to contribute meaningfully to job creation, economic growth and poverty reduction.

The study of BLAŽIĆ, (2010) aims to, analysis all forms of preferential tax treatment (tax rates, all sorts of incentives, simplification measures and reliefs from other taxes that are based on corporate income) of corporate income tax of SMEs as one of the measures to boost the economic growth. The study Show that in general overall lower statutory effective dividend tax rates for SMEs compensate for relatively higher overall effective statutory dividend rates. However, with no preferential corporate income tax rate for SMEs are at the advantage. Almost all of them allow classical investment incentives as well as some additional incentives (R&D, innovations…).

The SME Concept

There is consensus among policy makers, economists, and business experts that small and medium enterprises (SMEs) are drivers of economic growth. A healthy SME sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. The dynamic role of SMEs in developing countries insures them as engines through which the growth objectives of developing countries can be achieved (National Credit Regulator, 2011).

In SME studies, while former SME denotations mainly addressed the small market share and independency features of these units (Storey, 1994; Bolton Committee Report, 1971), the recent OECD definition introduced the Small and medium-sized enterprises (SMEs) as non-subsidiary, independent firms which employ fewer than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees. Small firms are generally those with fewer than 50 employees, while micro-enterprises have at most 10, or in some cases 5, workers (Glossary).

The strengths and weaknesses of SMEs in economy

As in any market economy, the SMEs have beneficial effects for the economic system through the roles they fulfill. Among these, there are:

- Small and medium-sized enterprises are important jobs creators, contributing to the social stability of the area in which they activate. Also, this sector is the main source of forming the middle class with a decisive role in maintaining the social-political stability in a country (Neagu, 2016).

- The SMEs contribute in forming goods and services. Thus, they help in forming the GDP and increasing the national exports and investments. It combines factors of production that, in other conditions, probably wouldn’t be used, like local resources or secondary products of big companies. The SMEs cooperate with the big companies, fact that is shown by partnership agreements (financially, technologically and so on) or by the form of supplies (of capacity, of specialty and so on).

- SMEs provide development sinews to the hook and corner of the economy. Economic growth is accelerated by the SMEs, as SMEs are productive and vibrant contributors to the economy (Kalpande & Others, 2010).
Developing SMEs Sector In Egypt

- SMEs plays a catalytic role in development process of most of the economies. This position gets reflected in the form of increasing number, rising proportion in overall product manufacturing, export and manpower employment by these units (SIDO GOI., 2004 and Economic Survey, GOI., 2007). This makes them the backbone of industrial economy in a developing nation like India.
- The fact that SMEs are managed directly by their owners makes the system of decision being simpler, depending on the talent and managerial abilities of them. Therefore, small and medium-sized enterprises show a higher flexibility and strength in periods of secession, given by the capacity of adaptation on the changing market.
- They ensure the potential of future big companies development through the processes of growth on which they take part. Small and medium-sized enterprises can easily integrate in a regional economical network that contributes to development of that area and reduce the unemployment.
- Focusing on innovative processes, both in technology and in management is another important feature of SMEs. Their low capacity contributes to the diminution of bureaucratic practices and avoidance of depersonalization of human relations because documents shorting and information network in the company. Therefore, the SMEs ensure a superior quality of occupation, by the point of performances and satisfaction in work. The relations in these companies are less formalized and there is a closer relation between individual efforts and company goals.

Weak points of SMEs in economy
- They have reduced capital which makes them vulnerable in case of economic shock.
- High rate of dependence to a group of clients (for example: the subcontractors).
- The lack of functional distribution systems and access to performance and accessible marketing services.
- Low access to new technologies.
- The lack of sufficient management and economical knowledge.

As far as that goes the main barriers in conducting research-development and innovation activities, SMEs indicated the following points (Neagu, 2016):
- The high cost of research-development activities.
- The insufficiency of their own funds.
- The uncertainty regarding the demanding on the market to innovative products.
- The lack of public strategies of financing/co-financing the research-development strategies and/or the rigidity of eligibility criteria.
- The difficult access to relevant information in markets (marketing researches, statistic researches).
- The difficult access at information regarding new technologies, the difficulty to achieve new partners to cooperates in research-development activities.
- The lack of predicts from medium and long term regarding the evolution of sectors activities and the lack of adequate human resources.

Case studies of SMEs development

In recent years, the role of small and medium enterprises in the national economy has been highly regarded and understanding on importance of promotion of small and medium enterprises has been growing internationally. In many countries governments are making efforts to tailor its SME policies to creating new small to medium sized companies and nurturing them. In this paper we will highlight some critical observations or views on SME policies and promotional activities of Four countries.
Developing SMEs Sector In Egypt

1) **Indonesia** (Nurhalim, 2014)

In fact, SME are the biggest dominant form of business entities in Indonesia and represent more than 99% of the total number of enterprises in Indonesia, 97% of employment but unfortunately only 57% of that adds value. The three largest sector of SMEs in Indonesia are, first, agriculture, second is trade, hotel and restaurants, and the third, manufacturing industry. The other sectors are simple traditional manufacturing activities such as wood products, furniture, textiles, garments, footwear, and food and beverages.

The government keeps encouraging development of SMEs. The development strategies in Indonesia have been incorporated in the National Medium Development Plan (RPJM 2010-2014) which is then supported by the Strategic Plan. The Ministry of Co-operative and SMEs has seven strategic goals: (i) increasing the number and role of cooperatives and SMEs in the national economy; (ii) improving the cooperatives’ and SMEs’ empowerment; (iii) enhancing the competitiveness of products produced by cooperatives and SMEs; (iv) increasing the sales of products produced by cooperatives and SMEs; (v) providing better access to finance and credit guarantee for cooperatives and SMEs; (vi) improving a business environment that is more inclined towards cooperatives and SMEs; and (vii) developing new entrepreneurship in cooperatives and SMEs.

To solve the problem of financing, the Government make A financial support for SME which divided into 3 categories, i.e. financial support from the Ministry of Co-operative and SMEs, mandatory regulation to finance SMEs from banking sector, and financial support by state owned enterprises. There are several funding programs for SMEs, such as: *Dana Bergulir* (Rolling Fund) and *Gerakan Kewirausahaan Nasional*. On the other hand, the Central Bank of Indonesia in 2006 established a public credit bureau named Biro Informasi Kredit (Credit Bureau) (BIK) to solve the problem of loan’s collateral.

To promote SMEs, the Ministry of Co-operative and SMEs established the SIC (SMESCO (Small and Medium Enterprises and Cooperatives) Indonesia Company) in March 2007. SIC’s main goal is to promote Indonesian SMESCO sector internationally. Through the SIC, the government has taken part in developing the marketing strategy of SMESCO’s products, for instance, by providing SMESCO gallery to market its products and determine SMESCO gallery as one of the tourism mandatory destination in Jakarta.

Another financial support was provided by banking sector. Under Regulation of Central Bank of Indonesia Number 14/221, there is an obligation for banks which having its business activities in Indonesia, both general bank and bank under syariah mechanism, to provide credit facility or financing to the SMEs which shall be proven by its annual report which submitted to the Bank Central of Indonesia. In accordance with that regulation, each bank shall provide in certain minimum percentage of ratio from its total credit in one financial year to finance the SMEs. This mandatory obligation for banks shall be considered quite effective due to its sanction for the banks that do not fulfill this obligation. Besides funding, Central Bank of Indonesia also can give technical assistant to SMEs, such as training, research, information, and facility. *Kredit Usaha Rakyat* (KUR) which is a mandatory obligation for appointed banks. There are 2 guarantee companies and 33 banks involve in KUR now. The guarantee companies will guarantee 70% of the loan and the remainder (30%) will be borne by the bank. This policy gives comfort for the banks in providing finance to the SMEs.
Developing SMEs Sector In Egypt

2) **Malaysia** (Muhammad, 2010)

SMEs in Malaysia are not really exposed and concerned to the important of protecting intellectual property in meeting the challenges due to globalization. However, a study by (Kitching & Blackburn, 1998) highlighted that SMEs owners placed most emphasis on informal methods to protect intellectual property. These methods were more familiar, cheaper, less time-consuming and frequently considered as effective as more formal rights. As for SMEs, the formal recognition and registration often considered to be uneconomical in order to enforce their rights through the existing legal system. They need to protect their intellectual property in a cost effective way. This is a setback when gigantic companies took over their rights. In terms of bankruptcy arrangements, many entrepreneurial ventures are not a success, but they are not necessarily failures in the sense of losing money. It makes sense to try to make markets contestable by reducing exit costs and impediments for ventures that are not up to initial expectations (Samad, 2007).

According to Small and Medium Industries Development Corporation (SMIDEC), an enterprise is considered as an SME in each of the representative sectors based on the annual sales turnover or number of full time employees. SMEs are divided into two sectors; manufacturing, manufacturing related services and agriculture industries; and services (including ICT) and primary agriculture.

Bank Negara Malaysia has also announced another financial assistance scheme with total funds of RM2 billion for SMEs to keep on competitive and to survive in the global recession. The scheme can be accessed at any commercial and Islamic banks, SME Bank, A grobank, Bank Rakyat, EXIM Bank and Bank Simpanan National. Each eligible SME may obtain financing up to RM500,000 for the purpose of business operation such as working capital, project financing and capital expenditures. The Credit Guarantee Corporation (CGC) will provide credit guarantee on 80% of the principal and interest charges in order to encourage participation from commercial banks.

Furthermore, The National SME Development Council or NSDC has agreed to shift SMEs towards higher value-added industries by encouraging development of knowledge-based SMEs (K-SMEs). K-SMEs are defined as companies with more than 20% of its staff being knowledge workers, companies that directly use ICT and technology in business processes or for product improvement, companies that adopt innovation and R&D in business processes or for product development, and companies that provide systematic training and learning of technical skills to their employees. SMEs that have achieved K-SME status will gain fiscal incentives, access to technology funds, capital and financing offered by agencies under the Ministry of Science, Technology and Innovation, quicker intellectual property and patent registration, as well as priority access to government procurement. This measure has made K-SMEs more competitive and viable to manage the pressure of global economic environment.

3) **Singapore** (Small & Medium Enterprise, 2008)

There are many huge countries with vast lands and abundance of natural resources that maintains a powerful economy, such as China and United States. Singapore, on the other hand, is known for being a small country with limited arable land but surprisingly has one of the world’s strongest economy. Singapore’s economy has an unemployment rate of 2.1% and per capita GDP of nearly $53,000. This rising and powerful economy is powered by small and medium sized enterprises (SMEs), which make up 99% of all enterprises and an employment rate of 65% of all workers in Singapore.
Small and medium sized enterprises (SMEs), therefore is a crucial segment as they are a huge contribution and play an imperative role in Singapore’s powerful economy. Increasing the competition, suitable manpower, increase cost efficiency to productivity, overseas expansion and some other factors were the main keys for developing strategies for SMEs companies.

According to the Standards, Productivity and Innovation Board (SPRING Singapore), definition of small and medium enterprise in Singapore is that the enterprise has at least 30% Singapore local equity ownership and fixed assets of $15 million or less. Non-manufacturing SME must have at least 30% Singaporean local equity ownership and 200 employees or less.

The followings are the 3 major problems faced by SME in Singapore.

- Business concerns faced by SME, such as consistently soaring wage, raw material cost and cost of semi-finished and final products and management of increasing rent.
- Growing concern about high interest rate charged by banks.
- Concern over tough competition with local and foreign companies

The Ministry of Trade and Industry (MTI) leads country-level economic policies to contribute to the creation of national wealth through stable and sustainable economic growth. Economic Development Board (EDB) started focusing on development of venture capital by providing the fund to support entrepreneurs starting up high-tech enterprises. The ventures set up were mainly engaged in the biomedical sciences and other high-tech fields in line with the Singapore government’s policy focusing on science and technology. Also, Singapore government set Bio One as a fund management company to accelerate the growth of biomedical science ventures. It manages funds that invest in global biotechnology, specialty pharmaceuticals and medical technology. On the other hand, SPRING as a leading organization for promoting innovation of domestic sectors and improvement of the status of SMEs. It undertakes diverse schemes including Local Enterprise Finance Scheme (LEFS) and Local Enterprise Technical Assistance Scheme (LETAS). LEFS provides funds for expansion and development of new capabilities by SME while LETAS provides a grant for acquisition of new business management capabilities.

For banking loans guarantee, there are The Loan Insurance Scheme (LIS) jointly undertaken by SPRING Singapore and IE Singapore as well as The Enterprise Fund (for non-high-tech enterprises), Trade Credit Insurance Scheme and The Internationalization Finance Scheme (IF Scheme) undertaken by IE Singapore. Reduction of 2% of the corporate tax, from 20% to 18% is being focused was one of the strategies applied to encourage SMEs. As Singapore has limited number of population, immigrants from around the world is a source of human resource to those with high-level skill and expertise in IT industry especially.

The current situation of Singapore SME sector shows that, manpower issues among small and medium enterprises (SMEs) have eased, starting 2014 until 2017, as they have been adjusting their business models and improving productivity by investing in technology and streamlining their processes, according to the 2017 SME Development. Statistics from Singapore Department of Statistics have shown that the average value added per SME has decreased 1% since 2013 and the average size of SMEs has decreased by 12%. This indicates a struggle from SMEs in previous years. Also, an increase in the cost of labor is a common example of rising costs. Wages are known to grow faster than inflation, causing businesses to face increased costs. As the average value added per SME has already decreased, an increase in costs will just make it more challenging to maintain or increase profit margin. (million, 2018).
4) Philippines (Small & Medium Enterprise, 2008)

Small and medium enterprises in Philippines are divided according to assets (not including property) and the number of employees into three types, medium, small, and micro enterprises.

In 2017 List of Establishments of the Philippine Statistics Authority (PSA) recorded a total of 924,721 business enterprises operating in the Philippines. Micro, small and medium enterprises (MSMEs) account for 99.56% (920,677) of the total establishments, of which 89.59% (828,436) were microenterprises, 9.56% (88,412) were small enterprises, and 0.41% (3,829) were medium enterprises. Large enterprises made up the remaining 0.44% (4,044). MSMEs generated a total of 4,922,251 jobs in 2017 versus 2,909,838 for the large enterprises. This indicates that MSMEs contributed almost 62.9% of the total jobs generated by all types of business establishments that year. In terms of value-added, the MSME sector contributed 35.7% of the total with manufacturing contributing the largest share of 6.87%. Wholesale and retail trade and repair contributed 6.58% followed by financial intermediation with a share of 6% (Philippine statistics).

Philippines government issued "Small and Medium Enterprise Development Plan 2003 – 2004". National SME Agenda" was commissioned, and a financing program for small and medium enterprises called SULONG (SME Unified Lending Opportunity for National Growth) began in 2003. They started by establishing the Small and Medium Enterprise Development Council (SMEDC) which is the main organization that sets and deliberates on small and medium enterprise policy with 8 council members representing government organizations and 4 private sector representatives.

Funding for small and medium enterprises in Philippines is obtained from both private sector and government financial institutions. Philippine financial institutions were required to have on their balance sheet total loans to small enterprises of at least 6% and to medium enterprises of at least 2%, making lending from financial institutions to small and medium enterprises compulsory. The Small Business Corporation (SBC) "which is a merging between Small Business Guaranteed Finance Corporation (SBGFC) and the Guarantee Fund for Small and Medium Enterprises (GFSME)". The SBC offers guarantee, wholesale loans and micro financing to banks to provide loans To SME. With the government financial institutions, loan application processes are simplified, and interest rates are at 9% for short term, 11.25% for mid-term, and 12.75% for long term. The SULONG program, as long as it doesn’t go against prudential regulations, makes access to its system liberalized to offer rural, thrift, and commercial banks government financial institutional wholesale loans and guarantee programs.

Tax incentives for small and medium enterprises are restricted to the tax exemption for companies registered as Barangay Micro Business Enterprises. Also, regional governments are encouraged to exempt Barangay Micro Business Enterprises from regional tax and fees. In addition to this, there are some tax incentives for the export industry, investment in special economic zones or underdeveloped regions, or investment in priority fields through an investment priority plan, but these are not limited to small and medium enterprises.

Technical support from the Netherlands helped establish the University of Philippines - Institute for Small-Scale Industries (UP-ISSI), which provides training programs for managers, supervisors, and technical staff to strengthen the management ability of small and
medium enterprise entrepreneurs. PITC (Philippine International Trade Corporation) are in charge of programs to support the start up of businesses through introducing investors looking to invest in Philippine businesses, especially people from the Philippines that have worked overseas, to franchise opportunities (especially restaurants). On the other hand, the government implemented a venture capital system in the 1970s based on the US Small Business Investment Companies Program, which was established to find venture capital from commercial banks and investment businesses, but there haven’t yet been any success stories arising from this program.

**MSME in Egypt**

The Micro, Small & Medium Enterprises (MSME), is expected to be the backbone for the existing and future high growth businesses with both domestic and foreign companies investing in the ‘Make in Egypt’. The new initiative MSME should enable the development of a business system that enables and continuously support business that are gearing to deliver the right product, the right quality, the right solution and the right service at a competitive price, both in domestic and international markets.

1- Structure Of The MSME Sector

The problems shown below is the opinion of expertise and bank's directors in the financial institutions in Egypt. The researcher collected most of such factors that affecting the SME sector in Egypt (Daily News, 2017):

- Inflexibility of loan approval: Banks historically have not been accustomed to financing SMEs; moreover, the required procedures for funding a small or medium project are identical to those for funding a large one. For example, a loan worth EGP 100,000 requires the same effort as the loan worth EGP 100m, so banks prefer to loan larger ones to gain more profits.
- Weak Entrepreneurship: Entrepreneurs tend to be unstructured and they use their business as a tool for adding money to their pockets only. They don’t have the ambition to grow with their business to the next level and that is another reason why it is hard to finance them.
- The lack of credit, financial and administrative awareness of those managing the enterprises, in addition to the absence of real feasibility studies that lenders can rely on.
- Laws system: Egypt doesn’t have a law for SMEs, so owners don’t even have the basic guidelines they need to follow for creating their business; setting regulations is vital and this should be the starting point. Also, the government haven't a low tax rates on SMEs or exempt them from taxes. Also, the challenges and difficulties in the interaction with public administrations over registration, licensing, customs and taxation matters.
- Lack of innovation and potential among Egyptian entrepreneurs, and as a result they need to learn the entrepreneurial skills.
- A huge number of SMEs operate in the informal sector, the government doesn’t have records of them operating in the country and the reason why they do this is to run away from paying taxes.
- The government support: the government system doesn't assist SMEs in developing their products, help them export them to other countries and market them as well as help them join exhibitions to present their products, provide them with marketing consultations and lots of other services.
Developing SMEs Sector In Egypt

2- Economic statistics

SMEs represent 95% to 98% of the total industrial enterprises, distributed in 2.5 Million enterprises and constrain 75% of the total work force where, 95% of these enterprises are in non-agricultural projects. Small and Medium firms represent 13% & 46% industrial enterprises respectively.

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<td>Total Deposit (non-Gov.)</td>
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<td>Lending (excluding Gov.)</td>
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<td>Money Supply</td>
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<th>Table (2): Foreign Direct Investments</th>
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<td>Foreign Direct Investments (FDI) Inflow</td>
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<tr>
<td>Outflow</td>
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<td>Net FDI</td>
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Real GDP growth rate

Source: Egypt's economic profile and statistics, 2018

3- Developing MSME in Egypt

In Egypt, MSME are very large in numbers, diverse in type of business and are spread across remote geographies of a vast country. A large portion of the MSMEs are informal and not registered with the formal systems of MSME. It will require significant changes in philosophy and approach to be able to develop and deliver a new wave system which facilitates their development and seize the emerging domestic and global opportunities. At a minimum, any hindrances and hurdles in doing business are to be removed. This will help unleash a young and dynamic entrepreneurial talent in Egypt who will be willing to make self-entrepreneurship the first career choice and develop growth companies.

In January 2016 the Central Bank of Egypt (CBE) announced that credit to SMEs must account for at least 20% of any commercial bank’s loan book by 2020. This stimulus package could amount to an injection of $25bn. Under the new lending guidelines, companies with revenue of between $130,000 and $255,000 can access loans at highly attractive rates of less than 5%, which is significantly lower than the CBE’s main credit rate of 11.25%. One the other hand, CBE applied another initiative to provide medium- and long-term financing to the performing companies operating in manufacturing and agricultural sectors, with a low interest rate of 7% to those companies with revenue more than $255,000 to finance the new fixed assets. The CBE aims to;
• Increase the portfolio of loans and credit facilities (direct and indirect) for MSME.
• Allowing banks to deduct the whole value of LE credit facilities and loans extended only to small and very small enterprises from the numerator of the 10% reserve ratio.

Encourage SME sector in Egypt

The second strand of the literature attributes MSEs sector’s hypertrophy to the lack of a proper business environment conducive to firms’ growth and mobility from their initial state of micro and small informal businesses to medium-sized and, ultimately, large formal enterprises.

1- Changing the taxing systems; where the current position is high tax rate even for low income category. The researcher agrees with (PONORICÄ& AL-SAEDI, 2015) that the following characteristics should apply in designing any tax system for SMEs;

   a) Simplicity – The tax system should be easy to administer and comply with;
   b) Proportionality – The tax compliance burden should not be disproportionate to the businesses sizes, SME should have correspondingly small and medium compliance burden;
   c) Certainty – in tax liability is important for SMEs that sometimes need to make seat of the pants decision;
   d) Trade-offs should favor compliance friendliness – In designing any compliance-friendly tax environment, the decision paths invariably meet at the intersection of accuracy, tax base protectionism and simplicity; for SMEs, the trade-offs need to favor simplicity.
   e) Tax neutrality – Overall, the intention is not to change how much is paid. However, simplicity does not equal less tax. In some cases, more tax will be paid, and in some cases less tax will be paid.
   f) Fairness – Taxes and compliance burdens should always be seen to adhere to the principle of fairness, that is, all other things being equal.

2- Solving Marketing problems; it is noticed that SME face Failure and deficiency in local market canals and networks. Moreover, the lack of internal and external market information.

   a) Brand has the power of instant sale. They convey a message of confidence, quality and reliability to target market. Customers are not well aware about brand name of small and medium enterprises. So, SMEs should also need to work on brand endorsement for enhancing profitability. So for, this purpose small manufacturer also need to improve their product design as well as their branding and research base.
   b) small industries need to improve their distribution channel for maximum coverage of the buyer. For maximum coverage of the market latest technology e-marketing or web marketing may help the small manufacturer to place the product to large number of buyer. Customers also highly dissatisfied from the distribution channel and current method of convenience of the small and medium enterprises. Small manufacturer should adopt new methods of the convenience to the customers.
   c) In the era of globalization product, placement, promotion, brand building and sales maximization depend on the right type of advertisement. Study investigates that promotional base in the form of multiple offers at the regular intervals is showing a high level of significance but communication is showing reverse trend. This contradictory approach stems positively from the personal interaction (Beverland and Lockshin, 2005) with the consumers directly. Indirect mode of communication is not possible because of poor advertisement base. Small manufacturer should go for regular advertisement and promotional methods to increase information towards their product for the consumer. Integrated
marketing communication should be taken into account. Better positioning of the product, by providing variety of rebate coupons in newspaper, magazines should be offered.

3- Encourage the work environment; to those willing to invest in SME projects, we propose the below strategies to be conducted in two levels;

*First*, the SME enterprise:

a) Be a client-centric business: Developing a client-centered approach;

- Know your clients well. Where are they? Who are they? What are their values, attitudes, interests and lifestyles? How do they prefer to do business with you?
- Conduct research using secondary sources (reports, surveys) or conduct your own study based on interviews, focus groups and surveys.
- Do not treat all your clients the same way: Most of your sales are generated by a minority of your clients. Develop a keen understanding of these top clients and cultivate their loyalty by providing outstanding service, personalized communications, and special offers or discounts.
- Invest in a customer relationship management (CRM) system to provide centralized access to relevant information on existing and potential clients.
- Ensure you have a solid continuous improvement program in place to create value for your clients.

b) b) Build your talent pool: Investing in human resources;

- Develop a human resources management plan that sets out where the business is headed and how to get there. The plan should cover recruiting, employee motivation and training, as well as required skills, performance appraisals, succession planning and dismissal. Update your human resources plan continuously as the business grows and changes.
- Assess your business’s skills to identify any shortcomings and target places where additional effort is required. Develop training and recruitment strategies that meet our business’s skill requirements.
- Ensure your employees are performing value-added work that is useful for clients, and that your business keeps up with market needs. Prepare clear job descriptions, performance objectives and annual appraisals.
- Implement low-cost measures to make your employees happy, such as recognition, dialogue and communication initiatives, flexible schedules, and team activities. Consider providing a creative benefit, reward and performance-based compensation plan.
- Give employees a role in developing ways to improve performance, results and customer satisfaction.
- Give your business’s managers the resources they need to optimize results.

c) Innovation: is another top strategy for fostering the growth of SMEs, as;

- Get ideas and feedback from suppliers, clients and other stakeholders.
- Harness your employees’ creativity. They have intimate knowledge of your business and industry, and are often your best source of ideas.
- With the help of your team, develop an innovation strategy to improve your products and services, processes, marketing strategy, business model, and supply chain. Remember to keep it up to date.
- Don’t look for a magic formula. Instead, try to make gradual improvements. They may be as simple as changing one process, adapting a product for a new market or exploring new ways to reach clients.
• If applicable, consider patenting your innovations and protecting your intellectual property.

Second, the Government:

_Governments should exert direct supply chain pressure by developing and implementing public procurement policies_ as a way to encourage potential SME suppliers to offer goods and services. To reach SMEs, government agencies responsible for public procurement should communicate their purchasing policy to a wide range of stakeholders, including present and future suppliers, service providers or contractors, so that they can take account of the new requirements. Governments should encourage larger firms to form partnerships with smaller suppliers on improving their performance and provide public recognition to those who do so.

It is important that a national government body take the lead in establishing a network of actors engaged in helping SMEs improve their performance. Once such a network has been created, its member institutions should perform the crucial “signposting” function of providing businesses with references to direct operators of multiple governmental and non-governmental programmes promoting different aspects of business.

4- Government Supervision; which may act as a barrier , to implement clear strategy for the development of these projects to avoid these difficulties to remove all obstacles and barriers and to help SMEs to be improved and developed correlation of different sectors in Egypt which are :

a) The governmental side

Working in partnership with business groups can be particularly useful as many SMEs do not respond to outreach activities conducted by regulatory government agencies due to suspicion and fear. Feedback from businesses groups is extremely useful in developing and improving compliance assistance programmes. Business associations can help small businesses to improve profitability through environmental management, e.g. by developing marketing and promotional materials which a business could use to display to its customers and practices. Business organizations can also have a role in providing sector-specific technical assistance to companies introducing green practices.

b) Banking and financial system.

Bank service of the SME sector is economically valuable because of the sector’s importance in each country. In low income countries, the role of banks may be critical if the prospect of bank financing can create enough incentive that informal firms will register as SMEs in order to receive loans. In addition, the data indicate that as a country develops, the SME market will only increase in size. SMEs are particularly in need of bank services because they lack the cash flow to make large investments, they cannot access capital markets as large firms can, and they often lack qualified staff to perform financial functions. Here, bank-provided long-term debt can enable SMEs to invest in expansion without losing ownership. In addition, short-term and working capital loans help SMEs grow incrementally. Lastly, bank deposit and transaction products can improve operational efficiency and enable SMEs to outsource financial functions.

Three commonly cited challenges to SME banking in the operating environment are (1) regulatory obstacles, (2) weak legal frameworks, and (3) banking processes. These challenges may impact SME banking on the supply side by hampering effective banking operations, or on the demand side by inhibiting SMEs.
Conclusion

SMEs have an important role in terms of their economic share in developed and developing economies though there are different definitions of SME among various organizations and countries. Today, instead of large-scale firms, SMEs having gained importance in the developing economies, become advantageous being economic enterprises having the capability of quick adjudication, working with less capital but more intense labor and having low cost of management and thus having cheap production. In short, the concept of small becomes important in the current economic conjuncture with large firms.

In Egypt, it is expected that potential of SMEs' impulsive force in the country which have less large firms (big business). Nonetheless lack of policy determinations and implications accrue coordination and promotion problems in SMEs' activities. Chronic economic problems of developing countries have affected energy of these enterprises, negatively. Briefly, providing necessary opportunities and directions of SMEs has emerged advantageous conditions for developing counties.

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