

American University in Cairo

AUC Knowledge Fountain

Theses and Dissertations

2-1-2014

Small and medium enterprises and access to finance in Egypt

Ismail Houssien

Follow this and additional works at: <https://fount.aucegypt.edu/etds>

Recommended Citation

APA Citation

Houssien, I. (2014). *Small and medium enterprises and access to finance in Egypt* [Master's thesis, the American University in Cairo]. AUC Knowledge Fountain.

<https://fount.aucegypt.edu/etds/1091>

MLA Citation

Houssien, Ismail. *Small and medium enterprises and access to finance in Egypt*. 2014. American University in Cairo, Master's thesis. *AUC Knowledge Fountain*.

<https://fount.aucegypt.edu/etds/1091>

This Thesis is brought to you for free and open access by AUC Knowledge Fountain. It has been accepted for inclusion in Theses and Dissertations by an authorized administrator of AUC Knowledge Fountain. For more information, please contact mark.muehlhaeusler@aucegypt.edu.

The American University in Cairo

School of Global Affairs and Public Policy

SMALL AND MEDIUM ENTERPRISES AND ACCESS TO FINANCE IN EGYPT

A Thesis Submitted to the

**Public Policy and Administration Department
In partial fulfillment of the requirements for the degree of
Master of Public Policy and Administration**

**By
Ismail Youssef**

**Presented to
Dr. Jennifer Bremer
Professor of Practice, Department of Public Policy and Administration**

January 2014

Allah said in the Holy Quran *“And spend in the way of Allah and do not throw [yourselves] with your [own] hands into destruction [by refraining]. And do good; indeed, Allah loves the doers of good. “(2:195)*

“Because if he chops wood and carries it on his back then sells it that would be better for him than to ask people for money, whether they give it to him or deny him.” Prophet Muhammad

“People... were poor not because they were stupid or lazy. They worked all day long, doing complex physical tasks. They were poor because the financial institution[s] in the country did not help them widen their economic base.” Professor Muhammad Younes

DEDICATION

I lovingly dedicate this thesis to my mother and the soul of my father for their supplication to Allah for me to successfully move forward. And to my wife, who supported and encouraged me in each step of the way. Furthermore, to my children whose smiles effortlessly eased our life.

ACKNOWLEDGMENT

I would like to express my thanks and appreciation to Dr. Jennifer Bremer for persevering with me throughout the time it took me to complete this research and write the thesis.

My thanks extend to the members of my thesis committee, Dr. Khaled Abd El-Halim and Dr. Elham Metwaly for their time and expertise provided to better my work.

My thanks must go also to my ELI teachers, Ms. Elisabeth Yoder, Ms. Valerie Carpenter, and Ms. Kamila Helmi, as well as others), as they were important pillars in constructing my knowledge.

The American University in Cairo
School of Global Affairs and Public Policy
Department of Public Policy and Administration

SMALL AND MEDIUM ENTERPRISES AND ACCESS TO FINANCE IN EGYPT

Ismail Youssef

Supervised by: Dr. Jennifer Bremer

ABSTRACT

The purpose of this study is to put a spotlight on some of the problems of access to finance that stand in the way of small and midsize enterprises (SMEs) in Egypt and to draw the attention of policy makers to try to solve those issues. These problems vary from financial issues such as getting access to money to non-financial shortcomings in such areas as knowhow, marketing, management and accounting systems. Furthermore, SMEs in Egypt suffer from complex governmental regulations as well. To address the overall research question, “how do informal areas SMEs meet their financing needs and why do they make these choices,” the study used interviews and a written questionnaire both conducted with SME owners in the informal area of Imbaba in Giza. The study found that a large majority of SMEs have never used formal financial institutions due to lack of knowledge about how to deal with banks and the banks’ complicated procedures. A minority of those surveyed did use bank loans but suffered great difficulty in dealing with the system, repaying the loan, and dealing with high interest rates. The field work was complemented by a review of the literature, which found that banks’ regulations and minimum loan size discourages SME owners from trying to obtain bank finance. Many interviewees expressed their anger at the complex and seemingly purposeless documentation required to obtain loans. Cut off from formal funding, most of the workshop owners interviewed depends on their social ties for financing, borrowing money from relatives and friends or participating in rotating credit associations. The study recommends that greater efforts be made by the government to ease regulations on starting a business. Banks should more aggressively pursue SME business, visiting shops and working with the owners to remove barriers to credit. NGOs should give assistance to shops facing difficulties in repayment to address the causes of their problems. If greater efforts are not made by the government and others to improve access to finance, SMEs will not be able to grow as quickly, with negative impacts on the Egyptian economy and on societal problems such as unemployment.

Table of Contents

I.	Introduction	1
II.	Literature review	9
A.	General knowledge.....	9
B.	SMEs in Egypt	13
1.	Financial Issues:	15
2.	Workforce Capabilities.....	16
3.	Weak Technology.....	17
C.	SME and Entrepreneurship	19
D.	Research Problem.....	22
III.	Research contents	25
a.	Research Question.....	25
b.	Research Objectives	26
IV.	Conceptual framework	27
V.	Research design.....	30
VI.	Research Limitations	30
a.	Summary of Data Collected.....	34
A.	Ethical Assurance.....	38
B.	Data analysis:.....	38
1.	SMEs and SWOT analysis	40
2.	Questionnaire analysis.....	43
a.	Descriptive analysis:	43
3.	Additional insights from the interviews:	50
VII.	Discussion and findings.....	53
III.	Recommendations	57
IV.	A final note on the researcher's views.....	59
V.	References	60
Appendix B.	Interview contents	67
Appendix C.	Questionnaire contents	70

Figures

Figure #	Purpose
1	CAPMAS Census of establishments' data for 2006 on the number of SMEs in Egypt
2	Conceptual Framework - BARRIERS TO FINANCE
3	Data collection and number of SMEs
4	Number of questionnaires after responses
5	Cost of the changes in the activity
6	Did you try to get commercial registration card and districting license to engage in the activity?
7	Did you get a loan from bank?
8	Why you did not get a loan from bank?
9	Financing for buying operation supplies

Tables

Table #	Purpose
1	Institutional Framework for SME Policy in Egypt
2	Number of SMEs and their workers
3	Summary of the work done

4	SWOT Analysis for Egyptian SMEs
5	Survey respondents' answers on reasons they did not use bank loans
6	Relation between having commercial card and access to finance

I. Introduction

SME access to finance was selected as the topic for this thesis because the researcher found it very interesting and relevant to Egypt's current challenges. SMEs represent an unmistakable source of growth for the Egyptian economy and contribute greatly to its GDP. The high number of SME workers indicates that this type of business can help cope with Egypt's unemployment crisis. Within the SME sector, the informal sector is very important. Their low-cost manufacturing and services help in meeting the needs of wide segments of the population at reasonable prices and with rapid response times.

There is no common definition for SMEs, whether in Egypt or globally. The EU Commission defined Enterprises in Article 1 of 2003/361/EC as follows: "An enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity." (Commission of the European Communities, 2003). SMEs are typically defined by the number of employees and/or the level of capital invested, but the specific ranges for what is considered micro, small, or midsize vary. Within Egypt there is no common definition for SMEs and there are more than twenty five definitions for SMEs in Arab world. Establishing agreed-upon size classes has been identified as a simple measure that an institution such as the Egyptian Central Bank could take to encourage banks to compete to finance those businesses (Mohamad, 2013). However,

according to law number 141 for year 2004, SMEs can be defined based on the number of workers and the capital invested. This law defines small as 10-50 employees (presumably micro is 1-9 laborers) and medium as more than fifty workers (NILE STOCK EXCHANGE, 2005)] It is very important to have a unified definition of SMEs to eliminate the problems created by different definitions. Current definitions may define SMEs by the number of workers, capital amount and legal documents. A report from the Ministry of Foreign Trade defines and classifies SMEs into three groups: micro which it has not more 4 workers, small which has fewer than fifteen employees, and medium with 15-49 workers. (Ministry of Foreign Trade, 2003)] In the following table, we will see differing SMEs definitions used in Egypt.

Table 1: Institutional Framework for SME Policy in Egypt

Ministry	Institution / agency	SME POLICY PRIORITY	Strategy	Main Activities	Definition for SMEs
Inter-Ministerial	Social Fund for Development (SFD) established in 1991 SFD Incubators Small Enterprise Development Organization (SEDO)	Micro small enterprises (MSEs) under law 141 of 2004	National strategy for MSE Development 2008 -2012 National strategy for micro-Finance	Poverty reduction through provision of financial and business support services Facilities of administrative procedures Company registration	Based on capital paid and number of employees: -Micro enterprise: less than EGP 50 000 capital paid up to 10 employees – Small Enterprise: 50 000 to EGP 1 million capital paid up to 50 employees – Medium enterprise: <u>industrial sector</u> - up to EGP 10 million capital 50 TO 100 employees <u>trade & services sector</u> – EGP 500 000 to EGP 2 million, 10 to 19 employees

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Ministry of Trade and Industry</p>	<p>Industrial Modernization Center ETTIC Industrial Development Authority (IDA) established in 2005</p>	<p>Industrial SMEs</p>	<p>Industrial Development Strategy 2005-2025 Industrial Modernization Programme</p>	<p>Expansion of export and upgrading of quality in seven existing sectors Investment in technology and upgrading of skills of six areas of niche development Allocation and equipment of areas for industrial activities</p>	<p>By size and industrial activity. Over 10 employees</p>
---	---	------------------------	---	--	---

Ministry of Investment	General Authority for Investment (GAFI)	Small and medium sized investments (SMEI) as defined by GAFI	SMI Strategy 2009	Facilitate company registration, offer services, assist investors and promote Egyptian investment opportunities	By size, turnover and sector. Agro-based industries, manufacturing: 5 to 150 employees Up to EGP 20 million turnover Services , Trade and ICT: 5 to 50 employees Up to 10 EGP million turnover
Ministry of Finance	SME Development Unit	SMEs	Micro, Small and Medium-sized Enterprise Strategy 2004	Research and coordination	No set definition
Ministry of Higher and Education and Research	RDI Programme (see 1.2.3)	R&D and innovation in SMEs, high-tech orientation	NO SME-specific strategy	Science and Technology orientation Funding innovation	No set definition

(OECD, 2010)

As discussed further in the literature review below, SMEs have often been cited as a key element in a nation's economy. For example, Hillary (2000) stated that, "Small and medium-sized enterprises (SMEs) are the most important sector of a nation's economy." Hillary also noted that SMEs are important economic pillars even in financial crises because they help to create jobs. He mentioned that SMEs are good places to exploit the creativity of workers and thus are the seedbed for future activities (Hillary, 2000). Jobs in informal businesses are one of the fundamental and most promising avenues to absorb the increasing number of new graduates who seek jobs (Nowar, 2012). Economist Malak Reda commented that, "Studies show that 84 per cent of small and medium enterprises are informal," (Nowar, 2012). Cairo University economics professor Souad Rizq noted that informal business, defined by the author as those having five or fewer workers witnessed 6% incremental increase in informal workers for the period from 1996 to 2006, (Nowar, 2012)

As of 2013, In the Egyptian government was reported to be preparing a draft law aimed at formalizing and integrating SMEs into official economic activity through granting tax incentives for owners of informal SMEs. The absence of many of the institutions involved in monitoring economic activity in markets (such as local administrations, police and utilities, and other regulatory agencies) from their work especially after the January 25th revolution may have negative impacts on implementing this plan on the ground. (Fekry, 2013)

This study is based on questionnaires and interviews with SMEs' owners in an informal area, Imbaba, in Giza Governorate. Its overall aim is to shed light on the

financial problems that SMEs encounter. It seeks to deepen our understanding of the widespread opinion that it is not easy for workshops in Egypt to obtain the required credit whether to start the business or to meet the needs of its daily operations. As a consequence, owners find it difficult to add more equipment to expedite production in their business or to add workers to increase output.

Those and many other problems result from the obstacles that informal or startup SME owners face when they try to legalize and activate their businesses. This study of SMEs in Giza illustrates the developmental role of SMEs in the Egyptian economy and identifies potential ways to help develop SMEs' capabilities. Based on the CAPMAS census of establishments in 2006, there were 136,739 SMEs in Giza out of nearly 2,600,000 businesses in Egypt. SMEs in Giza have been targeted by a number of non-government organizations (NGOs) for assistance, given their difficulties and their high concentration in this part of Greater Cairo, For example, the Small Enterprise & Community Development Association (SECDA) announced in 1999 that four areas in Giza (Omranya, Elsaff , Dahshour and Abu Ragwan) would benefit from planned programs in business management, training, counseling and information that will help in developing SMEs activities and contribute to creating new jobs. (SECDA, 2006)

It is notable that the author's search of the literature found very few studies of informal businesses or businesses in informal areas, and almost none for Egypt. One exception is GIZ's Participatory Development Program, which conducted a detailed SME survey in Giza's Boulaq El Dakroun in 2002 (mobadara.org). Unfortunately, the researcher was not able to obtain a copy of this study.

This study is aimed in part at reducing the gap in information on informal enterprises. Informal enterprises may be defined as those that lack one or more of the following or have only a temporary or interim version issued to legalize their operations: registration in the national commercial registry (the *sagil tugary*), a tax card, and a license to operate issued by the local district (*hayy*). The study's overall research question, as further discussed below, is, "How do informal area SMEs meet their financing needs and why do they make these choices?"

The research will be organized as follows:

- 1- Literature Review: to include what has been written the literature about SMEs' access to finance and problems associated with finance, whether in global and Egypt.
- 2- Research contents: to state the questions that the research addresses
- 3- Conceptual framework: illustrates the conceptual relationship among lack of formal finance, its causes, and how SME owners turn to another source, which is informal finance.
- 4- Research Methodology: discusses the approach that the researcher adopted, combining quantitative and qualitative methods in collecting data and analyzing them.
- 5- Research Design : how the researcher collected the data
- 6- Discussion and findings: this section discusses the obstacles that face SMEs through analysis of the owners' opinions to reach what are the outcomes of this study.

- 7- Recommendations: includes some ideas regarding how to cope with finance obstacles and the roles of government and NGOs to help SME owners to access credit.
- 8- Final note on the researcher's views: presents the researcher's point of views regarding the importance of adopting a finance system consistent with Islamic principles.

II. Literature review

SMEs in Egypt suffer from the problems of lack of access to finance. The literature review examines the issues around SME finance globally and in Egypt. We will start with general knowledge about SMEs and its importance to the economy and then will explore some issues that those activities must address, particularly with regard to finance and informality, and finally we will talk about SMEs and entrepreneurship.

A. General knowledge

Globally, SMEs are considered the machine that pumps the lifeblood of prosperous countries and the backbone of local economies. "The latest Department for Business figures for Britain suggest that SMEs account for 99.9 per cent of all private sector businesses in Britain, employ an estimated 14.4 million people and make up 59.3 per cent of private sector employment" (Drechsler, 2013). Additionally, SMEs are considered the main elements responsible for the economic growth and recovery of nations' economies. According to Martin Turner, president of the Association of

Chartered Certified Accountants (ACCA) of Great Britain, SMEs are the central power which leads world's Economies and they are the elixir that gives life to states' development (Nelson, 2013).

In Egypt, since the 1980s, if not before, most of the private sector has been made up of formal and informal micro, small and medium-sized enterprises. Although these various businesses vary in terms of size, location and operations, they are significantly contributing to the value added and offering accessible goods and services for poor and middle class people...Estimated figures indicated that Egyptian' SMEs employed around 2.2 million workers in 1998 and 8.3 million by 2004. (UNDP, 2005).The UNDP *Egypt Human Development Report* for 2008 reported that SMEs account for about 90% of private enterprises, most of them characterized in the micro class. SMEs contribute 80% of the total value added coming from operations carried out by the private sector and their share in employment reaches 66% of the total workforce and 75% of the total nonagricultural manpower (the Steering Groups of the MENA-OECD Initiative, 2010). In 2005, according to an Egyptian Ministry of Finance report, despite the large number of SMEs in Egypt, their contribution to exports is very low and does not reach 1% of GDP, amounting to less than 0.5% of manufactured exports (Ministry of Finance, 2005). On the other hand, a recent study said that SMEs contribute 70% of Egypt GDP (Nasr, 2009). Some experts, however, believe that SMEs play a role as indirect exporters through selling products to foreigners against hard currency. For example, shops in Khan El-Khalily sell simulated antiques to tourists and thus earn hard currency, considered vital to

the economy. It can further be argued that SMEs manufacture goods that are components of exports and are sold to large firms to be incorporated into products ready for exporting.

SMEs in Egypt face complex regulations and tough legal procedures when they want to obtain operating licenses, issued by the local district (*hayy*). In 2002, according to Makary (consulting for the Small Enterprise Policy Project (SMEPOL) funded by Canada's aid agency, CIDA), when SMEs owners want to establish small business, they must follow a long string of bureaucratic procedures and red tape to obtain an operating license (Ministry of Foreign Trade, 2009). For example, repeated visits are conducted and there is redundancy in documents required by different governmental bodies. According to digital.ahram.org.eg web site, the assistant of the Minister of Trade and Industry acknowledged that getting permissions to exercise any activity is the problem of problems. He clarified that small business owners practice their work by temporary permission and do not get permanent permission (Al-Zaiaty, 2010). It was said that temporary permission lasts for three years. Almasryalyoum.website reported that, the government is preparing a bill to adjust the positions of small and medium enterprises by providing them with temporary operating license for a period of three years. Then they will be given a permanent license in the event of compliance with the rules and procedures in that bill" (Fekry, 2013). Moreover, SMEs face more difficulties due to political risks especially when changes occurs in government which leads to changes in regulations and laws (Freeman, 2013). However, some expert said that there have been improvements at the national level in Egypt, but there are still barriers put up at the local

level. In his study of one such reform, the “one-stop shop” established by the General Authority for Free Zones and Investment (GAFI), Andrew Stone, Senior Private Sector Development Specialist at the World Bank, mentioned that establishing the one-stop shop in Egypt is a good step to cope with the bureaucracy surrounding business startup. He mentioned that prior to this reform, a business license could require a year to obtain plus under the table payments reaching five thousand pounds. After the one-stop shop was established, the national requirements (the commercial registry and tax card) could be acquired in less than a week. Although it was hoped that this project could ease start up activities, some obstacles remained such as to whom that entity would report on an ongoing basis, whether the prime minister’s office or the presidency, and some other legal procedures (World Bank, 2007).

Owners of SMEs often lack finance knowledge and thus encounter obstacles with financing. These are compounded by bank opposition to lending to what are perceived as risky ventures.

Among the other questions addressed in the literature are whether SMEs are the potential engine for growth they are often claimed to be and whether they can in fact deliver on this promise.

In addressing these questions, the literature takes into consideration that SMEs are highly diverse, pursuing a broad range of activities serving very different localized markets. In 2003, SMEs in Egypt trade and services represented two thirds of total SME activities. They can be found in most types of trade and services, as well as being present in many different subsectors within manufacturing. For example, many medium-sized organizations function as feeders for big firms (UNDP, 2005). In general, SMEs generate

high employment at a low capital cost per job created: At low cost, SMEs can provide many opportunities for people to work, especially in urban areas. Most SMEs rely on the firm's owner for financial purposes while SMEs using external finance reached only to 6% out of the number of SMEs and around 10% of enterprises making use of loans (OECD, 2010).

To date, the evidence in the literature suggests that SMEs have not delivered on their potential as job creators, at least in Egypt, where the need for jobs for the young and rapidly growing population is very high. Egypt's SMEs are still unable to secure either sufficient jobs or higher productivity and that suggests the need to make reforms to create a better atmosphere for work (UNDP, 2005).

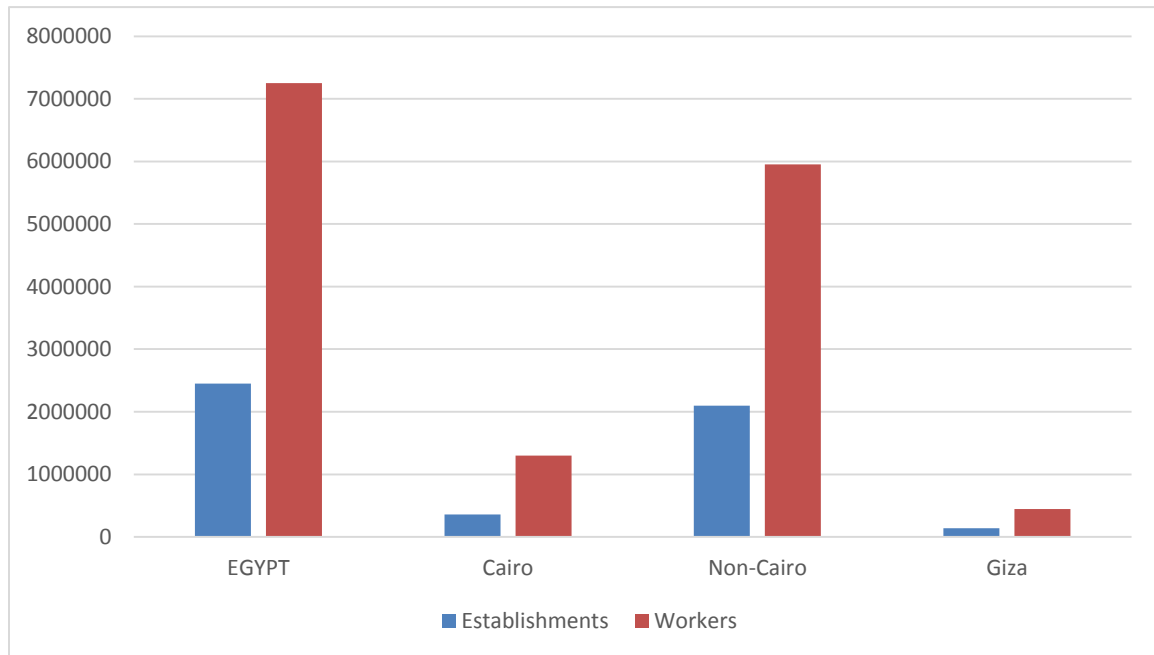
B. SMEs in Egypt

It can be seen that the definition of SMEs in Egypt tends to shift depending on the topic or the policy objectives and activities under discussion. According to the Social Fund for Development (SFD) and the African Development Bank (ADB) study, there was an expectation that the number of SMEs would rise to reach nearly 3.4 million by the end of 2011, employing nearly 33.7% of Egypt's employed population (New policies to support SMEs and micro-businesses, 2013) Based on the CAPMAS census of establishments in 2006, Table 2 and Figure 1 represent the number of SMEs and associated workers in selected geographic jurisdictions in Egypt:

Table 2 Number of SMEs and their workers

	EGYPT	Cairo	Non-Cairo	Giza
Establishments	2,450,903	355,988	2,094,915	136,739
Workers	7,254,033	1,298,892	5,955,141	442,744

Figure 1 CAPMAS Census of establishments' data for 2006 on the number of SMEs in Egypt



Besides bureaucratic procedures, high social costs for registered firms, weak marketing, and unsuitable logistic systems serving these firms pose additional obstacles that constrain SME growth in Egypt (and other Arab countries). There are some problems which prevent SMEs from starting or continuing to work in the market. One of these

problems is financing. It is a must to ensure availability of capital to prepare the business premises and other elements needed to run the business, but may not be available to SMEs. Additionally, the owner himself must bear the risk of lost money or inability to repay the loan he got from bank, which may have serious repercussions in Egypt's legal environment. Another problem that faces SMEs is underdeveloped production processes; most of the business owners do not have enough experience, thus they are forced to obtain experience on the job by trial and error. Thirdly, SMEs face severe marketing problems: even SME owners who know the correct way how to work may not know how to market their products and that may lead to failure of the business. (Batra & Tan, 2003)

The following section explores three particular obstacles, beginning with financial issues, the core topic of this research, and briefly considering workforce capabilities and technology access.

1. Financial Issues:

Several authors have commented on the barriers to financing facing SMEs in Arab states face bigger credit restrictions and have limited access to bank loans. Lending to SMEs is often not attractive to financial institutions due to high servicing costs relative to the amount of the loans and lack of information on firm performance. Consequently, bank lending to SMEs is relatively low. The rate of SME lending compared to total lending is only 8% in KSA and only 2% in Gulf Cooperation Council (GCC) states, reflecting the concentrated oil economies picture. Moreover, although SME lending rate

in the non-GCC is higher than the rate in GCC countries, it is still low comparing to the shares of SME lending in other developing and developed nations (Beck, 2008).

It is well-known that informal businesses, which lack registration documents, suffer from reduced access to finance. One recent study conducted by GTZ-PDP project in the Mansheit Nasser district of Cairo, using a sample of 5217 workshops, identified the problems of access to credit such as licensing and official registration. The study reported that not more than 20% of the overall number are registered workshops because of complicated costly procedures. Only 30% of these non-registered shops reported that they do not want to register their businesses. Only 12% of surveyed shops had tried to access credit from banks, relatives and friends but the others stayed away from getting loans because of high interest rate and, in the majority of cases, lack of enough assets to post as guarantees (El-Nawawy , 2007)].

It is important to mention the religious and cultural barrier posed by Islamic doctrine (Sharia) to traditional banking, as some small business owners feel a strong need to adhere to the doctrine that both paying and charging interest are forbidden in Islam. According to al-Ahram weekly, Sherif Makhoul, founder of Boost, many SMEs avoid getting loans from banks as they consider the generated interests are usury which is forbidden in Islamic law (Nowar, 2012).

2. Workforce Capabilities

In the business world, the more literate and well-educated business employees are, the higher the productivity. Nowar states that, “The inadequate level of education

among SME entrepreneurs is an added problem with the owners of many of the surveyed enterprises not completing the full 12-year course of schooling.”(2012). In general, the workforce in Arab SMEs is weak in terms of knowledge and in technical skills and work ethic, such as attention to detail and deadlines. In the author’s own professional role as a procurement manager for a major organization, it is evident that most SMEs do not give an exact time when they will come to the facilities (for a repair, for example) and often they do their work carelessly. This suggests that there is a shortfall in training in basic business management skills for their managers and workforce.

3. Weak Technology

Writing in the online newspaper *Al Misriyoon*, Ashor mentioned that there must be more concern about the technical education to develop all Egyptian. He encouraged businessmen to donate to this kind of education (Ashor, 2013). This comment highlights the need for better access to and use of technology to raise SME productivity, growth, and income. SMEs can achieve high quality productivity and earn higher income if they have the willingness to improve employees’ technological competences and invest in better equipment and inputs. Unfortunately, absence of technological capabilities prevents SMEs from seizing the benefits of new technologies.

All three of these problems – weak finance, weak workforce capability, and weak technology, reinforce each other as contributors to low productivity and income. Finance is likely to be key to addressing all of them, however, because training employees or hiring more skillful workers is likely to raise workforce costs, while applying newer technology requires investment funds to cover the expense of new

equipment and potentially more expensive inputs. If there is limited access to finance, weak technology will remain a fundamental obstacle that prevents SMEs from improving their productivity.

From the discussion above, we can conclude that lack of access to credit is likely to impede SME success. The literature suggests that Egyptian SMEs will face a number of barriers in gaining improved access to finance, however, both internal and external. A study carried out by Environmental Quality International (EQI), the Egyptian lending system is still immature because only a few organizations provide formal funding, such as the Social Fund for Development (SFD) and the National Bank of Egypt -- both public sector entities. (Environmental Quality International, 2004)] As a result of globalization, it would be highly desirable to improve the capabilities of SMEs in Egypt, especially after incremental pressure exerted by international competition. (Nasr, 2005)]

SMEs in Egypt do not prefer to try to gain access to finance through banks. They consider dealing with banks to be dangerous for their business because of such reasons as high interest rate, long procedures, and the potential to be jailed for nonpayment or lose assets posted as collateral. (Elmasry & Hamad, 2013)

Informal SMEs face additional barriers because they lack the documentation required for formal lending operations, including government programs aimed specifically at SMEs, such as the Social Fund for Development which does not lend to informal businesses.

“SMEs may be reluctant to deal with even Islamic banks, which would fit with their religious views, because of long procedures, the immaturity of Islamic

finance experiment and decline in the number of Islamic banks, as well as their limited geographical spread. Additionally, only two associations provide this funding, the Association Bab Rizk Jamil and Legitimate Association” (Mohamad, 2013; Translated by the author.)

Consequently, they have few options other than informal financing methods such as borrowing from relatives and friends or using traditional or customary methods, such as the rotating credit association, called a *Gameia* in Egypt. NGOs are also a potential source, but some SME owners do not want get money from this source or from private donors because this may entail a social or other reciprocal obligation. For example, in a Programme funded by the United States Agency for International Development (USAID) and managed by the Daqahliya Businessmen's Association for Community Development (DBACD). Anyone could obtain a loan of L.E. 3000, upon securing the signature of one of his/her relatives as a guarantor of loan repayment (Loza , 2004).

C. SME and Entrepreneurship

It is well known that entrepreneurship is important whether in the area of small or large firms. Nowadays when governments or international institutions put forward a plan or policy, they show great concern about SMEs' role in the economy as they are crucial elements in economic growth and development. Many researchers consider most SME owner-managers to be entrepreneurs, because he/she starts the venture, administers the business, and is responsible for its failure or success.

A study by David B. Audretsch, Ameritech Chair of Economic Development and Director at the Institute of Development Strategies of Indiana University, assesses the economic role of small- and medium-sized enterprises in the United States and the evolution of SMEs.

Audretsch argued that “there are two different views about the impact of small firms on economic efficiency. ...Firstly, the traditional view indicates that their inefficient scale of operations leads to ineffective production and reduced compensations for workers and in consequence it reduces the well-being of people. In this traditional view, shifting from small firms to large business should be encouraged.... On the other hand, a dynamic view of SMEs indicates that new small firms can be highly functional and gain output, even though operating at a sub-optimal scale, when there is a better opportunity of making an innovation using underlying technological conditions.... When an SME can correctly learn and adapt, it can develop into a viable business, otherwise it will fail and withdraw from the industry “(Audretsch , 2000).

How innovative are smaller firms? According to the OECD, “SMEs are poor in conducting R&D but they can innovate in different paths. For example, SMEs can fulfill new markets’ needs through creating or re-constructing goods or services. Moreover, they can adapt new organizational techniques and management approaches to develop their productivity and to expand their sales Additionally, SMEs have been creating jobs at higher rate than large firms and playing a great role in developing new goods “OECD, June 2000)

Locally, in a study conducted by Rola Nabil and Christian Kalhoefer at the German University in Cairo (GUC), they argued that SMEs have been contributing to alleviating poverty, diversifying economic functions, and creating jobs. They found that finding customers is the main obstacle that faces SMEs in Egypt and that is related to the type of activity inside the organization.

Access to finance came in the second place in the problem that SMEs encounter. They argued that most enterprises depend on internal funds to finance their workplaces, while others use bank loans that burden them with interest rates that they find difficult to pay. Additionally, the study tested whether Egyptian SMEs accept Venture Capital which

includes high risk for high return. Although most of them showed their interest in this kind of finance, they were reluctant to agree with that as they will lose the control over the business; moreover, that kind of finance is nearly unknown in the Egyptian market. The two researchers obtained responses from 190 out of 384 enterprises from different industries and locations Moreover, they added the following points:

- Only 10% of SMEs can get access to formal loans and that door must be opened up to enable them to develop. SMEs owners always face complex routine and many approvals to have their firms established, an issue that the government has made only marginal progress in addressing to date.
- Very small premises and their locations need more concern
- Education curriculum must match with the market needs, so some improvements in technical school curriculum are needed in order to make available qualified persons for working.

a. Literature summary

From the discussion in the literature, as summarized above, we can see how important SMEs are for the Egyptian economy and society. However, SMEs still suffer from obstacles that stand in the way of them against its development. There are financial issues, lack of technology adoption, unskilled workers and political issues. Furthermore, SMEs owners tend to have informal finance such as borrowing from relative and friends and rotating credit association (Gameia) instead of formal borrowing, as the latter requires long and complicated procedures. Finally, SME owner-managers can be

considered entrepreneurs because they are responsible for the failure or success of the businesses.

D. Research Problem

The question of access to finance raises a number of distinct questions. SMEs need finance for various purposes, for example, ranging from establishing their business to expanding it and investing in new technology or activities, to simply meeting operating capital requirements to obtain inputs, pay workers, cover the time gap between outflow and income, and meet such costs as utilities, taxes, rent, and so forth. In each of these, SMEs may face slightly different problems that impede owners from starting up rapidly, continuing to work, or growing and improving their business. In a small business, the owner himself (or partners) will bear the risk of lost money or inability to repay a loan from a bank, unless the SME is set up as a corporation (which by definition an informal business is not). As discussed above, SMEs face many nonfinancial problems that may be reflected in their financial strategy as well as their success, such as the production process or marketing problems. Many business owners have limited business experience or formal training in business; thus they are forced to make decisions based on their personal experience, until they build up a base of knowledge through trial and error. Some businesses are multi-generational, though, and experience may therefore have been obtained from family members or experience as a worker in the family operation before assuming the leadership. Thirdly, SMEs face marketing problems, even if they know how

to do the work and run the business. They often have limited knowledge of how to market their products and that may lead to shortfalls in sales and even the shutting down of the business.

SMEs, like all businesses, need access to finance to operate and expand, but SMEs are often not attractive clients for financial institutions due to such reasons as their lack of administrative processes and financial records.

Freeman mentioned that, “Small and Medium size enterprises are facing increased pressures in today’s economy....The global financial crises caused major financial pressures from 2007 to 2009 and still continue today” (Freeman 2013).

According to Dr. Khaled Nagaty, Chairman of the Egyptian Association for SMEs Support, bank administrations are reluctant to provide loans for SMEs as these kinds of projects do not have accurate and dependable feasibility studies provided by SMEs’ owners and most SMEs have no accounting records and that makes it not easy to review their financial status regularly (Nagaty, 2013). There are inevitably bank procedures, which here are inevitably bank procedures, which SMEs Support, bank administrations are reluctant to provide loans for SMEs as these kinds of projects do not have accurate and dependable feasibility studies provided by SMEs’ owners. One example that shows the negative impacts of lack of formal status on access to finance is the requirement at Banque Misr for any SMEs seeking to obtain loans to have a formal license authorizing them to run their business. Lacking this, an SME would have to provide a letter proving exemption for licensing from a governmental authority stating that their activities do not need such licenses (Banque Misr, 2008).

Collateral is an additional barrier. According to Al-Ahram weekly, Ahmed El-Barda'i, chairman of Banque du Caire stated that, "One of the big surprises was that we discovered that there are at least 2.4 million clients who need loans but do not have access to banks simply because they lack sufficient guarantees. We estimated that those clients could use up to LE8.9 billion in loans, but no bank was willing to take the risk," (Nasr, 2004).

It was written in Al-Ahram Weekly that Wafaa Al-Arabi, an owner of a small commercial shop argued that she did not want to deal with banks as she has heard not only that the process inside banks were difficult but also the interest rate is very high. Thus she refused the idea of going to banks and deal with (Nowar, 2012)

b. Gap in the literature

The literature review found that very few studies have been done regarding financing for informal businesses in general or specifically in Egypt. Our research will make a step toward filling the gap in the literature through exploring the use of formal and informal mechanisms by SMEs owners to run their businesses and in particular to gain access to finance.

In the following parts of the thesis, the researcher will cover the following steps in the research:

- 1- Research question as modified after the literature review
- 2- Conceptual framework,
- 3- Methodology
- 4- Reporting the data collection in the research
- 5- Research findings

- 6- Conclusions and recommendations, accompanied by a final note on the researcher's point of view on the need to develop Islamic financial institutions.

III. **Research contents**

The remainder of this thesis presents the research carried out to begin closing the gap identified in the previous section. It includes the restatement of the expanded research question based on the literature review, together with the hypothesis and conceptual framework. These lay the basis for the presentation of the methodology to shed light on the research question and test the hypotheses.

a. **Research Question**

The central research question in this thesis remains, "How do informal area SMEs meet their financing needs and why do they make these choices?"

This study aims to explore the following research sub-questions for small businesses in an urban informal area:

1. How are the Small and Medium Enterprises financed
2. What are their financial issues/problems?
3. Have they ever used formal lending programs or tried to do so?
4. What are the alternative financing mechanisms that SMEs try to access instead of formal financial institutions?

An important contribution of this research will be to shed light on informal financing mechanisms within the informal business sector. These mechanisms, such

as rotating credit associations and friends-and-family funding, can readily be observed throughout Egyptian business and private financial dealings (such as marriages or purchase of a dwelling).

As noted in the gaps section above, these informal mechanisms are very poorly studied, especially as applied to informal businesses in informal areas. It is not known, for example, whether such informal SMEs try to use informal Islamic financing mechanisms such as a non-interest loan " (qard hasan) or if they succeed in doing so. It is not known if they try to access the Social Fund for Development as an alternative to banks if they have at least a temporary license. Do they rely on suppliers, friends and family, advances from customers, rotating credit societies or other informal finance mechanisms?

Based on the preliminary answers to these questions gained through the research, the thesis will suggest a number of possible measures that could be taken to improve SME's access to finance and/or financial institutions.

b. Research Objectives

The objectives of the field research support those of the study as a whole and may be defined as follows:

1. To shed light on the core constraints in access to finance by SMEs operating in informal urban areas in Egypt and the strategies they use to address these constraints.

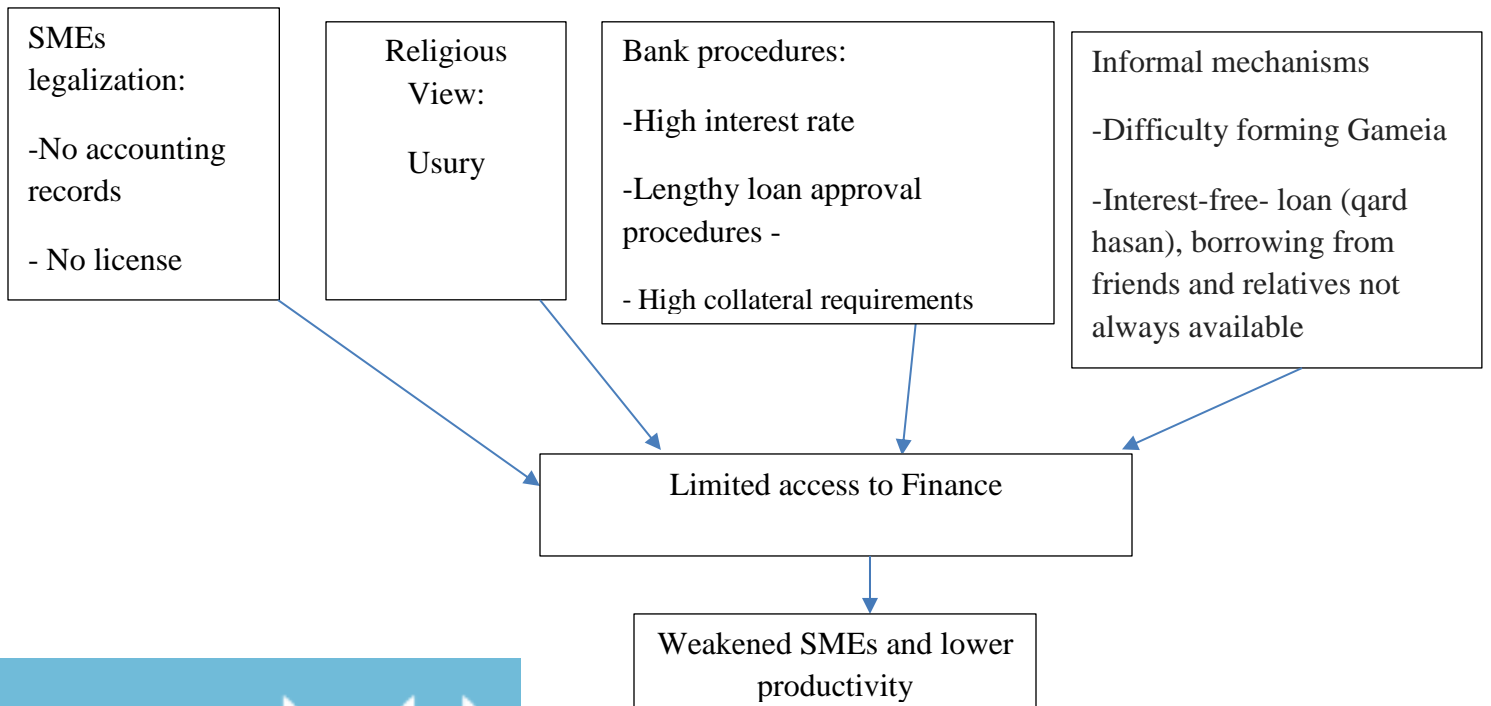
2. To identify the potential areas within formal financing that should have priority in government action to reduce or eliminate the obstacles facing the growth and development of SMEs in informal areas.
3. To observe whether or not those SMEs have been using or trying to obtain Islamic finance (qard hasan) or informal finance (gameia, borrowing for friends or relatives).

IV. Conceptual framework

In this part, the researcher will present the dimensions and elements that lead to limited access to finance, which are drawn from the literature review and provide the basis for structuring the research. Figure 2 below presents the research's conceptual framework.

Figure 2. Conceptual Framework

BARRIERS TO FINANCE



The factors shown in the conceptual framework may be further described as follows:

SMEs legalization: most of these small businesses lack such attributes of formality as regular accounting records and registration; thus banks are less interested in lending to them. One of the main factors cited in the literature is that banks find it difficult to gauge whether SMEs have the capacity to repay their debts due to the absence of clear and complete records. “(Snyder, 2013).

Religious views: SME owners may hesitate to take loans because they believe that paying loan interest is forbidden in Islam.

Bank procedures: Strict guarantees, high interest rates and long procedures inside banks may constitute a barrier for SMEs to obtain bank financing.

Informal finance: SMEs may have recourse to informal financing to meet their needs but may still face barriers in obtaining such finance and may find that it is not easy. For Gameia, it takes time for members to form it, in part because each one wants to be the first one to collect the money. Borrowing money from relatives and friends is not always an available option as the lenders are not always willing to give money to the would-be borrowers because they are afraid they will not get their money back at the time they agreed on or simply do not have resources to lend

All those factors are potential sources of limitations to access to formal finance and as consequences weakness in SMEs growth may follow. As a result, the market could suffer from lower production offered by SMEs and they would be able to generate less demand, jobs, and income for area residents and the economy as a whole.

Accordingly, the main hypothesis of the research is that these factors serve as barriers that prevent SMEs from gaining access to financing, particularly formal financing, with the result that they rely on the imperfect forms of informal finance available or do not have access to needed capital. While it may be expected that this reduced access would lead to reduced investment, production, employment, and income, the research did not address these linkages directly due to insufficient resources. It did seek to clarify use of informal means of finance, however. These are important questions for future research to explore further, as well as building on the work reported here to expand understanding of informal businesses' access to and use of formal as well as informal financial mechanisms. These suggestions are further discussion in the conclusions section

In order to answer the research question, the researcher found that both quantitative and qualitative methods could contribute to this study. It was argued that combining both approaches could yield benefits for the richness of the study and provide a more complete picture of the situation. The findings from qualitative approach can be examined by the other approach. Additionally, quantitative research provides information and expands the scale of the testing relative to the qualitative approach (Hughes, 2014). Therefore, the researcher decided to adopt both approaches. Furthermore, SWOT analysis has been done by the researcher to clarify strength, opportunity and threat of SMEs.

V. Research design

Although this study must be considered an exploratory study, the results obtained and analysis of the data collected can be used to clarify the limitations and obstacles or opportunities and strengths that face SMEs and guide future research and analysis of policy options. Imbaba (specifically the Emara area) was chosen because of it has many informal shops and offered the opportunity to rely on personal contacts, a requirement for any data collection in an informal area. These contacts provided introductions to the workshop owners, essential in establishing trust and collecting data.

Imbaba is an informal area located in northern Giza but functionally part of Greater Cairo. Imbaba officially has nineteen rural communities in its jurisdiction, which may contribute to its strong internal social solidarity compared to areas of much more recent establishment. The interviews were conducted specifically in the Emara area, where the researcher was able to rely on personal contacts to facilitate interviews.

The selection of SMEs was based on size (number of workers and size of the places). Both interviews and written surveys were distributed only to enterprises that had 3-10 workers.

VI. Research Limitations

The conduct of research in an informal area, especially in a period of considerable security challenges and tight curfews, is inevitably difficult. These difficulties forced the researcher to change the venue of the research from Eastern Cairo

to Giza, in order to take greater advantage of personal networks, and limited the time available for data collection. These difficulties restricted the sample size for both the face-to-face interview and written questionnaire elements of the research (discussed below). As a result, the main limitation confronted in this research is the comparatively small sample size. This means that the results must be considered indicative and the study as a whole be classified as exploratory, both because it addresses an issue about which very little is known from previous research and because it was not possible to collect sufficient data to draw quantitatively precise conclusions.

These limitations were addressed in part by focusing the research in a specific geographic area where it was considered likely that informal enterprises would have reduced variation compared to SMEs nationally. The tradeoff for this increased confidence in the data gathered in this location is that it is not possible to extend the findings to the country as a whole. The research also focused on two types of enterprises (small car repair shops and small carpentry/woodworking shops), chosen because they are very common in Egyptian towns and cities and appear to be quite uniform across geographies.

Together, these limitations in the scope of data collection make it more likely that the sample surveyed is representative of the specific class of enterprises studied – small service and manufacturing operations in the sectors specified operating in an informal area in Giza Governorate within Greater Cairo. It cannot be assumed that this sample is representative of other types of businesses or businesses in other locations (particularly in comparatively remote Delta or Upper Egyptian small towns and villages).

In the end, about half of the written questionnaires and about a third of the interviews were conducted with other types of businesses, ranging from barbers and small groceries to ironing shops. They were included in the research because they were located close to the two main types (car repair and carpentry shops) and it was considered necessary to limit travel time due to the curfew and security situation generally. These shops also appeared likely to be suffering from lack of financing as they were in a poor condition.

An additional limitation stemmed from the limited educational background of the owners and workers in the target SMEs, which created a number of problems for the researcher while collecting information through the questionnaire and interviews. Informal SMEs can be suspicious of outsiders coming to ask them questions, fearing that such people may work at the tax authority or even for spy agencies.

To overcome these limitations, the research plan called for use of family assistance and a snowball technique to select shops for data collection. This was partially implemented as follows: first the interviewer was introduced by a personal contact to a car repair shop in his network. This shop then helped introduce the researcher to another one. Another carpentry SME owner helped the researcher to visit another similar shop. In one case, a cellphone repair shop was interviewed because of its relationship with the local contact facilitating the interviews. To speed up the data collection process, assistants were recruited from family and friends living in the area to collect data from SMEs near their homes, so as to avoid any misunderstanding with SME owners.

In all through these processes, Thirty-one questionnaires were distributed and collected in total. Only 3 out of 31 completely answered all the questions, but a higher share were considered sufficiently filled out to be usable.

The procedures and responses from the interviewees were more positive with extended dialogues that really aided by research by their in-depth replies and insights. The interviews were conducted in a wide range of neighborhoods, including back streets as well as main streets. In fact, it proved somewhat easier to conduct interviews in the less-traded areas, where the owners generously gave the researcher the opportunity to have extended conversations with them.

By contrast, the people who work in main-streets shops are always busy with noise around them which comes from cars and pedestrians and resisted devoting an extended period to the interview. Moreover, some of the interviewees were reluctant to answer some questions, particularly those related to having commercial registration and giving bribe for the governmental employee, it seemed they were worried about being reported. However, the researcher was succeeded to convince them to answer the questions without any fear of liability. The researcher talked them in a friendly way and informed them that they could make sure about the true mission of him by referring to the person who introduced the researcher to them. Because car repair shops cluster near to each other, it proved easier to interview them. Only two of the shops were big ones, one is a carpentry shop and the other for car repairing which had expanded to a second location as it grew to accommodate the number of cars.

With these exceptions, the shops were small, traditional establishments typically around 25 m², often using the street to expand the working area. The interiors tended to

be messy and crowded. Many of them had children working there, particularly the big car repair shop (whose owner volunteered that he trains those boys to be good technicians in the future).

Overall, the limited sample size and geographic area, together with the non-random sampling method used, limits the ability to generalize the outcomes to informal Egyptian SMEs as a population. The prevailing political unrest and security limitations prevented the collection of data from a broader or deeper sample, however, and it is expected that, given the lack of previous studies of this population, the findings will prove helpful to forming an understanding of this key economic sector, despite the methodological limits.

a. Summary of Data Collected

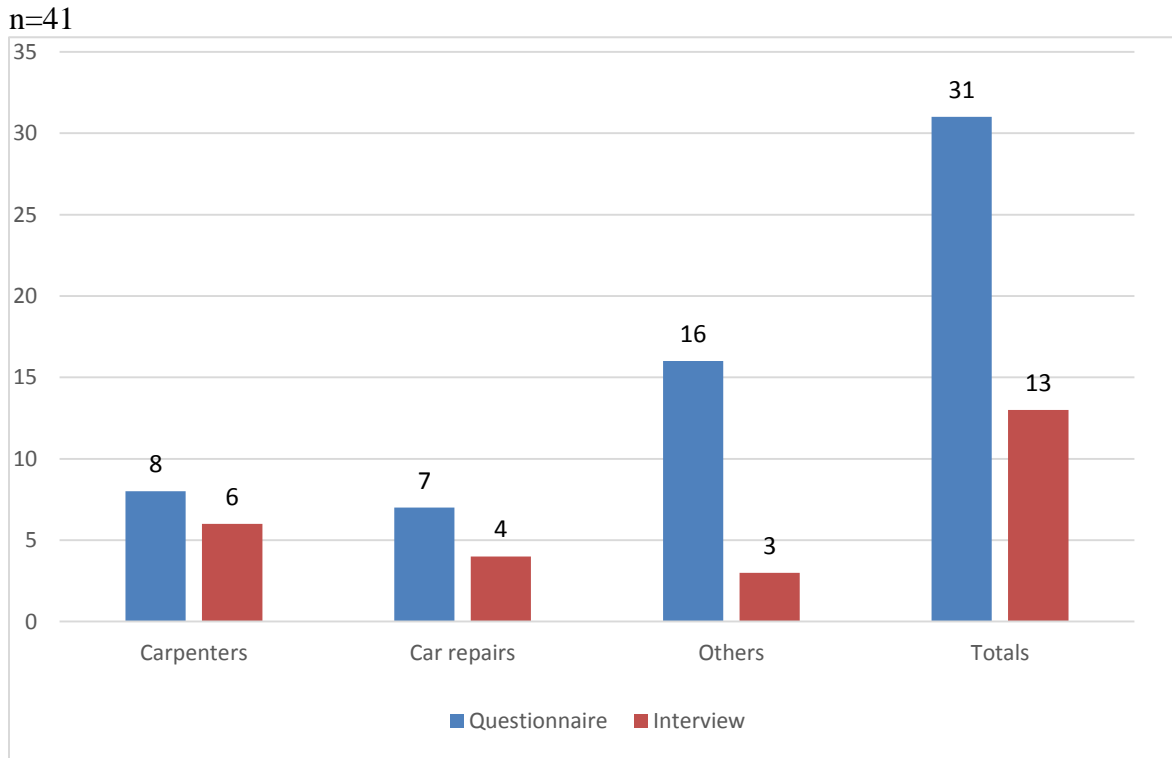
Table 3 summarizes the number of firms of each type in the sample as completed.

Table 3: Summary of the work done

Methodology/ activity	Carpenters	Car repairs	Others	Totals
Questionnaire	8	7	16	31
Interview	6	4	3	13

As shown in Table 3, sixteen SMEs were included in the study whose activities fell outside the planned scope, which consisted of carpenters (a typical small manufacturing operation) and car repairs (a typical small service operation). These two types of business were selected as being among the most common in the area, representative of small businesses in Egypt, and generally very similar within each category. The other types of enterprises included in the sample work in various fields such as cell phone repair, computer repair, groceries, ironing, and housewares. Imbaba has a very wide variety of activities. These small service establishments are also very common in all types of Egyptian neighborhoods, formal and informal, and are generally quite standard within a given category, at least superficially. Although these were not initially identified as targets, it was decided to keep them in the pool of data for analysis, due to the small sample size available and the absence of any clearly evident distinction among the different types with regard to expected access to finance. Although specific sales figures are not available, it is safe to say that millions of Egyptian pounds flow through these firms on a daily basis.

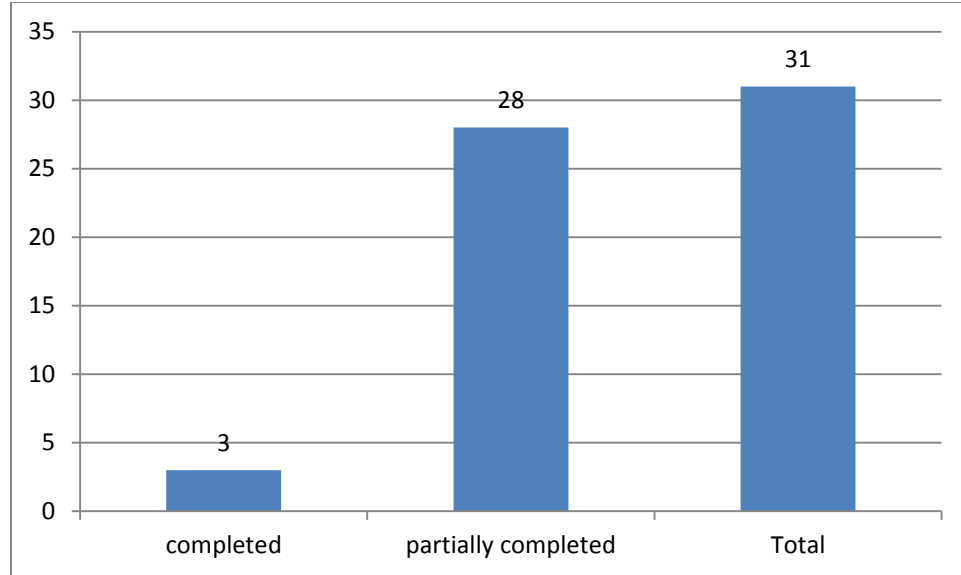
Figure 3. Data collection and number of SMEs



Generally, the interviewees were cooperative and answered all the questions without any refusal, perhaps because the interviewer was introduced to them by a mutual acquaintance. The questionnaires were administered by local assistants recruited locally. They reported that 31 questionnaires were distributed, of which 3 were completely filled out and the rest partially completed. Figure 4 shows the status of questionnaire after responses.

Figure 4 number of questionnaires after responses

n=31



The survey is primarily qualitative and descriptive. Appendices B and C provide the survey instruments used for the in-depth interviews and the written questionnaire distributed. The questionnaire consisted of 25 closed-ended, multiple-choice questions. The interviews were conducted face to face with businesses' owners with the same questions found in the questionnaire but without giving the options. After collecting data via two approaches, SPSS and Microsoft excel were used in analyzing stage.

A given firm participated in the written survey or the interview; none participated in both. The interviews added richer information than the surveys and gave the researcher the opportunity to pursue issue of interest in greater depth. The SMEs owners not only answered the interviewer's questions but also provided explanations, narrated specific experiences, and provided their interpretations of the situation in ways that gave the researcher a much deeper understanding of their credit and financial situation and the

thinking behind their decisions. The questionnaires were distributed by local assistants who received a small payment, about LE.20 per each survey, against doing this task. However, the people who answer the questions did not get any money and they welcomed the chance to answer the questions and express their views.

A. Ethical Assurance

Due to The American University in Cairo (AUC)'s policy, any AUCian who wants to do any kind of research with human subjects must firstly obtain Institutional Review Board (IRB) approval. Approval was obtained on June 30, 2013, enabling data collection to begin. The approval form is included in the Annexes.

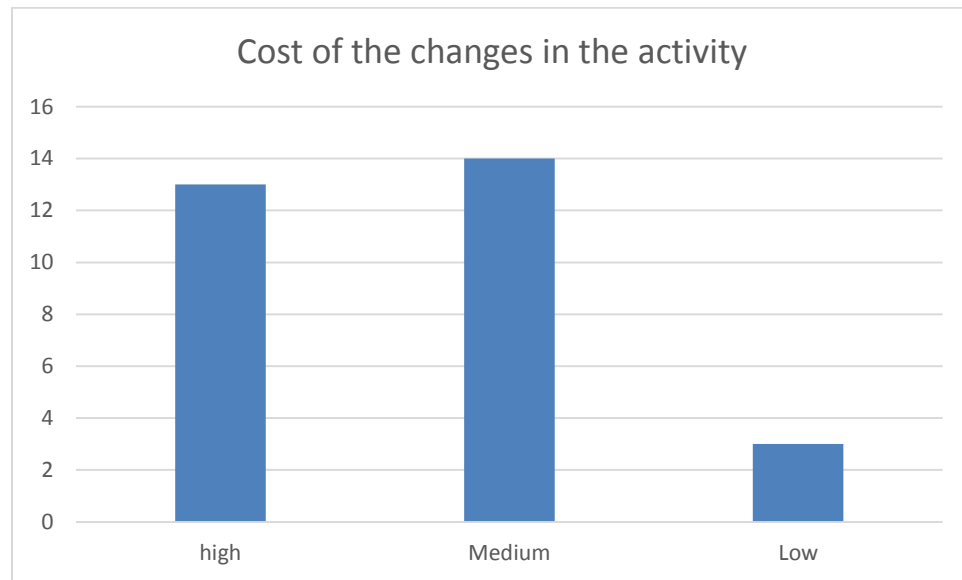
B. Data analysis:

The activities that have a small workforce typically need small loans and even depend on the social funding activity (Gameia, rotating savings and credit associations) for financing. Because of the unwillingness of banks to lend to informal business, SMEs owners depend on informal financing through families and friends. They organize periodic Gameia (as also found by El-Gamal, El-Megharbel and Inanoglu 2000). Conversely, those that are larger and need larger loans appear to be more willing to provide the required guarantees for banks to get the amount they need. The data collected were analyzed using the Statistical Package for Social Sciences (SPSS) and Microsoft to complete the descriptive data analysis and explore the relationships among different variables in the research. For example, the data explored the relationship between having a license and being able to deal with banks and the relationship between borrowing money from banks and the policies applied for granting credit as further discussed in the

findings section. Most of those who have license showed their willingness to deal with banks but they may be reluctant because other reasons such as high interest bank loan and restrictive required collaterals. In addition to that, Descriptive statistics were generated based on the questionnaire to show how much it costs to make a change in the activity such as adding new machine or expanding the facility. In figure 5, we will find that most SMEs' owners keep trying to expand and develop their activities. Most of them reported making considerable expenses to that end.

Figure 5. Cost of owner investments in the enterprise

n=30



Thus the relationships among variables have been analyzed based on the data, providing insights into the factors that lead to financial obstacles. Before showing what the quantitative and qualitative approaches have yielded in more detail, we will summarize the overall findings with a SWOT analysis.

1. SMEs and SWOT analysis

A SWOT analysis can help in identifying to what extent SMEs are strong or vulnerable and in discovering the available opportunities that can be pursued. Since SMEs are important contributors to the Egyptian economy, a SWOT analysis can be valuable, by helping decision makers through generating meaningful information on their situation based on the four factors. This information can be used to identify potential ways to help the owners of those activities, for example by assisting them to get proper financing. In the literature review, it was noted that many authors have said that an important requirement to enable SMEs to continue running and to cope with the new challenges is for the government and other partners to adopt a proper strategy to assist them.

SWOT analysis is one of the most important analyses to formulate a successful strategy. (Kalpande, et al, 2010) We can say it identifies the areas that should be addressed, facilitating development of a “plan of action” to take advantage of the opportunities or avoid the potential threats. Kalpande et al. (2010) describe a SWOT analysis as follows:

SWOT is the combination of four major terms: Strength, Opportunity, Weakness and Threats. Strength refers to inherent abilities to compete and grow strong. Weaknesses are the inherent deficiencies that cripple one’s growth and survival. Strength and weakness are mostly internal. Opportunities are the good chances and openings available for growth. These are environmental and external. Threats are externally wielded challenges,

which might suppress inherent strength, accelerate weakness and stifle opportunities being exploited. These are again posed due to the external environment.

In the following paragraph, a SWOT analysis is proposed based on the previous discussion of the environment for SMEs in Egypt. Table 4 below presents the four elements of SWOT analysis

Table 4 SWOT Analysis for Egyptian SMEs

<u>Strength</u>	<u>Weakness</u>
-Flexibility (particularly important for their survival in conditions of crisis)	-Restricted access to finance
-Competitiveness	-Low innovation activity
-Owner's management	-No/weak financial bookkeeping
-Team co-operation	-Lack of trained workers
-Nearness to market	-Lack of long-term strategic concentration
	-Lack of quality consciousness

<u>Opportunities</u>	<u>Threats</u>
<ul style="list-style-type: none"> -Relation with economic recovery and political stability. -Serve wide range of customers -Technology facilities 	<ul style="list-style-type: none"> -Competition from large companies and other SMEs -Bureaucracy barriers to obtain the proper documents to open the activity. -Banks hardly finance SMEs -Political instability.

From table 4, we can conclude that SMEs need more concern from officials in the government and banks. SMEs have some elements of strength. Since it is the owners who run the businesses, decisions can be taken quickly and do not need many approvals to be adopted and put into effect. Thus, there can be good opportunities for them to gain immediate profits through serving a wide range of customers in a short period of time. Furthermore, SMEs can benefit from modern new technology and equipment to obtain better outcomes. As will be seen from the discussion of the interviews below, at least one case was found where an SME had acquired a new type of machine to be used in car repair that facilitated the operations inside this business, but had not yet been adopted by his neighbors.

2. Questionnaire analysis

In this part we will analyze the data collected through written questionnaire.

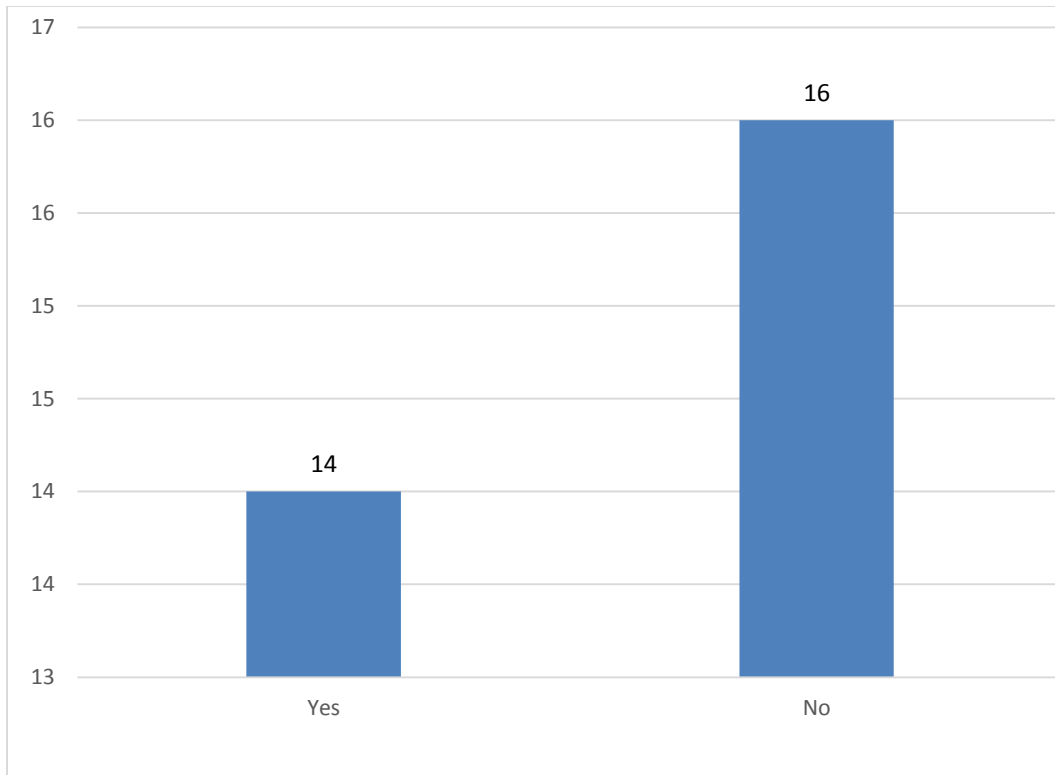
a. Descriptive analysis:

In this part, we will shed the light on the sample characteristics, including the different types of workshops such as carpenters, car repairs and others.

Table 4 indicates the number of the respondents to the questionnaire. In total, 21 SME owners answered all the questions but the other ten left some questions empty especially the questions that related to legalization of their shops (possibly because of fear that the information might be submitted to the tax authority).

Figure 6 did you try to get commercial registration card and districting license to engage in the activity?

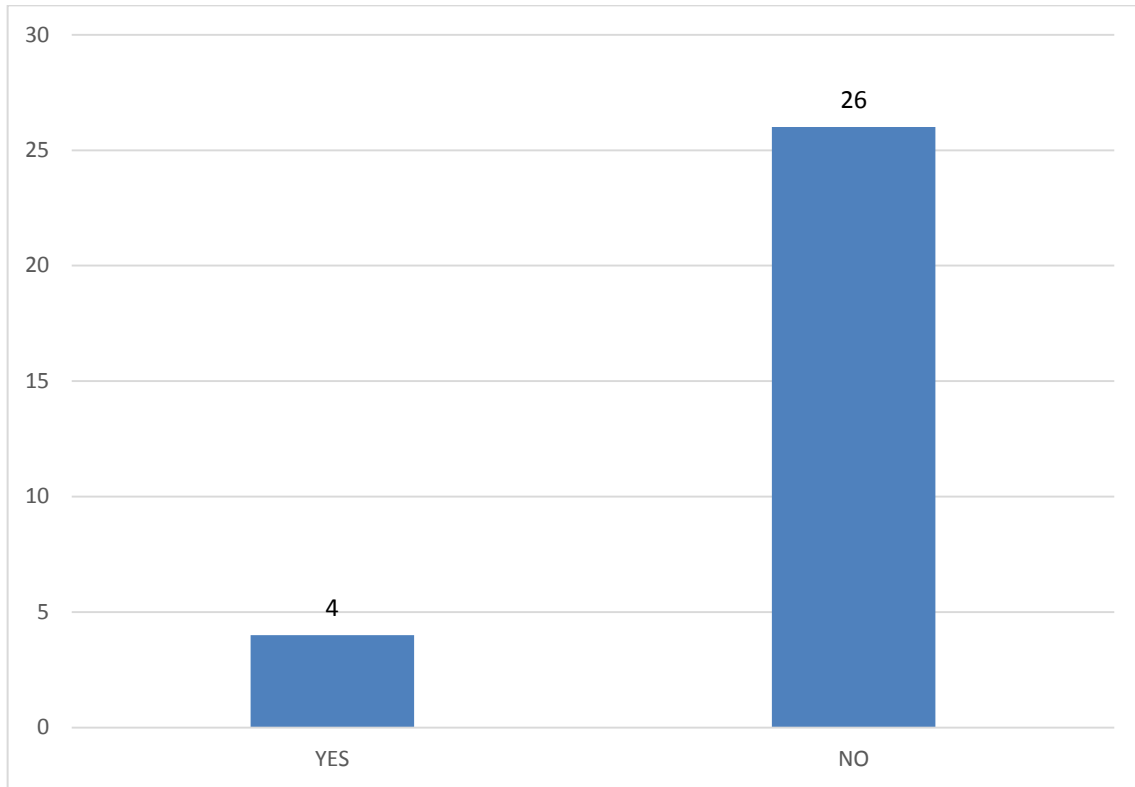
n=30



From Figure 6, we can say that about the half have commercial registration card and the local license to operate. That means that about half do not in principle have access to formal finance because of lack of legalization of their activities, regardless of their collateral, financial records, willingness to borrow, or other factors. As will be seen later, however, it appears that some SMEs are able to get around this barrier through corruption.

Figure 7 did you get a loan from bank?

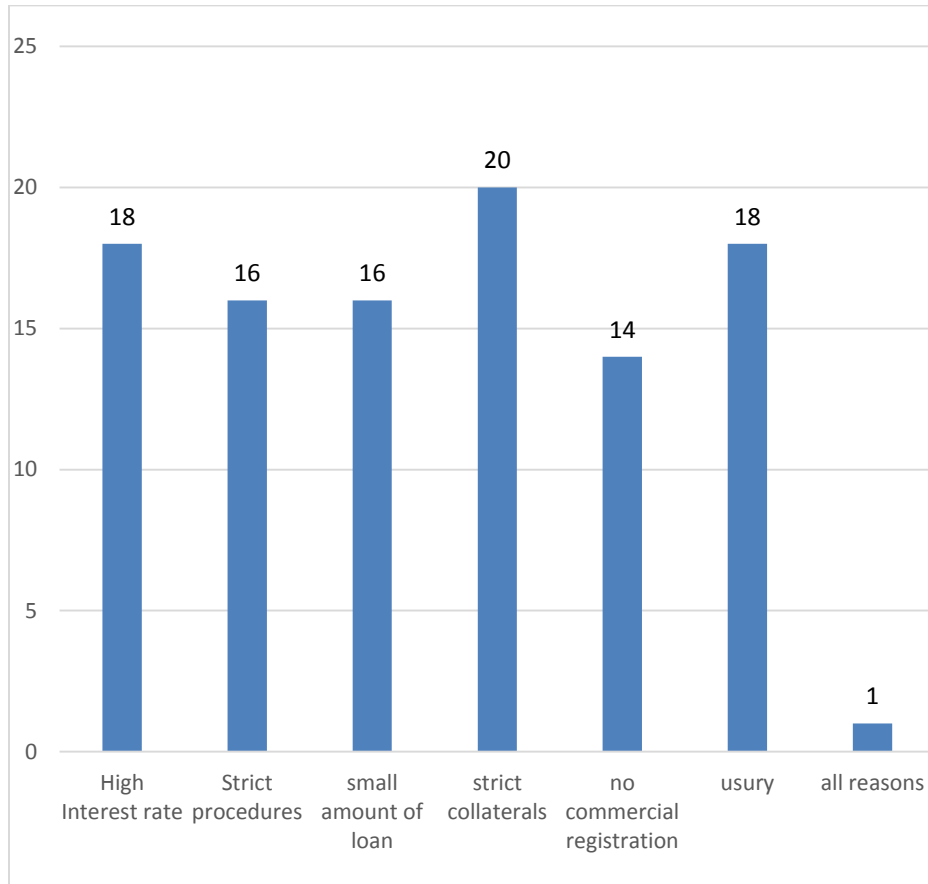
n=30



As shown in Figure 7, 80% of those responding did not get loans from banks, whereas only 20% did. This is equal to less than half of those who, in theory, have the potential to get loans based on being formally registered. As discussed below, however, the lack of formal registration is by no means an absolute barrier.

Figure 8 why you did not get a loan from the bank?

n=31



The SMEs' responses summarized in Figure 8 show that there are several reasons that led the owners of those activities to keep away from bank loans. We can infer that most SME owners have heard from other people or themselves went to the banks to try to get loans but found the loan rates or collateral requirements are unfair and very strict. Additionally, we can say that around half of the sample finds each of the barriers proposed to be a problem in their case, with many of them finding more than one barrier to be an issue for them. The average respondent cited at least three of the barriers as

relevant in his case. A much larger sample size would be needed to draw more precise conclusions about the differences among these barriers. Respondents reported that the loan offered itself is too small to help in the workshop operations.

Based on the previous discussion of the many reasons why most SME owners did not use credit from banks, it is not surprising that they resorted instead to informal sources. Respondents' answers regarding official credit use

Table 5, Survey respondents' answers regarding official credit use

Table 5. Survey respondents' answers on whether they have commercial registration and got loans from banks, together with the reasons they did not use bank loans

n=30

Having Commercial Registration		Getting loan from banks		Main Reasons for rejecting dealing with banks			
Yes	No	Yes	No	High interest rate	Bank complicated procedures	Usury	Strict collaterals
14	16	4	26	18	16	18	20

In Table 5, the researcher gathered several questions and answers in one table as a summary of this part of the questionnaire.

Table 6. Relation between having commercial card and access to finance. respondents' answers

n=29

		q8 Having commercial record / License		Total
		1 Yes	2 No	
q15	1 Yes	3	3	6
Getting loan from bank	2 No	11	12	23
Total		14	15	29

Table 6 (cross-tabulation) clarifies the relation between having the official commercial permit and whether or not the SMEs got loans from banks. It indicates that, in effect, having or not having a commercial license had no apparent impact on getting a loan. Although those without a license are in principle not eligible for a loan, in fact they were as likely to get a loan as those with a license. Only about 1 in 5 got a bank loan, in any case. Although the sample size is very small, this result, combined with the extensive discussion on corruption in the public sector banks provided by the interviewees, suggests that the system offers ways around barriers such as informality, even if only a few choose to take those routes.

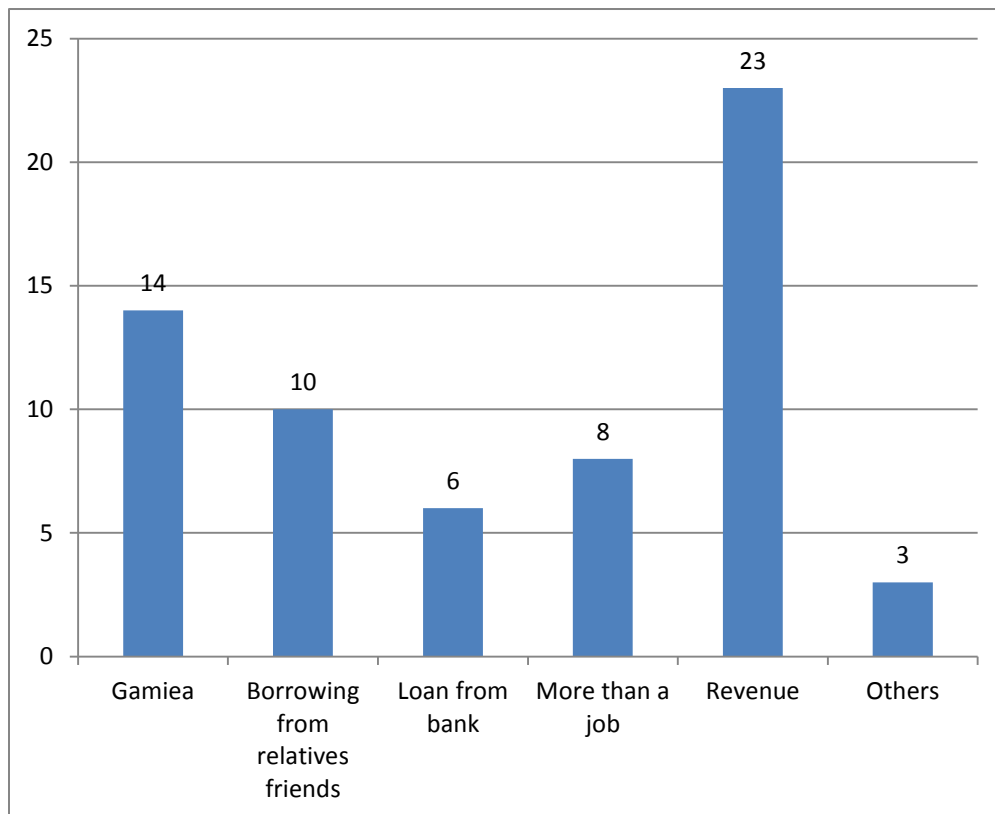
In the interviews conducted by the researcher, the enterprise owners identified several factors behind their reluctance to deal with banks, which were broadly similar to those reported by survey respondents. Those factors included high interest rates, complicated

bank procedures, unfair bank guarantees (collateral), and religious opinions against usury. as the results are shown in the following tables:

Table 9 below provides the interviewees' answers to the source of financing for supplies. Although SME owners could answer yes to more than one factor, most gave only one answer and they were not prompted to clarify whether they used the other sources, so these answers may underestimate their use of various funding sources for inputs and other operating costs.

Figure 9. Financing for buying operation supplies

n=31



We can infer from Figure 9 that about 4 out of 10 survey respondents are using informal sources (Gameia and borrowing from relatives and friends) to finance supplies needed for their enterprise. About half are relying on an outside job or revenue from the firm itself to provide the funds they need, rather than relying on external funding. As it is likely that they use more than one source, these numbers must be seen as low estimates. In any case, bank loans are the lowest of any category except “other,” reported as the main source by only one in ten. Thus, SME owners prefer to do what they can to avoid the burden of interest and repaying a formal loan amount. Before opening their activities, some of them worked more than one job to collect money to enable them to inaugurate their own business. Other sources included working in the Gulf or getting money from partners.

3. Additional insights from the interviews:

As it was mentioned previously, thirteen in-depth interviews were conducted with SMEs owners. All of them were held face to face with the owners by the researcher. The interviews were fully transcribed, which proved quite difficult but contributed value added to knowledge.

The interviews were especially useful in providing insights into issues such as corruption that need to be explored in detail. When the researcher asked the interviewees about what brings governmental employees to their shops, all of them except one (a car repair shop) said that the governmental employees sought bribes

Thus most of the interviewees are suffering from the greed of those employees. One commented:

“I want to get Rokhsa (license) to keep myself away from the cupidity of the governmental employees.”

Also, the government role in solving the limitation access to credit is still weak. Some of owners believe that government will not do anything for them, as shown by this interviewee comment:

“Government will not do anything and it should leave us alone.”

Such bad behaviors on the part of the governmental employees discourage the owners of the activities as they pay money to some people that do not deserve that money. They feel that they work for thieves and that consequently there is a bad impact on their productivity. Frankly speaking, some shops' owners are tax evaders because they compensate what they pay as bribes for governmental employees by evading taxes. Thus, the country loses one of the most important income sources, namely taxes, due to the corruption of the governmental employees. So, the government must take suitable steps to deter the deviants on both sides.

Building on the SWOT analysis, the analysis finds that the interviewees' responses brought up some of the same weaknesses that serve as barriers to continuing the work inside businesses. One of these weaknesses is the lack of financial bookkeeping in most SMEs, which leads the banks to refuse to finance them and, in consequences, reduces the growth and scale of the business operations.

Fear of losing their assets by forfeiting collateral as the result of an unpaid bank loan is another obstacle to formal finance. SMEs interviewed find that the banks' conditions are very difficult to apply in their situations, making bank loans seem out of reach. Most SMEs interviewed complain that banks ask them to provide many guarantees to allow them to get credit. Thus most SME owners keep away from loans that they believe are dangerous to their firm's continued existence and consequently they suffer from lack of proper finance.

The interviews completed indicate several obstacles that prevent SME owners from dealing with banks. And we can discuss some points:

- 1- Usury: about half of the interviewees consider dealing with banks is prohibited by Islamic Law. Based on their beliefs, many of the owners preferred to seek financing from their families and friends. Some owners explained that will keep them from falling into the hell of interest. One of the interviewees explained that he organizes a Gameia to buy operational supplies. Another one said that he borrows money from his relatives and friends.
- 2- High interest rates. The second most important barrier to formal finance identified in the interviews is high interest rates on loans. More than 60% of SME owners avoid dealing with banks because of the burden of interest rate.

“Come with me to the bank to get 20,000 LE as a loan, you will find it has become 40,000 after a year; how come, the project is in its early stage and has not succeeded yet” an interviewee said.

He wanted to say that the interest is very high and thus compounds rapidly.

- 3- Fear of an uncertain future: because of the heavy and outdated regulations and due to fear that they will be unable to make the loan payments at some time in the future and therefore lose their property or even go to jail, many SME owners feel bank loans are dangerous as well as expensive and keep themselves away from getting finance from banks. One said:

“How can I repay the installments and interests? [If you can’t,], then you will find yourself in jail and your place will be out of your hand.”

VII. Discussion and findings

The aim of this study has been to shed light on the obstacles that face SME owners as they seek to finance their operations. The literature review found that SMEs are not attractive customers for banks because of SMEs’ lack in management, formal status, and financial records. The interviews and surveys introduce the additional factor that the banks are not attractive financial partners for the SMEs, either. The banks’ policies and procedures discourage the owners from dealing with banks.

One interview explained that there are long procedures to get a loan from bank:

“If I want to get 50,000 LE as a loan from the bank, they make me do seven laps (long procedures) while the other guy can get a billion automatically in his account by phone.”

Not only were the procedures blamed by the interviewees but also the bank employee’s behaviors. Thus SMEs’ owners preferred to rely on informal finance because it does not bear liabilities as found in the formal one. All the interviewees mentioned the word Gameia in their talks with the researcher and borrowing from relatives and friends as

well. The same thing with the people who filled the questionnaires, they depended on the revenues they gain, making Gameia and borrowing from relatives and friends as shown in figure 9.

Another blames the governmental banks' style of dealing with the customers.

“The governmental banks give us the feeling that the borrowers are beggars. Those banks must be developed and upgraded,” a workshop owner said.

Thus banks must train their staff and develop their skills to allow them to know that even small customers are important for the banks' earnings.

Another obstacle that contributes to preventing of SMEs' owners from dealing with banks is the high rate of loan interest.

“I can't get a loan from the bank because the interest will be increased by another interest. Then which should I pay, the installment or the loan interest? That will lead to prison and then you have lost your future and your family's future” One interviewee said

The combined political and economic crises of the past three years have had a bad impact on the nation's businesses, even on the smallest enterprises. As one car repair shop owner, stated

“In the last years, our country has witnessed hard times of revolutions and economic instability that leads to decrease in the number of cars to be fixed. The owners of the cars after testing the cars, they prefer to do the lowest maintenance in their cars and they claimed that is because of the recession and they may be selling the cars.”

Most of the interviewees express their unwillingness to try to access a qard hasan (Sharia-compliant loan) from people or charities. For example, one of the interviewees said:

“No one gives you charity for the sake of Allah; he/she will ask for service against lending money.”

In addition to that, the amount of this kind of finance is low. For example, Al-Orman Assembly in Sohag, one of the Upper Egyptian governorates, gives LE.4000 as free-interest loan (qard hasan) (Alsayed, 2014). Additionally, they did not try access to get qard hasan from Islamic charities as they do not know how to get in touch with them and they hesitate to go there as if they are beggars, as one of them expressed.

To overcome these crises, government and NGOs must work together to solve all problems related to SME finance. One good example of NGOs working in this area is Resala AUC, as covered in a 2013 AUCNEWS story. This group has launched microfinance projects, starting with residents of Deweika, an informal area in Cairo severely affected by a major landslide in 2008. This group gives not only money for the SMEs there, but also provides skills training and tries to teach the people there to be financially independent. The story quoted Dina Hussein, an architectural engineering sophomore and public relations head of Resala AUC, as saying:

These loans help the poor generate a sustainable source of income. We not only provide financial support, but also help in managing the projects and providing skills training. Instead of giving out money to the residents, we are helping them help themselves. The ultimate aim is for them to become financially independent and gradually pull themselves out of poverty.”

The interviews also reinforced the need for policy change. They call for a distinction to be made between the lack of qualified and experienced banking staff and chronic malfeasance due to corruption in the banks, reinforcing the point made by Mouner (2008). Some of the interviewees expressed their anger at the banks’ deviant staff. Once noted:

“I know someone who tried to get a LE 50,000 loan from a bank. He got LE 47,000 that means that he paid LE 3,000 as a bribe for the bank employee.”

It seems that he was referring to someone who, although having a formal business, was forced to pay a bribe to get the loan. He added,

“To get a bribe, some bank representatives prepare false data so as to enable the borrowers to have the loan. So banks should send trusted representatives to the workshops.”

Additionally, interviewees suggested that the banks initiate another kind of lending through establishing their own projects and renting them to the people who want to start small business. One suggested that

“Banks can establish their buildings and projects and employ the people who want to work to help combating widespread theft, thuggery and drug-dealing.”

He appeared to be referring to the many youth who are jobless and are using drugs or selling them. Other interviewees made similar recommendations, arguing that government should exploit all the wide open spaces to build industrial places similar to the Herafeen (craftsmen) area. Investment in assistance through building workshops to rent or sell would be preferable to giving SMEs money, which could vanish without any benefit, in their view. Another one of the SMEs owners suggested that

Government can establish a big commercial area and bring people who want to open up a shop. That will decrease the pressure, for example in Wekalet El-Balah in the downtown.

Another shop owner expressed his closely related view, arguing that,

“Egypt is our country and must give us the land required to establish activity free of charge or for a small amount of money, not sell it at LE 6000 or 7000 per

meter or give us land in the desert and leave people out there. The land must be near to the market.”

A final area of concern to the SME owners was the lack of communication between senior officials and people like themselves:

“Trade and development ministers must not stay their times signing papers and putting stamps on that paper in their air-conditioned offices. They must keep in touch with people in the street. Otherwise we will go back to Mubarak’s era and Egypt will fall into bankruptcy and the revolution of the hungry will be here soon.”

III. Recommendations

Since SMEs contribute about 80% of the Egyptian economy, all problems that face them must be eliminated to the greatest extent possible for the sake of economic improvement. All the past ineffective policy and corruption must be cut out of our lives. Given the strong impact of the political system on the economy, there is no doubt that Egypt finds itself in an economic crisis resulting from the combined impact of former President Mubarak’s abuse of power and then the revolutions and period of political unrest.

Polices should be applied inside banks to facilitate SMEs’ owners to enable them access to finance. All obstacles have to be eliminated and better services should be offered for those businesses. Banks can categorize SMEs based on their financial status and how long have been in market. The shops that are in the first stage can be financed with lower interest loan and longer time of installments to enable them to be survived. Additionally, government should take the necessary actions to stop corruption inside municipalities and

remove any employee in doubt. Media should expand their role to identify how the importance of SMEs for the Egyptian economy is. Media can urge people who want to open businesses or those already having one to follow the legal procedures to enable them to seek bank finance.

Another logical step on the road to reform is therefore fighting the corruption inside banks. There are some efforts that have been taking in this scope. The example of the Centre for Political and Strategic Studies' seminar on transparency, accountability, and support anti-corruption mechanisms in Egypt, which addressed conflict of interest policy to combat corruption inside banks, should be built upon and developed into a set of reforms, rather than isolated calls for change.

It is also highly recommended that government and bank administrations find a proper solution to the SME owners' hesitancy to take bank loans, such as having a unit in each bank for Islamic finance. This unit can be responsible for selling the required tools and equipment that the shops need, as suggested by the interviewees themselves.

Beside the roles of the NGOs and banks, governmental officials have to help SMEs owners in their attempts to have a decent life.

To sum up the recommendations coming from this study, five measures deserve urgent consideration:

- Fighting corruption inside banks and municipalities
- Lower interest loan to be provided

- NGOs and media should expand their roles to help SMEs access finance
- .Facilitate the procedures to enable SMEs owners to get loans
- More effort should be made by Islamic Banks as many people preferred this type of finance.

IV. A final note on the researcher's views

The researcher strongly supports Islamic finance as a solution to many of the problems identified by this research. It would be preferable for banks to act within the boundaries set by Islamic Law and to work on the basis of risk sharing. In this system, SMEs owners and the banks share both the risk and any profits gained from the project operations. As one of the SMEs interviewed said,

“I'd prefer that the bank sells the equipment to the workshop instead of lending money, provided that it is without huge administrative fees.”

Additionally, Islamic banking is preferable to conventional banking because it eliminates the problem of misuse of bank funds. In other words, sharing in the activity's assets strengthens the business's financial situation and avoids the need to put in fresh financing to repay the old non-performing loans (“Islamic banking for SMEs,” 2012). As the study results confirm, nearly half of the SMEs owners reject dealing with banks based on religious instructions. This proportion is hardly small and indicates that banks and the government should take this issue into consideration as it will contribute to solving the financing and other problems that many activities encounter.

V. References

- Alsayed, A. (2014, January 19). Orman offers new facilities for the development of small enterprises in Sohag. *Elbadil*. Retrieved from <http://elbadil.com/2014/01/19>
- Al-Zaiaty, N. (2010, January 29). Small projects waiting for the angels of investment. *Al-Ahram digital* Retrieved from <http://digital.ahram.org.eg/Economy.aspx?Serial=153738>
- Ashor, H. (2013, June 02). Egyptians to open the black box of technical education in Egypt. *Almesryoon* 147017
- Audretsch , D. (2000). The economic role of small- and medium-sized enterprises: the United States. Manuscript submitted for publication, School of Public and Environmental Affairs, Institute for Development Strategies., Bloomington. ISSN 00-2 IN 47405 Retrieved from <http://spea.indiana.edu/ids/pdfholder/ISSN-00-2.pdf>
- Banque Misr (2008). Banking retail loans. Retrieved from <http://www.banquemisr.com/sites/ArBM/Pages/ConsumingLoans.aspx>
- Batra, G., & Tan, H. (2003, September). SME technical efficiency and its correlates: Cross - national evidence and policy implications. Presentation at the World Bank's Economist Forum. World Bank Institute working paper .
- Beck, T. (2008). Bank financing for SMEs around the world. Manuscript submitted for publication, Department of Economics, Tilburg University, Tilburg, Netherlands. , Available from Policy Research Workings Paper. (WPS4785)(
- Commission of the European Communities (2003). Concerning the definition of micro, small and medium-sized enterprises. *Official Journal of the European Union*, (124), 36 -41. Retrieved from <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:en:PDF>
- Drechsler, P. (2013, 11 19). SMEs can lead the way for young entrepreneurs. *The Times (London)* retrieved from <http://www.thetimes.co.uk/tto/public/entrepreneurs2013/article3925953.ece> .

Dubai School of Government (2007). *Case studies in governance and public management in the Middle East and North Africa* (2007-1). Retrieved from World Bank MENA Region website: Case Studies in Governance and Public Management in the Middle East and North Africa

El-Gamal, M. A., El-Megharbel, N., & Inanoglu, H. (2000). Beyond credit a taxonomy of SMEs and financing methods for Arab countries. Paper prepared for presentation at the ECES workshop held at MDF III, Cairo, March 6-8, 2000, Cairo.

Elmasry, A., & Hamad, I. (2013, July 30). Small enterprises facing a lack of funding and fears of default. *Elwatan News*. Retrieved from <http://www.elwatannews.com/news/details/234708>

El-Nawawy, S. (2007). Report on the local economic development status in Manshiet Nasser. Manuscript submitted for publication. Cairo: GTZ.

Environmental Quality International (2004). *Research study on credit and credit guarantees executive summary*. Retrieved from Egypt, Cairo website: http://www.mof.gov.eg/MOFGallerySource/English/SME/Research_studies/14.pdf

Fekry, A. (2013). The government bill to adjust the positions of small and medium enterprises. *Almasryalyoum*. Retrieved from <http://www.almasyalyoum.com/news/details/300071>

Foong, L. M. (2007). *Understanding of SWOT analysis*. (pp. 1-18). Washington: Library of Congress of the United States of America. Retrieved from <http://effecta.com.au/wp-content/uploads/2010/07/Understanding-of-SWOT-Analysis.pdf>

Freeman, M. (2013). *A practical guide to management of risks in SMEs*. Xlibris Corporation.

Government of Egypt, Ministry of Finance (2005). *Profile of M/SMEs in Egypt: Update Report* Retrieved from http://www.mof.gov.eg/MOFGallerySource/English/SME/Research_studies/24.pdf

_____. (2005). *An export strategy for small and medium enterprises in Egypt*. Retrieved from http://www.mof.gov.eg/MOFGallerySource/English/SME/Research_studies/23.pdf

- Government of Egypt, Ministry of Foreign Trade (2009). *Legal and regulatory framework governing SMEs establishment, operation and growth* . Retrieved from http://www.mof.gov.eg/MOFGallerySource/English/SME/Research_studies/8.pdf
- _____ (2003). *Profile of m/SMEs in Egypt*. Retrieved from http://www.mof.gov.eg/MOFGallerySource/English/SME/Research_studies/10.pdf
- Hillary, R. (2000). Introduction. In *Small and Medium-Sized Enterprises and the Environment: Business Imperatives* ,Greenleaf Publishing
- Hughes. (2014). Quantitative and Qualitative Approaches, Department of Sociology, *University of Warwick, Coventry UK*. Retrieved from http://www2.warwick.ac.uk/fac/soc/sociology/staff/academicstaff/chughes/hughesc_index/teachingresearchprocess/quantitativequalitative/quantitativequalitative/
- Islamic banking for SMEs: 'a win-win situation'. (2012, May 16). *The Express Tribune*. Retrieve from <http://tribune.com.pk/story/375332/islamic-banking-for-smes-a-win-win-situation/>
- Kalpande, S., Gupta, R., & Dandeka, M. (2010). a SWOT analysis of small and medium scale enterprises implementing total quality management .*International Journal of Business, Management and Social Sciences*, 1(1), 59-64.
- Loza , P. (2004, January 21). A way out of poverty. *Al-Ahram weekly on line*. Retrieved from <http://weekly.ahram.org.eg/2004/673/ec2.htm>
- Mohamad, H. (2013, April 28). Small projects are the winning horse for funding. *Al-Ahram digital* Retrieved from <http://digital.ahram.org.eg/articles.aspx?Serial=1285476&eid=13537>
- Mohamad, H. (2013, June 23). Obstacles to the growth of Islamic microfinance. *Al-mal news* Retrieved from <http://www.almalnews.com/Pages/StoryDetails.aspx?ID=81293>
- Mouneer, S. A. (2008). Transparency, accountability, and support anti-corruption mechanisms in Egypt. *Al-Ahram digital*. Retrieved from <http://digital.ahram.org.eg/articles.aspx?Serial=900295&eid=2026>

- Nagaty, K. (2013, January 07). General Authority for SMEs *Al-Ahram digital* .Retrieved from <http://digital.ahram.org.eg/Economy.aspx?Serial=1152686>
- Nasr , S. (2004, January 22). Banking on SMEs..*Al-Ahram weekly*. Retrieved from <http://weekly.ahram.org.eg/2004/674/ec4.htm>
- _____. (2005, April 06). Shedding their suits. *Al-Ahram weekly* Retrieved from <http://weekly.ahram.org.eg/2005/736/ec1.htm>
- _____. (2009). The way forward. *Al-Ahram Weekly* Retrieved from <http://weekly.ahram.org.eg/2009/977/ec3.htm>
- Nelson, C. (2013, 11 13). SMEs and global economic recovery. *The Guardian News* Retrieved from <https://www.ngrguardiannews.com/index.php/business/money-watch/138257-smes-and-global-economic-recovery>
- New policies to support SMEs and micro-businesses. (2013, March 6). *Daily News Egypt*.
- Nile Stock Exchange (2005). Retrieved from NILEX:
http://www.eitesal.org/english/InformationCenter/Library/EventsPresentations/EAC-S2_Nilex.pdf
- Nowar, N. (2012, 03 21). Staying informal. *Al-Ahram weekly*. Retrieved from <http://weekly.ahram.org.eg/2012/1089/ec4.htm>
- _____. (2012, 12 13). Investigates what is hampering SME growth in Egypt. *Al-Ahram weekly*. Retrieved from <http://weekly.ahram.org.eg/News/573/18/Craving-assistance.aspx>
- OECD. (2006). *Small and medium-sized enterprises: Local strength, global reach* Retrieved from. <http://www.oecd.org/regional/leed/1918307.pdf>
- _____. (2010). *SME policy and promotion (Dimension I-6)*. Retrieved from website: <http://www.oecd.org/investment/psd/46341307.pdf>
- SECDA. (2006). *SMEs credit program*. Retrieved from <http://www.secdaegypt.org/programs.html>
- Snyder, M. (2013, 11 1). Banks and SMEs are both equally misunderstood. *The Telegraph (UK)* Received from <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/10417968/Banks-and-SMEs-are-both-equally-misunderstood.html>

The micro credit projects in Boulaq el Dakrou (2014) retrieved from http://mobadara.org/project_service_d.php?id=11

As shown in the interview guide, the survey focuses on the following factors:

How the SMEs in the informal area are financed and what their financial issues are, and, secondly, whether they have ever used formal lending programs or tried to do so, whether they own other companies.

Interview guide

Ismail Youssef Ismail Houssien

ismaily@aucegypt.edu

Project name: Small and Medium-size Enterprises and Access to Finance in Egypt

Annex: Interview guide questions for community members who own SMEs

The purpose of this study is to understand how the owners of SMEs finance their business in order to help develop better finance programs and to encourage new policies that would help them more.

The following questions are aimed at addressing these broader issues:

1. Description of the optimal finance they aim to have for their projects.

2. Knowing more about the obstacles they encounter when getting bank loans.
3. Recognizing whether they try obtaining informal finance.
4. Relations with the charities.
5. What are the problems they face when choosing their employees.
6. How they get their operating funds and what are the supplies they have to buy.

Appendix A: Institutional Review Board Approval

CASE #2012-2013-145

 THE AMERICAN UNIVERSITY IN CAIRO
INSTITUTIONAL REVIEW BOARD

To: Ismail Youssef

Cc: Enas Abd Elazim

From: Atta Gebriel, Chair of the IRB

Date: June 30, 2013

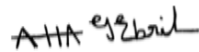
Re: Approval of study

This is to inform you that I reviewed your revised research proposal entitled "**Small and Medium-size Enterprises and Access to Finance in Egypt**," and determined that it required consultation with the IRB under the "expedited" heading. As you are aware, the members of the IRB suggested certain revisions to the original proposal, but your new version addresses these concerns successfully. The revised proposal used appropriate procedures to minimize risks to human subjects and that adequate provision was made for confidentiality and data anonymity of participants in any published record. I believe you will also make adequate provision for obtaining informed consent of the participants.

Please note that IRB approval does not automatically ensure approval by CAPMAS, an Egyptian government agency responsible for approving much off-campus research involving surveys and interviews. CAPMAS issues are handled at AUC by the office of the University Counsellor, Dr. Amr Salama. The IRB is not in a position to offer any opinion on CAPMAS issues, and takes no responsibility for obtaining CAPMAS approval.

This approval is valid for only one year. In case you have not finished data collection within a year, you need to apply for an extension.

Thank you and good luck.



Dr. Atta Gebriel
IRB chair, The American University in Cairo
2046 HITSS Building

In the following two parts, the research presents the questions in both interview and questionnaire

Appendix B. Interview contents

1- Interview: it consists of 25 questions

At the beginning of each interview, the following questions were submitted to the SMEs owners:

- 1- Tell me about yourself/where are you from?
- 2- Why and how did you start your business? What was your job before?
- 3- What are the factors that forced you to open your shop? Family support/entrepreneurial activity?
- 4- Is it easy to find skilled workers for your business?
- 5- What changes have you made in your shop in the past five years? New equipment or major changes in products, growth (or shrinking) or moving to another location?
- 6- How you were able to pay for those changes?
- 7- How much do you have to spend per month on supplies?

Now I want to understand what about the required documents to legalize your business:

- 8- Did you try having commercial registration card and district permission to engage in the activity? Why not? (expensive/too long time/social security)
- 9- What were the problems? How long did it take before you gave up?
- 10- Did any government employee come by your shop? Which agency? What did he/she want?

Now I want to know more about your business history, I would like you to talk about the financial support of your business:

- 11- How do you get money to buy and sell your goods? What are the challenges in finance? How do you overcome them?
- 12- What do you think of borrowing from banks (interest rate/loan application/access/others)?
- 13- What do you think of borrowing money from informal lenders and how was the experience (negative/positive/interest rate)?
- 14- What do you think of paying interest rate? Religious/cultural/too high/various experience.
- 15- When you buy supplies to use in your daily shop operations in your business, do you gain special discount if you pay in cash? Did you try buy on credit? How long can lender wait before paying?
- 16- Do you depend on a few main suppliers when you get supplies for your shops? How do you finance them?
- 17- Is there any flexibility from the suppliers to return the supplies you do not need?
- 18- Have you ever borrowed from charities? Relatives? Friends?
- 19- If yes, why? If not, why?
- 20- Have you ever heard about Micro finance? What do you think?
- 21- Have you ever heard of shops around here borrowing money from politicians?

Now I want to know more about the obstacles and suggestions while you try to borrow:

22- What are the routines that consider stumbling block in your way to get money from banks?

23- What suggestions do you have for banks to improve loans provision?

24- In your opinion, how can the government intervene to facilitate procedures of getting bank loans?

25- Is there anything else you need to say or can help in my research?

Thank you so much for your time

And the following is the Arabic version

نموذج دليل المقابلات

ان الهدف من هذه البحث دراسة كيفية قيام أصحاب المشروعات الصغيرة والمتوسطة بالبحث عن طرق التمويل لتشغيل مشروعاتهم ولتوضيح الطرق المؤهلة لعملية التمويل ووضع سياسات تساعد في تنمية تلك المشروعات.

ويتم ذلك من خلال الاجابه على اسئلة البحث التاليه:

- 1- وصف التمويل المثالي لاقامة تلك المشروعات
- 2- التعرف على المشكلات التي تواجه عملية التمويل
- 3- هل حصل اصحاب تلك المشروعات على تمويل من جهات غير البنوك الرسمية
- 4- علاقاتهم مع الجمعيات والهيئات الخيرية
- 5- المشكلات مع العماله وهل سهل على العماله الماهرة
- 6- كيف يحصلون على التمويل اللازم للتشغيل وشراء مستلزمات التشغيل.

بداية نتكلم بصفح عامة عن بعض الامور

- 1- من اين انت؟ممكن تكلمني شوية عن نفسك ؟
- 2- اين ومتى بدأت تفكر في المشروع بتاعك؟ماذا كان عمالك قبل المشروع ؟
- 3- ما اللذي جعلك تفكر في بدء المشروع اهو لدعم عائلتك او لغرض البحث عن فرصة عمل؟
- 4- هل من السهولة ان تجد عمال مهرة لمشروعك؟
- 5- ماهى التغييرات التي طرأت على مشروعك خلال الخمس سنوات الماضيه؟ معدات جديده – تغير في البضاعة – توسعت شويه او لا – انتقلت من مكان لآخر
- 6- ماهى تكلفة تلك التغييرات؟ كبيرة – متوسطة – قليله

7- ماهى التكلفة التى تدفعها شهريا لشراء مستلزمات التشغيل؟

دلوقتى عاوز اتعرف على المستندات المطلوبه لتقنين المشروع:

- 8- هل حاولت ان تحصل على سجل تجارى وترخيص من الحى لمزاولة النشاط؟ لماذا لم تحاول (مكلفه – تأخذ وقت طويل – مشكلة التأمينات الاجتماعيه)
- 9- ماهى العقبات التى واجهتك فى ذلك؟ كم من الزمن استغرقت قبل ان تتوقف عن عملية الحصول على السجل التجارى والترخيص؟
- 10- فى أى موظف حكومى مر عليك؟ عن أى شئ سألك؟
- والان بعد ان تعرفت على تاريخ عملك ،اود ان اتكلم عن الدعم المالى لمشروعك:
- 11- ازاي قدرت تجيب الفلوس علشان تقدر تشتري مستلزمات التشغيل وتبيع بضاعتك ؟ ماهي الصعوبات ؟كيف تغلبت على تلك الصعوبات؟
- 12- ايه رايك باخذ قرض من البنك (من ناحية سعر الفائدة،اجراءات القروض،اخرى)
- 13- ايه رايك باخذ فلوس من المقرضين (ربح) وتكلم عن التجربة (ايجابية او سلبية – معدل الفائدة) ؟
- 14- ايه رايك بدفع فايدة من وجهة نظر الدين /الثقافة /هل الفائدة عالية في مصر ام لا؟هل هناك تجربة محددة او تجارب مختلفة ممكن تتكلم عنها؟
- 15- لما بتشتري مستلزمات لعملك هل تحصل على خصم خاص عند الدفع نقداً؟ هل تاخذ بالاجل؟ مالمده التى يصبر عليك فيها الدائن؟
- 16- هل تعتمد على موردين متنوعين لتحصل على مستلزمات؟ كيف تبدر المال لذلك؟
- 17- هل هناك مرونة فى التعامل مع الموردين لو رجعت مستلزمات زايده عن اللى انت عاوزه؟
- 18- هل جريت الاقتراض من مؤسسات خيريه؟أقارب؟أصدقاء؟
- 19- ليه ايوه ؟ ليه لأ؟
- 20- هل سمعت عن تمويل المشروعات الصغيرة؟رايك ايه؟
- 21- سمعت عن حد حواليك اقترض من أحد يعمل السياسه؟
- دلوقتى ممكن تتكلم عن الصعوبات والمقترحات بخصوص الاقتراض:
- 22- ايه هى الاجراءات الروتينيه اللى تعتبر حجر عثرة فى طريقك علشان تقترض من البنوك؟
- 23- ايه اقتراحك للبنوك علشان تحسن اجراءات تقديم القروض؟
- 24- برايك: ازاي الحكومه ممكن تدخل علشان تسهل اجراءات الاقتراض من البنوك؟
- 25- فى اى حاجه عاوز تضيفها تفيد فى البحث؟

شكرا جزيلاً على وقتك

Appendix C. Questionnaire contents

2- Questionnaire: also it contains

25 questions but in easier way to enable the SMEs' owners to answer them comfortably.
As is well- known, most of them cannot read easily.

First, let us talk about some issues in general:

1- When did you decide to have this business?

From....years

2-What did you do before this project?

- Employee
- Worker
- Unemployed

3- Why did you think of this business?

- Helping my family
- Get a job
- Hobby

4- Is it easy to find skilled workers for your project?

- YES
- NO
- skilled worker has own business
- costly

5-What are the changes in the project during the past five years?

- New equipment
- Changed the goods
- moved into a bigger place
- simple expansions
- changed the product

6- What is the cost of those changes?

- high
- average
- simple

7- What is the cost paid by a month to buy the operating supplies?

Estimated amount:

Now you want to get to know the required documents to legalize the project:

8 - Have you tried to get the commercial register of the District and license to practice the activity?

- Yes
- Do not

9 - Why did not you try?

- expensive
- thing for taking a long time
- Problem with Insurance
- all of the above

10 - What are the obstacles that you encounter in that?

- administrative problems in the District
- District staff ask for bribe
- permit to practice the profession

11- How long it took before to stop the process of obtaining commercial register and license

12 – Is there any government employee pass by your shop?

- Yes
- Do not
- Regularly

13 – What does he asks for?

- license
- jutting leaderboard
- hinted that he wants to bribe
- all of the above

Now that I got to know the date of your business, I wish to speak about the financial support for the project:

14 – How do you do to get money to buy the operating supplies and sell your merchandise?

- rotating credit associations (Gameia)
- borrowed from relatives or friends

- loan from the Bank
- Worked for more than a job
- Keep a side part of profits

15 - Did you take a loan from the bank?

- Yes
- No

16 - Why do not take a loan from the bank?

- High Interest
- Bank procedures are difficult
- a small amount of the loan
- Bank guarantees are difficult
- does not have a commercial registration
- Usury
- all of the above

17 – What do you think of getting money from lenders?

- good idea
- will pay interests
- they will ask for service against that
- Will ask for blank receipt against money
- positive experience
- negative experience

18 – What do you think of paying interest? From the point of view of religion / culture / Is Interest is high in Egypt or not? Is there a specific experience or different experiences, possible to speak about?

19 - Do you buy operational supplies on credit?

- Yes
- No
- Cash
- getting discount to pay cash

20 - Is there any flexibility in dealing with suppliers if you return unneeded goods?

- Yes
- No

21 - Did you try to borrow from?

- Charity?
- relatives
- friends
- Member of the Board of the people assembly
- all of the above

22 - Have you heard about the financing of small projects?

- Yes
- No

23 - What do you think of it?

- useful
- useless

Now you are talking about possible proposals regarding borrowing:

24 - Any suggestion to banks to improve measures for providing loans and reducing routines?

- facilitate the required guarantees
- reduce the interest required
- increase the amount of the loan
- Lengthening the installment period
- all of the above

25 - In your opinion: How does the government take the possible intervention measures to facilitate borrowing from banks?

- forcing banks reduce Interest
- set minimum for good loan

26 – Do you want to add anything useful in the search?

Thank you very much for your time

Note: The Arabic version of this Questionnaire in the next page

بداية نتكلم بصفه عامة عن بعض الامور

1- متى بدأت تفكر فى المشروع بتاعك ؟

منسنوات

2- ماذا كان عملك قبل المشروع ؟

موظف

عامل

بدون

3- ما الذي جعلك تفكر في بدء المشروع ؟

مساعدة العائله

الحصول على عمل

هوايه

4- هل من السهوله ان تجد عمال مهرة لمشروعك؟

نعم

لا

العامل الماهر ييفتح مشروع خاص به

تكلفه علينا

5- ماهى التغيرات التى طرأت على مشروعك خلال الخمس سنوات الماضيه

معدات جديده

- غيرت فى البضاعه

انتقلت الى مكان اكبر

توسعات بسيطه

غيرت المنتج

6- ماهى تكلفة تلك التغييرات؟

○ غاليه

○ متوسطه

○ بسيطه

7- ماهى التكلفة التى تدفعها شهريا لشراء مستلزمات التشغيل؟

ميلغ تقديرى:.....

دلوقتى عاوز اتعرف على المستندات المطلوبه لتقنين المشروع:

8- هل حاولت ان تحصل على سجل تجارى وترخيص من الحى لمزاولة النشاط؟

○ نعم

○ لا

9- لماذا لم تحاول؟

○ مكلفه

○ تاخذ وقت طويل

○ مشكله فى التأمينات

○ كل ماسبق

10- ماهى العقبات التى واجهتك فى ذلك؟

○ مشاكل اداريه فى الحى

○ موظفى الحى عاوزين رشوة

○ تصريح مزاوله المهنة

كم من الزمن استغرقت قبل ان تتوقف عن عملية الحصول على السجل التجارى والترخيص

11- فى أى موظف حكومى مر عليك؟

○ نعم

○ لا

○ كل شويه يمر

12- عن أى شئ سألك؟

○ الرخصة

○ البروز بتاع اليافاطة

○ لمح لك انه عاوز رشوة

○ كل ماسبق

والان بعد ان تعرفت على تاريخ عملك ، اود ان اتكلم عن الدعم المالى لمشروعك:

13- ازاي قدرت تجيب الفلوس علشان تقدر تشتري مستلزمات التشغيل وتبيع بضاعتك ؟

○ عملت جمعيات

○ استلقت من الاقارب أو الاصدقاء

○ اخدت قرض من بنك

○ كنت بشتغل اكثر من شغلانه

14- هل اخدت قرض من البنك ؟

○ نعم

○ لا

15- لماذا لاتأخذ قرض من البنك؟

○ الفائده عاليه

○ إجراءات البنك صعبه

○ مبلغ القرض صغير

○ البنك عاوز ضمانات صعبه

○ ليس لدى سجل تجارى

○ ربا حرام

○ كل ماسبق

16- ايه رأيك باخذ فلوس من المقرضين ؟

○ فكرة حلوة

○ عاوزين فوائد

○ عاوز امام ذلك خدمه وليس للخير

○ يطلب ايصال امانه

○ تجربيه ايجاييه

○ تجربيه سلبيه

17- ايه رأيك بدفع فايده ؟ من وجهة نظر الدين /الثقافة /هل الفائده عاليه في مصر ام لا؟هل هناك تجربه

محددة او تجارب مختلفه, ممكن تتكلم عنها؟

18- هل تاخذ لوازم التشغيل بالاجل؟

○ نعم

○ لا

○ نقدا

○ باخذ خصم لما ادفع نقدى

19- كيف تبدر المال لذلك؟

○ من الربح اللى داخل

○ القروض

○ الجمعيات

20- هل هناك مرونة فى التعامل مع الموردين لو رجعت مستلزمات زايدته عن اللى انت عاوزته؟

○ نعم

○ لا

21- هل جربت الاقتراض من:

- مؤسسات خيرية؟
- أقارب
- أصدقاء
- من عضو مجلس شعب
- كل ماسبق

22- هل سمعت عن تمويل المشروعات الصغيرة؟

- نعم
- لا
- مفيدة
- غير مفيدة

دلوقتى ممكن نتكلم عن الصعوبات والمقترحات بخصوص الاقتراض:

23- ايه اقتراحك للبنوك علشان تحسن اجراءات تقديم القروض وتقليل الاجراءات الروتينية؟

- تسهيل الضمانات المطلوبه
- تقليل الفائدة المطلوبه
- زيادة مبلغ القرض
- تطويل فترة التسسيط
- كل ماسبق

24- برايك: ازاي الحكومه ممكن تدخل علشان تسهل اجراءات الاقتراض من البنوك؟

- تجبر البنوك علشان تقلل الفائده
- وضع حد ادنى جيد للقرض

25- عاوز تضيف حاجه تاني تفيد فى البحث؟

شكرا جزيلاً على وقتك