



The Role of financial institutions in supporting entrepreneurial success: Case of Egypt

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Abstract: This paper investigates the Role of financial institutions in supporting entrepreneurial success in one of a very important emerging economy in the Middle East, Egypt. Also focuses on different tools used by either governmental or non-governmental agencies that contributes to help entrepreneurs starting their jobs, and as a result, achieving the sustainable development goals (SDGs). Throughout the paper, reports various documents and academic literature were presented to determine the different types of sustainable development financing instruments available. Moreover, the various financial services provided by governmental and nongovernmental sectors are reviewed. Also, different types of challenges that may face entrepreneurs are also discussed. The interrelationships among those agencies as well as other technical support agencies are formulated in an integrated framework that describes the nature and direction of those relationships for the purpose of providing an adequate support to Egyptian entrepreneurs in various economic sectors.

Keywords: entrepreneurship, accelerators, financial sector and non-financial services financial and technical support.

1. Introduction

According to Egypt economic trajectory reform, several policies were formulated for supporting entrepreneurial development, including the innovation strategy, the niche strategy and the cluster approach. First, Innovation Strategy, this strategy is built upon the premise that R&D is one of the major drivers of growth in private sector and especially for entrepreneurial. This is especially delicate in case of Egypt, by taking into consideration the limited access to fund available for small and medium- scale enterprises and the absence of innovative financing plans, in the form of innovative R&D funds.

Second, Niche Strategy aims at creating opportunities for entrepreneurial willing to promote small and medium enterprises market existence to reach market segments underserved by large enterprises, in both domestic and international markets [2]. In the context of intensive competition, lack of resources and limited managerial abilities, and this strategy was launched in response to the constraints facing the Egyptian entrepreneurial.

Third, Clusters Approach, Networking, and alliances, could improve their effectiveness in supporting entrepreneurial enterprises to make the most from competition and collaboration with large firms. It is worthy to mention that entrepreneurial internationalization is considered as seniority for the development of the Egyptian private sector.

However, these small firms usually face an obstacle respecting the size, knowledge and experience to adopt with rapidly changing consumers' preferences, technological development and the competitiveness conditions in global markets. The formation of clusters and strategic alliances between entrepreneurial and large firms could enable the former to access resources and impose their market power over

competitors, promoting them to internationalize. So, by establishing such alliances entrepreneurial could be benefited from: Obtaining resources collaborate with local partner to reach crucial resources such as local facilities, knowledge and market experience. They also can control Market Threats rough hedging against, and control risks related to their business by collaboration with other small firms or large ones to gain market experience and secure their future competitive advantage.

This study focuses on entrepreneurial firms and the challenges facing them as they establish their Enterprises in Egypt (SMEs) in the market. However, to be able to identify their challenges and constraints, it becomes crucial to identify the objectives, define the terms and present a research question. Hence, the following sections explore the background on the importance of entrepreneurial firms in the Egyptian economy and showing how does the Egyptian government and the financial institutions support them in Egypt's economy.

2. Research objectives

Study objectives are set out to provide clear pathways into meeting the overall aim of the study. The main objective of this study aims at exploring challenges faced by entrepreneurs in Egypt as they start their Small and Medium Enterprises (SMEs). The study focuses on the main obstacles that hurdles entrepreneur's progress and inhibits their growth.

The main motivation behind the study stems from the importance of creative entrepreneurs and their inclusion in the economy. Hence, as their economic activity is realized and highlighted, creating and enabling environment becomes crucial to ensure their success. Accordingly, this paper aims to enhance the literature, through providing raw and recent survey, which explains obstacles facing financing entrepreneurial activities in Egypt.

Through showcasing their struggle, action could be taken to improve entrepreneurial environment for them seeking recognition. While the literature offers several explanations on struggles facing youth entrepreneurship, yet the available information remains outdated and scattered among several studies. This paper, however, objectively provides a comprehensive platform to showcase the main sources available for entrepreneurs to finance their work and the struggles they face from a broader scope.

The paper covers all entrepreneurial financing options which enables for the provision of a general and all-inclusive outlook on the matter. The study looks at the full picture and provides an encompassing explanation on the general struggles facing entrepreneurs. It studies the legal and non-legal system to incorporate all obstacles facing them focusing on financial ones and inhibiting an entrepreneurial environment for the growth of their SMEs.

3. Research question

The research question presents the inquiry which the paper aims at explaining and solving.

The research question of this study is:

What is the main financial challenges entrepreneurs face when starting their projects in Egypt? And how do the government and various financial institutions support them?

In order to investigate the research question and provide an explanation on the challenges facing entrepreneurs, the paper will first define the terms "Entrepreneurship" An explanation will then be provided on the importance of entrepreneurship in Egypt to prove the significance of exploring their issues and working on combating it.

The study then offers the conceptual framework that guides the process through which the research question will be tackled and handled. Entrepreneurship in Egypt will then be explored in order to provide a background on the initiatives, laws and other programs that have previously aimed at supporting youth entrepreneurs. The literature will then be explored in order to present arguments by other available scholars on that matter. The study will then present the research model which incorporates a thorough explanation of the financial sources available and their costs. The study will

conclude by providing recommendations that could help mitigate the issue and improve the conditions to allow for a more supportive entrepreneurial ecosystem.

The reason for the iris segmentation stage is to localize the iris and pupil and to extricate the iris from the given image. This includes finding the inward fringe borderline the pupil, the little aperture, and the iris region and the outside borderline between the iris and the sclera, the white shaded piece of the eye. For segmenting iris region, in this chapter PFCM algorithm is utilized. PFCM is a clustering algorithm, which is utilized to group similar pixel based on a membership function. PFCM is a designed combination of PCM and FCM. This algorithm overcomes the difficulties present in the following clustering algorithms, namely, PCM, FCM, and FPCM. PFCM overcomes the problem of incidental clusters of the PCM, solves the noise sensitivity detection of the FCM, and distributes the sequence sum constraints of the FPCM.

4. What is Entrepreneurship? The role of entrepreneurship in the economy

In order to be able to identify challenges faced by entrepreneurs it becomes necessary to first define the term and understand its context. Unfortunately, though, there has not been an agreement on a unified definition to explain the terms “Entrepreneur”, “Entrepreneurship” or “Youth Entrepreneurship”. However, various scholars have provided several explanations of the term that help shape its meaning and comprehension.

Scholars explain that the definition can be studied through two different lenses; one direction would be in favor of a behavior-based approach while the other through a trait-based approach [14]; Abbas, 2017). For the purpose of this research, a behavioral-based approach will be explained and used to define entrepreneurship.

Depending on a behavioral approach makes it easier to understand how youth act and react in a specific manner that signifies them as entrepreneurs. Hence, according to [14], the behavioral approach defines entrepreneurship as realizing an opportunity of added value and acting towards achieving it regardless of a new venture creation. Such a definition encompasses different forms of entrepreneurship and broadens its prospects to include all forms of creation and innovation without focusing on new ventures only.

Entrepreneurship in that sense is about realizing an opportunity, making use of the resources, and innovatively processing and taking advantage of the situation. According to [4] entrepreneurship includes the discovery, evaluation and exploitation of an opportunity. Such a view of entrepreneurship encompasses the human’s ability to turn ideas into action and is therefore a key competence for all, helping young people to be more creative and self-confident in whatever they undertake” [9,10].

In addition, [13] define entrepreneurship, “...as people who have the ability to see and evaluate business opportunities; to gather the necessary resources to take advantage of them; and to initiate appropriate action to ensure success.” [8]. Thus it involves shifting away from the traditional view of entrepreneurship to one that takes into consideration the attitudes, behaviors, and capabilities of youth [10]. Hence, scholars have recently shifted away from using the term to identify building start-ups into using it as a way of thinking and behaving that shapes an individual’s mindset and attitude. Such an explanation, though, transforms entrepreneurship from a narrowly defined paradigm into an all-encompassing term [10,12].

5. Lack of Financial Lending

Demirguc-Kunt, and Peria [12], [14], which provided the first measures of the extent of bank lending to SMEs, lending volumes remain not very impressive. Several previous studies recognized that lack of financial support is a major constraint in SMEs development [11-17] and it is observed that new ventures

and projects require sufficient resources to succeed, and one of the major obstacles is to find other sources of funding rather than family, friends or own finance.

Shen et al. [11] argued that, SMEs in China obtained only 12% of their capital from bank loans, while their peers obtained 21% in Malaysia and 24% in Indonesia. Lack of appropriate financing channels has become the major obstacle for the development of small and medium-sized enterprises. [9] mentioned that, small and medium enterprises are often labor-intensive enterprises, their abilities to absorb labour cost reduces when they face credit or financial constraints.

Cheema and Haque [15], described lack of finance as a major constraint in the development of small and medium enterprises in India and Pakistan. Also, SMEs in Arab countries face significant credit constraint and have limited accessibility to bank loans. Schwienbacher and Larralde [5] argued that, entrepreneurs faced a major problem at the beginning of their entrepreneurial initiatives which is their requirement of smaller amount of initial capital, so how they will be able to secure external sources of funding given the lack of collaterals, inadequate cash flows, and the existence of information asymmetry with investors

6. The role of Egyptian government in supporting entrepreneurial success

Press release regarding Central Bank of Egypt regulation concerning SME's mentioned that, within the framework of the state orientation to accelerate production and achieve the sustainable development through SMEs industry activation in order to strongly push the economy so it is considered as a pillar through which widely creating job opportunities to youth and reducing unemployment rate and upgrading income, and boosting domestic output and stimulate the external Egyptian exports. In this context, the Central Bank board of directors has taken several decrees to resolve SMEs financing theme to become a major contribution in production and investment sector in the Egyptian economy. And it was insured that the supporting program should be inclusive and cover the society overall to enable them to have access to finance to all in a need to contribute to economic development.

The measures adopted by Central Bank board of directors have taken several steps including, the volume of credit facilities directed from banks to SMEs' sector in addition to minimum cost of debt which reduce debt burden with the aim of enlarge the benefit contributed with credit resources available from banks and this in order to achieve SMEs industry progression and concentrate on productive activity and project's encouragement that create value added. In this context, the Central Bank of Egypt contributed in providing support for SMEs through complete inclusive program applied through banks in cooperation with the concerned sectors of the state, to facilitate the availability of banking finance for these firms and enterprises. This inclusive program aims at directing the banking resources by providing finance for around three hundred and fifty thousand enterprises within four years and thus creating job opportunities for more than four million people.

The new contribution of Central Bank of Egypt came with the launch of a package of decision the climate to enhance financing opportunities to these enterprises and overcome the constraints facing them, so banks are directed to increase the percentage of the loan able fund to SMEs to reach 20% of the bank total portfolio within the next four years, and this was in January 2016, the financing volume provided to those companies since starting the initiative and till December 2018, nearly EGP 115.5 billion. Benefited from such initiative around 491 thousand clients. In order to reduce the financing burden for these projects, the Central Bank of Egypt adopted a decreasing interest rate not more than 5% annually on loans given to youth initiatives in financing their small business, and nearly seven per cent in financing medium and long-term industrial and agricultural sector.

Banks also provided 10 billion with interest rate 12% used in granting short-term credit facilities, for financing enterprises working capital, which works in industrial, and agriculture industry, and renewable energy, by giving the priority to companies worked in export sector. The banks participated in the four- year program became capable to deduct loans from their required reserves at the CBE. But as we mentioned above that one of the major obstacles faced SMEs in Egypt is the firm management. So, the

central bank of Egypt has stressed on the importance providing training opportunities for youth by strengthening the role the Egyptian Bank Institute in the preparation of specialized programs in order to qualify the firm's owners to manage their projects efficiently and dealing with banks as well as enhancing the role of cooperation with the Federation of Trade, The Ministry of Trade and Industry and Arab Organization For Industrialization to develop this industry.

Micro, Small and Medium-Sized Enterprises (MSMEs), strategically aim adopted by the Egyptian Country, because of their vital role in economic and social development and accelerate development and minimize joblessness. In this regard, the government and [38] parliament work for adopting an integrated strategy side by side to achieve real renaissance through these projects and to push the youth towards it. In addition to the legislative aspect, the Members of the House of Representatives demanded from the government of doctor Mustafa Madbouli, urgently send the new draft law which regulates the work of these projects in preparation for discussing and approving the role of fourth session, the government program from (2018/2019 – 2021/2022), which has recently approved upon it by the parliament, and pointed to the preparation of new law worked on forcing the government authorities to commit in allocating at least 10% of lands available for investment in small projects.

The government integrated plan included eight subprograms for the development of micro, small and medium-sized enterprises (MSMEs) alongside the legislative program for the issuance of a new legislation, within this framework, the provision of soft loans to young people through the National Project for Human and Social Development (Your Project) financed by the Egyptian Banks, and procedures facilitation to start the activity of 282 sites in the Republic. The government also aims at increasing the amount of financing provided by the Project Development Agency to EGP 5.6 billion by 2020, which will allow the expansion of the base of beneficiaries of its financing services, in addition to targeting loans by EGP 100 million to implement these projects through the role of the local development fund for youth and women, targeted around 20 thousand job opportunity compared to loans by EGP 59 million and provided 13 thousand job opportunity within the past 4 years.

The government seeks to encourage the entrepreneurship culture by establishing 200 incubators annually, in its program, and also designing programs and specialized curriculums to schools and universities for entrepreneurship training and activating awareness by establishing entrepreneurship culture and self-employment training competitions to target around 5 thousand youth and women annually. The program also target to increase micro, small and medium-sized enterprises opportunities regarding access to finance, through reaching around 335 thousand financed project by the program years, providing around 460 thousand job opportunities, with increasing women contribution to reach 48%, as well as, the implementation of 2400 program to increase entrepreneurship awareness with beneficiaries 4 thousand youth and women, and the issuance of more than 48 thousand license and providing the One stop shop services to small business owners in 3 governorates during the year 2018/2019 and generalize these services around all governorates in year 2019/2020. And also, the program includes women support and enabling her economically; through the implementation of the program (One Village, One Product) which will be benefited from it 8 villages and providing 10.2 thousand job opportunities for graduated youth.

The government is also seeking to increase employment opportunities through the labor-intensive community development programs that take into consideration the environmental dimension, it is expected that 435 thousand families, 17.5 thousand citizen and 207 village along the program's working years, in addition to improving the skills of 4000 workers in small and medium enterprises and providing 625 job opportunity (daily). Given the fact that, SMEs predominantly fully dependent on bank loans as a main source of financing their projects, so this paper will further highlight the motives and initiatives, constraints for the bank as a major source of financing and often considered as the only external source of funding. But it is reasonable to inquire whether the policies that works upon stimulating SMEs depend on direct intervention in financial markets with their considerable given risk or finding alternative sources of financing small and medium- sized enterprises. Hence, the issue of SME access to external

finance is significant to both academics and policy makers in both developed and developing countries [15].

The topic of entrepreneurial finance is of growing interest to entrepreneurship and the financial institutions worldwide [10]. How and Why entrepreneurs finance their enterprises: whether internally through self-finance and bootstrapping [12] or externally through debt or equity and this became the interest of many researchers [2-10]. Moreover, researchers explored different instruments for entrepreneurial financing such as the fields of angel financing [2,3,4][9,10], and the most recent in the world crowdfunding and still in processing particularly in Egypt [4,5][11][14] and financial leasing²⁴. It is worthy mention that, non-bank financial institutions would fill the gaps in the financial services, considered as the primary sources for entrepreneurial finance and also promote the competition in the financial systems [3][7][13] 25. In this regard, within the country's support to SMEs and the fund established by the United States of America and International Financial Corporation in 2013 to finance SMEs.

United States of America has established a fund in Egypt for financing small business known as American-Egyptian Enterprise Fund, with initial capital \$ 60 million and \$ 300 million added as an additional capital and with the collaboration of other countries the total capital will be \$ 1 billion, the essential source of this fund is the American investors' taxes paid, this could be considered as a kind of investment in the Egyptian small businesses by the American investors' taxes or kind of foreign subsidy in return [9], "Entrepreneurial Finance in Egypt: Examination of the Opportunities for a Venture Capital Industry from an Institutional Perspective" Durham University. Egypt, p.1-2. 25 Nasar, S., "Financial Leasing in Mena Region: An Analysis of Financial, Legal and Institutional Aspects", Working Paper 0424. Egypt, p.1.for an equilibrium percentage of profits between the Egyptian government and the American one. And International Financial Corporation in cooperation with European Investment Bank, Agency Franca is de Development, European Commission, through National Ignition Facility have established a fund specialized in financing SMEs in MENA. This fund known as MENA SME Facility with total capital more than \$230 million, International Financial Corporation and European Investment Bank contribute by \$ 150 million, while La France en Egypt added \$ 50 million, and also European Commission contributed by around \$ 24 million. MENA SME Facility has coordinated with several domestic Banks in providing additional capital from \$ 350 to 400 million to support financing SMEs in region.

As most large companies start as small enterprises, so financing those small ones has attracted a greater attention in the recent years and has become an important for economists and policy makers in developed and developing economies working on financial and economic development. This considerable interest is driven by the fact that SMEs have a significant share in economies and employment generation. So, the development of SME sector becomes crucial to any economy wishing to prosper. But SMEs lack appropriate external financing and they are difficult to serve because of their opaque and information asymmetry which hinder their access to the finance needed from external sources particularly banks so small and medium enterprises are increasingly turning to the alternative sources of financing.

7. Sources of Entrepreneurial Financing

- A. Financial Bootstrapping: is a term used to cover different methods for avoiding using the financial resources of external investors. It involves risks for the founders but allows for more freedom to develop the venture. Different types of financial bootstrapping include Owner financing, Sweat equity, Minimization of accounts payable, joint utilization, minimization of inventory, delaying payment, subsidy finance and personal debt.
- B. External Financing: Businesses often need more capital than owners are able to provide. Hence, they source financing from external investors: angel investment, venture capital, as well as with less prevalent crowd funding, hedge funds, and alternative asset management. While owning

equity in a private company may be generally grouped under the term private equity, this term is often used to describe growth, buyout or turnaround investments in traditional sectors and industries.

- C. **Business Angels:** A business angel is a private investor that invests part of his or her own wealth and time in early-stage innovative companies. It is estimated that angel investment amounts to three times venture capital. Its beginnings can be traced to Frederick Terman, widely credited to be the "Father of Silicon Valley" (together with William Shockley), who invested \$500 to help starting up the venture of Bill Hewlett and Fred Packard.
- D. **Venture Capital:** Venture capital is a way of corporate financing by which a financial investor takes participation in the capital of a new or young private company in exchange for cash and strategic advice. Venture capital investors look for fast-growing companies with low leverage capacity and high-performing management teams. Their main objective is to make a profit by selling the stake in the company in the medium term. They expect profitability higher than the market to compensate for the increased risk of investing in young ventures. In addition to this, there are also corporate venture capitalists (Corporate venture capital) that strongly focus on strategic benefits.
- E. **Buyouts:** Buyouts are forms of corporate finance used to change the ownership or the type of ownership of a company through a variety of means. Once the company is private and freed from some of the regulatory and other burdens of being a public company, the central goal of buyout is to discover means to build this value. This may include refocusing the mission of the company, selling off non-core assets, freshening product lines, streamlining processes and replacing existing management. Companies with steady, large cash flows, established brands and moderated growth are typical targets of buyouts.
- F. **Leveraged buyout (LBO):** a combination of debt and equity financing. The intention is to unlock hidden value through the addition of substantial amounts of debt to the balance sheet of the company.
- G. **Management buyout (MBO):** Management buy in (MBI) and Buy in management buyout (BIMBO): private equity becomes the sponsor of a management team that has identified a business opportunity with a price well above the team's wealth. The difference is in the position of the purchaser: the management is already working for the company (MBO), the management is new (MBI) or a combination (BIMBO).
- H. **Buy and built (B&B):** the acquisition of several small companies with the objective of creating a leader (highly fragmented sectors such as supermarkets, gyms, schools, private hospitals).Recaps: re-leveraging of a company that has repaid much of its LBO debt. Secondary Buyout (SBO): sale of LBO-company to another private equity firm. Public-to-private (P2P, PTO): takeover of public company that has been punished' by the market, i.e. its price does not reflect the true value.

8. Sources of finance for entrepreneurs in Egypt

a. Governmental Initiatives:

According to a report by the Ministry of Finance, (2007), the government's commitment for enhancing entrepreneurial was reflected in the formation of the 141 law in 2004 which was created for supporting and showing how entrepreneurial s run. Under this provision, a framework was formed through which the Social Fund for Development (SFD) was to be responsible of Micro, Small and Medium Enterprises (MSMEs). The SFD receives its funds from the government or other donors including, but not limited to, the Government of Egypt, the World Bank, the UNDP and the International Labor Organization. Such donations are used to start the needed initiatives or are used to partner with other organizations and NGOs in order to prove the necessary empowerment to entrepreneurs [1] [3].

The SFD was considered as the main national committee through which policies for the financial and non-financial development and support to SMEs would be determined [11] [1]. A report by the Creative Associates International (2014) had found that such policy tools vary from Microfinance, business establishment services, to supporting beginner investors, and business support services. [11] discussed that the SFD's non-financial services include interested opportunities to SME entrepreneur owners, training services on management, , micro-finance and support to apply new technologies. [1], also revealed that the non-financial-services offered by the SFD include business development, technical support, marketing guidelines, feasibility studies support and technical evaluations to help entrepreneurs develop.

Also, the SFD funds selected incubators through its "incubator program" to ensure their efficiency and effectiveness for the entrepreneurial. In addition, the financial services provided by the SFD, included micro-financial funds, credit failure and life insurances [11] [1]. According to a report published by the World Bank [15-18], the SFD became responsible for financing the entrepreneurial with low-cost financial services, ". its own funds, government appropriations, and donor grants." [18]

The SFD also offers tax reductions for entrepreneurial owners in the first stage of their development [4] [8]. In addition, the SFD help other business support centers (BSC) to expand their services and support entrepreneurial owners [7]. Such centers include Network of Egyptian Small Business Development Centers, and Community Development Associations (CDAs) support program. These centers provide trainings, technical assistance, and other basic services to entrepreneurial owners [5] [11].

Another governmental initiative to enhance the investment area in Egypt was the policies provided by the General Authority for Investment and Free Zones (GAFI) under the Ministry of Investment (MOI) [11], where GAFI was responsible of reinforce, entrepreneurial through providing business development services, facilitating related to finance, and skills development [1] [11]. The plan focused on high potential industries including: food processing, agriculture and renewable energies. The integration with the Canadian International Development Agency (CIDA), made GAFI started 18 service centers across Egypt named Bedaya that offers support and training to Entrepreneurial [11]; [5][6]. In addition, according to a report by the Creative Associates International (2014), GAFI helps entrepreneurs of SMEs to interact with banks and acquire the needed loans. To avoid services duplication provided by the SFD, an agreement was concluded where GAFI would accommodate the needs of SMEs with profits under EGP 2 million. Both GAFI and the SFD established One-stop-shops that include representatives of distinct organizations to ease out the registration process of companies [11].

Based on a report by the World Bank [15, 16], the government has also initiated several plans and policies in hopes of empowering youth hoping to start their SMEs. By 2014, Nabil El-Araby, the minister of planning, signed an agreement with the World Bank worth 300 million dollars targeted towards supporting SMEs. Several agreements were reached between Egypt, Canada, and France as well all to help finance and support SMEs [16].

According to Creative Associates International (2014), other public institutions that promoted SME development included the International Modernization Center (IMC), and the Technology Innovation and Entrepreneurship Center (TIEC). Such institutions have supported in the development of SMEs through several initiatives aimed at easing out the licenses and registration processes. Other governmental services included guiding services that offers entrepreneurs clear explanations on necessary steps and procedures when establishing their SMEs. Such institutions provide consultancy opportunities to assist entrepreneurs as they develop their feasibility studies, legal framework, and marketing schemes (MoF, 2007; Jochaud, 2013).

However, multiple inefficiencies could be seen in the operational framework of such initiatives the influence their efficiency and application [11]. Despite being an organization that manages all that is related to SEMs, yet their centralization, lack of coordination and organization has made them inefficient in implementing their policies and initiatives [11]. Such organizations lack the needed accountability and organization which dooms their range of services insufficient and non-effective. Efforts are usually done without coordination between different offices which results in their duplication and disorganization. Moreover, the lack of a concrete vision shared by all stakeholders negatively affects how operations are handled in the organization [9] [11].

The idea of one stop shops, for example, failed to address its aim given the lack of organization. One stop shops available were not able to assemble representatives of distinct organizations under one place which forced entrepreneurs to visit each governmental office separately to get all the paperwork and permits done. Hence, the lack of coordination in the SFD has forced entrepreneurs in repeating the same steps twice. This incompetence affects how the initiatives are implemented and applied [16] [11].

b. Non-Governmental Initiatives:

Other non-governmental institutions that provide financial help along with the needed training are accelerators, incubators and facilitators. Such institutions provide help to entrepreneurs in different business stages in order to enhance their skills and prepare them to run successful enterprises (Cusmano, 2016; Jochaud, 2013). Some provide entrepreneurs with grants or seed funding in exchange of equity, while others help them develop a network in order to reach investors that could fund their enterprises (Jochaud, 2013; Abbas, 2017). In case such incubators are NGOs, the funding is provided from corporations as part of their Social Corporate Responsibility (Ahmad & Abdel-Aziz, 2015). Some of the key players in Egypt include:

1. Nahdet El Mahrousa, which provides support to young entrepreneurs to help them develop their ideas. It helps develop entrepreneurial culture through strategic partnerships to help promote and build a strong ecosystem that supports entrepreneurs (Abbas, 2017). Such partnerships include those with Sawiris Foundation for Social Development, and MisrElKheir (Abbas, 2017; Jochaud, 2013). They also offer seed funding to youth who have a potential. In addition, it provides legal and logistical support by giving trainings to youth to help them understand how to better promote their businesses. (Jochaud, 2013; <http://nahdetelmahrousa.org>)
2. INJAZ, which promotes entrepreneurial education, trainings and skill development through its workshops. It helps introduce the culture of entrepreneurship into schools and universities across Egypt. They run start-up competition to stimulate the experience among young students and integrate into their systems the importance and merits of entrepreneurship. Such competitions are performed under partnership between INJAZ and the Ministry of high education and the private sector. (Abbas, 2017; Jochaud 2013). INJAZ is known to provide seed funding to promising start-ups who show the passion and have proved their skills in return for a 10%-15% share in the enterprise (Ahmad & Abdel-Aziz, 2015; World Bank, 2007; MoF, 2007; Jochaud, 2013; injaz.org.eg).

3. Endeavor, which creates special advisory boards to help their entrepreneurs with mentorship and the needed training. Member entrepreneurs receive the needed training as long as they remain in the Endeavor network (Ahmad & Abdel-Aziz, 2015; Jochaud, 2013; endeavoreg.org/)
4. Other accelerators and incubators include Flat6labs and Venture lab. They provide support to newly established start-ups (Ahmad & Abdel-Aziz, 2015). Both institutions provide entrepreneurs with the necessary training in the field. They offer them specialized training to help them register their businesses, finish their legal requirements and establish themselves in the market (Jochaud, 2013; Cusmano, 2016). In addition, they expose them to a wider platform of potential future investors (Ahmad & Abdel-Aziz, 2015). They launch events where presentations are made to investors for an opportunity for youth to find funding. Flat6labs offers seed funding to its entrepreneurs in exchange for equity, while venture labs offer a grant that reaches a maximum of EGP 20,000 (Jochaud, 2013; <https://www.venturelab.org/>; www.flat6labs.com/). The report by Creative Associates International (2014), explains that entrepreneurs receive business development services, entrepreneurship education, trainings, and services that help them to better accommodate their needs. They are assisted in developing a feasibility study, given training on needed documents for registering, equipped with proper management style and given a platform of network that can support their enterprise (World Bank, 2007; MoF, 2007; Ahmad & Abdel-Aziz, 2015).

These organizations offer financial and non-financial services to their entrepreneurs. However, they are criticized for the limited number of accepted applicants yearly. The limited capacity confines the benefit of the extensive training offered to only few participants. (Jochaud, 2013). In addition, only few organizations have created a youth component into their programs. Of these initiatives only 18% were found to focus on youth or integrate youth in their interventions (Jochaud, 2013). Hence, the probability of youth benefiting from such initiatives diminishes since it is not accessible to all. Such organizations that created a youth program and provided either grants or funds in return of equity, include INJAZ and Nahdet el Mahrousa (Jochaud, 2013; Abbas, 2017).

Furthermore, intervention programs aimed at promoting the entrepreneurial mindset have substantially increased in Egypt [6] (Abbas, 2017; Jochaud, 2013; [14]. According to Jochaud (2013), 16 different organizations were identified to have a component in them to promote entrepreneurial mindset. Moreover, a total of 31 interventions were initiated in order to introduce and incentive entrepreneurial culture in Egypt. These organizations include, but not limited to, INJAZ, Endeavor, Nahdet el Mahrousa, Enacts Egypt from the civil society organizations; Egyptian banking institute, international modernization center from the public sector, and the American University in Cairo.

c. Banking Sector Reforms

In the banking sector, reforms took place in order to ease out the process of loan disbursement to SMEs (Poldermans, 2011; Moukhtar, 2015) [7]. By 2008, the Central Bank of Egypt launched its second phase of the reform plan which was directed towards restructuring the framework and efficiently enhancing the Egyptian banking sector (Poldermans, 2011). Such a reform was reflected in how the SMEs finance and banking systems were enhanced as well (Poldermans, 2011; Creative Associates International, 2014;) [7]. These reforms resulted in increasing the loan-deposit ratio to reach 54%, the average loans-GDP ratio to reach 49.4% and average deposits-GDP ratio to reach 90% which signifies an improvement compared to the case beforehand [7].

Moreover, the Central Bank of Egypt (CBE) pushed for banks to offer loans to SMEs in return of several benefits including low reserve requirements (Poldermans, 2011; El Kabbani&Kalhoefer, 2011). Based on the European Bank report (2017), The Central Bank of Egypt subsidizes lending for banks in return of obliging them to provide EGP 200 billion in loans to SMEs with a 5% interest rate. According to the Central Bank of Egypt (2017), an initiative was launched in support of the sector aiming at providing 200 billion EGP in loans to SMEs with interest rates as low as 5%. The CBE plan of enhancing the SME sector

includes making the loan sizes increase to 20% of the total loan portfolio by 2019. The expected result is the creation of over 4 million job opportunities in the coming four years (CBE, 2017).

Hence, as a result of the initiative by the CBE, several banks provided a specific SME component in their loan provisions. They provide loans to SMEs in more favorable conditions in hopes to ease out youths' financial restraints. These banks include the National Bank of Egypt which injected 8.5 billion EGP within the CBE initiative at an interest rate of 5% to SMEs, Housing and Development Bank which specialized 1.2 billion EGP representing 12% of the total bank loan portfolio, and the United Bank which injected 1.2 billion EGP representing 14% of its total credit portfolio. These banks are expecting to increase their activity to provide 20% of their total credit loan portfolio to SMEs by 2019 in order to be in line with the CBE initiative. Other banks that have taken the initiative include the Banque Misr, the Alex Bank, the Suez Canal Bank, and the HSBC (CBE, 2017).

In addition to offering incentives to banks that incorporate SMEs initiative to their portfolio, the CBE has provided training services to banks to better accommodate them into dealing with SMEs. According to a report by the European Bank (2017), in corporation with the Egyptian Banking Institute, training workshops for Egyptian banks were prepared where several topics were covered including SME risk management. Poldermans (2011) notes that the Central Bank of Egypt (CBE) is continuously trying to update its database to provide necessary knowledge and information on current SME profiles available in Egypt.

d. Non-banking Equity Financing

According to the report by Creative Associates International (2014), reform plans in the non-banking financial institutional sector has increased their outreach and availability to youth. Hence, another source of financing that has gained popularity recently in Egypt is equity financing through venture capital or angel investment (Cusmano, 2016; Ahmad & Abdel-Aziz, 2015; El Kabbani & Kalhoefer, 2011).

Through private equity, wealthy individuals and investors participate in a high risk entrepreneurial activity with expectations of a higher rate of return [14]. Scholars agree that private equity investments are less risky than the stock market given that, "...trading doesn't have an impact on the asset class, as assets are held until maturity and valued on the basis of corporate fundamental rather than depending on market fluctuations." (Cusmano, 2016, p.74) Hence, it is a more secured movement from investors that provides a possibility for a high return (Cusmano, 2016; El Kabbani & Kalhoefer, 2011).

As explained by Cusmano (2016, p.74), "...includes a broad range of external financing instruments, whereby the enterprise obtains funds from private sources in exchange for an ownership stake of the firm." the investment is usually made through a period of 3-10 years and investors profit by exiting. They usually sell their shares, "through and IPO, a trade or buyback by other shareholders once the firm has increased its share value." Venture capital is an equity investing approaching businesses in their early stage of growth. The funds from a venture capital are usually run by partners who chip in and invest as a group in a portfolio of companies with a high growth potential. Hence, they are interested a small pool of high growth potential companies that show the capacity of fast and growing returns (Cusmano, 2016). Venture capital firms in Egypt include Alfi and Sawari ventures. These venture capitals usually provide technical and managerial expertise along with the fund. Hence, entrepreneurs are usually supported with leading experts and given information on key management planning strategies (El Kabbani & Kalhoefer, 2011). Thus, entrepreneurs, especially youth, seek venture capitalist for their expertise, contacts, networks and reputation. Even after exiting, attaching their name to a well-known venture capitalist adds to entrepreneurs' trustworthiness and overall reputation (Cusmano, 2016)

Angel investors, on the other hand, are individuals, usually with a background in entrepreneurship, who invest their own money directly in return for stock in the companies they are interested in. Angel investors in Egypt include Cairo Angels, and KI Angels. After assuming profits, they usually exit by disposing their shares and re-investing their gains into new companies. Angel investors are known to finance business in their early stages of development, unlike venture capitalists who are more prone to

finance later stages. Hence, angel investors are seen to provide the vital kick-start for youths wishing to begin their businesses [5]. Moreover, since venture capitals are tied to gaining resorts for their investors, they are more likely to be strict when choosing what to invest in. They are more selective and concentrate on sectors that acquire greater returns in short periods of time. Angel investors are more flexible, taking decision based on intuition and experience, which broadens the portfolio and provides youth with enormous opportunities [12].

Laws were initiated in order to incentive venture capital firms into expanding their workforce. Through granting venture capital firms tax redemptions, the government has hoped to increase their presence in the economy. Thus, by 2012 Egypt's global ranking in terms of venture capital index reached 56th from 67th in 2009 [4].

9. Challenges facing entrepreneurship:

Entrepreneurship is a word unheard of to most of the Egyptian public; indeed, until recently, no term existed for it in Arabic. The concept is largely foreign and indistinct from MSME creation. The silver lining is that it is relatively unscathed by the negative reputation that the term "business" suffers from—which is a factor to capitalize upon. Moreover, business-people have a very negative reputation, due to numerous high profile scandals surrounding nonperforming loans. Businesspeople are near automatically associated with to thieving, dishonest tycoons. In addition, emphasis in entrepreneurship support has so far been put on nominally easing administrative burdens—which is severely insufficient. Egypt's improve Doing Business ranking is proof of the formal legal and regulatory reforms. But large jumps in ranks year-to-year are not just proof of success but of the fact that we had a very low ranking to begin with. Currently, Egypt is ranked 106th out of 183 countries.

Furthermore, such rankings reveal an unavoidable bias in the calculation methodology. While Egypt may have, for example, successfully simplified the process to start a business—putting it in a 24th position and pushing up the overall ranking—if elements such as contract enforcement remains particularly weak (we are at the 148th position), it is likely to act as a binding constraint and hamper the entire business creation process.

Existing government-led initiatives are excellent but are drastically insufficient, and only limitedly scalable. Organizations such as the Social Fund for Development and the Industrial Modernization Centre provide remarkable services to thousands of companies every year—which remains painfully short of covering the 1.34 million in the nascent stages across the country. Weakness of contract enforcement, as mentioned earlier, can be a severely binding constraint on collaboration, as well as discourage business creation in a sector operating, at least in its first phase, on thin margins and tight schedules that cannot afford delays in payments, deliveries, etc. In environments of weak contract enforcement and limited legal recourse, parties usually revert to alternative enforcement mechanisms, with voluntary binding arbitration being one. This mechanism remains relatively weak in Egypt still. Absence of a collaboration culture in business relationships. Entrepreneurial ventures in Egypt are a lonely business. With an average start-up team of 2.21 people, entrepreneurs favor very small, and for nearly half of them, individual ventures. Individuals do not seek to complement one another, despite deliberately knowing they are unlikely to be a "one man band," and that a solo act can only hamper their medium- and long-term growth. Teamwork is a drastically missing skill, from entrepreneurs in general, and from their staff and the Egyptian society at large.

10. Research model:



*Sources: the researcher

11. Recommendation and conclusion:

Entrepreneurship is a potential major source of job creation, of growth, and of innovation for Egypt. A strong, dynamic entrepreneurial sector can bring the entire national economy into new areas, breaking the boundaries of the traditional economic sectors the economy is built upon. The link between entrepreneurship and economic development has been proven by a growing body of research, including most notably the work of Acs and Szerb (2008), who developed the Global Entrepreneurship Index, which is largely based on data from the Global Entrepreneurship Monitor (GEM), data that we use across this paper. They identify a positive and strong relationship between entrepreneurship and economic growth, with findings consistent with the various stages of countries' development.

It becomes clear that our interventions so far have focused heavily on providing support to entrepreneurs on an individual level, whether it's in seed funding, training or incubation services; some initiatives have also attempted to improve the business environment by cutting red tape, offering administrative "one-stop shops" to facilitate paperwork, and improve the work of commercial litigation courts. But we realize that our policy interventions are lacking at Levels 2 and 3 addressing the business community as a whole, then the economy at large. Yet cross-country research points out (Monitor, 2009) that beyond what we traditionally deem to be the most important elements—such as venture capital funding, incubation, etc, "other policy areas are more important to entrepreneurial success," such as the mindset, skills development, and education at all levels, and financing strategies beyond venture capital funds.

The challenges facing Egyptian entrepreneurs follow them from the earliest stages, with a lack of exposure and trust vis-à-vis entrepreneurs, to the administrative difficulties and lack of institutional support they face and, at a later stage, to a deficient culture of cooperation. The following are a series of strategic recommendations, or guidelines, by definition long term, which does not mean they shouldn't be tackled immediately—quite the opposite—but that their impact will be increasingly felt with time. Our recommendations will follow the pillars of the dynamic TEAM model:

A. Changing the entrepreneurial mindset:

Attitude, risk, coordination, partnership. This takes the first position in the list of strategic recommendations, both for importance and urgency, as well as for the multiple levels of intervention necessary. At level 1, entrepreneurs need to enter the business realm and address risk with a positive attitude, fully aware that failure is an option—but from which they can recuperate and should learn from. Equally importantly, though, entrepreneurs need to start thinking cooperatively. The era of lone geniuses has passed, and the future belongs to interdisciplinary collaborative ventures. The development of teamwork skills is a key. At level 2, business-related regulations, on the part of the state as well as private organizations, must engage with entrepreneurs. Banks, for example, must consider entrepreneurs as long-term solvent clients and partners and be understanding, without jeopardizing their own interest of course, of the difficulties or limitations of entrepreneurs. At level 3, the image of entrepreneurs and businesspeople in the community need to be amended and improved: rather than profiteers, they should be viewed as what they truly are—as important contributors to the economy and society as a whole.

B. Building a knowledge infrastructure for innovation, and entrepreneurship:

Two of the major pillars of entrepreneurship are innovation and value creation, both of which would increase significantly if more “knowledge” were to be made accessible to entrepreneurs and entrepreneurial ventures. Steps need to be taken to actively disseminate knowledge into the Egyptian economy. Egypt's universities and research centers hold a wealth of knowledgeable individuals, often working on cutting-edge theoretical and applied science. But for most, their ideas do not reach beyond the academic or at most the prototype stage. Conversely, entrepreneurs are often hard pressed to find the technical knowledge required and the qualified thinkers and skilled workers capable of carrying the project to fruition. Therefore, there is an urgent need for a coordination system to ensure that the innovative ideas are effectively channeled and ultimately commercialized.

C. Management skills development:

Not unlike technically qualified personnel and entrepreneurs, good managers are hard to come by. Management skills range from personal or first-level skills—such as planning and organization, etc.—to managing teams, all the way to leadership. Aside from the strictly managerial skills, however, a host of soft skills is also necessary, not only for managers but for all parties to the entrepreneurial venture. Unfortunately, our education system does not equip students with those skills and they are, further along their career, penalized by their absence. It is therefore necessary to provide all, but the partners to the entrepreneurial venture in particular, with those skills.

D. Access to support:

As shown in the paper, government and non-governmental initiatives do not coordinate activities. The result is an absence of complementary planning, a duplication of tasks, and a limited market outreach, mostly geographically concentrated on Cairo and Alexandria. Better coordination would allow for specialization, better handling of an increased number of beneficiaries, and better coverage of services countrywide. The reliance of organizations on another will have positive, secondary side effects: as organizations will naturally seek the best organizations to work with resulting in a system of natural selection of the most efficient organizations.

E. Financing opportunities:

Financing is often cited as one of the major hurdles for new businesses; for many experts, however, finance is often sufficiently available—but not accessible or properly advertised. The lack of information regarding appropriate sources of finance—which may include direct lending, microloans, commercial loans, and government-supported loan programs—translates into the need for a mapping of available financing and its dissemination to potential beneficiaries. Angel-funding networks and venture capital funds need to be developed, allowing for an injection of funds when necessary for the growth of the business. A state funding facility, which could particularly target sectors prioritized or deemed of high value to the economy, is also needed.

F. Evolution toward a knowledge-based economy:

As knowledge takes its rightful place as a production factor with labor and capital—ultimately replacing capital as a productive driving force—it maps the future orientation of global growth. Without neglecting traditional manufacturing processes, which very much stand to be supported and grown, it is undeniable that the infusion of knowledge directly into nascent and existing businesses is key to growing entrepreneurial venture and creating highly innovative and value-adding businesses. Helping Egypt to become a knowledge-based economy is closely pertinent to the recommendations on prioritization developed below.

G. Prioritization and clusters selection:

While we know that Egypt must target high added-value productive sectors, the question of selecting priorities or designing clusters of competitiveness is a very tricky one—both because it hopes that a centrally determined area of specialization will be as efficient as one developed by market forces, but also because it supposes that the decision makers will select a set of industries that will be attuned to the country's industrial profile. Obviously, this is not always the case. How do we select areas of competitiveness? For this task, it is only reasonable that we: Build upon our current areas of specialization or competitiveness to move to more sophisticated sectors with higher added value Avoid heading toward areas in which we are particularly behind—this would only represent sunk investments with no possibility of catching up with market leaders. Ensure that the necessary factors for the success of a sector of the economy be present before we seek to develop it (it would be foolish, for example, to attempt to develop a high-tech industrial sector if the education system does not provide adequately trained staff and technicians).

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