

SMEs as Engines of Growth: Challenges and Opportunities in Egypt with International Benchmarks

<https://www.doi.org/10.56830/IJAMSSI202601>

Abdelrahman AbdelHay

Arab academy for science, technology & maritime transport, Egypt

Habiba Ahmed

Arab academy for science, technology & maritime transport, Egypt

Hana Ashraf

Arab academy for science, technology & maritime transport, Egypt

Mohamed Islam

Arab academy for science, technology & maritime transport, Egypt

Mostafa Hassan

Arab academy for science, technology & maritime transport, Egypt

Omar Maher

Arab academy for science, technology & maritime transport, Egypt

Farid Moharam Algarhy

Dean of Faculty of Business Ain Sham University, Egypt.

Received: 3 Nov. 2025. Accepted: 22 Nov. 2025. Published: 30 Jan. 2026

Abstract:

This study examines the pivotal role of Small and Medium Enterprises (SMEs) in Egypt's economic development, assessing their contribution, challenges, and alignment with international benchmarks. SMEs constitute approximately 98% of Egyptian businesses, providing 75% of private sector employment and contributing around 43% to GDP. Despite their significance, Egyptian SMEs face persistent barriers including limited access to finance, widespread informality, regulatory burdens, skill shortages, fragmented institutional support, and low technology adoption. These challenges hinder their productivity, innovation, and integration into global value chains, reflected in a notably low export share of less than 5%, compared to much higher global benchmarks. The paper reviews government initiatives such as the Central Bank's SME financing program, MSMEDA, and SME Law No. 152, highlighting implementation gaps and the need for better coordination and impact measurement. Drawing on success stories like Sekem, Vezeeta, Fawry, and Breadfast, the study illustrates the potential for innovation-driven, export-oriented growth. Comparative analysis with countries like the United States, China, and Germany reveals effective policies including centralized governance, vocational training, digitalization, and simplified regulations. Recommendations focus on creating a dedicated SME ministry, expanding digital and financing ecosystems, reforming education, enhancing advisory services, and streamlining formalization processes. These strategies align with Egypt Vision 2030 objectives and aim to empower SMEs as sustainable engines of inclusive growth and global competitiveness.

Keywords: Small and Medium Enterprises - private sector – digitalization - Vision 2030.

1. Introduction:

1.1 background of the study.

Small and Medium Enterprises (SMEs) have long been recognized as the backbone of both developed and developing economies. Historically, SMEs emerged during the industrial revolution as family-owned and community-based businesses that contributed to local trade, employment, and innovation. Over time, they evolved into a crucial sector that drives entrepreneurship, fosters competition, and ensures the diversification of national economies. According to the World Bank, SMEs represent about 90% of businesses and more than 50% of employment worldwide. Their role in economic development, poverty alleviation, and innovation has positioned them as key drivers of sustainable growth. Despite their importance, SMEs often face significant barriers such as limited access to finance, lack of managerial expertise, weak integration into global value chains, and regulatory challenges.

In the Egyptian context, SMEs play a particularly critical role in economic and social development. They account for nearly 98% of all enterprises in Egypt, providing about 75% of private sector employment and contributing roughly 43% of the national GDP (OECD, World Bank estimates). SMEs in Egypt are spread across diverse sectors such as trade, manufacturing, services, and agriculture, reflecting the country's broad economic base. However, Egyptian SMEs continue to face persistent challenges including bureaucratic hurdles, informality, limited access to credit and banking services, weak digital adoption, and difficulties in integrating into international supply chains. Recognizing their importance, the Egyptian government has introduced several initiatives, such as the Egypt Vision 2030 strategy, the establishment of the Micro, Small, and Medium Enterprise Development Agency (MSMEDA), and financing schemes in collaboration with local banks and international institutions, aimed at supporting SME growth and competitiveness. Despite these initiatives, the SME sector in Egypt still struggles to meet international benchmarks in terms of productivity, innovation, and sustainability, highlighting the need for deeper policy interventions and strategic reforms.

1.2 Problem statement

Although SMEs are widely acknowledged as the cornerstone of the Egyptian economy—accounting for most enterprises, employment, and a significant share of GDP—they continue to face structural and institutional challenges that limit their potential. Egyptian SMEs often struggle with restricted access to finance, where stringent collateral requirements and limited credit facilities prevent entrepreneurs from scaling up their operations. In addition, bureaucratic and regulatory hurdles, combined with high levels of informality, constrain SMEs from fully integrating into formal markets. The lack of adequate managerial skills limited digital adoption, and weak connections to international value chains further undermine their competitiveness in both domestic and global markets.

Despite government efforts, such as the creation of the Micro, Small, and Medium Enterprise Development Agency (MSMEDA) and support programs under Egypt Vision 2030, the sector continues to lag behind international benchmarks in productivity, innovation, and sustainability.

1.3 Research objectives

The main objective of this study is to examine the role of SMEs in Egypt's economic development while identifying the barriers that hinder their growth and competitiveness. In particular, the study seeks to:

- Analyze the key challenges faced by SMEs in Egypt, including financial constraints, regulatory and institutional barriers, informality, and limited technological adoption.
- Assess the extent to which Egyptian SMEs align with international benchmarks of productivity, innovation, and competitiveness.
- Evaluate the effectiveness of government initiatives and policy frameworks such as MSMEDA and Egypt Vision 2030 in supporting SME growth.
- Propose strategic recommendations to strengthen the resilience, sustainability, and global competitiveness of SMEs in Egypt, drawing on international best practices.

1.4 Scope of the study

This study focuses on Small and Medium Enterprises (SMEs) in Egypt, examining their role in economic development, the challenges they encounter, and their alignment with international benchmarks of competitiveness and sustainability.

Geographical Scope: The research is limited to Egypt, with specific emphasis on urban centers such as Cairo, Alexandria, and major industrial zones, where SMEs are highly concentrated and more formally integrated into the economy. At the same time, attention is given to SMEs in rural and semi-urban areas, particularly those in Upper Egypt and the Nile Delta, which face unique barriers such as weaker infrastructure, limited access to finance, and fewer opportunities for market expansion. While the analysis is country-specific, global comparisons and international best practices are incorporated to provide a broader benchmark.

Sectoral Scope: The study considers SMEs across major economic sectors including manufacturing, trade, services, and agriculture, reflecting their diverse contributions to Egypt's GDP and employment. Micro-enterprises are not a primary focus, except where relevant to national policies such as those of MSMEDA.

Thematic Scope: The research is concerned with structural, financial, institutional, and technological challenges, as well as the policy environment affecting SME growth. It does not provide detailed case studies of individual firms but rather a macro-level analysis of the sector.

1.5 Significance of the study

This study is significant because it:

- Contributes to academic knowledge by analyzing SMEs in Egypt within a global context.
- Provides policymakers with insights to improve SME policies and align with Egypt Vision 2030.
- Offers practical recommendations for SME owners to overcome challenges and enhance competitiveness.
- Highlights the economic importance of SMEs in job creation, poverty reduction, and innovation.
- Draws lessons from international best practices to strengthen Egypt's SME sector.

2. Literature Review

2.1 Definition and Characteristics of SMEs

SMEs known as small and medium-sized enterprises are companies that meet certain requirements for assets, income, or employee numbers. SMEs are generally characterized as businesses that are smaller than major corporations and have fewer employees, lower revenue, and smaller assets. However, their exact meaning varies by nation and organization. In the European Union, for instance, a small business can employ up to 50 people and generate up to €10 million in revenue, whereas a medium-sized business can employ up to 250 people and generate up to €50 million. SMEs make up almost 90% of firms globally and play a major role in economic growth and employment creation, making them essential to the global economy.

SMEs are limited in terms of their operations, infrastructure, and workforce size. These are businesses that primarily function in a small geographic area and rarely branch out into more expansive regions. Small and medium-sized businesses may have more managerial and autonomy in decisions because they are not associated with larger corporations. Flexibility in modifying operations and plans, which is more difficult for larger businesses to handle, is provided by the capacity to change to needs. Members of an individual family frequently own SME. Their limited resources may encourage them to look for unique concepts, which may increase their ability for creativity. Lack of resources can be a strength, as proven by technology, which can support SMEs' growth in several ways.

2.2 Importance of SMEs in Economic Development

SMEs often have greater operational flexibility. Performing rapidly may be more challenging for large firms with more personnel and more extensive systems. SMEs frequently experience a greater sense of belonging. The possibility of SMEs providing financial support to their community is higher. Instead of collecting cash and investing it in a new store across the country, SMEs are more likely to remain local, support local businesses, provide local tax dollars, and buy from nearby suppliers. SMEs might have an extensive successful history broader and more complex businesses could also have a significant history, particularly if they have achieved financial success. SMEs, on the other hand, are more likely to maintain methods that have been used for generations and transfer the family business. Moreover, Entrepreneurs might focus more directly and effectively than larger companies. Consider Apple (AAPL). The employees must assist each of these departments to develop iPhones, iPads, Macs, Apple Watches, accessories, and streaming services. A SME with a small workforce must, however, restrict the range of services it provides. Successful SMEs frequently integrate themselves into a smaller target market rather than striving for a broad market presence.

2.3 Global Perspective on SMEs: Success Factors and Challenges

Availability of funding, Working-capital smoothing, investment, and scale-up are made possible by an adaptable structured finance (credit lines, trade finance, invoice financing, digital lending). Programs that combine financing with non-financial help and operate through local intermediaries have a greater impact. adoption of digital technology, Cloud accounting, e-commerce, and digital payments are examples of digital tools that increase productivity, and market reach. Expanding requires affordable digital infrastructure and support for digital skills.

= Market and value chain integration SMEs can expand their capacities and meet new demand through connections with larger companies, involvement in regional and global value chains, and simplified export processes. Policies that facilitate the adoption of standards and quality while eliminating trade barriers are important.

Management methods, training, and human resources do not increase productivity as much as targeted training technical skills, bookkeeping, management, environmental practices and encounters with effective leadership practices. Impact increases when supply-chain requirements are connected to training. A stable business and regulatory environment Formalization obstacles and compliance costs are decreased by simple, clear business registration, predictable taxes, and appropriate regulation. If executed with careful planning and oversight, well-designed public assistance credit guarantee programs, advising services can have a catalytic effect.

There are a lot of unaddressed financial needs for formal SMEs, especially in developing nations. According to estimates, there is a huge dollar gap that prevents growth and the creation of jobs. geopolitical and macroeconomic challenges. The risk of failure for marginal SMEs is increased by high inflation, rising interest rates, supply-chain disruptions, and geopolitical tensions, which all increase expenses and restrict access to external financing. Recent global crises have re-exposed SME risks, according to OECD data. differences in managerial ability and skills. Particularly for micro and small businesses, technical knowledge, knowledge of technology, and contemporary management techniques are frequently mentioned limitations. For training programs to be successful, they must be more specifically designed and connected to market demands.

2.4 Research Gap

Although SMEs are commonly recognized as drivers for innovation and economic progress, there are still gaps that remain. First, it is challenging to generalize results due to the lack of a widely recognized definition of SMEs, which limits comparison across nations and industries. Second, although the issues associated with financing are widely known, there is insufficient evidence regarding the long-term sustainability of creative approaches to financing like blended finance, digital lending, and fintech solutions, especially in developing nations. The importance of digital Adoption has also been emphasized, but not enough research has examined the challenges SMEs have in maintaining digital transformation, such as skill shortages, cybersecurity, and affordability. Furthermore, even though human capital and managerial abilities are acknowledged as critical success determinants, limited study has been conducted on how they interact with organizational culture and value-chain integration, particularly in micro and family-owned businesses. Lastly, although policies and support programs are marketed as facilitators, there are few accurate evaluations of their effectiveness and adaptability, and not much is known about how SMEs respond to global shocks like supply-chain disruptions, inflation, and political instability. To improve SME sustainability and competitiveness globally, additional context-specific, comparative, and continuous studies that offer evidence-based insights are required, as these gaps show.

Key Success Stories of Egyptian SMEs

Success stories of Small and Medium Enterprises (SMEs) in Egypt illustrate the sector's capacity to innovate, expand, and contribute significantly to economic growth despite structural

challenges. They highlight how supportive policies, entrepreneurial vision, and access to finance can transform small-scale ventures into national and even international leaders. This section presents four notable cases—**Sekem, Vezeeta, Fawry, and Arafa Holding**—which demonstrate the diversity and potential of Egyptian SMEs across agriculture, technology, financial services, and manufacturing.

Case Study 1: Sekem

Sekem was founded in 1977 as a small organic farming initiative in the Egyptian desert. Initially modest in scale, the enterprise gradually grew into a pioneering model of **sustainable agribusiness**. With a focus on organic cultivation, fair trade, and social responsibility, Sekem expanded to include food processing, textiles, and healthcare products. It benefitted from both **international partnerships and national SME support frameworks**, allowing it to enter export markets. Today, Sekem exports organic products worldwide and is recognized as a global model for **green economy practices**, demonstrating how Egyptian SMEs can achieve sustainability and international competitiveness.

Case Study 2: Vezeeta

Vezeeta began as a Cairo-based SME in 2012, offering an online platform to book doctor appointments. Facing a fragmented healthcare market, the startup leveraged **digital innovation** to simplify healthcare access. It initially received support through entrepreneurship programs and later attracted venture capital investments, scaling beyond Egypt into several Middle Eastern and African countries. Vezeeta illustrates how Egyptian SMEs can harness **technology and innovation** to disrupt traditional sectors and achieve rapid regional expansion, aligning with Egypt's broader goals of digital transformation.

Case Study 3: Fawry

Launched in 2008, Fawry started as a small fintech company aiming to address Egypt's low levels of financial inclusion. By building a digital payments infrastructure, it quickly grew into Egypt's largest **electronic payment network**, serving millions of users. Fawry's early growth was supported by partnerships with banks, telecom operators, and the CBE's push for digital financial services. In 2019, it became the first Egyptian fintech company to be listed on the Egyptian Exchange, a remarkable achievement for a business that began at SME scale. Fawry's success demonstrates the transformative role of SMEs in **financial inclusion and fintech innovation**.

Case Study 4: Arafa Holding (Arafa Group)

Arafa Holding, initially a small family-owned textile business, expanded to become a leading integrated apparel and textile group with operations in Egypt and abroad. It grew steadily by combining **traditional manufacturing expertise with modern management practices and international partnerships**. Through gradual scaling, export orientation, and workforce expansion, Arafa illustrates how an SME in Egypt can transition into a global player while continuing to provide substantial employment locally. The company's trajectory reflects the importance of **industrial SMEs** in strengthening Egypt's manufacturing base and global trade integration.

Case Study 5: Breadfast – A Homegrown Digital Success Story

Breadfast, founded in Cairo in 2017 by Mostafa Amin and Mohamed Habib, began as a small startup with a simple idea — delivering fresh bread and groceries to customers' doors. Starting with a handful of local bakeries and a limited delivery network, the company combined technology, logistics, and customer-centric innovation to transform daily shopping in Egypt. Over the years, Breadfast has evolved into one of Egypt's most successful e-commerce and delivery platforms, offering a wide range of grocery and household products through its mobile app.

The company's growth reflects the goals of Egypt's SME and entrepreneurship initiatives, especially those promoting digital transformation and innovation. Breadfast attracted international investments, including funding rounds from Sequoia Capital, Shorooq Partners, and 4DX Ventures, allowing it to expand operations in Cairo, Giza, and Alexandria. Its success story demonstrates how a technology-driven SME can scale rapidly, create employment opportunities, and support Egypt's Vision 2030 objective of building a knowledge-based, digitally enabled economy.

Lessons Learned

These cases highlight several key lessons about SME development in Egypt:

- Innovation and Technology as Drivers: Companies like Vezeeta and Fawry show how technology-enabled SMEs can scale rapidly and even become industry leaders.
- Sustainability and Export Potential: Sekem demonstrates the ability of SMEs to compete in global markets when focusing on sustainability and quality.
- Scaling through Professionalization: Arafa Holding illustrates the importance of adopting modern management and leveraging global partnerships to transform from small to multinational scale.
- Role of Ecosystem Support: Access to finance, government incentives, and partnerships with larger institutions are essential enablers for SME success.
- Together, these stories demonstrate the diversity, resilience, and strategic importance of SMEs in Egypt, and their potential to drive innovation, employment, and economic transformation under supportive policies and programs.

Historical Development of SMEs in Egypt

The evolution of Small and Medium Enterprises (SMEs) in Egypt reflects the country's broader economic reforms and policy transformations. Before the 1990s, SMEs were largely informal, family-run businesses concentrated in trade and agriculture, receiving limited government attention. A significant shift occurred in the 1990s with economic liberalization and the establishment of the Social Fund for Development (SFD, 1991) to finance and support small projects. During the 2000s, SMEs gained increased recognition as engines of growth and employment, supported by new financing schemes and donor-led programs. Following the 2011

revolution, SMEs assumed greater importance as a tool for job creation and poverty alleviation amid rising unemployment. A major milestone was reached in 2016, when the Central Bank of Egypt (CBE) launched a large-scale financing initiative obligating banks to direct credit to SMEs at preferential rates. The institutional framework was further strengthened in 2017 with the restructuring of the SFD into the Micro, Small and Medium Enterprise Development Agency (MSMEDA), which became the central authority for SME development. In 2019, the introduction of the Rowad El Nile Initiative emphasized entrepreneurship, innovation, and non-financial support. More recently, the enactment of SME Law No. 152 of 2020 provided tax incentives, simplified procedures, and encouraged formalization. Today, under Egypt Vision 2030, SMEs are positioned as a strategic pillar for inclusive growth, financial inclusion, and sustainable development.

Role of Government Policies and Support Programs

Government policies and institutional support have been central to shaping the development of Small and Medium Enterprises (SMEs) in Egypt. Recognizing their role as engines of growth, employment, and innovation, successive governments and the Central Bank of Egypt (CBE) have introduced a series of initiatives that provide both financial and non-financial support. These programs can be broadly categorized into **core financing and regulatory initiatives** and **supportive consultation and entrepreneurship programs**.

1. Core Financing and Regulatory Initiatives

The most significant policy milestone was the **CBE SME Financing Initiative (2015/2016)**, which provided **EGP 200 billion** in low-interest loans at a 5% declining rate. Under this initiative, banks were mandated to allocate at least **20% of their credit portfolios** to SMEs, a quota later increased to **25%**. By 2021, total financing disbursed under this scheme had exceeded **EGP 400 billion**, underscoring its scale and impact.

Assessing Policy Impact

While these figures demonstrate the scale of public commitment to SME development, the actual impact of these initiatives remains difficult to quantify. Most programs report on the total value of loans disbursed or the number of beneficiaries, but there is limited evidence on deeper performance metrics such as business survival rates, productivity growth, job quality, or export expansion among supported firms. Without standardized monitoring and evaluation frameworks, it is challenging to determine whether financial support translates into sustainable competitiveness or merely short-term liquidity. Developing an integrated impact-measurement system—linking financing data with business performance indicators—would enable policymakers to assess effectiveness, adjust interventions, and ensure better alignment with Egypt Vision 2030 targets.

In parallel, the restructuring of the **Social Fund for Development into the Micro, Small and Medium Enterprise Development Agency (MSMEDA) in 2017** established a unified institutional authority to oversee SME policy. MSMEDA provides financing, technical support, training, and market access, making it the central governmental body for SME development. Furthermore, the enactment of **SME Law No. 152 of 2020** represented a major regulatory reform,

offering **tax incentives, simplified licensing, and measures to encourage formalization**, thereby creating a more enabling environment for SMEs.

2. Supportive Consultation and Entrepreneurship Programs

Beyond financing, the government has also emphasized **non-financial support** to strengthen the competitiveness and sustainability of SMEs. A prominent example is the **Rowad El Nile (NilePreneurs) Initiative (2019)**, sponsored by the CBE in cooperation with universities and banks. This program focuses on entrepreneurship, innovation, incubation, and technical support, with strong emphasis on sustainability, local production, and the green economy.

The **banking sector** has played a complementary role, with major institutions such as **Banque Misr, the National Bank of Egypt, Banque du Caire, QNB, and Al Baraka Bank** providing SME loans and advisory services under the CBE framework. In addition, non-governmental organizations such as the **El Mobadara Association (since 1998)** have supported micro and small enterprises through microfinance and capacity building.

Government agencies such as the **Industrial Development Authority (IDA)** and the **General Authority for Investment (GAFI)** have also launched programs aimed at easing licensing procedures, reducing regulatory barriers, and improving the investment climate for SMEs. Finally, private-sector initiatives and incubators, most notably **Fekretak Sherketak ("Your Idea, Your Company")**, have provided funding, mentorship, and incubation for startups and entrepreneurs, reinforcing the broader ecosystem of SME support.

Contribution of SMEs to GDP, Employment, and Exports

Small and medium-sized enterprises (SMEs) represent the backbone of economies worldwide, acting as drivers of growth, employment, and social stability. Globally, SMEs account for approximately 90% of businesses and generate over 50% of employment according to the World Bank. In emerging markets, SMEs contribute up to 40% of national income (GDP), and this share can be significantly higher when the informal sector is included. Moreover, SMEs are increasingly recognized as engines of innovation, given their flexibility, adaptability to market changes, and ability to absorb labor in both urban and rural settings. In developed economies such as the United States and European Union countries, SMEs are deeply embedded in supply chains, international trade, and advanced technology sectors, which magnifies their economic impact beyond raw numbers of enterprises or employees.

In Egypt, the role of SMEs is equally significant but takes on a different character due to the country's structural conditions. SMEs are estimated to contribute around 43% of GDP and employ more than 75% of the total labor force, making them the largest source of jobs in the country ([Daily News Egypt, 2023](#)). According to MSMEDA, nearly 90% of private-sector enterprises are classified as micro, small, or medium-sized firms ([Ahram Online, 2024](#)). These businesses are essential for reducing unemployment, promoting entrepreneurship, and offering economic opportunities for vulnerable groups, including women and youth. However, while their contribution to GDP and employment is substantial, their participation in exports remains minimal estimated at less than 5% of total national exports. This contrasts sharply with

international benchmarks: in the United States, SMEs account for about one-third of total exports, and in China, they contribute to over 70% of exports (SBE Council, 2024).

Indicator	Egypt	United States	China
SME share of total businesses	≈ 98 %	≈ 99.9 %	≈ 99 %
SME share of GDP	≈ 43 %	≈ 44 %	≈ 60 %+
SME share of employment	≈ 75 %	≈ 46 %	≈ 80 %
SME share of exports	< 5 %	≈ 33 %	≈ 70 %
Access to formal financing	Limited (25 % bank quota)	Broad via SBA	Expanding via digital finance
Policy coordination	Fragmented (multi-agency)	Centralized (SBA)	Centralized (SME Bureau)

Linking SME to Macroeconomic Policy: The performance of SMEs in Egypt is closely tied to the country's broader macroeconomic environment. Monetary and fiscal policies—such as interest rate adjustments, inflation control, and credit allocation—directly influence the cost of financing and investment decisions for SMEs. The Central Bank of Egypt's SME lending quotas and subsidized credit programs illustrate how monetary tools can stimulate private sector activity. However, high nominal interest rates, inflationary pressures, and exchange rate fluctuations often erode these gains by increasing borrowing costs and operational uncertainty. Ensuring consistency between SME support programs and macroeconomic stabilization policies is therefore essential for maintaining growth, enhancing competitiveness, and sustaining private sector confidence.

From Contribution to Challenges: The Reality of SME Performance

Despite the numerous initiatives launched, selected success stories and the contribution of SMEs to employment and GDP highlight their critical role in Egypt's economy and the contribution of SMEs in Egypt is impressive — representing around **43% of GDP** and more than **75% of employment** — these numbers alone do not fully reflect their success. One critical gap is in **exports**. For example, while SMEs in both Egypt and the United States represent a similar share of businesses, in Egypt SMEs account for **less than 5% of total exports**, compared to over **70% in the United States**. This shows that contribution to GDP and employment is not enough by itself; SMEs must also become engines of **innovation, competitiveness, and international trade**.

It is important to remember that many of the government initiatives and policies — such as the Central Bank's financing programs, the creation of MSMEDA, and SME Law 152 — were designed to achieve clear objectives: **greater formalization, improved access to credit, enhanced productivity, and stronger integration into global markets**. However, in practice, many of these objectives have not been fully realized. Most SMEs remain informal, face difficulties accessing finance, and continue to struggle with low productivity and limited exports.

To truly assess whether these initiatives are achieving their intended goals, there must be a clear **benefits realization process** — systematically tracking progress against objectives, measuring actual outcomes, and identifying gaps between plans and results.

This raises an important question: **why have these initiatives, despite their scale and ambition, not succeeded in fully transforming the SME sector?** And this question takes us directly to the next part of our research, (**key challenges facing SMEs in Egypt**) today.

Challenges Facing SMEs in Egypt

The broader objectives of government initiatives and policy frameworks have not been fully realized. Yet, the significance of SMEs in Egypt cannot be fully understood without examining the challenges that restrict their growth and performance. Although they provide most of the employment and a considerable portion of GDP, Egyptian SMEs struggle with financial barriers, regulatory burdens, informality, weak technological adoption, and human capital constraints. Access to credit remains one of the most pressing obstacles, as banks continue to perceive SMEs as high-risk despite central bank quotas. Bureaucratic hurdles and complex legal frameworks discourage many firms from formalizing, leading to an estimated 94% of SMEs operating informally. Furthermore, limited access to modern technology and skills gaps reduce their productivity and prevent integration into international markets. Thus, while SMEs are critical to Egypt's economic stability, the challenges they face significantly hinder their ability to transform into engines of innovation, export growth, and sustainable development.

Financing and Informality Challenges in Egypt

Access to finance remains the single greatest obstacle for SMEs in Egypt, and it is closely intertwined with the issue of informality. Despite efforts by the Central Bank of Egypt (CBE) to improve financing—such as mandating that banks allocate 25% of their loan portfolios to SMEs—the practical implementation has been uneven. Many banks continue to adopt highly conservative lending practices, perceiving SMEs as risky borrowers. They often demand collateral equivalent to 120–200% of the loan value, a requirement that most small businesses cannot meet due to their weak asset base and lack of formal records. Moreover, banks frequently require audited financial statements and detailed documentation that informal businesses are unable to provide. As a result, SMEs are largely excluded from formal lending systems and are forced to rely on family savings, informal credit, or microfinance institutions that usually offer only very small loan sizes. This creates a vicious cycle where SMEs cannot access the capital they need to invest in technology, expand operations, or enter export markets.

At the same time, informality represents one of the defining characteristics of Egypt's SME sector. Most of SMEs operate outside the formal system, without business licenses, tax registration, or proper accounting records. While informality may reduce operating costs in the short term by allowing businesses to avoid taxes and regulatory obligations, it comes at a very high long-term cost. Informal SMEs cannot access bank loans, government procurement opportunities, or international trade channels, which stifles their competitiveness and prevents them from scaling up. Workers in the informal sector often lack contracts, training, or social protections, leading to wage instability and perpetuating low productivity. From a macroeconomic perspective, informality also weakens the state's fiscal capacity, costing billions annually in lost tax revenues, while at the same time creating unfair competition, as formal enterprises face higher costs compared to those operating informally.

The combined effect of these two challenges—restricted finance and widespread informality—creates a structural trap for Egyptian SMEs. Banks are reluctant to lend to firms that cannot prove their financial standing, while SMEs remain informal precisely because the process of formalization is costly and bureaucratic. In countries such as the United States, the presence of the Small Business Administration (SBA) ensures that small firms can access credit guarantees, venture capital, and tailored funding instruments, reducing their reliance on collateral. Similarly, in China, government-led inclusive finance programs, tax incentives, and digital platforms have significantly reduced the barriers to formalization and lowered the cost of borrowing for SMEs, even though challenges remain in relation to biases toward large state-owned enterprises.

By comparison, Egypt continues to suffer from a “dual financing gap”: on the one hand, traditional banks are reluctant to lend to SMEs, and on the other hand, alternative financing instruments such as venture capital, fintech-based lending, and crowdfunding remain underdeveloped.

Regulatory Challenges Facing SMEs in Egypt

One of the major obstacles that SMEs in Egypt face is the complexity of regulations and legal requirements. Despite their relatively small size and limited resources, SMEs are often treated as if they were large corporations. They are required to comply with extensive taxation rules, provide a wide range of official documents, and submit audited financial statements—requirements that are very difficult for newly established or small enterprises to meet. For example, many SMEs are still in their early “introductory” or “baby” stage, where they are struggling just to survive, develop their customer base, and secure minimal financing. At this stage, expecting them to deliver full-scale financial statements or bear heavy tax burdens creates additional pressure and discourages many entrepreneurs from formalizing their businesses. This heavy regulatory environment often causes many SMEs to stall or even collapse while they are still in the foundation stage, before they have the chance to grow. Instead of offering simplified procedures and gradual integration into the formal economy, the current regulatory framework places SMEs under the same umbrella as large companies, which not only increases informality but also limits their growth potential. A more effective approach would be to design a tailored regulatory system that reduces paperwork, introduces tax incentives, and provides flexible reporting standards for SMEs in their early stages, while gradually increasing requirements as they grow.

Human Capital and Workforce Challenges

SMEs in Egypt face deep challenges related to human capital and workforce quality. Although the country has a demographic advantage—with nearly 60% of the population under the age of 30, this large labor force does not necessarily translate into productivity. The education system focuses heavily on theoretical knowledge rather than practical, vocational, or entrepreneurial training, leaving workers under-skilled in technical, managerial, and digital areas. As a result, many SMEs depend on low-cost, low-skilled labor, which limits innovation, reduces competitiveness, and traps firms in a cycle of low productivity. High levels of informal employment further weaken long-term sustainability, as workers often lack contracts, social

protection, and access to training. From the management perspective, many SMEs are family-run businesses with little formal expertise in accounting, marketing, or strategic planning, which restricts their ability to grow beyond the microenterprise level. Although some programs by MSMEDA and NGOs provide training, coverage remains limited compared to the scale of need. By contrast, countries such as China and the United States provide strong vocational training systems and business development centers, offering models that Egypt could adopt to better align workforce skills with SME needs. Without a comprehensive skills development framework, Egyptian SMEs risk remaining stuck in low-value sectors with limited growth potential.

Institutional Governance and Advisory Support for SMEs in Egypt

One of the most critical challenges hindering the development of small and medium-sized enterprises (SMEs) in Egypt is the weakness of institutional governance and the absence of an integrated advisory and consultancy framework. Currently, there is no single dedicated ministry or central authority exclusively responsible for SMEs. Instead, responsibilities are scattered across several government bodies: MSMEDA operates under the umbrella of the Prime Minister's Office, while other related functions are handled by the Ministry of Trade and Industry, the Ministry of Finance, the General Authority for Investment (GAFI), and even the Central Bank of Egypt (CBE). This fragmented structure results in overlapping mandates, bureaucratic bottlenecks, and a lack of clarity regarding which entity is ultimately accountable for SME policies and outcomes. Entrepreneurs often find themselves navigating a maze of agencies, each with different requirements, licenses, and procedures, which discourages many from formalizing their businesses and adds significant time and cost to starting or expanding an enterprise.

The lack of a unified and authoritative body also means that government initiatives targeting SMEs are often implemented in isolation. For example, financing programs may be launched without corresponding training or capacity-building measures, while tax incentives may be introduced without parallel reforms in licensing and registration processes. The absence of a centralized reporting and monitoring system further complicates matters, making it extremely difficult to track the actual performance of SMEs, measure the impact of government interventions, or ensure that financial and technical support reaches the intended beneficiaries. This fragmentation not only reduces efficiency but also limits the ability of policymakers to adjust strategies in response to emerging challenges.

Equally problematic is the lack of a structured national platform for consultancy and advisory services. Many Egyptian SMEs suffer from limited managerial, financial, and technical expertise, especially in critical areas such as strategic planning, marketing, export procedures, financial management, legal compliance, and digital transformation. While MSMEDA, chambers of commerce, and various donor-funded projects offer some degree of support, these initiatives are often temporary, fragmented, and geographically limited, leaving many entrepreneurs without consistent guidance. As a result, many SMEs struggle to scale their operations, integrate into formal markets, or compete internationally. For example, the absence of consultancy support leaves many SMEs unaware of export standards, certification requirements, or opportunities to leverage e-commerce platforms. Similarly, their weak capacity in financial planning prevents them from preparing viable loan applications, reinforcing the cycle of financial exclusion already facing the sector.

By contrast, countries such as the United States and China demonstrate how centralized institutions paired with structured consultancy platforms can create efficiency and growth. In the U.S., the SBA combines policymaking with training and finance, while in China, specialized SME bureaus coordinate policies with industrial clusters and advisory hubs. For Egypt, creating a dedicated Ministry for SMEs—or elevating MSMEDA into a more powerful authority—alongside a national consultancy platform would provide a unified policy framework, improve accountability, and equip entrepreneurs with the knowledge and tools they need to grow beyond survival-level operations.

Key Insights from the Comparative Analysis

1. Financing and Informality Trap

Egypt's Challenge:

SMEs face a dual problem; conservative banking practices demand heavy collateral (120–200% of loan value) and audited statements, while most SMEs remain informal and cannot meet these requirements.

Comparative Insight:

- United States: The Small Business Administration (SBA) reduces collateral requirements through credit guarantees and venture capital.
- China: Inclusive finance programs and digital lending platforms ease borrowing and lower formalization costs.

Implication:

Egypt lags in developing alternative financing channels (venture capital, fintech, crowdfunding), leaving SMEs stuck in a cycle of exclusion.

2. Regulatory Burdens

Egypt's Challenge:

SMEs are subjected to the same heavy regulations, tax rules, and reporting standards as large corporations, despite being in survival or “baby” stages.

Comparative Insight:

Advanced economies design graduated regulatory systems, easing compliance in the early years and scaling obligations as firms grow.

Implication:

Egypt's “one-size-fits-all” regulatory system drives firms into informality and stifles growth.

3. Human Capital & Workforce Gaps

Egypt's Challenge:

Despite a young population (60% under 30), the education system focuses on theory over vocational/entrepreneurial skills. SMEs rely on cheap, low-skilled labor, limiting productivity.

Comparative Insight:

- United States & China: Strong vocational training systems and business development centers align workforce skills with SME needs.

Implication:

Egypt risks keeping SMEs trapped in low-value sectors unless it reforms education and expands targeted skills programs.

4. Fragmented Institutional Governance

Egypt's Challenge: No single ministry is responsible for SMEs functions are split between MSMEDA, Ministry of Trade, Ministry of Finance, GAFI, and CBE. This fragmentation leads to duplicated mandates and poor accountability.

Comparative Insight: United States: SBA centralizes policymaking, finance, and training. China: SME bureaus aligned with industrial clusters and advisory hubs.

Implication:

Egypt needs a dedicated ministry or empowered SME authority with a unified policy framework and monitoring system.

5. Weak Consultancy & Advisory Support

Egypt's Challenge: SMEs lack structured access to consultancy in strategy, finance, marketing, export procedures, or digital transformation. Support exists but is fragmented, donor-dependent, and geographically limited.

Comparative Insight: Global benchmarks show national consultancy platforms help SMEs integrate into export markets, adopt digital tools, and professionalize management.

Implication: Establishing a national consultancy/advisory platform would break knowledge gaps and help SMEs grow beyond survival-level operations.

Summary of Key Findings

- Historical reforms—from the 1991 SFD to the 2020 SME Law—have progressively formalized and financed Egypt's SME sector.
- SMEs are critical to Egypt's economy, contributing **≈43% of GDP** and employing **75% of the workforce**.
- Despite this, their share in **exports is under 5%**, showing a gap between domestic importance and global competitiveness.
- The government has launched several initiatives (CBE financing, MSMEDA, SME Law 152/2020, Rowad El Nile), but **implementation gaps and informality remain barriers**.
- Success stories (Sekem, Vezeeta, Fawry, Arafa Holding) highlight the potential for SMEs to scale when supported by innovation, finance, and partnerships.
- Challenges include **financial exclusion, skills shortages, fragmented governance, limited consultancy access, informality (94% SMEs informal), and low technology adoption**
- Major challenges persist uneven implementation of bank quotas, regulatory fragmentation, pervasive informality (≈ 94 percent), technology gaps, and human capital shortages.

Conclusion and recommendations

Egypt can benefit from examining how other countries have successfully developed their SME:

- United States (Small Business Administration - SBA): Centralized authority provides financing guarantees, training, and structured consultancy, reducing fragmentation and uncertainty for entrepreneurs.
- China: Integration of SMEs into industrial clusters, strong vocational training programs, and government-supported e-commerce ecosystems helped SMEs access global markets and scale rapidly.
- Turkey: Export-oriented SME support, including tax incentives and streamlined customs, encouraged integration into global supply chains.
- Integrated Vocational Training, Germany's dual-education system and China's industry-linked vocational centers ensure that SMEs can tap a pipeline of technically skilled workers, boost productivity and reduce the skills mismatch.
- One-Stop-Shop Formalization, Digital platforms in countries like Rwanda and Singapore allow entrepreneurs to register, license, and file taxes in a single online portal, dramatically cutting time and cost of formalization.

Policy Recommendations for the Egyptian Government

Effective SME support policies worldwide highlight best practices Egypt could adapt:

- Create a Dedicated Ministry for SMEs & Entrepreneurship for centralized authority and accountability.
- Expand Digitalization Initiatives: online tax filing, digital lending, and e-commerce platforms to encourage formalization.
- Strengthen Vocational & Entrepreneurship Education by linking curricula to SME needs.
- Enhance Export Promotion Programs: trade fairs, export financing, and simplified customs procedures for SMEs.
- Decentralize SME Support: Regional SME hubs in governorates to reduce Cairo-centralization.
- Comprehensive Financing Ecosystems: Mix of loans, venture capital, crowdfunding, and microfinance (seen in U.S. and EU).
- Business Development Services: Free/low-cost consultancy centers (e.g., U.S. SBDCs) to support SMEs in marketing, management, and compliance.
- Simplified Regulatory Environment: One-stop-shop business registration platforms (Rwanda, Singapore) cut bureaucracy and encourage formalization.
- Technology & Innovation Support: Incubators and accelerators connected to universities, as in Germany's Mittelstand model.
- Public-Private Partnerships: Collaboration with banks and corporations to fund and mentor SMEs.
- Key Recommendation for Egypt: Adopt a blended approach where financing is tied to capacity building, digital tools, and formalization incentives.
- Roll Out a Tiered Tax Incentive Scheme Offer graduated tax holidays and accelerated depreciation for investments in technology adoption, green upgrades, and export-oriented production.

The findings of this research strongly align with the strategic objectives of Egypt Vision 2030, which emphasizes inclusive, innovation-driven, and sustainable economic growth. Strengthening the SME sector directly supports the Vision's pillars of economic competitiveness, social equity, and environmental sustainability. However, realizing these goals requires not only financial and regulatory reforms but also effective coordination, digital transformation, and measurable impact assessment. By empowering SMEs to become more productive, innovative, and globally integrated, Egypt can transform its Vision 2030 from a policy framework into a tangible engine of national development

References

Ahram Online. (2024). *SMEs account for nearly 90% of private enterprises in Egypt*. Retrieved from <https://english.ahram.org.eg>

Central Bank of Egypt. (2016). *SME financing initiative*. Retrieved from <https://www.cbe.org.eg>

Daily News Egypt. (2023). *SMEs contribute 43% to Egypt's GDP, employ 75% of workforce*. Retrieved from <https://dailynewsegypt.com>

El Mobadara Association. (1998). *Supporting micro and small enterprises in Egypt*. Retrieved from <https://elmobadara.org>

Fekretak Sherketak. (2019). *Your idea, your company: Startup incubator initiative*. Ministry of Investment & International Cooperation, Egypt.

General Authority for Investment (GAFI). (2022). *Investment climate and SME support in Egypt*. Retrieved from <https://www.gafi.gov.eg>

Industrial Development Authority (IDA). (2021). *SME licensing and regulatory reforms*. Retrieved from <https://www.ida.gov.eg>

Organisation for Economic Co-operation and Development. (2025). *SME and entrepreneurship outlook 2025*. OECD Publishing. <https://doi.org/10.1787/19900580>

Rowad El Nile (NilePreneurs). (2019). *Entrepreneurship and SME support initiative*. Central Bank of Egypt. Retrieved from <https://nilepreneurs.org>

SBE Council. (2024). *Facts & data on small business and entrepreneurship*. Small Business & Entrepreneurship Council. <https://sbecouncil.org>

Sekem. (2020). *Sustainability report*. Sekem Group. Retrieved from <https://www.sekem.com>

United States Small Business Administration. (2023). *Small business credit and financing programs*. Retrieved from <https://www.sba.gov>

Vezeeta. (2023). *About Vezeeta*. Retrieved from <https://www.vezeeta.com>

World Bank. (2020). *Small and medium enterprises (SMEs) finance: Improving SMEs' access to finance and unlocking capital*. Retrieved from <https://www.worldbank.org>
<https://www.msme.eg/>

OECD. (2022). *SME and Entrepreneurship Policy in Egypt*. OECD Publishing.