

Conditions for Women Entrepreneurs: Two Policy Cases from Egypt, and Tunisia

Abstract

An analysis of two policy cases in Egypt and Tunisia is presented. In Egypt, a preferential interest rate given to small enterprises for a limited amount of time is discussed. And in Tunisia, the creation of the Startup Act, a package of financial and non-financial benefits awarded to startups working with technology is presented. None of the policies were targeted solely at women. Success factors are identified for each policy and reflections on the implications each policy has on women entrepreneurs are made.

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EXECUTIVE SUMMARY

CONDITIONS FOR WOMEN ENTREPRENEURS: AN ANALYSIS OF TWO POLICY CASES



Two examples of policies aimed at supporting small and medium enterprises in the Middle East are presented with a special focus on their impact on women-owned enterprises. For Egypt and Tunisia, a policy are summarized and success factors and reflections are identified through a review of literature complemented by qualitative interviews with key informants

PREFERENTIAL INTEREST RATE FOR SMEs, EGYPT

5% Interest rates - less than one-third of standard rates - given to qualifying small enterprises

Key success factors

- Firm requirements and incentives on banks to implement policy;
- Strategies to encourage entrepreneurs to formalize their business

Key reflections

- Lack of published gender-disaggregated data limits the study of its impact on women;
- It is unclear whether policy facilitated the start of new enterprises - the impression is that the process is more geared towards existing businesses that already have a favorable financial position;
- Loan approval requirements remain unchanged and hence barriers for women access to financing are not addressed through this policy

THE STARTUP ACT, TUNISIA

Qualifying startups receive tax benefits and facilitated administrative and legal procedures and founders receive financial benefits to pursue entrepreneurial ventures.

Key Success Factors

- Participatory policy-making process in which the policy was drafted and implemented jointly by representatives from the startup scene and the government;
- Set of benefits address key issues facing Tunisian entrepreneurs

Key reflections

- Gender not considered in the design of initiative;
- An estimated 22% of start-ups have a woman as co-founder but lack of gender-disaggregated data limits the analysis;
- Social and cultural challenges facing women still need to be addressed;
- A high level of orchestration between governmental agencies is needed to execute policy

Context and Methodology

Despite an increase in the education of women in the Middle East and North Africa, the economic participation rates for women remain low (Krafft, 2016). In Algeria, Egypt, Jordan, Libya, Morocco, and Tunisia, women represent only 17.9% of the workforce (OECD, 2017). Since women form 48.2% of the population in the Middle East¹, the low economic participation rate places pressure on economic growth. This has been estimated to cost Middle Eastern countries a loss of around 54% of the GDP (Karshenas, Moghadam & Chamlou, 2016). Increasing women's participation in the economy is, therefore, high on the agenda of governments and development organizations.

In the Middle East, almost 80% of jobs are in self-employment, micro, and small enterprises (ILO, 2019). Therefore, supporting the growth of enterprises is vital in order to generate jobs and grow the economy. The Global Entrepreneurship Index which measures the health of the entrepreneurship ecosystem in each country shows that the majority of countries in the Middle East score below 50%, with Egypt and Algeria scoring as low as 26 and 25% respectively and Tunisia faring better at 42% (GEDI, 2018). The Arab World Competitiveness Report in 2018 (WEF, 2018) ranks the most severe obstacles facing entrepreneurs and shows that access to finance, inadequacy of educated/skilled workforce, and business licensing and permits are the top three obstacles. Other obstacles include corruption, labor regulations, and customs and trade regulations. Governments work on implementing policies and initiatives that help remove obstacles that face entrepreneurs.

This paper presents two examples of policies adopted in Egypt, and Tunisia which aimed at supporting small and medium enterprises (SMEs) by either facilitating access to finance, easing governmental procedures and requirements, or increasing the education and support given to entrepreneurs. In Egypt, a preferential interest rate given to small enterprises for a limited amount of time is discussed. And in Tunisia, the creation of the Startup Act, a package of financial and non-financial benefits awarded to startups working with technology is presented. None of the policies were targeted solely at women. Each section starts off by briefly describing the policy, its benefits, how it is implemented and who the key beneficiaries are. Then, success factors are highlighted and reflections on the policy and how it affected women entrepreneurs are presented. It, thereby, aims to contribute to the discussion on how to better support women entrepreneurs in growing their businesses. For the analysis, the paper relied on expert interviews with key informants in each country as well as a review of official government announcements, grey literature, and research and working papers by prominent international organizations and agencies.

¹ Worldbank 2018 Data <https://data.worldbank.org/indicator/SP.POP.TOTL.FE.ZS?locations=ZQ>

Egypt

Policy Description

The banking sector in Egypt has shown an increase in commitment to support small and medium enterprises over the past few years. Since 2017, the share of loans and credit facilities given to small enterprises has risen from 3% to about 5%². On January 6th, 2016 the Central Bank of Egypt (CBE) announced a four-year program that would provide a total of EGP 7 billion (€392 million³) in new credit facilities targeting micro, small, and medium enterprises in Egypt. The program was designed as follows:⁴

- A 5% interest rate for credit facilities given to small enterprises according to the classification of enterprise sizes issued by the CBE (see Box 1)
- A 5% interest rate for credit facilities given to enterprises working in the agricultural, livestock, and fishery field that have a yearly revenue between EGP 250 thousand and 50 million
- A 7% interest rate in credit facilities given to medium enterprises working in industrial, agricultural, labor-intensive, renewable energy or export focused enterprises
- Priority is given to production industries, labor-intensive businesses, and export-focused enterprises

Classification of Enterprises according to the CBE⁵

- **Micro enterprises:**
 - Existing: Revenues less than EGP 1 million (€56000), Employees⁶ less than 10
 - Newly founded: Capital less than EGP 50 thousand (€2800), Employees less than 10
- **Small enterprises:**
 - Existing: Revenues between EGP 1 and 50 million (€56 thousand to €2.8 million), Employees less than 200
 - Newly founded: Capital between EGP 50 thousand and 5 million (€2800 to €280 thousand) for industrial enterprises and EGP 3 million (€168 thousand) for all other enterprises, Employees less than 200
- **Medium enterprises:**
 - Existing: Revenues between EGP 50 and 200 million (€2.8 to €11.2 million), Employees less than 200
 - Newly founded: Capital between EGP 5 and 15 million (€280 to €840 thousand) for industrial enterprises and EGP 3 and 5 million (€168 to €280 thousand) for all other enterprises, Employees less than 200

Policy Success Factors

1. The Central bank implemented a series of policies to incentivize banks to provide such facilities. Among those policies was allowing banks to deduct principal loan amounts given to small enterprises within these initiatives from the minimum required amount of reserves they need to

² See Annual Reports of the Central Bank of Egypt from 2012 to 2018

<https://www.cbe.org.eg/en/EconomicResearch/Publications/Pages/AnnualReport.aspx>

³ Calculated based on an exchange rate of EGP 17.85 to the Euro

⁴ Details of the policy can be found on the Central Bank of Egypt Website under Circulars

<https://www.cbe.org.eg/en/BankingSupervision/Pages/Circulars.aspx>

⁵ As of March 2017. An earlier classification using a four tier classification was valid since December 2016

⁶ Employee numbers are indicative

have. It also directed banks to award a minimum of 20% of their direct and indirect loan portfolio to micro, small and medium enterprises.

The Central Bank also put forth strategies to alleviate some of the requirements on new enterprises to encourage their move from the informal to the formal sector. For example, small enterprises with yearly revenues up to EGP 10 million (€560 thousand) were given a two-year grace period to provide certified financial statements.

Dalia Mosry runs a small enterprise since 2009 that provides electrical and mechanical supplies for petroleum, petrochemical, and electric sectors. She used the 5% loan to increase working capital and buy equipment that enabled her to grow the business by participating in larger tenders. "While this reduced interest rate has helped me grow my sales with about 25% in the last years, the biggest challenge I now face, is that my company can no longer benefit from this 5% rate according to the decision of the Central Bank, and now have to go back to an interest rate of more than triple that amount."



Policy Reflections

- This program did not specifically target women. While women have benefited from this initiative, challenges that women face in accessing financial assistance are well-documented (ILO, 2016) and it would be worthwhile to look into programs that are directed at women.
- Sex-disaggregated data by the Central Bank of Egypt or by commercial banks on the use of the loans is not publicly available. Key informants in this research have indicated that such information is being gathered by the banks and the central bank. It would be beneficial to publish such data in order to help the research in women entrepreneurship promotion.
- It is not evident to what extent this initiative facilitated the start of new women-owned small enterprises. Key informants interviewed shared their concern on the rigidity of requirements related to credit guarantees and a healthy history of cash flows and profits. Therefore, it begs the question of whether interest rates alone would be sufficient to encourage the use of loans as a means to grow or start a business in Egypt. With limited statistics available on the number of new enterprises versus existing enterprises that benefitted from this initiative, it is difficult to corroborate or explore this finding further.
- While this initiative lowered the interest rate and incentivized banks to give credit facilities to small and medium enterprises, it did not attempt to change the requirements on enterprises to get approved for a loan. A recent paper by the Economic Research Forum that studied a sample of SMEs from Egypt, Morocco, and Tunisia to study the imbalance between supply and demand of loans concluded that interest rate actually plays no role in the demand for loans (Berguiga & Adair, 2019). However, it found that collaterals had a strong impact on banks' decision to grant a loan. It, therefore, would be beneficial to address other challenges enterprises, especially women-owned enterprises, have accessing financing.

Tunisia

Policy Description

On the 4th of April 2018, the parliament of Tunisia passed the Startup Act law in an effort to boost the number of startups that are in the technology sector. The initiative is part of the “Digital Tunisia” Strategy launched by the Ministry of Communication Technologies and Digital Economy which aims to make Tunisia a destination for startups in the region. Under this scheme, the following benefits have been given to entrepreneurs and enterprises for up to eight years since the establishment of a startup⁷

Entrepreneur Benefits

- 12-24 month leave of absence from public/private employers for up to three founders
- Up to three founders are given a living wage for 12 months funded by the national employment fund

Enterprise Benefits

- 100% subsidized patent registration fees locally and globally
- Tax Benefits in the form of exemptions on reinvested earnings and Value Added Tax
- Facilitated foreign currency bank procedures
- Access to a startup investment guarantee fund
- Corporate tax exemption and government-subsidized social security contributions
- An online portal that is a single point of contact for administrative and legal procedures

Qualifying Criteria

- Enterprise has been in operation for no more than eight years
- Enterprise a yearly turnover of less than TDN 15 million (€4.75 million⁸) and a number of employees less than 100
- Two thirds of the enterprise is owned by individuals or investors or foreign startups
- Enterprise needs to have a technology and innovation focus
- Enterprise needs to be scalable and contribute to economic growth

To qualify for the benefits, startups need to apply to receive the label of a “startup”. The label is granted by a 9-person committee formed by members of the private and public sector who are active in the entrepreneurship and digital innovation sphere. The label is granted for six months initially provided the last two conditions are met and is confirmed if the remaining conditions are met within that period. A total of 152 startups have been awarded the label in 2019⁹.

⁷ Details of the benefits and requirements are published in the decree published by the Tunisian government here <https://www.mtcen.gov.tn/index.php?id=startupact&L=2> and on <https://www.startupact.tn>

⁸ Calculated based on an exchange rate of TDN 3.16 to the Euro

⁹ The Startup Act publishes results on their website <https://www.startupact.tn/resultats.html>

Policy Success Factors

1. The process that resulted in the creation of the Startup Act was a collaborative process between a group of Tunisian entrepreneurs and the government that started as early as 2015. The group of 70 entrepreneurs who drafted the Startup Act lobbied and advocated for the creation of a legal framework that supported the growth of tech startups¹⁰. Such a cross-sectional bottom-up approach is a good example of cooperation between the government and the business sector to create favorable policies and regulations (Sold, 2018).
2. The Startup act addresses access to credit challenges, provides incentives to entrepreneurs, and reduces and eases bureaucratic requirements and processes all of which are key issues facing the Tunisian entrepreneurship sector (Belkacem & Mansouri, 2012). Moreover, it provides entrepreneurs with a safety net to enable them to pursue their entrepreneurial ambitions without jeopardizing their paid employment.

Policy Reflections

- The policy does not specifically target women. Key informant interviews uncovered that gender was not under consideration in the design of this initiative under the assumption of equal opportunity which is guaranteed by the Tunisian constitution¹¹. This passive approach regarding women when it comes to Tunisian entrepreneurship programs was highlighted in an evaluation of women entrepreneurship development by the ILO (ILO, 2017). It would be worthwhile to apply gender-based analysis and assess how this policy affects women.
- Out of 129 enterprises awarded the startup label between March and September 2019, 22% have at least one woman as a co-founder and two enterprises are fully founded by women¹². The government in Tunisia and the Startup Act website do not publish gender-disaggregated data for this initiative, which enables only a limited analysis of gender.
- While this policy addresses access to finance – which is a big hurdle for women – it does not address the social and cultural challenges facing women. Both the GEM Report for Tunisia (Belkacem & Mansouri, 2012) and the ILO’s Women Entrepreneurship Assessment (ILO, 2017) highlight the need to address these problems in order to motivate women into entrepreneurship. Complementary work to address these issues is needed.
- The Startup Act is a good step forward for Tunisian entrepreneurs, however, issues such as financing and access to market are still challenging according to the key informants interviewed.
- The level of orchestration needed in order to deliver all the benefits to the entrepreneurs places heavy requirements on the implementation of the policy as pointed out by key informants. For example, in order to enable startups to have a single online interface that is a one-stop-shop for all government processes, there needs to be a large back-office operation that links all administrations together.

¹⁰ The inception of the Startup Act is explained in detail on The Startup Act website <https://www.startupact.tn/>

¹¹ Article 46 of the Tunisian constitution guarantees equal opportunities between men and women.

¹² Data was obtained by analyzing the list of startups published on the Startup Act’s website

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