



## The Role of the Most Important Financial Institutions in the Development of Small and Micro Agricultural Projects in Egypt

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UNEMPLOYMENT and poverty in Egypt are the main problems that the Egyptian economy is experiencing in the labor market at present. So development and rural development in particular are essential, where the rural is the backbone of the Egyptian society to achieve social security and still represents the rural about 60% of population sentence in Egypt in 2016. Therefore, the problem of the study was poverty, hunger and unemployment, where the unemployment rate reached about 13% of the total population.

The research aimed to study the sources of financing small and micro enterprises, as well as the role and importance of financing institutions in the development of small and micro enterprises such as loans, facilities provided, the number of projects, projects types.

The results of the study showed that 85% of the jobs available in the economy through small and micro enterprises. The Ministry of Social Solidarity is the least resource in terms of the cost of the job opportunity, which amounted to about 2950.67LE for the job opportunity. All sources finance micro projects except the Small Enterprise Development Authority and the Agricultural Bank of Egypt are funded small and micro projects. The number of projects financed by the Small Enterprise Development Authority since its inception is higher than the number of projects financed from all other sources of financing.

Therefore, this study recommends encouragement of the financing sources mentioned above because its' projects are characterized by increasing the net profit and return.

**Keywords:** Small and micro agricultural projects, Unemployment, Poverty, Financial institutions.

### Introduction

The latest United Nations statistics show that 815 million people around the world do not find enough to meet their food needs and about 767 million people still live on less than 1\$ a day, despite global efforts to combat the scourge of poverty to reach 3% by 2030 (El Dinasouri et al., 2013). The rates remain high in several countries, Egypt is one of the countries that live obsessed with the spread of poverty among citizens, where about 30 million of Egyptians fall below the extreme poverty line, in addition to the number of unemployed to 3.5 million, according to official statistics from the Central Agency (2016), statistics also indicate the

percentage of the poor in Egypt increased from 25.2% in 2011 to 26.3% in 2013 to reach 27.8% in 2015. Unemployment and poverty in Egypt are the main problems that the Egyptian economy is experiencing in the labor market at present. These problems are serious because the success of economic reform policies depends primarily on the creation of productive jobs to achieve a human standard of living appropriate to the Egyptian society, (Hassan, 2008), through development and rural development in particular, where the rural is the backbone of the Egyptian society to achieve social security and still represents the rural about 60% of population sentence in Egypt in 2016 (El-Gendy et al., 2014).

### *The study problem*

Despite the many national projects that the state is establishing and the establishment of programs to help the poor, such as attempts to reduce poverty, hunger and unemployment and their repercussions, they still pose a threat to the lives of the Egyptian society, where a large percentage of them are unable to provide their daily sustenance as a result of the application of austerity and float policy. However, such measures have not taken concrete steps and reduce the increase of poverty and unemployment at least at present (Abdel Karim et al., 2013), where the unemployment rate reached about 13% of the total population, 9% unemployment rate among males, 24% for females. Unemployment rate for the category that read and write reached about 5% and for the university category reached about 21%, which means that the university category most in need of employment and job opportunities which can approach by helping them in the establishment of small or micro projects. It also reduce the poverty rate suffered by Egypt, which amounted to about 28-30% of the total population in 2017 (Central Agency, 2007-2017). The Central Agency for Mobilization and Statistics in Egypt defined poverty as a situation where the individual or family can provide basic food needs, while the World Bank has shown poverty around the world, as the situation where the per capita income lower than 600\$ annual. Especially with the increasing population in Egypt, in 2017 it reached about 104 million people, while in 2006 it was about 72.8 million. It is expected to reach 140 million people by 2030, according to the statistics of the Central Agency (Central Agency for Public Mobilization and Statistics, 2007-2017).

### *The study objective*

Small and micro enterprises represent about 80% of the total projects in Egypt. Therefore, the study aims to study the sources of financing small and micro enterprises and also the role and importance of financing institutions in the development of small and micro enterprises through the study of loans and facilities provided, the number of projects financed and types of these projects, the categories of beneficiaries and targeted, the number of jobs available, the cost of employment and comparison among these institutions in terms of achieving the goal of the development of small enterprises, create jobs and reduce unemployment, to improve living standards for the owners of these projects.

### **Method and Data Source**

The study was based on published and unpublished data from the Central Agency for Public Mobilization and Statistics, the Small Enterprise Development Authority, the Agricultural Bank of Egypt, the Local Development Fund and the Ministry of Social Solidarity, during the period from 2007-2017 and use the method of descriptive and quantitative analysis. In addition to some economic indicators which were done in the study of small projects and some statistical analysis tools such as averages, percentages, the number of projects, job opportunities, the opportunity cost and conducting the economic feasibility study for some projects which funded by the Small Enterprise Development Authority in 2017 and calculation of the net yield, return on capital, the payback period and the interpretation of these relationships and results.

The definition of a small project in accordance with the law of development of small enterprises issued in 2004 (Shura Council, 2004) is each company or individual establishment that carries out an economic activity, production or service and the capital allocated to it does not exceed one million pounds and the number of employees does not exceed fifty workers. Also the definition of micro projects is these projects the capital does not exceed fifty thousand pounds, regardless of the number of employees (Economic Research Forum, 2004).

#### *Sources of financing small projects in Egypt*

1- Banks: Bank of Cairo, Bank of Misr, Nasser Social Bank, Agricultural Bank of Egypt, which we will address in detail as a bank specialized in agricultural finance).

2- Non-governmental organizations (such as associations).

3- Development and non-development financing institutions (Small Enterprise Development Authority- Local Development Fund- Ministry of Social Solidarity).

### **Results**

Table 1 shows that the status of small, medium-sized and micro enterprises in Egypt through the most important funding sources until 2017.

**TABLE 1. The status of small, medium-sized and micro enterprises in Egypt through the most important funding sources until 2017.**

Serial	Number or value	Statement
1	2.4 million	Microenterprise establishments
2	6.3 million	Workers in microenterprises
3	40.5 billion pounds	Total wages for workers in micro enterprises
4	6 thousand pounds	Annually the average wage of the worker in the micro enterprises
5	1.2 million	Micro projects funded by the Enterprise Development Authority only
6	4.7 thousand	Number of small projects in Egypt
7	322.6 thousand	The number of workers in these small projects
8	8 billion pounds	Total wages for workers in small enterprises
9	25 thousand pounds	Annually the average wage of the worker in small projects
10	10 4.7 thousand	Medium-sized enterprises
11	323 thousand	Workers in projects average
12	85%	Of the jobs available in the economy through small and micro enterprises

Source: Central Agency for Public Mobilization and Statistics - "Reality of Small, Micro and Medium Enterprises in Egypt", 12/2017

Table 2 shows that the Ministry of Social Solidarity is the lowest source of labor cost. Where it reached about 2950.67 pounds for the one job opportunity. All sources finance micro projects only, except the Small Enterprise Development Authority and the Agricultural Bank of Egypt finances micro and small projects. The number of projects funded by the Small Enterprise Development Authority since its inception is higher than the number of projects financed from all other sources of financing as shown in the Table 2, where it increases by 29.32%. Moreover, the value of loans extended by it is about 67.74% over other sources combined and the number of job opportunities increases by 70.08% from other sources. The Ministry of Social Solidarity is the highest source of funding for women's projects (73%), most of which are for productive family projects, local development fund (58%) and Nasser Social Bank (55%).

Table 3 shows the number of projects and the value of job opportunities for small projects during the period (2007-2017). The Agricultural Bank of Egypt is the highest source of funding in terms of the number of projects implemented during this period, where the number of projects reached about 200 thousand projects with a financing value

of about 1.6 billion pounds, The number of job opportunities provided was about 285 thousand jobs and the cost of the one job opportunity reached about 5.6 thousand pounds. The Ministry of Social Solidarity came in the second rank with a number of projects amounted to about 171 thousand projects, with value about 700 million pounds, and the available job opportunities reached about 224 thousand opportunities, at a cost of about 3 thousand pounds for the one opportunity.

*Economic feasibility of some small agricultural projects funded by the Small Enterprise Development Authority in 2017*

The feasibility study for some small agricultural projects funded by the Small Enterprise Development Authority in 2017 (Table 4) is revealed that the sheep fattening projects is the highest in terms of net profit and then fattening poultry and cows projects where the net profit of the fattening sheep project about 24.45 thousand pounds, then fattening poultry amounted to about 22 thousand pounds, while the fattening of cows was about 2.26 per one calf and the return on capital of these projects was about (25%, 22% and 24.5%), respectively, which shows that the high return of these projects and they are economically feasible.

**TABLE 2. The role of the most important sources of financing small and micro enterprises in Egypt since its establishment until 2017.**

Year	Source of funding	Financing value (per billion pounds)	Number of projects (thousands)	Number of jobs (per thousand)	Cost of employment (LE)	Types of funded projects	Women projects %
Since its establishment in 1992	the Small Enterprise Development Authority	22.66	5600	709.18	4046.43	Commercial, service, industrial, animal production only, free professions sector	50%
Since its inception in 1979	the Local Development Fund	0.503	127.85	162.55	3078.099	All rural development projects (The value of the loan does not exceed 20 thousand pounds)	58%
Since 1992-2017	Ministry of Social Solidarity	2.54	102	1200	2950.67	Environmental, rural and productive families projects (the value of the loan does not exceed 10 thousand pounds)	73%
Since 2000-2017	Agricultural Bank of Egypt	1.57	122	135	11629.63	Agricultural sector projects only	36%
From 1998-2017	Nasser Social Bank	1.7	159.43	178	9550.56	Ownership of production means, production projects, income improvement projects	55%

Source: Compiled and calculated from data published in the Small Enterprise Development Authority, Local Development Fund, Ministry of Social Solidarity, Agricultural Bank of Egypt, and Nasser Social Bank.

**TABLE 3. Number of projects, the value of financing and the number of job opportunities for small projects through the most important sources of funding for the average period (2007-2017).**

Source of funding	Number of projects per thousands	The value of financing per million	Number of job opportunities per thousands	Cost of opportunity per thousands
Ministry of Social Solidarity	171.34	700.12	223.95	2.95
Small Enterprise Development Authority	170.22	1200.67	266.88	4.46
Local Development Fund	61.521	23.93	6.521	3.078
Agricultural Bank of Egypt	200.96	1604.3	285.02	11.63

Source: Compiled and calculated from data published in the Small Enterprise Development Authority, Local Development Fund, Ministry of Social Solidarity, Agricultural Bank of Egypt, and Nasser Social Bank.

**TABLE 4. Economic feasibility of some small agricultural projects funded by the Small Enterprise Development Authority in 2017.**

Project	Loan source	Loan value per pounds	Project capacity	Total costs per calf per pounds	Total revenue per calf per pounds	Net profit per calf per pounds	% return on capital	Payback period
Cattle fattening (caw)	Enterprise Development Authority	190000	In the course 20 cattle head (120 days) Year 3 courses	20488	22755	2267	24.5	2.97 years
Project	Loan Source	Loan value per pounds	Project capacity	The total annual costs of the project per pounds	The total annual revenues of the project per pounds	Net profit per pounds	% Return on capital	Payback period
Sheep fattening	Small Enterprise Development Authority	35000	50 sheep per year	36000	60 450	24450	25	1.47 years
Poultry fattening	Small Enterprise Development Authority	170000	5000 chicks per course (45-day course) 10% lost and tunnel-weight (2500-2600kg) in 45 days, 5 cycles per year, Breeds (hybrid- cup 500 - rus)	161000	183000	22000	22	0.8 years
Apiaries	Small Enterprise Development Authority	21000	100 cells	10915	17850	6935	23.8	1.57 years

Source: Feasibility data were calculated through a questionnaire with some small projects owners in 2017.

*Some of the problems which faced small projects owners financed from the above sources of funding:*

- 1- High interest rate.
- 2- Short grace period and length of administrative procedures.
- 3- Not to take care of the training of the borrower to gain experience on the project to be implemented.
- 4- Lack of confidence between the borrower and the financier due to default due to the high interest rate on the loan.
- 5- Failure to provide advice and assistance in case of default and hasty legal action.

#### **Recommendations**

Therefore, the study recommends the development of an effective plan to overcome

these problems, or the establishment of non-profit development institutions to provide a good loan, so that small rural enterprises can achieve the expected goals, in terms of achieving the goal of developing small enterprises, providing job opportunities, reducing the unemployment rate, poverty and improving the living standards of the owners of these projects and achieving development.

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## دور أهم المؤسسات التمويلية في تنمية المشروعات الزراعية الصغيرة والمتناهية الصغر في مصر

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تعتبر البطالة والفقر في مصر من أهم المشاكل الرئيسية التي يعاني منها الاقتصاد المصري داخل سوق العمل في الوقت الراهن، ويمكن التصدي لها من خلال التنمية، والتنمية الريفية بالذات حيث يعد الريف العمود الفقري للمجتمع المصري لتحقيق الأمان الاجتماعي، وما زال الريف الذي يمثل نحو 60% من جملة السكان في مصر عام 2016.

لذا كانت مشكلة الدراسة هي الفقر والجوع والبطالة بالرغم من المشروعات القومية العديدة والمتنوعة التي تقوم الدولة بإنشائها وإرساء برامج لمساعدة الفقراء، كمحاولات للحد من الفقر والجوع والبطالة، حيث بلغ معدل البطالة حوالي 13% من إجمالي السكان.

واستهدف البحث دراسة مصادر تمويل المشروعات الصغيرة والمتناهية، وايضا دراسة دور وأهمية المؤسسات التمويلية في تنمية المشروعات الصغيرة والمتناهية الصغر من خلال دراسة القروض والتسهيلات التي تقدمها، وعدد المشروعات التي تم تمويلها وأنواع هذه المشروعات، والفئات المستفيدة والمستهدفة، وعدد فرص العمل المتوفرة وتكلفة فرصة العمل، والمقارنة بين هذه المؤسسات من حيث تحقيق الهدف وهو تنمية المشروعات الصغيرة وتوفير فرص عمل وخفض معدل البطالة وتحسين المستوى المعيشي لأصحاب هذه المشروعات.

واتضح من نتائج الدراسة أن 85% من فرص العمل المتوفرة في الاقتصاد من خلال المشروعات الصغيرة والمتناهية، وأن وزارة التضامن الاجتماعي أقل المصادر من حيث تكلفة فرصة العمل حيث بلغت حوالي 2950.67 جنيه لفرصة العمل، جميع المصادر تمويل مشروعات متناهية الصغر فقط ما عدا جهاز تنمية المشروعات الصغيرة والبنك الزراعي المصري تمويل الصغيرة والمتناهية الصغر. عدد المشروعات الممولة من جهاز تنمية المشروعات الصغيرة منذ انشائه أكثر من عدد المشروعات الممولة من جميع مصادر التمويل الأخرى.

لذا توصي الدراسة بالإهتمام بتمويل المشروعات السابقة الذكر لأرتفاع صافي الربح والعائد منها، وخفض سعر الفائدة وإعادة النظر في فترة السماح، وتدريب المقترض حتى لا يتعثر المشروع، بالتالي يمكن تحقيق الهدف من انشاء هذه المؤسسات التمويلية التنموية.