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EGYPTIAN INDUSTRIALIZATION SURVEY:  
SOME SALIENT ASPECTS.\*

VC/EGY/73/059 .

ARAB REPUBLIC OF EGYPT

Volume III:  
Small-scale industries.

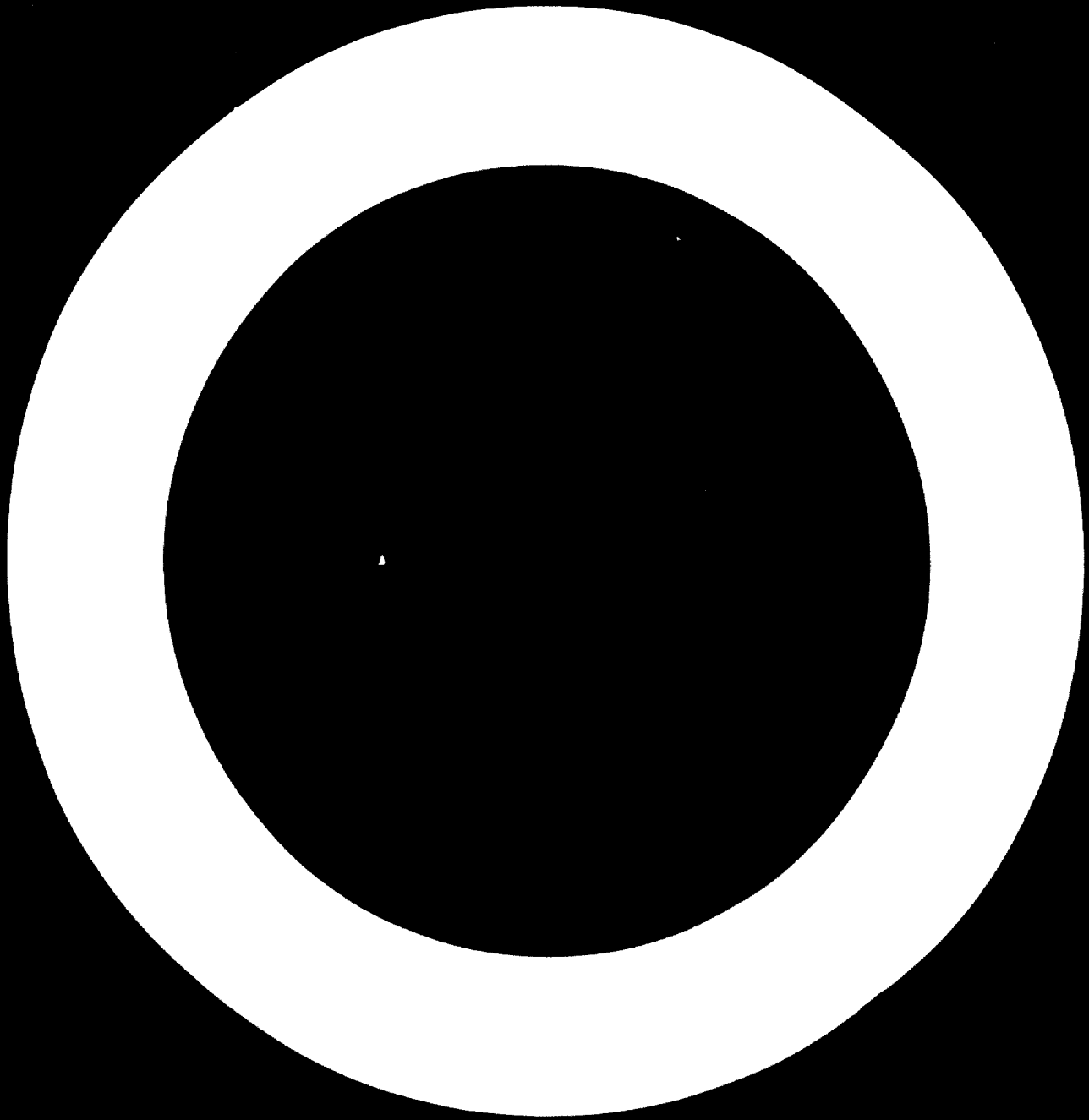
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Prepared for the Government of the Arab Republic of Egypt  
by the Institute of National Planning, on behalf  
of the United Nations Industrial Development Organization

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## PREFACE

This is one of a series<sup>1/</sup> of four studies on some aspects of industrial development in Egypt undertaken by the Institute of National Planning (INP) in Cairo at the request of the United Nations Industrial Development Organization (UNIDO). It is expected that these descriptions of the Egyptian experience will prove useful to developing countries at all levels in formulating industrial programmes and setting policies to achieve development goals. They may also be of interest to developed countries and international organizations, giving them a better perspective of the fields of activity covered by their different types of programmes.

The present study deals with the economic, financial and institutional characteristics of small industries in Egypt, with special attention to the footwear and wood furniture industries as case studies. Given the importance of the role of small industries in the manufacturing sector with regard to output, value added and employment, the study highlights the basic problems and policies within the framework of overall industrial development.

The data for this study were obtained from many sources: papers, bulletins, periodicals. Visits were made to selected establishments to acquire first-hand information about the problems, potentials and prospects of the sector.

The study was prepared under the supervision of Maurice Macramalla, Director of the Social Planning Centre and Acting Director of the Industrial Planning Centre, INP. Two INP Industrial Planning Experts were charged with the analysis of data and preparation of the study, Raafat Shafik Besada, who was responsible for chapter I of the first part and the entire second part, and Mandouh Fahmy El-Sharkawy, who was responsible for chapters II and III of the first part. Ragas Abdel-Rassul Hassan of the INP Agricultural Planning Centre translated the study to English from the Arabic.

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<sup>1/</sup> The other three studies published under symbol UNIDO/IOD.189 deal with the following aspects: Volume I with "The structure and organization of the Egyptian manufacturing industry since 1945", volume II with "Manufactured exports - development since 1950 and their future prospects" and volume IV with "Transfer and adaptation of technology".

In preparing this study, the writers benefitted from the constructive assistance extended by many experts who are in close contact with the problems of small industries particularly in the following organizations:

General Organization for Industrialization (Small Industries Department)  
Bank of Alexandria (Research Department)  
Ministry of Social Affairs (Productive Families Project)  
Ministry of Local Administration

The authors wish to express their thanks to all individuals who extended their assistance during the course of the study, especially to M. Fahmy, Secretary General of the INP, and his assistants, who efficiently handled administrative and other matters.

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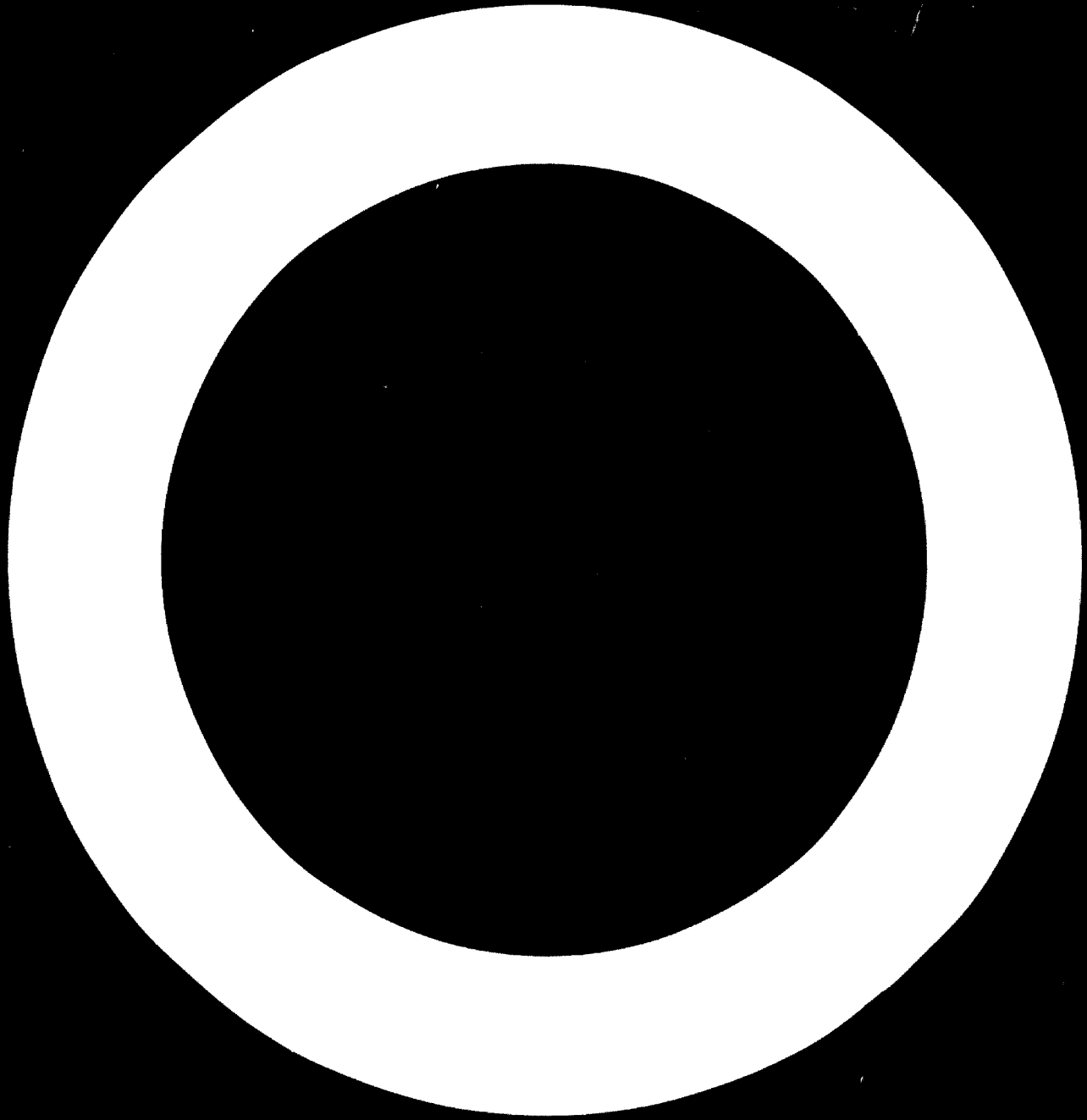
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Part one

SMALL-SCALE INDUSTRIES IN THE ARAB REPUBLIC OF EGYPT

Introduction

Developing countries exert their utmost efforts to develop in order to erase features of underdevelopment and to improve the living standards for their people.

Most of these countries have followed the path of industrialization and placed industrial development plans at the centre of modern economic development as a basic requirement to solve the problems they face. These countries have to choose between different development strategies to formulate their economic policies and plans accordingly.

Most developing countries tended in their development strategies to build up large industrial bases and directed their investment programmes to establish large-scale productive units in their belief in the crucial role that such industries can play in economic and social development.

No one can deny that industrialization is a key factor in the economic development process. Moreover, basic industries offer prospects of promoting other industries, medium and small-scale, and of stimulating their development. Yet, these large-scale industries are characterized by a large and complicated organization for which technicians and highly-skilled labour are needed. In addition, considerable time and investment is required for such capital-intensive industries.

Some economists and planners called for giving more interest to small- and medium-size industries, particularly during the early stages of industrial development, as they are characterized by relatively small capital requirements and higher employment potentials. Establishing and promoting such industries suits the conditions of developing countries which suffer from the scarcity of capital and market constraints for large-scale production.

however, it is not a matter of choice between alternatives when one compares small- and large-scale industries for each has its concomitant impact on the economy. Development of both is desirable as industrial development can be accelerated if the interrelationships between the two are recognized.

Small-scale industries should be given due interest and support to help productive units acquire technical, financial or marketing resources, to provide the environment for the establishment of new enterprises within the overall framework of industrial growth.

This study deals with the place of small industries in the Egyptian economic set-up in an effort to acquire a better understanding of problems and obstacles that hinder its growth. The study attempts to investigate the following basic issues:

- (a) The experience of the A.R.E. in the development of small-scale industries;
- (b) General problems and policies which are facing the development of small industry in A.R.E.;
- (c) Financial problems and the role of financial institutions and policies in the development of small-scale industry.

In order to carry out such an investigation, it requires delineating the conceptual framework of this industry in order to identify and discuss problems and recognize the role that local and foreign institutions can play in assisting and stimulating these industries in the future.

In order to identify problems and obstacles that are hindering the growth of small-scale industry, and assessing its relative importance, a field study was carried out in the form of a sample survey for two of the important industries, i.e. footwear and wooden furniture.

## I. THE EXPERIENCE OF A.R.E. IN THE DEVELOPMENT OF SMALL-SCALE INDUSTRIES

Before discussing the experience of the A.R.E. in developing small-scale industries, the conceptual aspects of small industries should be outlined. Small industries represent a branch of industrial activity that has basically a manufacturing nature for the production of economic goods (and not services) through the transformation of economic resources to the form of manufactured goods. This activity takes place in numerous small enterprises with a limited number of workers and its products are basically handicrafts, or semi-mechanized that do not require much complicated machinery or know-how.

Under this concept, several forms of small-scale industries can be categorized as:

(a) Productive factories: which take the form of small factories or workshops that utilize modern machinery; their "small" nature is related to the smallness of their productive capacity, limited employment and relatively low capital investment. Their products are either consumer goods or intermediate goods that serve as inputs for the production of final goods in large enterprises;

(b) Crafts industries: which involve a craftsman in activities that require manual or artistic skills and employ a number of assistants who do not follow specialization or division of labour in transforming inputs to goods that reflect the craftsmanship and manual dexterity with the least possible utilization of machinery or equipment. This type is classified as small industry by its very qualitative nature of products regardless of its size, capital, or employment. Within this category are found what can be termed "environmental industries" in that the climate of the region (e.g. desert or coastal) is important. Local skills in using local materials are utilized for manufacturing products that have a "regional" nature to fulfill the needs of local or surrounding communities;

(c) Rural industries: which are represented in industries that are established in rural areas with the objective of processing local materials, such as dairy industry (cheese and butter), soap, glue, glycerin, detergents, manufacturing of straw, plant leaves and bamboo;

(d) Household industries: which are practiced within the household and utilize the efforts and skills of members of the household particularly housewives. Though they do not depend on machines as such, they require simple machines such as sewing machines, knitting tools etc.;

(e) Productive family industries: which represent the transformation of the household into a productive unit in which members of the family join to improve their standard of living economically and socially. The production process is characterized by simplicity, by using simple tools and implements, and by being performed in the household. Therefore it is not related to capital requirements.

The small-scale industry sector in the A.R.E. embodies all these concepts and forms.

#### A. Definition of small industries in the A.R.E.

Due to the multi-dimensional concept of small industries as discussed in the previous section depending on nature, site, entrepreneurs etc., there is no single acceptable, or agreed-upon definition for small industries. The following is a review of several definitions from different points of view:

(a) Ministry of Social Affairs' viewpoint. Small industries are those that transform raw materials available in a certain place to goods available for fulfilling domestic consumption or export needs at competitive prices. They utilize medium-type mechanical techniques and employ a relatively limited number of workers;

(b) Ministry of Agriculture's viewpoint. Small industries are those crafts that an individual, male or female, does practise spontaneously. It may be inherited from ancestors, neighbours, or villagers in areas where agricultural raw materials are available in rural environments. These industries provide for living support;

(c) Ministry of Industries' viewpoint.

(i) Organization for Productive Cooperation and Small Industries: Small industries are those practised in small enterprises of limited employment size. The products are manual or semi-mechanical in nature and do not need

for their production anything but simple equipment. These industries are often scattered in the rural and urban areas, and are inherited or handed down from fathers to sons<sup>1/</sup>;

(ii) Department of Industrial Control: Small industries include factories and workshops that depend on manual dexterity or utilize simple tools, with capital investment less than LE 5,000 and employment size less than 10 persons including owner, workers, assistants and apprentices;

(d) Ministry of Planning's viewpoint:<sup>2/</sup> Small industries in Egypt take three forms:

(i) household industries in which the production process is performed in the household and which are classified by nature of products without a need for any size specifications;

(ii) Environmental and crafts industries that carry out manufacturing of goods or performance of services of an environmental or craft nature in small factories that depend mainly on basic craftsmanship with the minimum use of machines. These also are classified by nature of products and do not call for size specifications;

(iii) Modern small industries in which production processes are based on modern machinery or engineering workshops. The identification of this group depends on the size of the enterprise, with distinction made between two basic types:

- small factories: in which the number of workers does not exceed 50.
- medium factories: in which the number of workers ranges between 51 and 300.

The above review indicates that there is no clear-cut and agreed-upon definition among agencies and organizations concerned with the small industries activities, despite the lengthy discussions and conference held specifically to promote the industry. The importance of the existence of such a definition stems from the fact that it provides a conceptual framework toward identification, organization and promotion of these industries.

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<sup>1/</sup> Egyptian Organization for Productive Cooperation and Small Industries, Cooperative Production and Small Industries, Book I (Al. Shaab Printing House, 1962) p.17.

<sup>2/</sup> Ministry of Planning, Small-Scale Industries Studying Committee, formed by Ministerial Order No. 12 on 18 January 1967.

B. The definition problem and its repercussions on the identification of small-scale industries in the A.R.E.

The definition problem represents a basic essence identifying the small industries' sector in the A.R.E. in order to assess its problems. For the purpose of present study, a definition of small industries is needed. It has to take into account the basic approaches that were implied in the previously reviewed definitions. These approaches can be summarized into three broad lines as follows:

(a) First approach, which implies the application of either capital or employment size criterion in defining small industries. Practical experience indicates that capital size is a major element in identifying small industries to avoid the inclusion of large-capital enterprises in the small industries group which are in a position to dominate and direct the industries' programmes to serve its own interest that categorically differ from those of small enterprises. Once the capital size is determined, employment also is determined accordingly as it will necessarily be related to capital;<sup>3/</sup>

(b) Second approach, which expands the definitional scope for both capital and employment size in an overlook to the future of the industry and what should be included within its lines in order to increase its role in the national economy. As for employment size, this approach might be suited to the conditions prevailing in A.R.E. due to the rapid expansion in the labour force,<sup>4/</sup> and the labour-intensive nature of small industries. Once expansion in employment size is considered, appreciable help can be given to those enterprises with larger employment size.

The enlargement of capital size in the definition is based, under this approach, on the intent to encourage small industries to utilize modern machines and implements to reduce human efforts exerted, and increase productive efficiency for workers in addition to quality improvement for production;

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<sup>3/</sup> Agency for Rural and Crafts Industries and Productive Co-operation, unpublished study.

<sup>4/</sup> Mohamed El-Tawil, "Our position with regard to excess labour", Al-Amal, No. 105, Feb. 1972, p.18 (in Arabic).

(c) Third approach, which advocates employment size as the sole criterion and sets a maximum of 100 workers as the limit. This approach is based on the following:

- (i) The case in obtaining employment data as entrepreneurs and managers have to report number of workers on which the raw materials quota is based;
- (ii) The social security legislation requires reporting employment data;
- (iii) Most small industries consider the size of its operation of a confidential nature, e.g. its capital;
- (iv) Capital size will necessarily be less than LE 8,000 for that is the upper limit for initiating an industrial enterprise without getting the permit of industrial planning authority (General Organization for Industrialization).

In the light of these three approaches, small industries in the present study can be defined as follows:

Small industries are those industries that practise their productive activities within small enterprises for which employment size is less than 100 workers and capital is less than LE 8,000.

This definition, in its essence, embodies small industries that produce consumer and intermediate goods as well as crafts industries, whether environmental, rural, or household types.

### C. Importance of small industries in Egypt

#### Historical retrospection

Small industries have occupied a prominent position in Egypt since the pharaeonic ages as witnessed by the marvellous monuments of stone, ceramic and glass bowls, sculptures and wooden coffins. Brass items were also found in the form of pots or jewellery, metal works chariots and religious symbols. Other products included linen cloth, leather belts, straw mats, baskets, ropes, in addition to papyrus making.<sup>5/</sup>

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<sup>5/</sup> Mohamed I. El-Seahy and A. Raouf Nasr, History of Pharaonic State (Cairo, Ministry of Education, 1968).



During the middle ages, particularly during the Abbasiah state era, wood industries, metals, textile, ceramics, engraving and incrustated wood works, and embroidery flourished. Under the Fatimed Dynasty, these industries and others made remarkable progress.

Later, under the Ottoman control of Egypt, industry suffered a setback when the Ottoman rulers collected skilled workers in all fields of industry and sent them to the Ottoman's capital, which reflected the full bloom of these industries at that time.

During the era of Mohamed Ali, small industries laid the foundation for a new industrial base in the fields of weaving and spinning, paper, soap, oils, cords, fezzes, and glass industries. The Mohamed Ali's era was followed by a long period of foreign occupation under which industry in general was not encouraged. Rather Egypt became a supplier of agricultural raw materials.

By the beginning of the present century, interest in small industries flourished again, and population censuses showed an increase in number of workers for these industries by some 20% between 1917 and 1927. This trend continued after 1930 and gained more government's support through the reduction of tariffs.<sup>6/</sup>

hence forward, national capital was encouraged to venture into industry in general and small industries in particular until the outbreak of the 1952 revolution.

#### Small industries in Egypt after the 1952 revolution

Despite the importance of small industries for Egypt, no specific programmes were designated for their promotion in the pre-revolution period, with the exception of training youth for crafts industries in the workshops of the Ministry of Social Affairs and the rural industrial training for periods that were too short to provide basic training programmes.

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<sup>6/</sup> A.A. El-Gritly, The Structure of Modern Industry in Egypt, pp. 555 - 567.

After the revolution, attempts were made to outline a clear policy aiming at the promotion of that sector. The first endeavour was to put small industries under single governmental supervision, for which the Ministry of Social Affairs was designated. The Ministry of Agriculture was charged with supervising small industries related to rural economic development. On the other hand, the ministries of local administration and labour associated their efforts to create a new generation of workers trained in industrial workshops in order to suffice the needs of these industries.

In a firm belief of the role of small industries in the Egyptian economy, the first five-year industrialization programme 1960/61 - 1964/65 included the allocation of certain investments for these industries within the overall framework of the industrial plan. In 1960 a specialized organization was established to design and formulate the small industries' sector policies and to provide assistance and support.<sup>1/</sup>

To attain more stability for the sector the General National Conference of the Arab Socialist Union in its second regular session in March 1969 recommended the establishment of a general organization for the promotion of crafts industries, and this organization came into existence according to the Presidential Law No. 2020 of 1969.

Finally, with the aim of relating the sector to the national plan it was envisaged that the supervisory agency should be capable of undertaking needed research work and studies to formulate development plans and follow up its implementation. The Presidential Law No. 890 of 1973 was issued to establish the Agency for Crafts Industries and Production Co-operation.

D. Economic importance of small industries in the A.R.E.

Small industry represents a major branch in the manufacturing sector in the A.R.E. The 1964 census indicated that the total number of industrial enterprises amounts to 393,608. Out of this number about 93.1% are small enterprises which employ less than 10 workers. The total number of employed

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<sup>1/</sup> See Presidential Arrêté No. 2348 of 1960 creating the General Egyptian Organization for Cooperative Production and Small Industries.

in these enterprises reached 167,000 or some 27% of the total industrial employment.

Enterprises with an employment size of 10 to 50 workers represent 5.9% of the total number of industrial enterprises with total employment of about 108,000 or some 15.5% of the total industrial employment.<sup>8/</sup>

These figures indicate that there exists a wide sector embodying a large segment of workers and providing a sizable production. Table 1 shows the value of production of that sector during the period from 1969/70 to 1971/72 according to industrial activity.

In addition, the small industries sector contributed to national exports of various industrial products. The value of its exports amounted to about LE 13.5 million in 1969/70 as can be seen from Table 2. It is expected that exports will realize further increase during the plan period (1970/71 to 1974/75) so that total exports reach some LE 27.1 million by the end of the plan period.

The contribution of this sector in national value added differs according to the type and scope of industrial enterprises, i.e. small industries in the weaving and spinning sector contribute to value added in a way different from that made by food industries or chemical industries. The value added includes wages, benefits, rents, and interests which differ from one activity to the other. Table 3 shows the magnitude of contribution in value added made by these enterprises according to type of activity during the three-year period from 1969/70 to 1971/72.

Figures shown in Table 3 indicate that the sector's contribution to industrial development has increased from LE 112.2 million in 1969/70 to LE 134.2 million in 1971/72, and is expected to reach LE 144 million in 1974/75, the end of the five-year plan.

#### E. Government policies for promoting small-scale industries

The A.R.E.'s experience in the field of small industries promotion goes far back in the past, as the sector possesses a special importance for the national economy due to its distinguished characteristics with regard to high absorptive capacity for employment with limited capital requirements particularly

<sup>8/</sup> Naguib Mouselhy, "An evaluation of programs of rural and non-rural craft industries policy in the first five-year plan in the A.R.E.", master thesis, Faculty of Agriculture, Alexandria University, 1971.

Table 1. Value of production of the small industries manufacturing sector, 1969/70-1971/72 (million LE)

Type of Industry	1969/70	1970/71	1971/72
Weaving and spinning	115.4	123.9	131.3
Food	101.9	103.1	105.5
Chemical	25.1	31.3	31.9
Metal	5.6	6.3	6.7
Mechanical	19.6	21.4	21.8
Electrical	3.4	3.2	3.4
Wood	3.2	3.4	3.5
Leather	19.4	25.4	32.7
Straw, bamboo and palm leaves	1.9	1.9	1.9
Construction materials	8.5	9.3	9.6
Total	304.0	329.2	348.3
Total value of production for manufacturing sector	2,178.5	2,202.0	2,325.0

Source: "Basic features of the role of the private sector in the forthcoming industrialization plan, 1970-1975", General Organization for Industrialization, unpublished report.

Table 2. Development of exports of the small industries sector,  
1969/70 - 1971/72  
(thousand LE)

Type of industry	1969/70	1970/71	1971/72
Weaving and spinning	2,539	2,972	4,422
khan-El-kalili products	1,115	1,047	1,733
Leather goods	5,648	5,867	6,043
Wood	2,060	3,527	2,644
Metallic	84	120	194
Chemical	892	1,915	1,763
Food	830	691	588
Construction materials	7	15	17
<b>Total</b>	<b>13,247</b>	<b>16,195</b>	<b>17,428</b>

Source: "Basic features of the role of the private sector in the forthcoming industrialization plan, 1970-1975", General Organization for Industrialization, unpublished report.

Table 3. Value added contribution of small industries' activities  
1969/70 - 1971/72  
(million LE)

Type of industry	1969/70	1970/71	1971/72
Weaving and spinning	43.0	46.9	50.8
Food	33.0	36.1	39.1
Chemical	7.6	8.3	9.6
Metallic	1.9	2.0	2.3
Mechanical	6.4	7.0	7.6
Electrical	0.9	1.0	1.1
Wood	10.2	11.1	12.0
Leather	6.0	6.5	7.1
Straw, bamboo and palm products	0.9	1.0	1.1
Construction materials	2.3	3.2	3.5
<b>Total</b>	<b>112.2</b>	<b>123.2</b>	<b>134.2</b>
<b>Total value added for manufacturing sector<sup>a/</sup></b>	<b>502.2</b>	<b>558.5</b>	<b>591.3</b>

Source: "Basic features of the role of the private sector in the forthcoming industrialization plan, 1970-1975", General Organization for Industrialization, unpublished report.

<sup>a/</sup> Evaluation for economic development in the A.R.E., (Cairo, Ministry of Planning, several years).

with regard to the foreign exchange component. Given that background, it can be stated that small industries were forming the basic feature of industrialization in Egypt before the trend toward heavy industrialization was initiated in the late fifties and early sixties. The following is a review of investment programmes that were implemented during the period 1960 - 1965, and touch upon the governmental policies for the establishment of new institutions as well as the improvement of existing ones, as a measure to promote and develop the small-scale industries.

Small industries projects in the first five-year plan 1960 - 1965, and the second five-year plan 1965 - 1970

During the planning era, the state allocated certain amounts of investment to the small industries sector with the aim of establishing new productive units in different activities, and allocating investments for the establishment of the Small Industries Institute to provide technical and economic advisory services in a belief of the importance of the scientific approach to achieve growth in the sectors' activity. Funds were also made available to start a new experiment in the A.R.E. for promoting small industries and creating industrial estates. The plan included a project for the establishment of an industrial centre at Damietta. The total cost of the projects included in the plan amounted to LE 6.4 million; if the funds that were allocated for credit services were added, the total cost would reach some LE 8.4 million.

Some of these projects started production by the end of the first five-year plan, others were continued by the following five-year plan which concentrated on the following basic objectives:

- (a) Completion of the small industries institutes;
- (b) Completion of the first-plan programmes with regard to dyeing and finishing plants;
- (c) Establishment of the first stage of the industrial estate in Mansoura for which total costs were estimated to be about LE 335,000; developed as a measure to promote small industries and a pilot project that can be undertaken in other governorates if proved successful.

Table 4 shows the projects that were included in the first-five year plan and those that were completed and started production by the end of the plan period. Others were transferred to the second five-year plan.

Projects of the first five years of the National Action Programme, 1973 - 1977

In the light of the experiences accumulated in the field of development and promotion of crafts industries, a plan for the first five years of the National Action Programme was prepared for crafts and productive co-operation, taking into account concentration on the least number of projects that envisage nature of the crafts and the present and future ability to make a contribution to improve the balance of payment and production of intermediate products needed for large industries and particularly manufacturing industries.

The following is a summary of the new projects included in that plan:

Footwear industry

	<u>Number</u>	<u>Total cost (thousand LE)</u>
Soles manufacturing units	3	135
Shoe factories services workshops	4	106
Testing and development centres for footwear industry	<u>3</u>	<u>233</u>
	10	474

Furniture industry and wooden products

Wood drying units	3	157
Furniture manufactures' services workshops	5	203
Testing and development centres for furniture industry	<u>3</u>	<u>213</u>
	11	573

Metal products industries

Tool workshops	3	157
Metal painting workshops	3	66
Thermal treatment and mechanical testing	<u>3</u>	<u>106</u>
	9	329

Industrial Estates

Second stage of industrial estate of Mansoura	1	900
Multi-story industrial estate for footwear industries	2	250
First stage of metal industries estate for feeding industries	<u>1</u>	<u>300</u>
	4	1,450
Equipment for leather, wooden furniture and metallic products industries	1	50
Funds for promotion	<u>1</u>	<u>50</u>

Gross total 36 2,926

The establishment of co-operative marketing agencies

Twenty industrial co-operatives were established at the capitals of governorates in the A.R.E., to each of which was attached a centre for industrial marketing that was held responsible for the provision of inputs of small industries on the governorate's level and for the disposal of its products on the local level.



Table 4. Small industries projects in the first and second five-year plans  
(thousand LE)

	Projects included in the plan		Projects that started production before 30 June 1965			
	No. of projects	Total cost	No. of projects	Total costs	No. of workers employed	Value of production in 1964/65
Leather	1	13.2	1	13.2	-	-
Straw and bamboo	2	13.2	2	13.2	27	5.4
woollen yarn	3	567.5	-	-	-	-
Manual weaving	13	176.8	10	136.6	130	16.0
Dyeing and finishing	6	279.2	3	139.5	-	-
Carpets and rugs (Kleem)	18	218.3	18	218.3	94	47.3
khan-El-khalili production	5	132.1	4	104.6	80	23.0
Maintenance units	15	1,494.1	15	1,494.1	480	296.3
Palm leaves and karina	15	167.6	14	138.2	106	29.5
Straw mats	3	1.6	3	1.6	12	2.2
honey	14	33.8	12	29.3	23	2.2
Lairy products	5	18.1	5	18.1	13	9.0
Palm products	3	1,022.0	-	-	-	-
Female works	63	79.8	61	78.1	119	11.9
Tanneries transfer	1	1,100.0	-	-	-	-
Small Industries Institute	1	506.5	-	-	-	-
Coop. Indust. Estate at Damietta	1	5.0	-	-	-	-
Glass factory	1	42.0	1	42.0	-	-
Movable diosel units	1	51.0	1	51.0	-	-
Construction plates	1	502.3	-	-	-	-
Credit	1	2,000.0	1	2,000.0	-	-
<b>Total</b>	<b>173</b>	<b>8,424.1</b>	<b>151</b>	<b>4,477.8</b>	<b>1,084</b>	<b>442.8</b>

Source: Fuad Gibriel, "Industrialization for village development", Egyptian Village Promotion Conference, April 1969.

A general marketing co-operative was established in Cairo to supervise marketing activities carried out by governorate's co-operatives, and to serve as a headquarters for regional marketing centres. It was a basic objective for this general products co-operative to perform marketing processes for products internally on the country's level and externally by carrying out export functions for which productive units are not qualified.

Table 5 shows sales made through the governorates marketing centres and the general marketing centre during the period 1964/65 - 1969/70.

Table 5. Sales activities of marketing centres, 1964/65 - 1969/70  
(thousand LE)

	Year					
	64/65	65/66	66/67	67/68	68/69	69/70
Governorates marketing centres	2,471	2,650	1,703	1,696	1,487	1,690
General marketing centre	<u>2,949</u>	<u>2,654</u>	<u>2,079</u>	<u>934</u>	<u>945</u>	<u>590</u>
Total	5,420	5,304	3,822	2,630	2,432	2,280

Source: General Organization for Industrialization, unpublished report.

#### Establishment of co-operative production agencies

The state has shown interest since 1956 in assisting production co-operatives that were existing at that time and were supervised by the Ministry of Social Affairs. There were 60 co-operatives with a total capital of LE 107,318 and a membership of 13,669. However, the lack of financial as well as technical facilities was reflected in the performance of these co-operatives in assisting its members.

Throughout the period 1960/61 to 1969/70, the Ministry of Industry was concerned with the reorganization of productive co-operatives and formation of its administrative and supervisory bodies, in addition to the establishment of new co-operatives for different industries with the objective of developing these industries through collective action of small manufacturers, in such a way as to protect their interests and enable them to secure their needs of inputs directly without interference of middlemen.

The General Egyptian Organization for Co-operative Production and Small Industries was established in 1960<sup>9/</sup> to supervise, organize, and develop the small industries' sector. The organization was to carry out the following tasks:

- (a) Formulation of productive policy and identification of its objectives for the co-operative sector;
- (b) Formulation of the sectors' development plans and provision of financial and technical support;
- (c) Organization of marketing activities to provide protection for small producers from being exploited by middlemen.

Development of supervisory agency for productive co-operatives

In accordance with the recommendations of the National Conference in its second regular session in March 1969, and in awareness of the small industries sector development, a plan for financial reform was set for the supervisory agency, the General Egyptian Organization for Co-operative Production and Small Industries. The Organization was transformed into a General Organization for the Promotion of Crafts Industries<sup>10/</sup> to carry out central planning for the sector and design policies for its development. Since the establishment of the new organization its activities revolved around the following tasks:

- (a) To survey craftsmen and small industries and classify them as a basic step to identify their needs in all fields;
- (b) To supply local and imported inputs through governorates' marketing centres and specialized productive co-operatives at suitable times and at required levels of quality;
- (c) To co-ordinate the distribution sector and productive units, so that the latter can devote themselves to productive activities, through the conclusion of advance production agreements and distribution in order to avoid excess stock accumulation;
- (d) To distribute export contracts between capable productive co-operatives for implementation;

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<sup>9/</sup> Established according to Presidential Arrêté No. 2346 of 1960.

<sup>10/</sup> See the Presidential Law No. 2070 of 1969.

(e) In the light of the difficult financial situation of productive co-operatives and their lack of liquidity to face operational expenses, several measures were taken to expedite the credit procedure for these co-operatives and to reduce interest rates on granted loans.

(f) To evaluate the co-operative production approach in footwear and leather industries as a pioneer experiment. Priority was given to these industries due to the relative weight of their products and capacity that can make an effective contribution in realizing a segment of non-traditional exports. It was planned that other industries will follow within the co-operative production framework.

The new structure and the establishment of the Agency for Crafts Industries and Productive Co-operation

In 1973 the Agency for Crafts Industries and Productive Co-operation was established according to Presidential Law No. 890 of 1973 to perform two basic activities:

(a) Planning and research related to the field of crafts and small industries; this includes the following functions:

(i) To follow-up the execution of plans and general policies formulated by the high committee for planning and supervision of crafts and small industries;

(ii) To carry out research and studies for production and development of the sector with participation of field workers;

(iii) To secure current and investment finance;

(iv) To formulate co-ordinated plans in association with concerned agencies to market the industry's products internally and externally;

(v) To prepare requirements and suggest the distribution criterion between producers;

(vi) To set forward studies needed for the determination of required foreign exchange quota for importation of the sector's needs of raw materials.

For that purpose the structural system of the Agency provided for the establishment of branches for each industry such as leather and footwear research branch, wood and furniture research branch, manual weaving, carpets and rugs research branch etc.

(b) Supervision of the productive co-operative sector; this includes the following functions:

- (i) To survey and to classify craftsmen and small industries owners and organize them into co-operatives or industrial estates in association with other concerned agencies;
- (ii) To formulate training programmes for craftsmen and small industries entrepreneurs;
- (iii) To suggest the general policy for productive co-operative and formulate plans for its activity to complete the productive co-operation set up;
- (iv) To organize participation in local and international exhibitions and fairs;
- (v) To collect and analyse data and information concerned with productive co-operation;
- (vi) To organize conferences for members of co-operatives and their workers;
- (vii) To provide technical and administrative services for the sectors' units;
- (viii) To participate with concerned departments in setting up social security regulations for small industries' workers;
- (ix) To supervise a productive co-operation department on governorates' level.

## II. GENERAL PROBLEMS THAT FACE SMALL INDUSTRIES DEVELOPMENT

### A. Role of infrastructure in small industries development

One basic problem that hinders the progress and development of small industries in Egypt is the technical infrastructure available. Two basic items can be explicitly specified: transportation and energy.

#### Transportation

##### Importance of transportation in small industries promotion

Transportation involves the handling of raw materials and inputs from its original sources to the industrial location on one hand and the movement of final products from factories and workshops to consumption centres. The availability of suitable and efficient transportation systems has a remarkable impact on the locational distribution of industries through its being a basic variable in cost determination and accordingly sales price on both the factory and the market levels, which is a decisive factor in the product's competitive ability in the market.

It is well established that suitable transportation services can perform a vital role in development and concentration of industry in general. Moreover, it is considered a basic factor for realizing the decentralization in creating and promoting small-scale industries for the following reasons:

(a) Large productive enterprises established by public (government) investments are usually located near large cities that are or can be connected by a transportation network. Small-scale industries do not have such an advantage;

(b) Several craft and small industries particularly in rural areas start their productive activity based on utilizing available local materials and have a limited scope for local distribution of their final products. The development and promotion of these industries necessitate the expansion of the market and these products are compatible in competition with similar

products manufactured by large enterprises in the new markets. Moreover, there are some small industries whose existence depends on the provision of raw materials that are physically far from a specified location. Inadequate transportation limits the enterprise's competitive ability due to the impact of higher transportation costs on the final product's total cost;

(c) Small industries are usually established and created by individual investments. Due to the limited working capital of enterprises, the speed of turnover becomes very important in promoting existing industries and creating new ones;

(d) The efficiency of the transportation network is a determining factor in the flow of raw materials, in avoiding idle capacity, in the need for keeping large inventories, and in marketing.

#### Development of transportation projects

Transportation for industrial purposes includes water, road and rail transport. Water transport is by far the cheapest means of transportation; however, its use for small industries is quite limited, for it is confined to transporting raw materials and large-size items that can endure lengthy shipping time. Moreover, navigable water-ways connect a limited number of production and consumption centres and may not suit the need of small industries.

Railroad transportation can play an effective role in the promotion of small-scale industries, but several problems limit the contribution of this transportation mode. First, railroad lines are not adequately extended to all regions particularly rural areas, which is a problem related to capital requirements and economic operation of railroad lines. Second, cargo rates are determined by the shipment's weight and distance in such a way that these rates are relatively higher for light-weight items that are transported over short distances and vice versa. Such a situation may limit the small-scale industries' ability to expand its markets due to the fact that transportation costs represent a large percentage of total costs for manufactured products that are usually shipped in small quantities and for short distances. Third, railway shipping usually is done by special trains running at extended time intervals. This kind of a shipping schedule is usually inappropriate for small-scale industries that need speedy arrival of raw materials and final goods to production and consumption centers. Delays in shipping result in additional storage costs, which in turn increase prices of raw materials and final products.

Road transport represents the most effective means for the creation and promotion of decentralized small-scale industries. Its flexible nature enables small-scale industries to achieve:

- (a) Expansion of market scope by reaching distant markets;
- (b) Possibility of creating small industries in locations close to cheap raw materials that have not been utilized because of transportation difficulties;
- (c) Flexibility in obtaining raw materials and in distributing final products to the markets in a short period of time and with volumes that suit conditions of small industries.

It can be seen from table 6 that, in spite of the rapid expansion in the lengths of road during the period between 1961 and 1972, unpaved roads are still counting for the majority of roads, as these represent 53.6% of total roads in 1972. Unpaved roads provide the basic link between villages within the rural areas and the urban centres. They are held responsible for the ineffective utilization of trucks and are jeopardizing efforts for decentralization of small-scale industries.

### Energy

#### Importance of electric energy for small industries' development

The availability of adequate energy sources is considered the second basic factor in a big push toward decentralization of small industries. Many small-scale industries that are located in remote areas particularly in the rural sector confine their activities to traditional types of products that depend on manual workmanship. Development and identification of these industries are also tied to the availability of energy sources.

Whenever electric power is introduced and supported by an efficient transportation system, there is no doubt that small-scale industries can benefit from economies of scale to a great extent in terms of being in a comparative advantage in terms of production cost. Rural electrification in Japan for instance, enabled the country to establish a large base of modern small household industries that benefited from relatively cheap cost electrical power.



Table 6. Development of road lengths, 1961-1972  
(in kilometres)

Year	Asphalt paved	Unpaved tracks	Total road lengths	Index number for total lengths
1961	6414	13554	19968	100.0
1962	7047	15241	20288	101.6
1963	7642	13156	20798	104.2
1964	8302	12960	21262	106.4
1965	9125	12333	21458	107.4
1966	9197	12261	21458	107.4
1967	9204	12314	21518	107.8
1968	9244	12322	21566	108.0
1969	9434	12282	21716	108.7
1970	11223	11900	23123	115.8
1971	11764	13889	25653	128.4
1972	12191	14202	26393	132.1

Source: General Organization for Roads and Bridges, Cairo, 1973.

### Development of electricity generation in Egypt

The generation of electric power in Egypt during the period 1952-1972 has increased from 92.9 million kWh in 1952 to 524 million kWh in 1972 or by 464%. This remarkable increase is attributed to the huge investments that were allocated to the electrical sector, which amounted to LE 400 million during the period from 1952 to 1969/1970.<sup>11/</sup> The potential for promoting decentralization of small industries does not only depend on the volume of electric power generated but also on its distribution to all regions of the country and rural areas in particular.

As for rural areas, in spite of the remarkable expansion in electrical generation and consumption during the period 1952-1972, the impact of this development on the rural areas is still modest in terms of its share. The annual average per capita consumption of electric power is only 5 kWh.<sup>12/</sup> This is attributed to the fact that out of the total number of 5,500 villages that embrace 22.5 million inhabitants only 992<sup>13/</sup> villages were electrified, or some 18% of the total number of villages.

It becomes evident that a major obstacle in promoting small industries in different governorates and rural areas is the uneven distribution of electric power.

#### B. Technology selection, training, and technological progress

##### Choice of technology and training requirements

The productive activity of small-scale industries takes the form of handicrafts in its initial stage of development. This situation is fostered by the limitedness of the local market in which demand exists for low-income consumers. As income and standards of living improve, the need for the development of such industries becomes quite acute. Furthermore, the

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11/ Ministry of Electricity, "Plan for the National Action Program for Electrifying the Arab Republic of Egypt", Cairo, 1973 (in Arabic).

12/ Ibid.

13/ Ministry of Electricity, "General organization for rural electrification", Follow-up report, 1970.

expectation of wider markets requires that these industries improve their products in order to be competitive with large enterprises. As a result, the development of such industries through the introduction of improved technology becomes a prominent need.

The technical and economic feasibility related to the choice of technology is quite important due to the multiplicity of techniques with different capital requirements that can be adopted. The sound choice of a viable technology requires studying several aspects from both the economic and technical points of view, the most important of which are:

- (a) Trends of domestic and foreign demand for the product, amount of output of large enterprises, the nature of product being manufactured from local raw materials and dependence on intermediate products of large enterprises;
- (b) Availability of services, particularly those concerned with maintenance;
- (c) Factors affecting production costs, such as capital interest, power, wage rates, raw materials etc.;
- (d) Contribution of different technological alternatives in helping achieve important social objectives such as employment, production, and economic surplus;
- (e) Choice between alternative techniques based on economic and marketing investigation on the impact of each of these alternatives throughout each stage of manufacturing, type and nature of needed skills, and capital requirements.

The decision concerning the choice of technology requires, therefore, the availability of detailed data on viable techniques, adaptation procedures and requirements of small industries in the framework of the objectives of economic development in general. The lack of a choice of technology for small-scale industries in Egypt and adaptation of such technology to local conditions represents a major obstacle for these industries to contribute to economic development objectives. Basic reasons are the following:

- (a) It is difficult, if not impossible, for small entrepreneurs to carry out technological studies for adaption of techniques due to their incapability on the one hand and shortage of information with regard to alternative techniques on the other;
- (b) Several institutions do exist with the purpose of carrying out studies at no expense. However, these studies are of a general nature and tackle the problems of industry at large, and hardly deal with topics related to choice of technology for specific small-scale industries;

(c) There are private and public profit-making research institutions that are capable of undertaking research work, but they are not within the reach of small-scale industries for obvious economic reasons;

(d) Small-scale industries are supervised by a multiplicity of bodies each of which is concerned with carrying out work studies.

The lack of able and qualified personnel seriously affects the usefulness of such studies as well as modest budget appropriations. A co-ordinated programme of research would be of utmost importance for efficient utilization of such limited research resources.

The development and promotion of small-scale industries largely depends on the availability of adequate skilled labour, management and entrepreneurship capable of undertaking technological changes. To resolve this problem, a variety of approaches has been tried among which are the Training Centre of the Productive Efficiency and Vocational Training Department. Small-scale industries face serious problems that hinder taking full advantage of training efforts, the most important of which are<sup>14/</sup>:

(a) Tools used in training units differ greatly from those used in production;

(b) The distance of training centres from industrial concentrations and their inadequate number and distribution;

(c) Lack of technical experience and leadership in the training and consultative bodies;

(d) Lack of co-ordination between training agencies for small-scale industries and research units;

(e) Only one institute exists to qualify trainers and consultants, and it faces several problems and hinderances;

(f) Training centres do not grant training certificates or documents indicating the type and nature of training the trainee has acquired, and as a consequence deprive the trainee of his right for such a document indicating his efficiency and skill level on which his wage is based;

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<sup>14/</sup> The General Egyptian Organization for Co-operative Productive and Small Industries, "Problems of smalls industries and handicrafts in the U.A.R.", First Afro-Asian Conference for the Promotion of Small Industries, Cairo, 1969, p. 524.

(g) A conflict between training schedules and working hours which leaves workers in small enterprises with two options: training without pay, or quitting training which is the most common;

(h) Lack of adequate financial resources at the centres disposal;

(i) The low educational level of the majority of workers;

(j) Lack of appreciation of the importance of vocational training in spite of the efforts exerted by the mass media in this regard;

(k) The weak link between the worker and his small-scale enterprise, besides a lack of financial resources, might be responsible for the reluctance of enterprise owners to continue paying wages during training periods, since trainees may not return to the same enterprise after training.

#### Technological research

Technological research for small-scale industries aims at improving productive efficiency for those industries and, therefore, covers a number of activities that are related to adapting new technology to the local economic and social conditions, including the introduction of new techniques of production, new uses for local raw materials, and developing the utilization pattern of existing materials. Research is also concerned with the provision of consultation in the fields of maintenance of machinery, lowering production costs, product quality improvements, studying the movements and timing of productive operations in order to improve productive efficiency through attaining better performance rates, and the introduction of new products.

Technological research in Egypt is carried out on various levels:

(a) Universities and technical institutes carry out research work that rarely deals with small-scale industries, because research studies undertaken are basic research, whereas the real need of small-scale industries is for applied research at a very practical level;

(b) Large enterprises undertake research studies either with their own research units or through contracts with specialized research bodies. However, the results of such studies are of little advantage for small-scale industries because of the difference in types of technological problems or because of the difficulty of securing available information;

(c) The General Egyptian Organization for Co-operative Production and Small Industries, in association with the United Nations special fund, established an institute for small industries, for the purpose of promoting and enhancing these industries. The institute included research units and was equipped with implements and machinery together with local and foreign experts. The basic objectives of the institute included research undertaken with regard to the introduction of products adapted to local and foreign markets, improvement of small-scale industries' productive efficiency through undertaking field studies of technical problems that these industries face, substitution of local materials for imported ones, economic evaluation of small-scale industries, identifying sources and economic uses of raw materials, adaptation of imported equipment to local conditions. The institute carried out some important studies during a short period of time before its research activities terminated in 1969.

C. Securing raw materials, marketing, and role of co-operatives

Securing raw materials

In the absence of data related to the raw material shortage problem for small-scale industries, a rapid review of this problem for different public sector industries might be helpful. In 1966/67, the shortage of raw materials in some industries of the public sector was the major cause for under-utilization of capacity. The idle time caused by raw material shortage was 54.3% in the chemical, 46.8% in the engineering, 26.1% in the food, 24.3% in the wooden construction and ceramics, 12.2% in the weaving and spinning and 5.4% in the milling industry. One could conclude that the problem is more acute for small-scale industries to the extent that it hinders its ability for development as it is highly related to the financial problems of small-scale industries.

Local raw materials

Small industries suffer from shortages in local raw materials for the following reasons:

(a) In many instances, local production falls short of fulfilling the requirements of all industries. Under such a condition some sort of quota system could be applied for fulfilling the basic needs of large-scale and small-scale industries. However, in most cases the assigned quotas do not suffice the needs of the smaller industries;

(b) Numerous small-scale industries that are located in rural areas and particularly in remote areas have difficulties in securing raw materials due to the lack of an adequate transportation network, and are compelled to secure these needs through traders at blackmarket prices, which are more than the officially fixed prices leading to higher production costs;

(c) Small-scale industries are often unable to secure their needs for large quantities of raw materials on a wholesale basis due to financial difficulties and therefore are deprived of discounts. Repeated small purchases result in higher average prices;

(d) Some industries utilize raw materials having a seasonal nature of supply. Financial shortages limit the ability of small-scale industries to secure and stock their year-round needs. In such cases the enterprise depends on suppliers who use their monopolistic position to advantage.

#### Imported raw materials

Small-scale industries suffer from shortages in imported raw materials, and this is due to:<sup>15/</sup>

(a) Inadequately allocated foreign exchange quotas and inaccuracies in setting specifications for imports;

(b) Delays in transferring payments to foreign suppliers;

(c) Lack of co-ordination in setting arrival schedules;

(d) Lack of economic studies of markets and product substitutes;

(e) Inadequate programmes for substituting imports by locally produced materials;

(f) The dominance of large units in terms of fulfilling their needs of the imported materials which means that whatever is left is for small-scale industries;

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<sup>15/</sup> U.A.R. Union of Industries, Industrial Egypt, No. 3, July/September 1969 (in Arabic).

(g) Small-scale industries are in no position to keep abreast of the latest developments in the raw material industries and, therefore, frequently stick to certain materials that are no longer in use;

(h) The small quantities imported can discourage exporters abroad to supply small amounts, and they may request higher prices to meet additional expenses for small shipments.

#### D. Marketing

##### Domestic marketing

Large proportions of small-scale industry products are marketed locally through direct consumer-producer deals. For some products, markets extend to areas far from the production site, in this case marketing is faced with a number of problems:

- (a) Poor transportation means high freight rates;
- (b) Marketing through middlemen: given the insufficiency of standards, specifications, and trade marks, small-scale industries are at a disadvantage in dealing with wholesalers etc.
- (c) Lack of studies on market requirements and the inability of small industries to undertake such studies may result in the production of goods that do not meet the market requirements;
- (d) Lack of accounting on the part of entrepreneurs hinders the existence of systematic auditing and accounting on which pricing policies can be based;
- (e) Inability of small-scale industries, with their limited resources, to advertise;
- (f) Instability in raw material's prices;
- (g) The governmental rules that result in limiting domestic markets for small-scale industries, since these rules call for public sector organizations to deal with public sector producers.<sup>16/</sup> This leads to low levels of production and a conflict between the need for an efficient scale of production, resulting in low efficiency and high prices.

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<sup>16/</sup> The Industrial Bank Bulletin, Vol. 9 and vol. 10, 1969 - 1970.



external marketing

The products of small industries can make a major contribution in the national efforts to increase export earnings. In spite of the interest shown in promoting these exports, their role in total export is very limited, which can be attributed to the following factors:

- (a) Shortage in imported raw materials necessary for manufacturing exportable products, and obstacles that small-scale industries face to secure quotas of imports;
- (b) high costs for imported material due to the relatively high commission charged by importing companies which ranges between 10 to 25 percent of the imports value on one hand, and the surcharge imposed by shipping companies on imports which amount to 10 percent whether it carries out the transportation of them material or not. Furthermore, the time-flow of imports is determined on the basis of the availability of foreign exchange;
- (c) Insufficient awareness of producing the products for international markets and a poor level of finishing of the products;
- (d) Complicated export procedures and multiplicity of supervisory agencies;
- (e) Inadequate studies of requirements and consumers' preferences in foreign markets through a belief that excess production can be exported;
- (f) Sales promotion and advertising in foreign markets has not been given sufficient attention;
- (g) Lack of incentives for entrepreneurs to make attempts to break into export markets;
- (h) Difficulties involved with drawback duties and a delay in reimbursement as well as in the application of the temporary permit system;
- (i) A lack of interest on the part of export agencies to market small-scale industries products due to the diversified nature of the products and smallness of deals;
- (j) A lack of a clear and systematic policy for exports;
- (k) Inability to make contacts with potential importers.

E. The role of co-operatives

In the light of the problems faced by small-scale industries with regard to securing raw materials and the marketing of products, a co-operative for industrial marketing was established in Cairo. The basic objectives of this marketing co-operative were:

- (a) To supply industrial co-ops and other individual members the raw materials required for production whether locally produced or imported;
- (b) To possess finishing units required for marketing purposes;
- (c) To dispose of products of co-operatives and carry out marketing both domestically and abroad;
- (d) To undertake sales promotion drives through advertising and participation in international exhibitions;
- (e) To enter into tenders and conclude contracts with governmental and non-governmental organizations;
- (f) To study consumers' needs and preferences and to transfer this information to producers in order to improve and adopt their production accordingly.

The co-operative marketing system did not make a major contribution to the solution of marketing problems facing small-scale industries. This is attributed to the uneven distribution of industrial co-operatives and the small membership as indicated in table 7. Figures reveal that the activities of industrial co-operatives are concentrated mainly in Cairo and Alexandria where 57 co-operatives exist or some 17% of the total number of co-operatives. Eleven governorates follow in Lower Egypt with 178 co-operatives representing 53% whereas the eight governorates in Upper Egypt have only 100 co-operatives representing 30% of the total number of co-operatives. In spite of the growth in the number of industrial co-operatives, their scope of activities is limited. The number of workers in industrial co-operatives accounts for a negligible proportion of the total number of workers in enterprises with ten workers or less.

Table 7. Industrial co-operatives under the supervision of the General Organization for Co-operative Production and Small Industries, 1968

	Industrial co-operatives		Total number of workers in small industries <sup>a/</sup>
	Number	workers employed	
Cairo	30	9899	71596
Alexandria	26	11334	27078
Other Lower Egypt governorates:			
Dakahlia	27	3889	18439
Kafr-el-Sheikh	12	2527	8229
Port Said	16	1641	3385
Suez	5	639	4000
Behera	16	2346	10147
Menoufia	16	1946	14062
Sharkia	12	1751	16595
Damietta	14	1874	10287
Kaliobia	19	2296	9578
Gharbia	25	8422	20721
Ismailia	6	1306	2000
Upper Egypt governorates:			
Giza	16	6030	10147
Mynia	21	2296	9578
Assiut	17	23574	107772
Suhag	9	1559	11899
Eeni-Swif	9	481	6547
Quina	10	1382	9872
Asswan	4	66	2406
Fayom	12	1817	26000

Source: Industrial Bank Bulletin, Vols. 9 and 10, 1969 and 1970. Central Agency for Public Mobilization and Statistics.

<sup>a/</sup> Figures indicated represent number of workers in small industrial enterprises with employment size of 10 or less.

### III. FINANCIAL PROBLEMS OF SMALL-SCALE INDUSTRIES

#### A. Local financial institutions

Before delineating the role of the Industrial Bank and its contribution towards the solution of small-scale industries' financing problems, it would be useful to review the history of financing during the period precedent to the establishment of the Bank.

##### The experience of Misr Bank<sup>17/</sup>

Credit for small-scale industries goes back to the Misr Bank in 1922, when the Government allocated LE 100,000 for the purpose of financing small-scale industries. The allocated funds were increased until it reached a sum of LE 300,000. In 1932/33 the Government deposited a fund at local banks for manufacturers who had difficulty in getting finance by their own means and the Misr Bank guaranteed loans on the assumption that the Bank would obtain acceptable collateral. By the end of 1936 the fund reached more than one million pounds. An attempt was made to tackle the problem of graduates of industrial institutes who having the technical experience and know-how lacked adequate financial sources. Beneficiaries of this programme reached 163 in number.

##### The Agricultural and Co-operative Credit Bank

The size of the bank's credit for industrial purposes amounted to two million pounds in 1959 and reached LE 2.2 million in 1960.<sup>18/</sup> Despite this large size of credit, it benefited a limited number of co-operatives that were not actually productive co-operatives but rather supply and marketing co-operatives for industrial purposes.<sup>19/</sup> The Bank ceased to finance productive co-operatives in 1960 following the establishment of the General Egyptian Organization for Co-operative Production and Small Industries.

##### The Industrial Bank

The Misr Bank's experience has revealed the necessity of establishing a specialized agency for credit to support small-scale industries and handicrafts. In 1949 the Industrial Bank project came into existence and started its activities, including assistance to technical institutes as well as assistance to graduates

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<sup>17/</sup> The Industrial Bank Bulletin, 1969 - 1970.

<sup>18/</sup> The Agricultural and Co-operative Credit Bank, Quarterly Bulletin, No. 3, 1961, p. 69.

<sup>19/</sup> Ahmed Abdel-Ghaffar, op. cit., p. 168.

through the provision of credit against needed material and tools. A special department was established to handle small loans out of special funds allocated for that purpose and according to rules and conditions to be decided by the board of directors.<sup>20/</sup>

The share of small industries in the loans provided by the Industrial Bank has differed from one stage of the Bank's activity to another. The Industrial Bank started its activities with an initial capital of LE 1.5 million. Throughout the period from 1949 to 1957 the Bank provided loans that reached about LE 7 million. Although the promotion of small and medium scale industries through the provisions of suitable credit was among the basic objectives of the Bank, the value of loans to these industries of less than LE 500 did not exceed in total the sum of LE 27,721, which represented 26.7% of the credit applications between those years. The reason is that state policy during the period from 1953 to 1957 encouraged the establishment of modern industries and the Industrial Bank expanded its scope of activities in this field.

Between 1957 - 1965 the Industrial Bank's role was to finance the private sector and small industries, because large public enterprises were being financed from the state's budget or by commercial banks. Ironically, the Industrial Bank's activity during that period was confined to advancing loans to public sector enterprises as can be shown from figures presented in table 8 which indicates that the average annual share of the public sector of the Bank's loans during the period 1962 - 1964.

As for small-scale industries, data on small loans during the same period reveal that such loans did not constitute a major component in the Bank's credit activity as can be shown from table 9. In 1962 the total amount of credit advanced to small industries amounted to LE 34.6 million or about 3.6% of the total value of credit and was decreased to LE 32.5 million or an equivalent of 2.6% of total loans in 1964. Furthermore, most of these loans were concentrated in larger sized loans (LE 2,500-LE 5,000).

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<sup>20/</sup> Foad Murci, "Development of the Industrial Bank", Industrial Bank Bulletin, March, 1971, p. 9.

As a result of the economic actions that were taken in the field of organizing the banking system during the period (1957 - 1965), the Industrial Bank became a specialized bank for the promotion of private industrial enterprises and small-scale industries. However, during the period from 1964/1965 to 1967/1968 the bank continued to follow a policy of advancing the majority of its credit funds to the public sector, as shown in table 10. The total amount of loans directed to that sector throughout the period reached the sum of LE 9.292 million or 74.9% of the total loans advanced by the bank. Whereas the share of the private sector and the co-operative sector amounted to

Table 8. The Industrial Bank's loans to the private and public sector, 1962-1964

Sector	1962		1963		1964	
	Value (thousand LE)	Percentage (thousand LE)	Value (thousand LE)	Percentage (thousand LE)	Value (thousand LE)	Percentage (thousand LE)
Private sector	159	16.4	132	10.2	200	23.9
Public sector	811	83.6	1167	89.8	637	76.1
	970	100.0	1299	100.0	837	100.0

Source: The Industrial Bank Bulletin, Vol.5, 1965, p. 43.

Table 9. Distribution of small industries loans according to loan brackets, 1962-1964

Loan brackets in LE	1962		1963		1964	
	Value (thousand LE)	Percentage	Value (thousand LE)	Percentage	Value (thousand LE)	Percentage
Less than 500	0.6	0.1	1.0	0.1	1.2	0.1
500-999	4.0	0.4	3.0	0.2	1.7	0.2
1000-2499	9.0	0.9	7.0	0.6	5.9	0.7
2500-5000	21.0	2.2	21.0	1.7	23.7	2.8
Total	34.6	3.6	32.6	2.6	32.5	3.8

Source: The Industrial Bank Bulletin, vol. 5, 1965, p. 22.

Table 10. Distribution of Industrial Bank's loans by sector, 1964/65 - 1969/70

Year	Public sector		Co-operative sector		Private sector		Total	
	Value (thousand LE)	Percentage	Value (thousand LE)	Percentage	Value (thousand LE)	Percentage	Value (thousand LE)	Percentage
1964/65	1,002	85.7	-	-	167	14.3	1,169	100
1965/66	1,973	78.2	-	-	551	21.8	2,524	100
1966/67	3,941	82.4	222	4.7	618	12.9	4,781	100
1967/68	2,376	59.8	237	6.0	1,360	34.2	3,973	100
1968/69	1,317	22.2	63	1.1	4,554	76.7	5,934	100
1969/70	2,291	27.9	80	1.0	5,852	71.1	8,224	100

Source: Industrial Bank, Report of the Board of Directors, 1969/70.



LE 2.656 million and LE 0.459 million or 21.4% and 3.7% respectively. During the last two years (1968/1969 and 1969/1970) a noticeable change in the Bank's policy took place with regard to loans advanced to the private sector as the total sum of loans advanced to that sector during the two years amounted to LE 10.406 million or 73.5% of total loans. This increase coincided with a sharp decline in the amount of loans advanced to the co-operative sector, which reached LE 0.143 million during the two years or 0.9% of the total as compared to LE 0.459 million during the preceding two years of 1966/67 and 1967/68.

Despite the expansion in the size of credit advanced to small industries it still represented a small percentage of the total loans, as can be shown from table 11. Figures presented in this table indicate that small-scale industries' share of loans amounted to LE 2.679 million during the period (1964/65 - 1969/70) or 10.1% of total loans of LE 26.605 million. Though the change in policy toward crediting private industrial enterprises during the last two years 1968/69 and 1969/70 had its concomitant impact in increasing the amount of loans advanced to small-scale industries, this increase was not a sizable portion as the small-scale industries share of loans amounted to 15.7% of the total amount to private enterprises. Furthermore, the most of this was made in large loans.

The credit services provided through the Industrial Bank to small industries during the period from its establishment until 1964/65 were quite modest. Despite the relative increase in the size of that credit during the period from 1966/67 to 1969/70, it accounted for a small percentage of the total loans advanced by the bank for which the basic objective was the promotion of small-scale industries during that period. In addition, the distribution of these loans was characterized by a large concentration in the large loan brackets.

Fund for Rural Industry's Promotion and Financing of Small-Scale Industries

In 1956 a law created a Fund for promoting rural industries.<sup>21/</sup> Short or medium term loans were to be advanced for industrial co-operatives free of interest, in addition to the granting of subsidies for rural industries in special cases. Funds were allocated by the Ministry of Social Affairs and

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<sup>21/</sup> Bulletin of the Agricultural and Cooperative Credit Bank, No. 3, 1961.

deposited in the Agricultural and Cooperative Credit Bank. Loans and subsidies were to be advanced after economic and technical studies in each case. Total loans and subsidies amounted to LE 107 thousand and LE 70 thousand respectively during the period from the Fund's establishment until 1963.<sup>22/</sup> The Fund's resources declined year after year with the establishment of the General Egyptian Organization for Cooperative Production.

The General Egyptian Organization for Cooperative Production and Small Industries

In 1960 the General Organization for Productive Cooperation was created to undertake the provision of technical and financial assistance to co-operatives in the industrial sector.<sup>23/</sup> A special fund for loans in order to achieve the aims of co-operatives was established. The organization was authorized to recommend loan applications by the fund. During the first five-year plan<sup>24/</sup> period LE 2 million were allocated for the co-operative loans. A part of the fund's resources that amounted to some LE 630 thousands<sup>25/</sup> during the period from 1961/62 to 1965/66 was directed to the purchase of the organizer's shares in some of the co-operatives, but the bulk of the available resources was granted to productive co-operatives. The organization also issued letters of guarantee for production co-operatives for presentation to governmental or non-governmental organizations. The General Organization for Cooperative Production was phased out in the latter 1960's.

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<sup>22/</sup> Ahmad Abdel-Ghaffar, op.cit., p. 180.

<sup>23/</sup> The General Egyptian Organization for Cooperative Production and Small Industries, Cooperative Production and Small Industries 1962, p. 19. (in Arabic).

<sup>24/</sup> Ibid, p. 169.

<sup>25/</sup> Central Agency of Public Mobilization and Statistics, "Productive cooperation and small industries under the Revolution", Bulletin of Public Mobilization and Statistics, No. 57, Nov. 1967.

Table 11. Distribution of small industries loans according to loan brackets, 1964/65-1969/70

Years	Loan bracket in LE						Total Value (thousand LE)	Total Percentage
	Less than 500 (thousand LE)	500-999 (thousand LE)	1000-4999 (thousand LE)	5000- (thousand LE)	Value (thousand LE)	Percentage		
1964/65	-	-	19	-	-	19	1.6	
1965/66	5	9	101	113	228	228	9.1	
1966/67	3	14	140	89	246	246	5.2	
1967/68	12	23	258	254	547	547	13.8	
1968/69	14	27	312	285	638	638	10.8	
1969/70	20	44	404	533	1,001	1,001	12.1	

Source: Industrial bank, Report of the Board of Directors, 1969/70.

Table 12. Loans granted by the co-operative loans funds  
1961/62 - 1965/66

Years	Value of loans (thousand LE)
1961/62	394
1962/63	427
1963/64	515
1964/65	101
1965/66	127
<b>Total</b>	<b>1,564</b>

Source: Central Agency of Public Mobilization and Statistics, "Production co-operation and small industries under the Revolution", Bulletin of Public Mobilization and Statistics, No. 57, Nov. 1967.

Commercial banks

Despite the mutual disinterest between commercial banks and small-scale industrial entrepreneurs, some efforts were made in financing small-scale industry. In the early 1960s, the Bank of Alexandria expressed interest in aiding small-scale industries and designated a fund for loans of about LE 500 per loan at reasonable interest rates. Credit procedures were simplified to the minimum within the framework of the banking regulations. The Economic Organization companies<sup>26/</sup> that had contracts with small and medium scale industrial enterprises for supplying goods or services directed them to the bank in order to study the financial problems of these firms. Furthermore, the Bank expressed interest in considering the requests recommended by the Economic Organization. The bank offered to finance new purchases of tools and implements that small entrepreneurs could not procure through their own resources.

In 1964 the United States Agency for International Development (AID) approved a credit facility of about one million pounds to be granted to the National Bank of Egypt for the purpose of crediting small producers in the private sector. However, this credit facility was not utilized due to certain obstacles. The bank allocated a sum of LE 100,000 for low cost credit to small manufacturers and craftsmen with special terms for small-scale industries.<sup>27/</sup> To distinguish this from regular credit activities it was labelled "Small loans system" and was designed for small manufacturers and craftsmen whose fixed assets and working capital did not exceed LE 5,000. Loans were granted to purchase machines and tools or for working capital, such as the purchase of raw materials or the payment of wages. The upper ceiling of the loan was LE 5,000 for a period ranging between one year and five years on a monthly installment basis after a suitable grace period. The interest rate was 3 1/2% per year but was increased to 6% during the second half of 1970.

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<sup>26/</sup> Government holding companies established in 1957.

<sup>27/</sup> "Financing Small Industries in the U.A.R.", Industrial Egypt Bulletin, July/Sept. 1969 (in Arabic).

Beneficiaries of the "Small Loans System" reached 3,910 by the end of June 1972.<sup>28/</sup> The lower Egypt region, particularly Damanhour, was the major beneficiary of the loan funds and represented 67% of its total value, the Alexandria region came next with a percentage share of 13%; the upper Egypt region followed with a share of 11%; and finally the Cairo region with a share of 8%.

In 1968, the Central Bank of Egypt issued a recommendation to all banks to participate in the provision of financial aid to craftsmen and small-scale industries in order to enable the private industrial sector to undertake promoting national production. At the time the Bank of Alexandria initiated new rules and regulations for this group of customers. The maximum loan value was set at LE 1,000 for each customer at an interest rate of 3 1/2% a year, and there were exemptions from any additional expenses. The interest rate was subsequently raised to 6%, but the exemption of additional expenses continued in effect.

The upper ceiling of permitted loans was increased to LE 2,000 provided that the enterprise's invested capital did not exceed LE 7,500. The payment period was set at one year for loans for operational expenses and two years for capital loans. Table 13 shows the distribution of loans granted by the Bank of Alexandria to small and craft industries during 1970/71.

#### B. Problems in financing small-scale industries

##### The case of the Industrial Bank

The factors responsible for the small share of loans granted to small industries compared to the bank's total credit activity can be identified as follows:

- (a) Nature of collateral and its value;
- (b) Cost of credit;
- (c) Repayment period;
- (d) Geographical distribution of the Bank's activity.

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<sup>28/</sup> National Bank of Egypt, Report of the Board of Directors, 1971/72

Table 13. Distribution of loans granted by the bank of Alexandria to crafts and small industries <sup>a/</sup> by type of activity, 1970/71

Type of activity	Number	Value of loans
Printing and binding	22	30,804
Carpentry	137	132,643
Turnery and metal casting workshops	111	190,013
clothing and knitwork	167	251,832
Leather products	109	1,392
Car repair and painting	36	61,107
Carpet and rugs production	41	20,401
Glass and crystal products	6	25,169
Tile factories	17	9,410
Food processing	82	38,339
Diversified metal industries	50	68,857
Photography	2	300
Blade grinding	1	120
Barber shops	16	1,122
Straw mat industry	22	1,740
Denture industry	4	6,554
Optical industry	4	6,554
Plastic manufacturing and trade	2	442
Nylon manufacturing and trade	1	1,375
Cosmetics industry	1	451
Technical tools industry	2	1,626
Construction material industry	3	4,073
Houseware industry	6	25,888
Mining (extraction of sodium sulphate	1	5,021
Other activities	18	41,647
<b>Total</b>	<b>861</b>	<b>1,032,947</b>

Source: Bank of Alexandria, Governing Council Report, 1971/1972.

a/ Small-scale industries are defined as those productive units whose invested capital does not exceed LE 7,500. The upper ceiling of the loan is LE 2,000.

### Nature of securities and their credit value

For small-scale industries, the securities adopted by the Industrial Bank for granting loans represent a basic obstacle in credit procurement due to the following reasons:

- (a) Small-scale industrial entrepreneurs usually lack the account sense and therefore do not keep systematic books;
- (b) Most entrepreneurs in that area lack organizational experience;
- (c) Products may be in good demand and yet the tangible securities in the form of machines might be unsatisfactory or insufficient as a security. In some instances the factory's site is a leasehold and personal security cannot be provided;
- (d) Small-scale industries may not be in a position to compete with larger production units particularly in its early stages. As time passes and as experience is gained such competition might be feasible;
- (e) Lack of adequate inventory may be attributed to the lack of working capital which is in turn the reason for the loan;
- (f) Efficiency of working capital, sales and trends, total and net profits, and their ratio to capital investment and sales are all indicators that depend on a multiplicity of interacting factors. Some can be attributed to the enterprise owners, while others are external factors;
- (g) Most small enterprise owners do not keep regular accounting books as mentioned earlier which leads to haphazard estimates of taxes. Haphazard estimation of taxes takes a long time to be evaluated as well as for a tax dispute to be settled. The necessity of fulfilling the tax payments deprives some enterprises of procuring a loan while the need for such a loan may be quite acute to finance production. Social security possesses a similar problem as enterprise owners are not fully aware of the importance of the social security system and delays in payment of premiums are not unusual. Delays may be attributed to the lack of liquidity.

The above discussion shows that securities or collateral accepted by the Industrial Bank do not differ from these of the commercial banks. If small-scale industries possess tangible securities, they can apply for loans to commercial banks, which do not necessarily have to investigate the financial position of the enterprise.



The period from 1960 to 1965

In March 1960 the Industrial bank introduced some modifications with regard to security requirements for small-scale industries. Securities were confined to:

- (a) Personal securityship is accepted for one-year term loan with possibility for further extension;
- (b) Dispense with the predetermined credit ratios provided that:
  - (i) The bank ascertains the economic feasibility of the projects through its studies;
  - (ii) The Ministry of Industry approves the loan request;
  - (iii) Construction and procurement of machines are to be supervised by the bank who handles directly the payments to contractors or suppliers;
  - (iv) The bank makes sure that entrepreneurs are capable of carrying out the project execution;
  - (v) The bank has the right to interfere when necessary through the assignment of an expert, at the enterprise's expense, to tackle the managerial problems.

However, these modifications were applied for a limited number of small industrial enterprises, and the bank returned back to depend on the traditional securities which limit the credit capacity of small-scale industries.

The period from 1965 to 1971

By the end of 1965 the Industrial Bank, with the aim of helping small-scale industries, introduced new rules that included:

- (a) Modification of credit ratios for machine securities to reach 100% for machines with value less than LE 1,500, 90% for machines with value not exceeding LE 2,500, and 80% for machines with value not exceeding LE 5,000. however, this action, while enabling small industrial enterprises to procure larger loans, does not represent an effort for promoting small-scale industries,

as it was confined to existing enterprises and based on detailed studies and field investigation that take a fairly long time and prevent loans from being granted on proper time;

(b) Provision of machines on instalment basis, therefore bypassing the traditional security requirements. According to that system, the bank purchases the machines for the customer and consider it as a security for instalment payments. This system, while contributing in helping small-scale industries, does not provide for a decisive solution to the finance problem due to the shortage of its allocated funds and its higher credit costs;

(c) Adoption of personal securityship system temporarily until the security procedures are completed such as mortgage, technical procedures etc. Therefore, serious investigations are needed to ascertain the customers' good reputation which in turn requires a fair period of time;

(d) Expansion of crediting against raw materials, and semi-manufacturing goods and final products;

(e) Expansion of crediting against ceding of dues for supplies and purchasing orders carried out by the enterprise;

(f) Carrying out studies of small and crafts industries conditions particularly with regard to requirements of machinery and the scope for its development reduce cost and improve the quality of products; in this connection the bank called upon specialized consulting engineering bodies to undertake such studies.

#### Credit costs

Credit costs consist of interest payments and administrative expenses. Though the interest rate depends on the scarcity of capital including the risk factor, it is determined by officials at the Industrial Bank at a relatively lower level that attempts to reflect the social cost of capital as a measure to promote industrialization, and the rate differs according to whether the bank is lending out of its own funds or through external sources. The Industrial Bank started its activity with a capital of LE 1.5 million. During the period from 1954 to 1957 the bank invested some LE 1.4 million in the form of new

capital shares in industrial companies. When these companies were nationalized in 1961 and after, the capital was converted to nationalized bonds that could not be utilized for credit purposes though the yield was 4%. The bank is entitled to issue bonds up to five times its capital, and it issued LE 7.5 million worth of bonds. The first issue was LE 3 million in 1961 at an interest of 3% that was purchased by the central bank and was reissued again at the same interest rate. The second issue was LE 4.5 million worth of bonds in 1969 at the same interest rate that was purchased by commercial banks.

The Industrial Bank depends on commercial banks for securing much of its credit funds, as the banks, together with the central bank provide the required credit that represents more than one third of the bank's resources and about 45% of its external resources. Therefore, the rate of interest set by the Industrial Bank is affected by the terms of credit available from commercial banks. While the banks provide credit at an interest rate of 3%, the central bank has unified its credit facilities for the industrial bank into one account of one million pounds at an interest rate of 5%.<sup>29/</sup> This latter rate represents a major factor in the high interest rate for credit provided small-scale industries through the bank.

Credit risks depend on the soundness of an enterprise's economic position. Small-scale industries, as mentioned earlier, are exposed to various economic risks in their initial stages compared with large-scale industries that enjoy a stronger position. Therefore, the percentage of small loans of a doubtful nature in the total loan portfolio is higher compared to the large loans. Credit costs are higher for small-scale industries.

The administrative costs and debt service are also higher with the small loans. Also the applications from small-scale industries represent a higher percentage of total applications. Investigation of these requests, study of the enterprises financial position, information on the experience of owners or managers from technical and administrative point of view, revisions of

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<sup>29/</sup> Fouad Murci, "Development of the Industrial Bank", The Industrial Bank 1971, pp. 25-26 (in Arabic).

needed documents and feasibility studies require work by the bank's specialists. As the majority of loan requests are turned down, the approved loans carry the burden of covering the total cost of investigations. Large loans, on the other hand are characterized by being limited in number and can more easily be investigated which makes the per unit cost of investigation much lower.

The above factors have combined to raise the interest rates to 7%,<sup>30/</sup> which makes the credit cost for small-scale industries quite expensive.

As for commercial banks, the rate of interest was increased in 1970 according to directions of the central bank where exemptions or other additional expenses such as commissions or debt services continued to exist.

#### Loan terms

Loans granted by the Industrial Bank can be classified according to repayment periods.

(a) Long-term loans: Range between five and fifteen years and are granted for the establishment, replacement, or expansion of existing fixed capital. The bank requires collateral against these loans such as real estate, houses, factories or machines;

(b) Medium-term loans: Range between one year and five years and are granted to aid existing industries for expansion or to obtain necessary materials. The bank requires fixed assets such as land, buildings, machines, semi-manufactured, or manufactured products, or personnel securityship for collateral;

(c) Short-term loans: These are granted for a maximum period of twelve months for operating costs. They are made against raw materials or semi-manufactured and final products, or personal promises to pay.

Table 14 indicates the Bank's loan activity during the period from 1949 to 1957 has revolved around short-term loans, about 53%, whereas medium and long-term loans accounted for about 47%. During the period from 1958 to 1964 the Bank continued to follow the same policy as the percentage of short-term loans reached 56.2%, while medium and long-term loans declined to 43.8%.

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<sup>30/</sup> Annual interests are 6% and 7% in case of delay in addition to administrative costs credit service, and other expenses such as editing and registration of a deed, correspondence, stamps, etc., (Industrial Bank Bulletin, 1957).

Table 14. Industrial Bank loans by term of repayment  
(in thousand LE)

Type of loan	First period		Second period		Third period <sup>a/</sup>							
	1949-57 Value <sup>b/</sup> \$	%	1958-64 Value <sup>b/</sup> \$	%	1965 Value \$	%	1966 Value \$	%	1967 Value \$	%	1968 Value \$	
Short-term	3,694	53.0	6,070	56.2	249	28.8	1,644	33.1	726	15.1	2,541	73.5
Medium-term	3,270	47.0	4,720	43.8	227	26.2	149	3.0	664	13.8	852	24.7
Long-term					389	45.0	3,176	63.9	3,418	71.1	61	1.8
Total	6,964	100.0	10,790	100.0	865	100.0	4,969	100.0	4,808	100.0	3,454	100.0

a/ The Industrial Bank Bulletin, 1968.

b/ Compiled from the Industrial Bank Bulletins, 1975-1969

c/ Includes LE 82 thousand for machines instalment plan.

d/ Includes LE 146 thousand for machines instalment plan.

A remarkable change took place during the latter mid-1960's in the expansion in long and medium term loans for which the percentage share of total loans during this period amounted to around 71.6%, 66.9% and 84.8% respectively. However, the bank changed its policy in 1968 as short term loans became the dominant type; the percentage out of the total value reached 73.5% while medium-term loans amounted to 24.7% and long-term loans 1.8%.

In conclusion, with the exception of the period from 1965 to 1968 the Bank's credit activity did not differ from that of commercial bank's with regard to provision of short-term loans for working capital for existing industries with the required collateral. The bank's role in stimulating and aiding small-scale industries in the purchase of machines was not as expansive as hoped. The bank's activity in this regard was confined to instalment purchases of machines. An advance payment of 20% was usually made and the rest was paid in instalments over years.

During the period from 1967 to 1971 the Industrial Bank granted loans for machinery on instalment plans, as follows:

<u>Year</u>	<u>Thousand LE</u>
1967	82
1968	146
1969	282
1970	410
1971	458

Loans granted to small-scale industries whether for financing operating expenses or for expansion did not always suit these industries. Small-scale industries generally lack capital, and manufacturing needs longer repayment periods than commerce or trade. Grace periods are needed to enable entrepreneurs to establish their operations and become financially viable before starting repayment, but this has not been practised by the Industrial Bank.

An interest rate of 7% is a burden for small industries and can be considered a factor in limiting development. The loans granted by the Bank of Alexandria to finance investment for this sector are based on a two year recovery period, making the terms difficult.

#### Geographical distribution of the Industrial Bank's activity

Development of small industries represents a basic objective of the bank. The realization of that objective requires that sufficient branches of the bank be established to extend credit services for small industries throughout the country and particularly in rural areas. Table 15 shows the geographical distribution of the Industrial bank loans during the period from 1963 to 1966. It indicates that the bank's credit activity was concentrated in Cairo and Alexandria as the two governorates accounted for more than 90% of the total value of loans. Despite the annual fluctuation in the governorates' relative shares, Cairo's share averaged 66.7% while that of Alexandria averaged 30.1%. The rest of governorates accounted for a negligible portion of credit, while some of them were deprived completely of any service.

The concentration of the bank's activity in Cairo and Alexandria is mainly attributed to the fact that the bank has only a branch in Alexandria in addition to its headquarters in Cairo. Such concentration limits the possibility of extending credit to other areas and to small rural industries that badly need capital. The existence of bank services in Cairo and Alexandria means an increase in the cost of loan procurement for enterprises not located in these centres and the bank is less willing to deal with small-scale industries at a distance due to the high cost involved in carrying out investigations and follow-up in granting a loan.

#### The role of the co-operative system

Despite the remarkable growth in the number of productive co-operatives which increased from 60 co-ops in 1960/61 to 278 co-ops in 1970, the co-operative credit system did not fulfil the anticipated objectives for the following reasons:

Table 15. Geographical distribution of loans granted by the industrial bank 1963-1966  
(in thousand LE)

Governorates	1963		1964		1965		1966	
	Value	%	Value	%	Value	%	Value	%
Cairo	972	74.8	347	41.5	737	66.2	4194	84.4
Alexandria	256	19.7	490	58.5	356	32.0	552	11.1
Gharbia	-	-	-	-	8	.7	173	3.4
Dahletta	-	-	-	-	9	.8	9	.2
Eherbia	71	5.5	-	-	1	.1	-	-
Beni Swif	-	-	-	-	1	.1	-	-
Asswan	-	-	-	-	2	.2	-	-
Ismailia	-	-	-	-	-	-	23	.5
Dakahlia	-	-	-	-	-	-	4	.1
Buoz	-	-	-	-	-	-	5	.1
Menoufia	-	-	-	-	-	-	4	.1
Foyoua	-	-	-	-	-	-	2	.05
Kafr-El Sheikh	-	-	-	-	-	-	3	.05
Total	1299	100.0	837	100.0	1114	100.0	4969	100.0

Source: Industrial Bank Bulletin, Vol. 6, 1966 (in Arabic).



(a) The limitedness of financial resources available to the Co-operative Credit Fund, which disabled the fund from expanding its credit services;

(b) Some industrial co-operatives that had resorted to loans against their capital from commercial banks and the Bank of Alexandria found that their weak financial position caused the banks to discontinue this practice;

(c) Industrial co-operatives were assigned the task of supplying commodities including imports at the governorate's level. Also a lack of qualified administrators created some financial problems;

(d) The bad financial position of some industrial co-operatives because of poor management forced the Organization for Productive Co-operation and the Co-operative Credit Fund to refrain from financing these co-operatives.

C. Towards the adoption of new financial policies

The Industrial Bank and the Bank of Alexandria were amalgamated by a bank reorganization law in 1971. A special fund for the financing of craftsmen and industry in the private sector was established to provide credit to this group. The Bank of Alexandria continued to loan on machinery instalment plans for craftsmen and small industrial enterprises. Branches of the Bank were authorized to grant short-term credit facilities but were required to consult the Agency for Financing Craftsmen and Industrial Private Sector for medium or long-term credit. Through the 80 branches of the Bank of Alexandria and the availability of funds it was possible to grant loans throughout the country.

Modifications were introduced in collateral requirements to aid small-scale industries. In 1972 a grace period was introduced for small-scale industries that procure loans of less than LE 1,000 by which the repayment of loans for operating costs were postponed for six months to allow for operational cycles to be completed.

As for kinds of collateral, they were eased to include the seriousness of the entrepreneur, his capability and reputation, and the availability of certain documents to prove the existence of the enterprise. Loans of less than LE 500 are exempted from the application fee, and investigation expenses.

Part two

FIELD SURVEY OF THE SMALL-SCALE INDUSTRIES  
IN EGYPT: A CASE STUDY OF THE FOOTWEAR  
AND WOODEN FURNITURE INDUSTRIES

IV. JUSTIFICATION FOR SELECTING FOOTWEAR AND  
WOODEN FURNITURE INDUSTRIES IN CASE STUDIES

As mentioned earlier, the scope of small-scale industries in Egypt embodies small enterprises in the field of manufacturing industries (e.g. weaving and spinning, chemical, metal industries etc.). Footwear and wooden furniture industries were selected as case studies since they represent a high percentage in terms of the number of enterprises or the size of employment in the field of manufacturing industries with employment of less than 100 workers. As can be seen from table 16, there were 2,642 enterprises in the footwear industry and 2,320 enterprises in the wooden furniture industry or 11% and 9% respectively of the total number of manufacturing industries enterprises which amounted to 23,770. Employment in the two small-scale industries represents about 9% and 6.5% respectively of the total employment in manufacturing industries.

A. Organization of the field studies

Field studies were carried out for the small-scale industry (footwear and wooden furniture industries) in order to identify problems that curtail the development and progress of the existing enterprises and detail their productive activity. In the light of the large number of the industrial enterprises operating in this field and their dispersion over the country, sampling was used as a technique for data collection.

The census of 1964 showed that Cairo is by far the greatest concentration area with regard to its relative share of the number of enterprises or the size of employment. The number of enterprises amounted to 113,716 in 1964 or some 23.5% of the total number (493,808), whereas employment share reached 32%. As can be seen from table 17, Alexandria comes next, other governorates follow with different shares.

Table 16. Number of enterprises and size of employment in the footwear and wooden furniture industries, 1960<sup>a/</sup>

Type of	Enterprises		Employment	
	Number	Percentage	Number	Percentage
Manufacturing industries	23,770	100	141,799	100
Footwear	2,642	11	9,844	7
Wooden Furniture	2,320	9	7,560	5.3

Source: Central Agency for Public Mobilization and Statistics, "Census of enterprises of 1960", Cairo, p.31.

a/ Data of the 1960 census were considered because data of the two successive censuses of 1964 and 1967 included footwear industries in the group of clothing and ready-made textile industries while wooden furniture was included in the furniture and wooden erection industry. This modification was made in the two censuses aiming at unifying the concepts in accordance with the Arab Classification of Economic Activities that was put in effect in 1963/64.

Table 17. Total number of enterprises and size of employment by governorate, 1964

Governorates	Number of enterprises	Percentage	Number of workers	Percentage
Cairo	113716	23.5	495485	32.1
Alexandria	48818	10.1	240007	15.1
Port Said	7290	1.5	31183	2.0
Ismailia	5264	1.1	9300	0.6
Suez	5726	1.2	25282	1.7
Damietta	11485	2.4	26075	1.8
Dakahlia	35189	7.3	42529	2.7
Sharkia	23603	4.9	42529	2.7
Kaliobia	16772	3.5	95661	6.2
Kafr-El-Sheikh	13173	2.7	24435	1.6
Gharbia	32540	6.7	104372	6.8
Monoufia	10201	2.1	40330	2.5
Beheira	22202	4.6	72448	4.7
Giza	23706	4.6	96784	6.4
Beni-Swif	11912	2.5	20693	1.3
Fayoum	12904	2.6	22721	1.4
Minia	24317	5.0	45526	8.9
Assiut	19360	4.0	32438	2.9
Sohag	23073	4.7	26668	1.8
Quina	16507	3.4	32313	2.1
Aswan	6119	1.3	22125	1.4
Bahr-El-Ahmar	-	-	-	-
Alwadi Algadid	-	-	-	-
Matrouh	-	-	-	-
Sinai	-	-	-	-
<b>Total</b>	<b>483808</b>	<b>100</b>	<b>1585918</b>	<b>100</b>

Source: Central Agency for Public Mobilization and Statistics, "Census of Enterprises of 1964", aggregate tables.

The footwear industry sample was selected from the Cairo area because of its highest percentage share in number of employment. Moreover, being the capital of the country, the activities of concerned agencies and supervisory bodies are intensified.

For the wooden furniture industry sample, Damietta was considered as its base due to:

- (a) The governorates reputation for wooden furniture industry;
- (b) The relative remotness from the central supervisory agencies so as to examine the reflection of this element on steering the whole activity;
- (c) The trend toward development of this industry in Damitta through the establishment of an industrial complex for wooden furniture industry.

**B. Analysis and conclusions of the field study**

Analysis and conclusions of the field study can be divided into three hemogeneous groups:

- (a) Economic problems:
  - Finance
  - Raw material and technical operation
  - Internal and external marketing of products
- (b) Problems of management:
  - Managing small-scale enterprises
  - Employment
  - Training
- (c) Problems of relations with government agencies:
  - Application of social security
  - Applying taxes and duties laws

Table 18 shows the relative weight of each of these problems in the footwear and wooden furniture industries.

Table 18. General problems of the footwear and wooden furniture industries

Types of problems	Footwear industry	Wooden furniture industry
Financial problems	20	25
Raw materials and technical operations	40	30
Internal and external marketing	10	12
Management	2	4.5
Employment	3	3.5
Training	5	3
Relations with governmental agencies	15	20
Others	5	2

## V. ECONOMIC PROBLEMS

Economic problems that were identified through the field studies can be classified into three categories:

- (a) Financial problems, i.e. whether the enterprise is self-financed or financed through commercial or industrial credit;
- (b) Raw materials and technical operations problems, i.e. with regard to the availability of appropriate quantity and quality of local or imported raw materials in suitable time;
- (c) Marketing and distribution problems in both local and foreign markets.

### A. Financial problems

Small-scale industrial projects, in general, suffer from the availability of financial funds in contrast to large projects which are capable to secure the financial sources, as they benefit from specialists of financial requests to banks and credit institutions.

The field study has shown that the relative weight of this problem amounts to about 20% in the footwear industry and 30% in the wooden furniture industry.

The availability of funds for these activities is a real problem indeed to the extent that it represents an obstacle in its development path. This can be attributed to two reasons;

- (a) Shortage of self-sustained funds at the disposal of the small industrial entrepreneur to buy his needs of the intermediate goods and pay the operating costs;
- (b) The lack of specialized agencies to carry out credit activities on basis of terms suitable to meet the special conditions of the respective industries.

Based on the results of the field study, financial and credit problems can be outlined as:

- (a) Availability of owned capital;
- (b) Availability of borrowed capital;
- (c) Lack of financial experience.

Availability of owned capital

Risk is usually high in small-scale industries. This is due to the fact that capital is mostly individually owned which means that such entrepreneur has to bear alone the risk of a loss that might occur. The field study has indicated that personal savings often make a significant contribution to resource availability and amounted to about 75% in the footwear industry and 60.5% in the wooden furniture industry. The joint sources in the form of joint enterprises (such as joint responsibility bodies) represent about 23% in financing the footwear industry's needs and 34.5% in financing the wooden furniture industry's needs.

The credit institutions are usually sharing in financing the capital assets. As a source of finance these credits contribute to about 2% and 5% in the footwear and wooden furniture industries respectively.

The low contribution of the credit institutions in the provision of capital assets is attributed to the risk which stems from the fact that the enterprises depend in most cases on the capability of one individual (entrepreneur) and the inability to predict the future demand for their products that might affect the enterprise's capacity for recovering the borrowed money. In addition, borrowing money from banks and credit institutions is not preferred by the entrepreneurs if they feel that their enterprises will be subject for any interference in management or supervision.

The percentage breakdown of the sources of invested capital in the footwear and wooden furniture industries is the following:

	Footwear industry (%)	Wooden furniture industry (%)
Personal savings	75.0	60.5
Joint holders (friends and relatives)	23.0	34.5
Others (loans from banks and credit institutions)	2.0	5.0



Loan procurement

It has just been mentioned that the external loans represent a very low contribution to the projects initial stage of establishment. But the need for financial sources grows during the operational stage in order to finance additional running costs that are required for the pursuit of non-regular production activity, whereas current running costs are partially financed through the downpayments of consumers or dealers which usually represent about 50% of the deal, and therefore cover a large proportion of the inputs costs.

The field study has shown that 40% and 55% respectively of small-scale enterprises in the two industries under study resort to additional finance through in order to finance current costs, whereas about 60% and 45% of enterprises in the two industries depend on their own internal sources, as is shown below.

	Footwear industry <u>(%)</u>	Wooden furniture industry <u>(%)</u>
Enterprises that depend on external sources	40	55
Enterprises that depend on their own internal sources	60	45

The difficulties which enterprises encounter due to the limitedness of their activities or the insufficient auto-financing capability can be presented as follows:

(a) Loan procurement, as banks and financial intermediaries require regular bookkeeping system. The field study has shown that the percentage of enterprises that keep regular records does not exceed 15% and 25%. It follows that about 85% of enterprises in the footwear industry and 75% in the wooden furniture industry are incapable of presenting the financial situation of their activities in a suitable way which enables the financial institutions to grant loans;

(b) Inconvenient credit terms, as creditors demand securities in the form of products (assignment of contracts proceeds), machines, real estate, or personal guarantee and regular bookkeeping. Table 19 shows the contribution of each of these types in the footwear and wooden furniture industries and implies that loans against products are the most common type whereas loans against bookkeeping, personal guarantee or marketing contracts ranks low in the list;

(c) The relatively high interest rates on loans granted by financial intermediaries;

(d) The high administrative cost for creditors due to the limited size of the loan.

Table 19. Types of security for credit financing in the footwear and wooden furniture industries

Type of security	Footwear industry (\$)	Wooden Furniture Industry (\$)
Products	65	46
Machines	20	28
Real estate	10	15
Regular bookkeeping	2	7
Others	2	4

Lack of financial experience

The size of capital needed by the enterprise working in the field of the two industries under review is relatively limited. It follows that small-scale enterprises are not in a position to benefit from the services of finance and accounting experts. Moreover, they are incapable to set up their financial plans in a proper form and to submit their loan requests, which hinders them to secure the required funds.

It may be added that the lack of banking experience on the part of entrepreneurs, their adversity in dealing with banks and financial intermediaries, and their fear about supervision or intervention in management, are all factors that cause the financial difficulties.

Financial experience, and the ability to determine whether the enterprise is in a position to use its own resources or needs external funds is essentially an economic function of managing an industrial enterprise. The failure to perform this function promptly would lead to enterprises collapse.<sup>31/</sup>

The impact of financial obstacles on the operations of footwear and wooden furniture industries

The incapability of the financial functions and accordingly the insufficient sources of finance were reflected in the performance of the two industrial sectors, among the major results.<sup>32/</sup>

1. The low level of productivity is due to the inability of owners to finance their purchases of raw materials and inputs.
2. The emergence of middle men who act as suppliers of raw materials and inputs, and are in a position to control the supply.

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<sup>31/</sup> The Cyprus Productivity Center, "The provision and management of finance in small enterprises", (Cyprus, 1967) p.2.

<sup>32/</sup> Bank of Alexandria, Unpublished report submitted to the high committee for planning and supervision of handicrafts and small-scale industries, Cairo, September 1973.

3. As a result of insufficient financial resources, entrepreneurs are forced to secure their requirements of raw materials and inputs on credit basis and at prices that are much higher than those paid for cash deals.
4. Due to the usual attitude of the entrepreneurs toward dealing with commercial banks and financial institutions and their fear to be subjected to unsuitable conditions, the entrepreneurs are forced to turn to private money lenders and borrow on very unfavourable terms.
5. The inability to secure financial funds compels enterprises to accept what is known as raw material operations contracts under which a group of middle men get hold of the raw materials and provide enterprises with them, which manufacture products for a certain premium. Therefore, entrepreneurs act as hired labour for a group of merchants and middle men.

#### B. Problems of raw materials

Raw materials represent the major input item and their percentage in the total input cost ranges from 48.3% to 59.8% in the footwear industry,<sup>33/</sup> and is about 73%<sup>34/</sup> in the wooden furniture industry.

As it has been mentioned earlier, the raw materials availability is a problem of great importance and comes first among the problems facing enterprises. The needed raw materials are of two types:

- (a) Domestic materials;
- (b) Imported materials.

In the footwear industry, local production of leather does not suffice the industry's requirement and domestic sources of local hides and skins amount only to 55% of the tanneries' capacity. The gap is filled through imports of hides and skins that reached in 1970 about 8,564 tons at a total value of LE 2,305,646.<sup>35/</sup> In addition to imported leather other inputs, such as the adhesives, are not produced locally and have to be imported.

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<sup>33/</sup> Industries Union, Chamber of Leather Industry, Annual Book 1971.

<sup>34/</sup> Industrial Bank, Leather and Leather Industries in the UAR, (Cairo, 1965) p.184.

<sup>35/</sup> The Chamber of Commerce of Damietta Governorate, Unpublished report, June 1973.

The furniture industry depends on the local production of plywood granular wood and glue supplemented by imports of beech wood, veneer, and plywood. Other complementary imports include lacquer, gold plates, locks and hinges.<sup>36/</sup>

The finishing in wooden furniture industry depends on the capacity of crystal glass and mirror industries for supplying such materials.

Sources of raw materials

Small-scale industrial enterprises are in no position to secure their needs of raw materials by their own means due to financial reasons and the shortage of these materials particularly leather and wood. The fact that each of the industrial enterprises needs a relatively small share of these materials, puts it in a weak bargaining position with the suppliers which in turn results in higher prices than those fixed by the Government. Raw materials for small-scale enterprises in the two industries are supplied by the following sources:

Source	Footwear industry (%)	Wooden furniture industry (%)
Merchants and dealers	80	60
Producers of raw materials	10	13
Co-operatives	6	20
Others	4	7

The merchants and dealers represent the main suppliers of raw materials as they are able, through their large financial capability, to secure large quantities of these materials and resell them to small enterprises which are usually unable to secure even all their needs in one deal but rather make repeatedly small deals to cope with their financial ability. But merchants

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<sup>36/</sup> Industries Union, Wooden Furniture Industry, Annual book, Cairo, 1972.

are not only suppliers of the raw material, they also have a credit function since they sell the materials on a credit basis and payments are postponed until the manufacturing of raw materials. The above data also reveal the negligible percentage of enterprises that can secure their needs from the producers directly through their own means.

Co-operatives play a small role as suppliers of raw materials in the footwear industry as its membership is not yet complete. In the furniture industry the percentage of supplies through co-operatives is relatively large as manufactures felt the need to join in co-operatives to secure their needs of the main imported materials.

#### Availability of raw materials

The field study showed that problems arise if raw materials are not available:

- (a) In a suitable quality;
- (b) In a sufficient quantity;
- (c) At the proper time;
- (d) At a reasonable price.

Table 20 shows the analysis of the sample units' response with regard to these issues in the two industries, from which the following can be concluded:

(a) The majority of producers in the two industries suffer from the non-availability of materials with suitable quality which directly affects the final products' quality. It should be noted in this regard that there exists a great qualitative difference between local and imported materials;

(b) The availability of a sufficient quantity represents another problem of the majority of enterprises, which indicates that demand exceeds supply. Under the present price structure, conditions for black market are provided by middlemen and frauds;

(c) The majority of producers suffer from their inability to secure the needed material in the proper time which in turn disturbs the flow of production and impedes their ability to satisfy the market demand;

(d) Producers generally state that the existing fixed prices for raw materials and inputs are reasonable in case that they receive their quotas of specified quality and quantity in the proper time. However, in the present situation under which they can only secure their needs at any price to continue their operations, they believe that the actually paid prices are quite high.

Table 20. Availability of raw materials  
(Percentages)

Issues investigated	Footwear industry			Wooden Furninture Industry		
	Yes	No	Undecided	Yes	No	Undecided
Suitable quality	10	85	5	6	91	3
Required quantity	12	85	3	12	86	2
Proper time	17	80	3	11	86	3
Suitable price	15	80	5	30	65	5

Securing imported raw materials

The field study revealed a number of difficulties in connexion with the import of raw materials:

<u>Issues investigated</u>	<u>Footwear industry</u> <u>(%)</u>	<u>Wooden furniture</u> <u>industry</u> <u>(%)</u>
Insufficient quota of imported materials	75	80
Inability to obtain quota at fixed prices	51	68
Irregularity of supplies of materials	30	40
Complicated procedures	25	35
Others		

The problems concerning imported raw materials can be attributed basically to three reasons:

(a) Inefficiency in the importation system with regard to estimating the demand of material items for which there are no local substitutes or local production falls short of fulfilling;

(b) Failure in consulting with entrepreneurs to consider their required specification for imported material;

(c) The complicated distribution procedures among enterprises which affects the regular flow of inputs to the producers at the right time.

C. Problems of internal and external marketing of final products

The role of marketing is of vital importance in all enterprises regardless of their size. So it is evident that marketing is a decisive activity in small-scale industries to achieve their goals.



Yet this conceptual framework of the marketing function is not quite clear for the small-scale producers as they devote their efforts to the production process as a sole objective. The small production of such enterprises does not imply such importance to the study of the market size, of potential demand changes in the market conditions or consumption patterns.

The majority of small producers in wooden furniture and footwear industries are in no position to undertake marketing studies and therefore are unable to determine the market requirements in order to adjust their production accordingly. This in turn has affected their ability to cope efficiently with the consumers' demand.

Reasons for such neglect of marketing can be summarized as follows:

- (a) Inadequate commercial experience and know-how on the part of small-scale producers;
- (b) Financial limitedness impeding any effort to benefit from specialized marketing experts to undertake market studies;
- (c) Reliance of the majority of small-producers on specialized distributors in the domestic market and on middle men in the export market;
- (d) Small producers with limited production capacity usually deal directly with the consumer and perform the distribution functions.

Marketing problems of footwear and wooden furniture products in the domestic market

The field study has revealed that products of both footwear and wooden furniture are marketed through three basic marketing channels:

- (a) Direct (producer - consumer) deals;
- (b) Middle men or distributors;
- (c) Marketing co-operatives.

The relative contribution of each of these three outlets in the marketing structure for the two industries is the following:

	Footwear industry <u>(%)</u>	Furniture industry <u>(%)</u>
Direct (producer-consumer) deals	62	60
Middle men/distributors	28	35
Marketing co-operatives	10	5

The fact that a high percentage of enterprises depend on direct (producer-consumer) deals is attributed to the limitedness of the market to the extent that production is made according to consumers' order or contracts. This type of marketing is preferred on the producer's side to avoid problems that might arise when using the two other outlets.

#### Problems of marketing through middle men and distributors

Small industries have no access to marketing exhibitions or sales centres, and therefore 28% in footwear industry and 35% in wooden furniture industry depend on distributors to perform marketing functions for them. However, due to the small production capacity and lack of funds, small industries are in a weak bargaining position and have no alternative but to accept the distributors' unfavourable terms with regard to the low profit margin, payment schedule, penalties for delay of delivery etc. The relative weight of each of these problems was found to be the following:

	Footwear industries <u>(%)</u>	Wooden furniture industries <u>(%)</u>
Low profit margins	80	72
Payment schedule and terms	12	18
Penalties for delay in delivery	5	5
Others	3	5

The low profit margin seems to be of special importance. This can be attributed to the monopolistic power that distributors have in the market which enables them to impose their terms.

Payment problems are related to the postponement of payment totally or partially until sales are made which curtails the producers' already inadequate financial ability for current operation in production.

Penalties for delay in delivery do not take into consideration that delays can be related to conditions beyond the producers' control.

In spite of these difficulties, the enterprises studied in the two industries indicated that distributors perform a number of services such as:

- (a) Provision of new models and designs that producers cannot secure by themselves;
- (b) Provision of inputs, machinery or spare parts;
- (c) Granting of loans and help in financing current production costs.

#### Problems of marketing through co-operatives

Co-operative marketing has emerged as an alternative for encountering problems involved in the marketing process. The broad objective of such marketing co-operatives either on the governorates' level or the general co-operative level at Cairo is to secure and handle the products of their members.

To fulfil this objective the co-operative has to secure certain facilities as can be indicated by the functions outlined for the General Co-operative for Industrial Marketing:<sup>37/</sup>

- (a) To acquire finishing units needed for marketing;
- (b) To provide storage and transport facilities;
- (c) To extend the sales to foreign markets and benefit from government channels in this regard;

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<sup>37/</sup> See part one, chapter II, section E.

- (d) To provide expertise in market studies and consumers' preference;
- (e) To enter tenders and conclude contracts with governmental or non-governmental agencies;
- (h) To undertake the task of financing current operations of production.

The co-operatives have fulfilled some of their general objectives, but their role was not very effective in solving the marketing problems of the small-scale footwear and wooden furniture industries for the following reasons: There is inadequate experience on the supervisory level of the co-operative establishment itself, and the poor knowledge of the co-operative idea. This in turn affected the ability to carry out marketing studies and investigation to identify the trend of consumption of certain types or styles of products in order to set up technical specifications that cope with new developments in the industry. Moreover, there is a lack of co-ordination between governorates and the general marketing centre and problems of inventories. Furthermore, cases of obliquity that were uncovered, weakened the producers trust in such organizations. In the field study the acceptance of co-operative marketing among the enterprises in the footwear and furniture industries was investigated:

	<u>Co-operative marketing</u>	
	<u>Accepted</u>	<u>Non-accepted</u>
	<u>(%)</u>	<u>(%)</u>
Footwear enterprises	60	40
Wooden furniture enterprises	68	32

#### External marketing

External or foreign marketing for footwear and wooden furniture products is considered a source for securing foreign exchange. Yet, the extent of interest in foreign marketing is limited to a small number of enterprises which can tackle contracting and exportation. In many instances dealers

conclude contracts with foreign agencies and after that the implementation is divided among a number of producers. It follows that the majority of producers do not contribute directly in the export activity.

Table 21 shows the development of footwear and wooden furniture exports, during the period 1968-1972. In 1972 the value of exports reached some LE 5.4 million and LE 3.7 million of footwear and wooden furniture products respectively. The increase in the exports revenue since 1968 is attributed to the trade agreements that were concluded with a number of centrally planned economies and particularly the Union of Soviet Socialist Republics according to which exports of relatively large quantities of shoes and furniture are made. The continuation of this trend is tied to the agreement's conditions rather than being a reflection of quality or export marketing efficiency.

The producers' contribution in export activities and making direct contacts with foreign dealers or importers is quite limited particularly in the furniture industry, where the percentage of enterprises that tackle export functions does not exceed 9%. In the footwear industry this percentage is higher, it reaches 25%.<sup>38/</sup> This relatively higher percentage in the footwear industry is attributed to the seasonal pattern contracts with representatives of trade agreements countries who arrive for a short period to conclude their contracts.

Basically, there are three different types of problems in external marketing;

- (a) Problems related to the quality of products;
- (b) Problems concerning marketing inefficiency;
- (c) Problems in connexion with export procedures.

The relative importance of each of these problems is the following:

	Footwear industry <u>(%)</u>	Furniture industry <u>(%)</u>
Quality of products	60	45
Marketing inefficiency	25	30
Export procedures	15	25

<sup>38/</sup> Percentage obtained from the field study.

Table 21. Development of value of exports of footwear and wooden furniture, 1968-1972

	1968	1969	1970	1971	1972
Footwear products	182	2,338	5,147	3,891	5,396
Wooden furniture products	383	1,489	2,207	2,306	3,743

Source: Nasr Company for Imports and Exports, "Development of some non-traditional Egyptian exports to free exchange countries", Cairo, July 1973.

Problems related to the quality of products

These problems are mainly a result of the low quality of raw materials and inputs whether locally produced or imported, together with carelessness in finishing and the lack of a quality control measures for production in general and export products in particular.

However, there exist reasons that are specific to the industry itself, which are:

(a) In the footwear industry:

- (i) Inadequate imports of hides and skins and the lack of facilities to import artificial sole leather;
- (ii) Carelessness in preparation of leather uppers for exported shoes;
- (iii) Low quality of local production of accessories and the absence of effective quality control;
- (iv) The lack of modern factories for producing wooden or plastic lasts according to the changing models and designs in the markets.

(b) In the wooden furniture industry:

- (i) Shortage of necessary inputs such as lacquer, real and imitation golden-leaf, and others. Available imported quantities of these materials are not always up to the required standards;
- (ii) Furniture accessories such as hinges or handles do not meet the specification of high-quality production, nor do they cope with modern developments in the industry despite their high local prices;
- (iii) The obsolescence of available woodworking machinery;
- (iv) The migration of many skilled personnel to neighbouring Arab countries because higher salaries and the availability of modern machinery and materials enabled countries such as Lebanon and the Gulf States (which were traditional markets for Egyptian products) to establish modern industrial centres that can compete with Egyptian production.

#### Problems related to marketing inefficiency

Marketing inefficiency is attributed to the following basic reasons:

- (a) Failure to abide by the importers' specifications of products would result in losing existing as well as potential markets;
- (b) Lack of systematic inquiries as to the requirements of the markets and the prevailing prices in order to prepare expert forecasts;
- (c) Irregularities with regard to delivery of shipments particularly in footwear products for which design changes quite often;
- (d) Exchange difficulties with regard to trust shipments and the regulations that full payment should be made at the opening of the import account;
- (e) Negligence of sales promotion techniques and carelessness in packing;
- (f) The existence of undesirable competition between local traders, i.e. commission agents, and producers in the same markets.

#### Problems related to export procedures

The complicated export procedures discourage many producers from getting involved in the export business. This leaves the area for experienced commissioners to conclude contracts. The main difficulties of export procedures are:

- (a) Exports are the outcome of individual efforts rather than being based on systematic studies of potential outlets, tax and duties policies in the importing countries;
- (b) The difficulties involved in exporting samples and pilot shipments to compare with contracts specifications;
- (c) Custom inspection does not allow the firm closing of parcels which would result in damage or loss of content;
- (d) The lack of specialized assistance and consultation in the export process to facilitate and perform the involved procedures efficiently.



## VI. MANAGERIAL PROBLEMS

Management plays an important role in rendering the projects successful and in attaining production goals, whether an enterprise is owned by an individual or a number of persons which is usually the case in small- and medium-scale industries, or by a relatively large number of shareholders in large industries.

The organization and management of small- and medium-scale production units is an essential element in the running of the enterprise, and therefore administrative efficiency and managerial aspects can be the decisive factor in the success or failure of many enterprises, for management is the key factor of success, development and growth.<sup>39/</sup>

Management problems can arise in three basic areas:

- (a) Administration;
- (b) Employment;
- (c) Training.

### A. The problem of administration

The problem of administration in footwear and wooden furniture small-scale enterprises is attributed to the nature of establishing and financing these enterprises. As indicated earlier, the establishment of such enterprises depends in most cases, on individual ownership and experience. The existence and continuity of the establishment depends heavily on the abilities and experience of one person. Furthermore, the owner usually participates in the executive processes which limits available time for formulating management decision in the small producing unit.

Examination of the nature of personnel in footwear and wooden furniture enterprises shows that managers or administrators acquire their positions through two channels:

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<sup>39/</sup> A.M. Woodruff and J.G. Alesnar, Success and Failure in Small Manufacturing, University of Pittsburgh Press, (New York, 1958) p.11.

(a) Technical experience gained during the time spent in the industry (apprenticeship - foreman - skilled worker);

(b) Inheriting of an enterprise and taking over of the management upon the death of the ancestor.

In both cases the problem of management appears as an obstacle that, at times, leads to the failure of the establishment.

The manner of management in such enterprises is characterized by:

(a) Inadequate scientific and managerial experience of the decision-maker;

(b) The personal and sentimental nature of management;

(c) Lack of farsightedness and consideration of indirect consequences of present decision.

#### B. The problem of employment

Employment in footwear and furniture industries is of a specific nature with regard to type of employees, working place and nature of existing relationships.

As for type of employment, most workers are not instinctively talented and qualified to perform physical efforts and manual dexterity. Some of them have exceptional abilities for innovation and workmanship under suitable circumstances. However, the high rate of illiteracy (about 76%) represents a major problem that is undoubtedly reflected on their abilities, their way of life, and limits their development potentialities.

The working place represents an important social and health problem. Small workshops and factories in the field of footwear industry do not satisfy health conditions with regard to heat, humidity, ventilation and lightning which seriously affects their productivity.

The existing relations between owners of small-scale enterprises and workers have a distinct personal nature. Under such circumstances, contracts of employment, the organization of working hours and participation in social security do not seem important. Enterprise owners suffer from two basic problems in their relation with workers: first absenteeism, particularly after the weekly day-off, and second their daily irregular attendance.

Problems of enterprise owners in their relationship with workers are summarized in table 22.

Table 22. Problems of enterprise owners in their relationship with workers

Type of problem	Footwear industry (%)	Furniture industry (%)
Inadequate skill levels	65	80
Irregular attendance	55	62
Absenteeism for one or more days a week	30	22.5
Non-compliance of product specifications	15	17
Social problems which the manager solves	12	8
Others	5	4

Problems of workers in their relations with enterprise owners reflect the worker's attitudes with regard to working conditions and managerial decisions. These problems concern such items as wages, working hours etc. Table 23 classifies these problems according to their relative importance.

Table 23. Problems of workers in their relationship with enterprise owners

Type of problem	Footwear industry (%)	Furniture industry (%)
Low wages	45	60
Unspecified working hours	30	28
Partial unemployment throughout the year	15	13
Inadequate medical care	14	12.5

### C. The training problem

The effort exerted by human resources or labour is a basic input in the production process particularly in small-scale industries. The more advanced are the skills and expertise, the better the product's quality would be. The fact that workers of industrial enterprises, in general, have

to acquire new skills and abilities in order to enhance their industrial know-how means that training is a basic and continuous process.

Training provides workers with new skills and the capability to respond to technological changes affecting their attitudes towards these changes, lessens their reluctance to practise new techniques, and helps to gradually transform traditional production techniques and trends.

The acuteness of the training problem in footwear and wooden furniture industries is not fully felt by producers or enterprises' owners. Its seriousness is mitigated by the presence of other problems such as: raw materials, sales, and surplus, which are directly related to the volume of production. Yet, training represents a real problem from the view point of those concerned with progress and development of these industries.

The following non-exhaustive list represents the basic aspects of the training problem as revealed by the field study:

- (a) The lack of training plans for workers in the investigated enterprises either on the sector level or the supervisory agencies;
- (b) Inadequate vocational training centres and their remoteness from the specialized industrial regions;
- (c) Shortage in the number of trainers and their technical incompetence with regard to experience and following-up modern techniques;
- (d) The reluctance of enterprise owners and lack of enthusiasm to train their workers on the ground of the low return of the training process. Moreover, training programmes often conflict with working hours and affect production, income, and sales.

## VII. PROBLEMS OF RELATIONS WITH GOVERNMENTAL AGENCIES

### A. Multiplicity of government supervisory agencies

The multiplicate nature of government supervision stems from the lack of a clear-cut definition of a small-scale industry. The consequences of such conceptual vagueness are reflected in footwear and wooden-furniture industries to the extent that the survey of enterprises has not been set in such a way as to identify their exact affiliation to a certain supervisory body. Some of these enterprises are defined as handicrafts and therefore are supervised by local administration authorities, whereas others do not comply with that definition and are supervised by the Industries Union. Given that the establishment of the Agency of Small-Scale Rural and Handicraft Industries will resolve this conceptual problem, there remains the problem of surveying active enterprises in the field of footwear and furniture industries. The importance of availing such a survey is related to the following considerations:

- (a) To identify the actual state of material and human resources engaged in these activities in the form of employment, inputs, machinery, or implements;
- (b) To apprehend the role of the two industries and their contribution to national income and value added generated in their enterprises;
- (c) To determine the industries' requirements of material inputs or skilled labour in such a way as to help concerned bodies to set up policies and formulate programmes to avail these requirements;
- (d) To map the geographical distribution of enterprises and identify their concentration zones.

### B. Problems in application of social security legislation

Social security laws are an indicator of social welfare function in the state. They are enforceable by being a basic component of labour legislations<sup>40/</sup>. Though the application of social security laws provides for several clear advantages, the majority of workers as well as enterprise owners look at social security provisions as an unnecessary financial burden. Therefore workers often collude with enterprise owners to evade the application of social security provisions despite its compulsory nature.

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<sup>40/</sup> Law no. 63 of 1974.

The results of the field study indicate that the majority of enterprise owners in footwear and furniture industries do not apprehend the imperative need for social security, and that they try to find justifications in order to avoid its application. The percentage of enterprises that have problems with social security laws is 73% in the footwear and 65% in the furniture industry. Difficulties can be specified as follows:

- (a) Social security premiums represent an additional burden for the enterprise owner;
- (b) Workers do not feel quite satisfied with the deduction of their share in social security from their pay, and object to employers deducting this amount in compliance with the law;
- (c) The complicated procedures required by the social security organization at the start of an activity or upon employment of new workers. In addition, the requirement for the enterprise owner to pay his monthly premium in person, causes much annoyance <sup>41/</sup>;
- (d) Instability and non-permanent nature of enterprises' employment means a continuous process of filling out social security forms which is an administrative burden on the employer. Failure to comply with legal requirements in this regard often results in fines and payment of interest;
- (e) The social security scheme is quite unequivocal in the cases of premium delay: interest rates amount to 6 per cent, and if not paid in due time, the enterprise may be subjected to the distraint proceedings.

#### C. Problems in the application of tax laws

The majority of small-scale enterprise owners in the footwear and furniture industries believe that taxes are an unpleasant burden. The fluctuating production output and sales proceeds over the year mean irregularity in the flow of income. Though the importance of taxes for financing government functions is fully realized, the collection system that allows the accumulation of tax dues for several years and then requires unexpected payment of such dues, causes a great concern for small taxpayers.

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<sup>41/</sup> Salama Abdulla, "Study of the phenomenon of evading the social security laws by the private enterprise owners in Egypt", Bulletin of Accounting, Management and Insurance, No. 13, 1970, p.16 (in Arabic).

The problems in this regard can be attributed to:

- (a) Ignorance of tax laws on the part of enterprise owners;
- (b) Inadequate and insystematic bookkeeping;
- (c) Random estimates of taxes are made by tax officials in the absence of an accurate bookkeeping system;
- (d) Inability to pay due accumulated taxes would finally lead to the adjudication of bankruptcy and the foreclosure of the establishment.

The percentage of enterprises that have trouble with taxes and the reasons for their inability to have regular bookkeeping are summarized below:

	Footwear industry <u>(%)</u>	Wooden-furniture industry <u>(%)</u>
Ignorance of tax laws	35	20
Inability to keep regular books	60	53
Reasons for irregular bookkeeping:		
(a) Ignorance of bookkeeping	60	65
(b) Cost considerations for bookkeeping	30	17
(c) To evade taxes	15	20
Accumulation of tax payments and the inflexible system for payment	70	81
Haphazard unfair estimates of taxes	80	72

## SUMMARY AND CONCLUSIONS

The first part of this study which is devoted to three basic aspects related to the experience gained by the Arab Republic of Egypt in promoting the small industries sector, dealt with the formulation of plans and the institutional supervisory framework. The study also reviewed problems of general nature that are directly geared to technical infrastructure which was regarded as the core for providing an industrial atmosphere suitable for industrial development in general, and modern small industries, regardless of the type of activity, in particular.

Finally, the study investigated the financial problems and difficulties that face small industries; due to their size, small industries are unable to procure the necessary funds. An attempt was made to identify difficulties they face when they seek credit through institutional channels to finance capital expansions or to meet current expenses, either in the form of short-term or long-term loans.

The second part included a sample survey that was undertaken to examine the problems of the footwear and wooden furniture industries, as two representative and important activities in the manufacturing sector in Egypt. The conclusions arrived at in that part were based on an analysis of the data obtained from a questionnaire.

### Conclusions

Small industries in Egypt encounter a number of problems that hinder their development and adversely affect their contribution to the national economic and social progress. The present study was concerned with identifying these problems.

#### Problems related to inefficient and/or inadequate infrastructure

##### Transport and communication

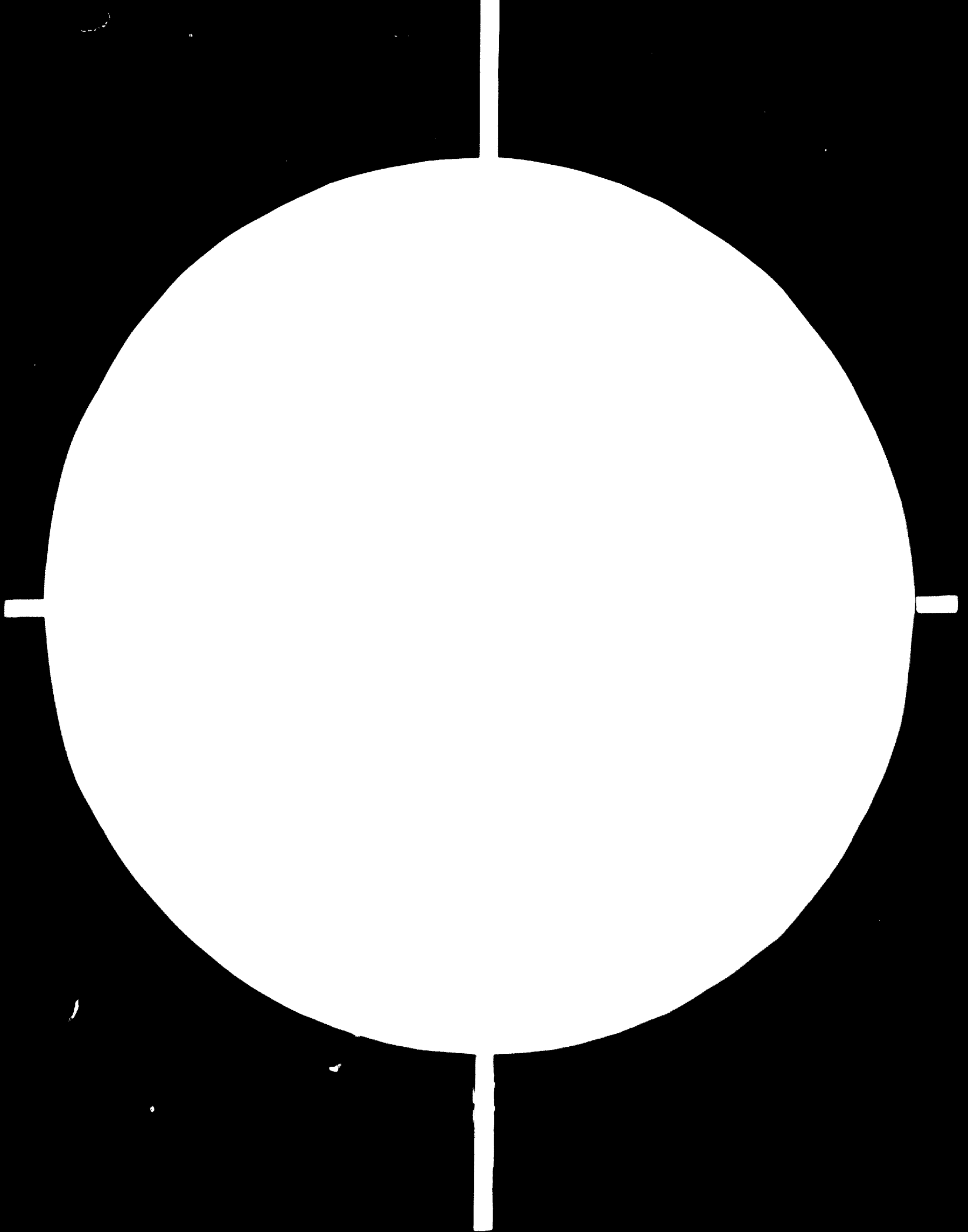
Transport and communication difficulties have a direct and serious effect on the existing link between small industries' productive units, the raw materials sources, and markets where the final products are sold. The study has shown that production level is hampered by the acuteness of the transportation problem as bottlenecks develop and disturb the flow of



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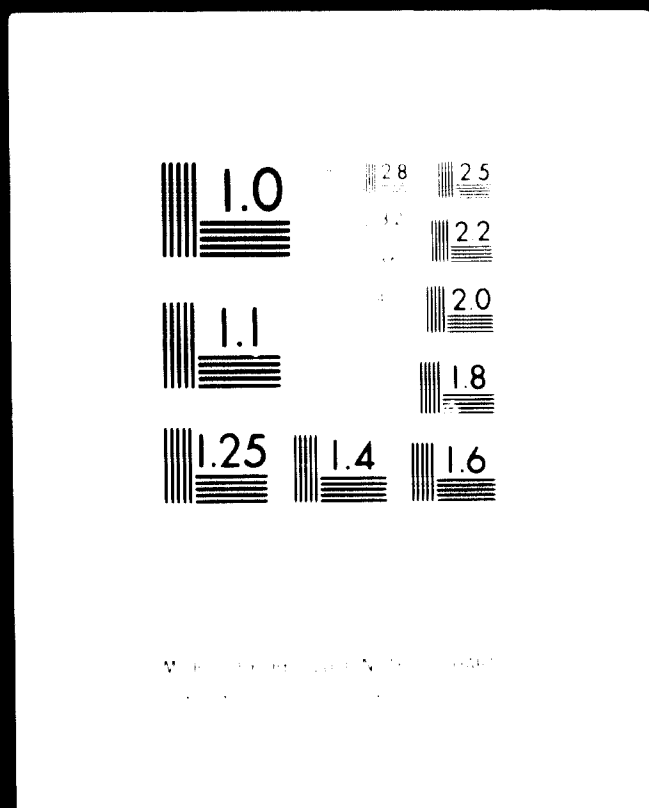


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raw materials and final products. Moreover, these very problems limit the scope of the market for final products which leads to a low level of production and internal competition and tie the production process to the existing transport and communication facilities.

Rapid growth for small industries and the expansion of the scope of its activities require, among other things, to pursue the following policy:

- (a) To consolidate the transport network and particularly to provide links between urban and rural areas;
- (b) To expand the volume and capacity of transportation units, i.e. trucks and trailers, so as to widen the scope of activity either for obtaining raw materials or for moving final products;
- (c) To review the present freight rates to give better terms for small industries' products which are generally characterized by small weight and volume and require transportation over short distance only.

#### Energy problems

The study has revealed that a good part of small industries' activities takes the form of manual or craft work. The promotion and development of such industries requires the utilization of modern tools and techniques that depend on electric power. Such development seems necessary in order to improve labour efficiency on one hand, and the products' quality on the other. Therefore, the expansion of the electricity network to cover different industrial zones or areas designated for industrial expansion, provides a suitable atmosphere for introducing modern techniques. It was noted, that sources of electric power in Egypt have increased rapidly in the past few years. The Rural Electrification Programme will provide about 315 million kWh of electricity in 1974/75, which will subsequently be increased to 1,456 million kWh in 1981/82<sup>42/</sup>, in addition to electric energy allocated to other consumers such as industry, agriculture and households.

#### Problems reflected by economic activities on the national level

##### Export and import activities

The partial dependence of small industries on the availability of imported inputs, gives that factor an important weight in the performance of the sector. The field survey, carried out in the course of this study, has shown that most footwear and wooden furniture plants have problems with

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<sup>42/</sup> Ministry of Electricity, ARE Electrification Plan in the National Action Programme, December 1971.

regard to availability, quantity and quality of imported inputs. Moreover, the distribution procedures seriously affect the flow of these inputs and hence the continuity of the production process. The solution to such problems calls for:

(a) Full awareness of the adverse effect of the foreign exchange budgeting on plant utilization and employment for small-scale industries. A minimum stock of raw materials and inputs might prove to be a useful strategy to avoid bottlenecks and shortages;

(b) A revision of the internal distribution system so as to assure regular flow of raw materials and inputs to producing units;

(c) Technical presentation of small enterprises in external purchasing committees so as to reflect the industries' views with regard to qualitative requirements.

There are many obstacles to giving an outward orientation to small industries' products through greater emphasis on exports, as for example inadequate export facilities on the part of government agencies, complicated procedures for exporting samples and pilot shipments.

It seems that a reorientation of policies and changes in procedures are inevitable to provide a more suitable framework for export and import activities.

#### Problems related to financial and credit activities

The study indicated that small industries seriously suffer from the lack of financial funds for two reasons:

(a) Lack of enterprise's own funds to meet the production requirements such as the purchase of raw materials and inputs as well as other current requirements;

(b) Lack of a specialized agency that undertakes credit services for small industries, at terms suitable to the nature and type of their activities.

It has been further shown that the existing institutional structure of credit organizations was reflected in the inability of a large proportion of small industries to procure financial and credit services. This situation, in turn, has led to:

(a) Suppression of production, and low or idle capacity due to the enterprises' inability to afford the required expenses for sufficient quantities of raw materials;

(b) The existence of middlemen who are able to acquire quantities of raw materials and redistribute it on a credit basis at unfavourable terms;

(c) In the absence of adequate finance, enterprises have to resort to usurers as the only available source of finance at their disposal;

(d) Another result of credit inadequacy was the practice of continuing the production process to manufacturing raw materials supplied by dealers or commissioners for a certain premium.

The field survey has shown that organized credit as a source of finance accounts for no more than 2% and 5% in footwear and wooden furniture industries respectively. Other sources of finance included relatives and friends, as well as personal savings. No doubt the financial constraint sets a limit on the enterprise's ability of expanding its operations or capacity. The situation seems to be acute in the light of the fact revealed by the survey that 40% and 55% of enterprises in footwear and wooden furniture respectively do need additional finance to run their operations.

It is anticipated, however, that the new government agency that was formed recently to supervise small industries, will play a constructive role to ease the financial problems so as to avail sources of current and investment finance for the sector. The agency is currently undertaking studies and formulating financial plans to be implemented through specialized financial bodies under the supervision of the agency.

A revision of the co-operative credit system is underway to assure its effectiveness and to avoid problems that past experiences have shown. In this regard, the establishment of a specialized financial agency or fund seems in line with the present policy, provided that such an agency spread its activity to various governorates, maybe through co-operative channels.

#### Problems related to training and provision of technical assistance to manufacturers and producers

Training has a distinctive nature from the point of view of those concerned with the industrial sector in general and small industries in particular. There exists a high degree of complementarity between a certain type of production method and the kind of labour force it requires. Vocational training plays a vital role in the development of small industries.

The study has shown that training activities are far from being adequate, a situation that can be attributed to:

(a) The absence of a national plan to create a generation of "educated employment" that can be charged with production development responsibilities;

(b) Inadequacy of vocational training centres in terms of quality and quantity that adopt the "rapid" training approach;

(c) Shortage of modern training techniques and demonstrative models of modern technology and inputs.

The Small Industries Institute was established in November 1962 with the assistance of the United Nations Special Fund, and was staffed by local and foreign experts to provide training services as well as technical assistance to the small industries sector. Yet, the Institute's performance was far from being adequate due to a variety of reasons. This calls for a revision of its status and reorientation of policies so as to carry out the function of creating a new generation of trainees, provide technical assistance which is badly needed, and undertake studies and research work in co-ordination with the supervisory government agency.

Problems related to the sectors structure and nature of activity

The problem of definition

A definition that identifies the distinctive character of the small industries sector in the ARE would enable surveying small enterprises, activities, and employment. The study suggested and followed the following definition for small industries: Small industries are such industries that practice their activities in small enterprises for which capital is less than LE 8,000 and the size of employment is less than 100 workers.

It can be argued, however, that setting a definition is not a final target, but rather a means to identify a group of enterprises with common characteristics so as to co-ordinate plans and programmes for the promotion and development of their line of activity.

Economic problems

Economic problems that were derived from the results of the field survey included a number of problems that can be grouped as follows:

(a) Problems of finance: These problems are reflected in the credit terms set by financial institutions with which small industries deal. The field survey indicated that product and machines guarantee are by far the most common form of security as they represent about 46% and 28% for footwear and wooden furniture respectively;

(b) Problems of raw materials availability: Availability of raw materials represent a crucial element for small industries in general. In the footwear industry, local production of hides and skins covers no more than 55% of the tanneries' requirements. In the wooden furniture industry shortages of items such as plywood, beech, glue and lacquer are being

experienced. A similar situation exists in other branches of small industries. The field survey revealed that raw materials problems can be listed by order of magnitude as follows:

- (i) Quality of raw materials
- (ii) Quantity shortages
- (iii) Availability times
- (iv) Prices

(c) Problems of internal and external marketing of products: The study indicated that small industries generally have a limited volume of production and therefore have a small market which leads to a conflict between the need for an efficient scale of production and the industry's small capacity, and often results in low efficiency and high prices.

Most small enterprises undertake the distribution functions on their own; the percentage of such enterprises reached 62% and 60% in footwear and furniture industries respectively. This relatively high proportion can be attributed to the limited volume of production, the inefficiency of the co-operative marketing system, and the problems involved in the distribution through specialized dealers.

Only a limited number of small enterprises were able to break into export markets as a result of their ability to conclude contracts and fulfilling them. The majority of small enterprises are not directly involved in the export business.

External marketing problems include the quality specifications, marketing processes which are sometimes beyond the ability of the exporting enterprise, and export procedures.

#### Managerial problems

Managerial competence and the capability to run an enterprise is of prime importance for the success of any productive unit. By its very nature, small industries face a number of managerial problems which include:

(a) Problems of entrepreneurship: The field survey has shown that for both footwear and wooden furniture industries the problem of entrepreneurship is basically related to the structural and financial nature of small productive units. The one-man management approach dominates the picture with the following consequences:

- (i) Lack of adequate scientific and managerial experience on the part of the decision maker
- (ii) The personal and emotional effect in decision making
- (iii) Lack of farsightedness and apprehension of indirect and long-term repercussions of present decisions

(b) The employment problem: Employment in small industries in general, and in footwear and furniture industries in particular, has certain distinctive characteristics with regard to quality, working place, and the relationship that exists between employers and workers. The striking feature of employment in small industries is the high percentage of illiteracy that reaches about 76%. Moreover, two basic problems can be identified:

- (i) Problems of employers with workers: which include a number of problems that can be listed in order of relative importance



as revealed by the results of the field survey as follows:  
inadequate level of skills, irregular attendance, absence for one or more days a week, unawareness of product specifications, social problems.

- (ii) Problems of workers with employers: which include the following list of problems presented in order of relative importance: low wage rates, unspecified working hours, non-permanent nature of work, lack of medical care, lack of incentives

Problems of relations with government agencies

The study indicated that relations with government agencies affect the working conditions and the production atmosphere. The problems that arise in relations with government agencies can be divided into two categories:

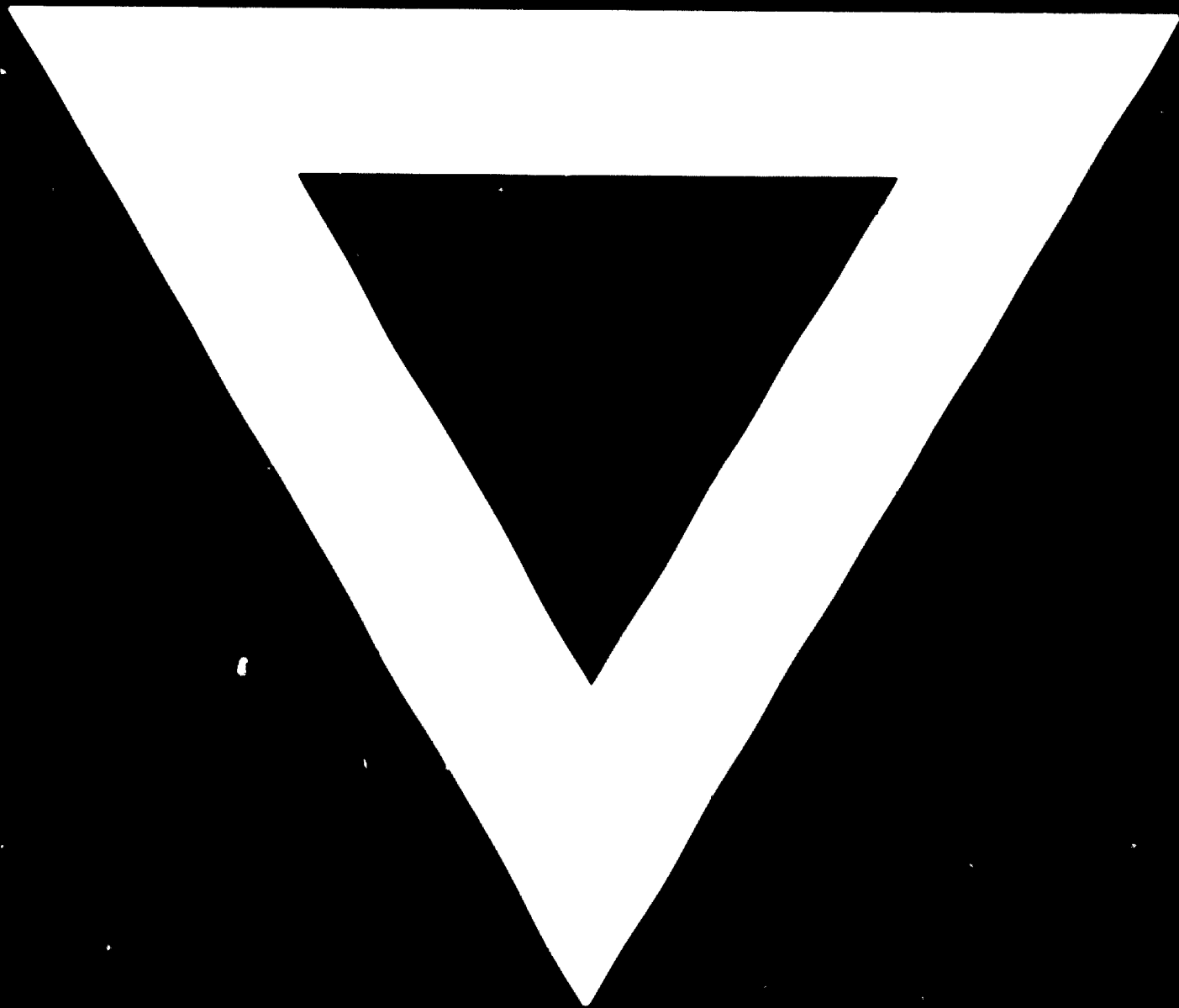
(a) Problems with the Social Security Organization: The study revealed that the percentage of enterprises that have problems or disputes with the Social Security Organization with regard to the application of the social security laws reaches 73% and 65% in footwear and wooden furniture respectively. These problems concern the following issues: the financial burden of the social security laws in the form of the employer's share; refusal of workers to have their social security premium deducted from their wages; instability of employment complicates the administrative procedures; the rigidity of the social security laws and the high interest rates charged for delayed payments;

(b) Problems with the Tax Department: Several factors are held responsible for the problems and difficulties that prevail in the relations with the Tax Department. Some of these factors are attributed to the enterprise itself while others are related to the tax regulations. The study investigated the causes of such disputes which can be listed as follows in order of their relative importance: random and unfair estimation of tax dues, accumulation of taxes and the rigid system for clearing delayed dues, the need to keep systematic records and accounts, unawareness of enterprise owners of the tax laws and regulations.

The study has revealed that some enterprises do not keep records purposely to evade taxes, while others assume that bookkeeping represents an additional cost that they are unwilling to pay. However, the majority of enterprises are not equipped for bookkeeping due to illiteracy and lack of experience.



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