THE ROLE OF EGYPT’S INDUSTRIAL POLICY IN SMES EMPOWERMENT: A FOCUS ON INDUSTRIAL LAND ALLOCATION AND LICENSING

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List of Acronyms

ERRADA  Egyptian Regulatory Reform and Development Authority
GAFI   General Authority of Investment and Free Zones
GARADP  General Authority for Reconstruction and Agricultural Development Projects
GCI    Global Competitiveness Index
IDA    Industrial Development Agency
IDR    Industrial Development Report
MSMEs  Micro, Small and Medium Enterprises
NUCA   New Urban Communities Authority
OECD   Organization for Economic Cooperation and Development
OSS    One Stop Shop
SCUPD  Supreme Council for Urban Planning and Development
SMEs   Small and Medium Sized Enterprises
TORs   Terms of Reference
UNIDO  United Nations Industrial Development Authority
WBG    World Bank Group
WEF    World Economic Forum
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ABSTRACT

The objective of this thesis is to explore the relevance of the current industrial licensing and land allocation policy efforts to industrial SMEs needs in Egypt. The study analyzes the current situation of industrial licensing and land allocation frameworks and how they are facilitating the inclusion of SMEs in the industrial market. SMEs are core contributors to the Egyptian economy and hence assessing efforts undertaken to enhance their participation in the economy is of great importance. SMEs in Egypt, particularly in the industrial sector, are claimed to be not optimally performing as a result of longstanding structural and legislative and institutional barriers. The barriers chosen in this study are the access to land and industrial licensing barriers. The recent industrial policy implemented by the Ministry of Trade and Industry undertook specific legislative, institutional and operational reforms aiming at overcoming those barriers. Those reforms included changes in the investment law, enactment of a new industrial licensing law and amendments to laws governing the industrial land allocation system which resulted in widening the scope of mandates and responsibilities. The study applied qualitative research methods, particularly in-depth interviews with policy makers, industrial SMEs investors and policy experts. The analysis showed that recent policy efforts are promising, however, there are some challenges that might hinder the optimization of the outcomes of these polices. Ambiguity of some policy measures, overlapping reform measures and unclear implementation tools top the concluded challenges, whether for policy makers, policy implementers and/or investors. For example, the differentiation between the role of IDA and GAFI in land allocation and industrial licensing is unclear. Also, coordination within the institutional authorities working on these policies reveals the continuation of a fragmented institutional framework in this regard. Further institutional, legal and operational reforms are still needed to optimize the outcomes of the new industrial policy in Egypt in favor of SMEs performance.
Chapter One: Study Overview, Problem Statement and Research Questions

1.1 Introduction: Industrial SMEs, Inclusive Growth and Competitiveness in Egypt

Industrial policy continues to be the central player in the industrial transformation of most economies, especially transition economies. Industrial transformation usually leads to diversification, competitiveness, social inclusion. Industrial policy should support industrial transformation through removing obstacles and adjusting market failures. The modern thinking of industrial policy is more process oriented in which the focus is more on the interface between public and private actors and how this interaction is taking place, under which roles and what conditions (Hobohm, 2001).

It is widely recognized that SMEs have a significant role in economic development and in industrial development. SMEs are considered the backbone of the private sector since they constitute of around 90% of enterprises across the world, furthermore, SMEs account around 80% of the industrial sector employment. SMEs are usually more labor intensive which indicates a better allocation of resources, especially in developing countries since labor is plentiful while capital is scarcer (UNIDO, 2011).

Developing SME performance and integrating them into the economy has been vastly identified in literature as key determinants of sustainable and inclusive development. Inclusive development is defined by the World Bank as the development that “allows people to contribute to and benefit from economic growth” (WBG, 2009).

The concept of inclusive growth is mainly concerned with the equality in opportunity; opportunities to social service such as health and education, and opportunities to participate in the growth process and benefit from it. As noted in most of inclusive growth literature, SMEs
Empowerment should lie at the heart of any inclusive growth strategy; particularly in high populated developing economies with a large proportion of unskilled labor (Rauniyar & Kanbur, 2009; Kruger, 2009).

In 2016, Egypt launched the Sustainable Development Strategy: Egypt 2030 that aims to jump with the Egyptian Global Competitiveness Rank to the top 30 economies by 2030. The economic pillar of the strategy a development strategy targets that Egypt achieves inclusive and sustainable growth characterized by high competitiveness and derived by knowledge and innovation (SDS: Egypt 2030; 2016).

Currently, the Egypt’s rank and score in the Global Competitiveness Index (GCI) have been deteriorating the past few years.

**Table (1): Egypt’s Rank and Score in GCI (2012-2018)**

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Moreover, Egypt still lies in the second stage of development according to GCI classification, the efficiency-driven stage. According to the Global Competitiveness report, for a country to proceed in the efficiency driven stage, it should develop “more-efficient production processes” and increase product quality. Competitiveness in this stage is enhanced through many factors; among them come the efficient goods markets, well-functioning labor markets, developed financial markets, the ability to harness the benefits of existing technologies, and a large domestic or foreign market (Schwab, 2017). Hence, empowering SMEs is an essential tool in Egypt, not just to achieve inclusive and sustainable growth, but also to improve the competitiveness of the
Egyptian economy and relocate Egypt soon in the third stage of development according to the GCI classification; that is, the innovation stage.

Despite the above stressed importance of SMEs, and despite the known contribution of the SMEs sector in the Egyptian GDP and employment, the sector is still underdeveloped and still suffers from major structural barriers. Statistics shows that the Egyptian economy includes around 2.5 million MSMEs that employ around 70% of the total Egyptian workforce. SMEs are estimate to contribute with around 25-40% of the Egyptian GDP, small enterprises in particular constituted more than 90% of the all private sector enterprises in Egypt and employed around 63% of total employment (El-Hamidi & Baslevent, 2013; European Commission, 2014). The informal sector constitutes around 20% of total MSMEs (Ministry of Trade and Industry, last accessed December, 2016). Moreover, Industrial SMEs in particular account for almost 90% of total industrial firms in Egypt according to IDA figures (IDA, Last accessed, December, 2016).

**Figure (1): Number Industrial SMEs as a percent to total number of Industrial Firms in Egypt**

![Diagram showing the percentage of large firms and SMEs in industrial firms in Egypt](image)

Source: Author Constructed based on IDA Website, last accessed December, 2016.
1.2 Scope of the Study: Problem Statement and Research Questions

Previous and on-going efforts are being exerted to improve the overall performance of the industrial sector in general and the industrial SMEs in particular to maximize outcomes from their activities. However, current performance indicators show that such efforts still did not transform into the expected success. SMEs in Egypt, particularly in the industrial sector, are claimed to be not optimally performing as a result of longstanding structural and policy-related barriers in addition to the recent cyclical problems that have exacerbated since the economic downturn that started after 2011 revolution.

IDA as well as other governmental bodies have been recently working on setting enhanced institutional frameworks and setting a better enabling environment for industrial SMEs to operate more efficiently in the economy. Recent reforms were prepared with the aim of improving the business environment and attracting industrial investors to contribute in the economic activity through overcoming the longstanding barriers and challenges. Land allocation and business licensing top the reform measures identified by the Egyptian government to enhance industrial activities and boost industrial SMEs participation. Recent steps were taken to implement these reforms such as widening IDA’s authorities with regards to land allocation and administration and formulating new regulations to improve and simplify the business licensing process, in addition to a set of other relevant policy measures within the newly introduced industrial policy framework. Nevertheless, the alignment of these reforms to SMEs needs and nature is an issue that needs exploration.

In this study, the researcher focused on industrial institutional barriers and operational barriers that hinder SMEs from the market access; particularly two main barriers: land allocation and business licensing. The selection of those barriers was based on several criteria: first, these
barriers are the barriers that represent institutional, legislative and operational reforms; second, business licensing is mentioned in international surveys on Egypt as one of the top investment barriers, particularly for industrial SMEs. Third, land allocation is a serious problem faced in Egypt and it is receiving increasing attention in Egyptian policies; particularly the recent industrial policy that was launched in 2016 due to the deterioration of Egypt’s rank in it as will be discussed.

Hence, the study aims to assess the relevance of the current industrial policy framework to solving industrial SMEs longstanding obstacles. More precisely, the researcher tries to explore to what extent is the current institutional and legal framework, including the recent reforms, supporting SMEs enhancement and integration into the economic activity. The research questions aimed to be answered in this thesis study is:

To what extent are the current land allocation and business licensing frameworks and recent policy efforts in Egypt empowering SMEs and enhancing their access to the industrial market?

— How does the current land allocation framework and recent policy efforts facilitate SMEs access to land?

— How does the current business licensing framework and recent policy efforts facilitate SMEs issuance of Industrial licenses?

The study focuses on two main dimensions: Land allocation and business licensing. The investigated firms are industrial small and medium enterprises. The researcher depends on the Ministry of Trade and Industry definition of SMEs in the process of selection of the sample firms.
The study started by an introduction and a description of the rational of the study and then proceeded with reviewing literature on the industrial policy and how could it be a tool for SMEs development. This chapter started by defining the industrial policy and revealing its importance and challenges and discussed specific polices pre-requisites to empower SMEs and will focus on licensing and land allocation. Afterwards, a background industrial SMEs barriers and the current situation of business licenses and land allocation in Egypt was presented. Then chapter three is about the study conceptual framework and research methodology. Data analysis and discussion were presented in chapter four and chapter five concluded the study by discussing conclusions and policy recommendations.
Chapter Two: Industrial Policy as a tool for SMEs Development: Evidence from Literature

2.1 Industrial Policy as a Tool for SMEs Development

The productive capacity of an economy is highly determined by the efforts of the private sector and the extent of market efficiency. Putting a country’s industrial and productive capacity into the international context should enhance competitiveness and productivity. Enhancing private sector competitiveness can be perceived as a private-sector role in the first place. However the private sector might not be the sole actor in this process. Sometimes government intervention becomes necessary to adjust market distortions and provide the market with the needed support and incentives that should fill in the missing gaps. Also, government interventions become essential when competition fails to equip the market with the tools needed for innovation and accelerating production capacity (Haque, 2007; UNIDO, 2013).

The aim of this chapter is to highlight the importance of industrial policy as a driver for investment in general and for SMEs empowerment and integration in particular. A presentation of the basic definitions and concepts related to industrial policy and SMEs, evidence-based arguments and counterarguments on the role of industrial policy in promoting and empowering SMEs will be demonstrated. This will be followed by a brief discussion from literature findings on the main prerequisites of an effective industrial policy that meets the needs of SMEs.

2.1.1 The Definition of Industrial Policy

Literature has defined the concept of “Industrial Policy” in different ways. Some definitions were just as simple as ‘promoting the industrial sector’. Other definitions included wider elements like improving competitiveness and innovation. Some definitions focused on the objective of the policy while others focused on the implementation process. Levesey (2010)
constructed an interesting framework and methodology for defining IP that depended on asking questions and providing a framework for analysis. His definition of industrial policy was bounded with four main questions: the scope of the policy, the degree of government intervention, the inclusion of SMEs and the objective of the policy. The first question is whether the policy is limited to manufacturing or the scope is wide to cover any industrial activity, while the second question is whether the government intervention will be through targeting the development of a specific sector of it will be just concerned with the general performance of different sectors. The third question is whether there is an intention to benefit Small and Medium Sized Enterprises (SMEs) or the policy will be just directed to large and mega industries. Finally, the last question is related to objective of the policy; that is, whether it aims enhance productivity or just improve the enabling environment. Levesey (2010) argued that responses to the four questions can help designing the definition of the industrial policy.

In a close manner, Lederman & Maloney (2012) definition also defines the type of government intervention within the framework of industrial policy and defined that policy itself as a set of horizontal interventions that aim to support market capabilities and the enabling environment. Such interventions, according to his definition, should be complemented by other efforts to ensure the relevance and alignment of the broad interventions to the needs and nature of specific sectors in the economy.

Other definitions focused on the drivers of the industrial policy and whether it should be demand driven or supply driven. Some papers defined industrial policy as a supply-driven process, where the government implements a policy based on the economy’s available resources during a specific period of time. For example, Lin (2012) defined industrial policy as “any government decision, regulation or law that encourages ongoing activity or investment in a particular industry”. In the
same manner, While Pack & Saggi (2006) defied industrial policy as “Basically any type of selective intervention or government policy that attempts to alter the structure of production toward sectors that are expected to offer better prospects for economic growth than would occur in the absence of such intervention, i.e., in the market equilibrium”. Finally, some definitions of industrial policy are focused on the demand side of the policy. Haque (2007) claims that whenever competition alone is not supporting the productivity of the economy, the government can interfere in the process of industrial production to provide the necessary support to the industrial sector through a designed policy framework that hence would act as a demand-based response to the needs of the business and industrial sector.

Levesey based on the value chain concept, builds a foundational framework for defining industrial policy, he assumes that this framework has to have some essential elements, based on these elements an effective industrial policy will be created. It is argued that an industrial policy has to include actions on research and development, supply management, market interaction and after sales services provision. Levesey had three approaches to this, the first approach provides for all-inclusive policy, i.e. the government decides to work on all sectors and provides additionally cross-sectional developments. The second approach holds for working on parts of the value chain process and collecting efforts in for its improvement. The third approach is much concerned with the horizontal development which only provides for cross-sectional development. A narrower approach is the fourth approach which holds for providing instruments for the development of a specific sector. The final approach solely focuses of needs of different sector, in other words, providing tailored interventions for different sectors.
2.1.2 The Necessity of Industrial Policy for Development: Arguments and Counterarguments

The debate on the role of the industrial policy started in mid 1980s. Early writings viewed the industrial policy as a necessary tool to reach market equilibrium and provide the “missing link” between the private sector efforts and the market. This argument stems from the lack of confidence in the market forces of an economy as a sole tool for equilibrium and achieving efficiency (Jabsheh, 1994). Oppositely, the invisible hand advocators believed that such policies will just transfer government inefficiencies to the industrial sector.

Arguments supporting government intervention via Industrial Policy

In this section, I present the main literature arguments advocating for industrial policy and their justifications.

Targeting Sectors and Interventions to overcome market disequilibrium. Proponents to industrial policy believe that industrial policy acts as a catalyst to any targeted industry. Although it cannot act as a solution for industrial problems, it can still provide some form of support to industries that might not be able to compete or cannot have equal opportunity in the industrial market. For example, industrial policy can support small and growing industries trying to enter the market and achieve competitiveness. Hence, it is argued that industrial policy will not distort the market mechanism, rather, it will just correct market disequilibrium. In fact, several papers addressed the success of industrial policy in industrial and emerging economies. For example, Jabsheh (1994) claimed that industrial policy had a positive effect in Korea, Japan and Hong Kong where there were institutions designed and mandated to implement the measures included in the policy.

Protection of SMEs from Fierce Competition: supporters of industrial policy agree that it provides protection to small industries from fierce rival competition, especially the foreign one. As Galal (2008) argues, industrial policies in the form of subsidies, cheap credit or tariffs reductions
decrease production costs for such industries and hence increases their profits and widen their shares in the markets gradually. Incentives granted through industrial policy motivates entrepreneurs especially small ones to invest in knowledge acquisition through introducing innovative products and techniques to the market and train their workers.

**Industrial policy Spillovers on the sector.** According to Galal (2008), Pack & Saggie (2006) and Taha (2007), industrial policy can positively affect industrial sector performance through three main channels knowledge spillovers and dynamic scale economies; targeting special industries development will create knowledge acquisition and accordingly knowledge spillovers will benefit the whole economy.

**Industrial Policy can create information externalities.** Government intervention in the industrial sector could help in providing entrepreneurs with the needed information about the cost structure of a certain industry and could also help countries to produce more than its production pool. If the government performs this role efficiently, this shall provide investors with the information needed to compete in areas out of their comparative advantage and even enhance competition on an international level (Galal, 2008; Pack & Saggie, 2006; Taha 2007).

**Industrial Policy promotes linkages and supply chains.** Given that some industries are already linked with other industries through a supply chain, government coordination policies can provide a sort of connection, facilitate inter-linkages between industries and provide a benefit from economies of scale, and supply the connected industries with the needed infrastructure for the whole supply chain and not in a fragmented manner. This will definitely minimize costs and increase productivity of the whole chain (Galal, 2008; Pack & Saggie, 2006; Taha, 2007).
Arguments opposing government intervention via Industrial Policy

On the other side, opponents of setting an industrial policy framework in a country usually rest their arguments on their belief that there is no clear relationship between industrial policy and the industrial performance. They rather believe in a strong role of the government in distorting the market mechanism and carrying over government inefficiencies to the private market. In this case, industrial policy can be just indicative, rather than forcing a hand into the development and innovation process or even the business marketing.

**Industrial Policy might distort market equilibrium.** Jabsheh (1994) argues that industrial policy can distort domestic equilibrium since it doesn’t treat all industries in an equal manner. This is mainly through the taxation and subsidies and other investment mechanisms that are designed differently for different industrial sectors. Moreover, industrial policy can even distort international trade since government protection measures can create an isolate the domestic market and in this case countries will lose the comparative advantages and other potential trade benefits.

**Government will never have sufficient information about the market.** Opponents even criticized the assumption that the government has the best pool of information and can identify coordination opportunities and design support schemes to enhance productivity and competitiveness in the economy. The assumption is based on the belief that the government can identify the strategic and neediest sectors, potential winners, geographical location investment maps and latest technologies. However, Opponents argue that, in an efficient market economy, the private sector usually have better information about access to information and more efficient market studies. This is not to mention the challenges related to government bureaucracy, politically-driven decisions, rent-seeking and principal-agent problems and other government failures (Galal, 2008; Jabsheh, 1994; Pack & Saggie, 2006; Taha, 2007).
Rodrick (2014) argues that the main challenge for the government in the industrial policy process is the institutional arrangements needed to produce a well-designed policy and to implement it. The first challenge with the institutional arrangements is that although the government primarily aims to overcome the problem of information externalities, it does not always have sufficient information about the nature of the market failures and their locations. This emphasizes the need of engaging private sector and other stakeholders in the policy-design process.

Government Bureaucracy – and sometimes corruption - might hinder the efficient implementation of the designed policy. Depending on government bureaucrats in creating the policy could open a room for rent-seeking behaviors and corruption. In this case, incentives developed to encourage investments can simply turn into a rent transfer mechanism to corrupted businessmen and bureaucrats (Galal, 2008).

Uncertainty of industrial policy outcomes. Industrial policy is also criticized for its uncertain outcomes. Opponents claim that the implementation of the policy can impel mistakes that can affect the economic performance not just in specific industries but also on the macro level. However, huge mistakes could be minimized if the policy was designed in close coordination with the private and related stakeholders to guarantee successful implementation. Rodrik (2004) notes: “The right model for industrial policy is not that of an autonomous government applying Pigouvian taxes or subsidies [i.e. lump sum taxes or subsidies], but of strategic collaboration between the private sector and the government with the aim of uncovering where the most significant obstacles to restructuring lie and what type of interventions are most likely to remove them” (Rodrik, 2004).
2.1.3 The Pre-requisites of an effective Industrial policy

In the industrial policy design process, the government should work on providing an adequate institutional arrangement for developing a sound policy and overcoming challenges. Reviewed literature mentioned specific factors as pre-requisites for an effective industrial policy.

First, the Establishment of an Effective Institutional Framework that Guarantees the Successful Implementation of the Policy

Given that industrial policy is considered a set of governmental decisions and actions, the institutional setting that guarantees the effective implementation of this policy is not of less importance. Literature stresses on the importance of providing an institutional framework that guarantees a smooth implementation of the policy.

These institutions should acquire all the required powers, the needed information, the adequate human resources, the efficient understanding and implementation tools that empowers them to implement the required programs and developments (Kollavalli et. Al, 2011; Rodrick, 2004).

Coordination between the industrial policy institution and the implementing institutional bodies is a necessity to ensure the effective implementation of the policy. For example, a “development agency” might be the agency implementing the designed industrial policy, however, the tax authority is an essential institution for implementation. Accordingly, the coherence in the bureaucratic space is an important factor in the design of the policy and even in the choice of activities (Loewe, 2013; UNIDO, 2013). Loewe (2013) further affirms the need of establishing coordination councils as part of the institutional architecture to make sure that the information exchange process is taking place and that social learning is happening. These councils could be public-private bodies that include relevant groups. They have to seek collecting information on new investment ideas, market problems, facilitate coordination between different institutions, push
for stronger legislative framework for the policy implementations and lobby for all needed changes. Such institutions could be created either at national and sub-national levels or even on sectoral levels (Loewe, 2013).

Second, a strong industrial policy should include conditional incentives and support to growing and new industries.

It is believed that the more the government is willing to support new innovative activities and latest technologies, the more the policy is expected to succeed (UNIDO, 2011). In this regard, Galal and El-Megharbel (2006) argue that supporting entrepreneurs should be based on their measurable outcomes rather than plans and strategies. For example, subsidies should be tied with exports, productivity, employment indicators…. etc. Nevertheless, setting time frames for achieving targets is very important. Putting a time limit to the support granted to investors would help them realize that the given support will end at some point in time and that they will have to find a way in which they can internally sustain their project. Focusing the support on activities rather than sectors can better help the economic performance (Galal and El-Megharbel (2006).

Third, An efficient industrial policy should balance between the optimum forms of intervention: horizontal versus vertical interventions

An effective Industrial policy should balance between vertical and horizontal interventions. It is argued that it is better for the state to horizontally support the industries by creating a good working environment rather than encouraging specific sectors that can even the choice of these sectors can be problematic (Loewe, 2013). Oppositely, Rogersson, (2001) argues that Promoting industrial SMEs could take place by focusing the efforts on certain industries that show a competitive advantage and an opportunity for growth. As discussed earlier this goes under the vertical industrial policies which focus the efforts on specific manufacturing sector in which it provides certain tailored incentives for investor in these sectors. These sectors are often selected
according to the sector’s performance as well as their economic contribution, socially, economically, and environmentally. Consequently, governments in this case have to make rigorous exercise in “picking winners kind of policy” (Rogersson, 2001).

Third, An effective industrial policy should set proper selection criteria for the supported projects

Industrial policies need to include proper selection criteria of the projects that will receive support from the government. For example, linkages of these activities to other industries, abilities to provide technological spillover effects, sustainability and ability of re-invention and sustaining their presence in the market Rodrick (2004).

Fourth, Building Strong Transparency and Accountability Frameworks and an Effective Monitoring and Evaluation System

Like any policy or strategy, building effective institutional transparency and accountability framework is an essential pre-requisite for a good policy implementation institutional framework. Industrial policy design and stages should be publicly disclosed and easily accessible for the public and investors. Continuous monitoring will protect the implementing institutions against undertaking rent-seeking behavior. Providing a strong system for monitoring the behavior of the policy makers and implementers is a key driver of the successful implementation of the policy. Public monitoring is essential to prevent any corruptive or unjustified preferential treatments (Rodrick, 2004; Loewe, 2013; UNIDO, 2013).

Loewe also stresses on the importance of providing regulatory impact assessment of each policy instrument used and that there should be an effective monitoring plan. Also the UNIDO IDR (2013) stresses on the importance of selecting indicators that specifically measure the impact of the policy not just its outcome. It is also argued that there should be an assessment to the
unintended impact that is expected to show after the implementation of the policy that might show in factors beyond the industrial output, for example technology advancements and innovation levels.

**Fifth, Strong Political Leadership, Commitment and Lobbying Efforts**

Rodrick (2004) mentions that political leadership tops the essential success factors for the success and sustainability of any industrial policy. To create an effective industrial policy there should be a strong political commitment from the leadership. The presence of strong leadership enhances communication and awareness and facilitates coordination with other bureaucratic institutions. Loewe (2013) agreed with Rodrick (2014) on the importance of the presence of a legitimate political leadership that backs this strategy up and provide the proper advocacy and support. He additionally mentions the importance of lobbying of pressure groups for creating a sound industrial policy that overcomes information and coordination externalities. The

**Sixth, An Efficient Industrial policy require a healthy business environment**

In this regard, reviewed literature highlight the importance the investment and industrial climates as success factors of the designed industrial policy. Doing business factors such as well-educated and trained labor force, well acquainted to innovation; adequate infrastructure and proper transportation system; the existence of a proper financial system that facilitate the access to capital for industrial projects; the elimination of any unnecessary bureaucratic regulations; maintaining an economic and political stability; liberal trade and finally and transparent taxing system for the industrial sector (Galal and El-Megharbel, 2006; Rodrick, 2014)
Seventh, Alignment of the Industrial Policy with the National Frameworks and other interrelated policies

Designing an effective and implementable industrial policy cannot be done without aligning this design with other related policies. Other policies could support or conflict with the designed industrial policy designed which could lead to future problems in implementation. Among these policies is the competition policy. The competition policy always holds for preventing monopolies and guarding the market from dominant mergers and acquisitions. It guards the market from any abuse that could weaken competition. The competition policy may conflict with the industrial policy since the later could hold for providing advantages for certain sectors or activities. Unlike the competition policies which usually look for the proper governance of the market (UNIDO, 2013).

The second policy that is recommended to be considered is the trade policy. The trade policy of any country directly reflects in its international competition. Globalization and the international integration put pressures on the internal market of any country and made competition fiercer. Pressures from the international communities and the World Trade Organization (WTO) has forced countries to lower trade barriers like tariffs, non-tariff barriers and quotas. This adversely affected the local economy of most developing countries as high quality international products dominate the market and consequently local producers tend to specialize in low value added products like agricultural commodities or low value added manufacturing products that require low wages (Haque, 2007; UNIDO, 2013).
2.2 Specific Industrial Policy Pre-requisites to Empower SMEs and Enhance their Participation in the Industrial Sector

Although the contribution of SMEs in the economic activity differs from a country to another, it is widely evident that SMEs always have a significant share of the economic activity a driver for inclusive growth and development. SMEs activities increase workers' productivity and improve the overall productivity of an economy (Ayyagari, 2014). Although large firms might have high productivity levels, small firms have the highest rates of sales growth, job creation and employment growth. As per the Tewari et. al (2013) SMEs that employ less than 250 full-time employees have a great share from the total number of companies in any economy and usually provide a significant share of total jobs and the value added in any economy. More specifically, Hobohm, (2001) argues that industrial SMEs can employ 40 to 80% of the employment of the SMEs employment of an economy.

This is mainly because SMEs are usually more labor-intensive and therefore they create a more equitable distribution of income and significant reduction in poverty levels. They also allow for better inclusion of women into the economic activity and reduce the gender wage gap. Additionally, being more labor-intensive allows for better resource allocation in developing economies with high working population and limited capital resources. SMEs also help in developing decentralized productive capacities since they have a wider geographical coverage and can absorb the productive resources at all levels (Hobohm, 2001).

Despite the importance of SMEs in developing countries, they still suffer from several common identified barriers. A number of scholars have identified the access to finance as the major barrier to SMEs growth and development, especially in the industrial sector. The access to finance is always a main barrier to investors that doesn’t allow them to establish or even grow. In developing
countries, there is usually a problem of the limitation of credit instrument and credit guarantees. This hinders investors’ attempts to grow and cope with technological changes all-over the world. It was also pointed out that the lack of finance appears highly in transition economies where financial markets are poorly developed and loans are usually limited to state enterprises or large firms (Stevenson, 2010; Santiago, 2016; Lin, 2012; Wang, 2012).

Access to non-financial inputs is also considered a constraint to SMEs business development and growth. Taxes and tax administration are also considered barriers for SMEs entrance and formalization. However, other non-financial barriers like access to land, scarcity of land, poor access to information on land availability and land management are usually considered serious barriers to SMEs empowerment and participation in the economy. Licensing and business environment regulations are also considered major barriers to SME growth especially in developing countries. Issues like the management skills and training of entrepreneurs and their capacity is also can also back set the performance of SMEs (Sidik, 2012 & Wang 2012, 2016).

As a response to SMEs problems, many countries created governmental bodies to focus their work on SMEs and drafted plans for their developments. Other agencies draft plans for industrial development and therefore, different plans and policies might not be harmonized. In this case, knowledge is harder to information and coordination externalities increases demotivating investors. The poor alignment of different policies is a drawback in any economy that usually negatively affects SMEs (Altenburg, 2011).

In addition to the previously mentioned role of industrial policies in enhancing development, industrial policy is a fundamental tool in promoting SMEs especially in developing countries. Supporting the establishment of SMEs and strategies to enhance competitiveness is a starting point. Supporting the entrepreneurship policy and creating an attractive environment for investors is a
crucial aspect for development. However, depending on an entrepreneurship policy might not be enough. Barriers to starting up business might need actions far beyond an entrepreneur policy. As mentioned earlier, business registrations procedures, industrial licenses and regulations and business development services constitute real impediments to SMEs investments in developing countries.

In many countries, the enormous procedures that the investor has to undertake in order to establish a business and especially and industrial business are beyond the capabilities and capacities of many investors, particularly small and medium sized projects. This barrier usually hinders investors from formally registration and is a main reason for the creation and persistence of the informal activities. Bureaucratic, non-transparent and in many cases corrupted licensing process is clearly evident in many developing economies with imperfect institutional frameworks. Time and efforts – that can take months and years sometimes – to issue a business license is an enough reason to crowd out private investment; predominantly SMEs (Stevenson, 2010; Santiago, 2016; WBG, 2012).

In this regard, governments are encouraged to implement policies that can facilitate business entry and operations. Simplifying procedures, providing information and overcome bureaucracy and overlapped duties is also crucial for business facilitation. One step to do this is to set an industrial policy framework that consolidates efforts, facilitates communication with investors, simplifies laws, regulations and procedures in a way that promotes industrial investment in general and SMEs in particular (Stevenson, 2010; Santiago, 2016; Lin, 2012).

In transition and developing economies\(^1\), trade liberalization and private-sector led markets have widened the scope for industrial firms’ growth at many levels. This openness might negatively

\(^1\) Transition economies are economies changing their economic systems from socialist, government- dominant economic systems to open markets, capitalist, private-sector dominated economies (IMF, 2014).
impact industrial SMEs in developing countries since one of its main components is the removal of
the protectionist trade policies and the direct exposure of domestic investment to fierce international
competition and international standards added to the local competition by the large firms (Hobohm,
2001).

Governments in this case have to work on aligning the industrial policy instruments with the
macroeconomic framework and policies and link the industrial policy to the general business
environment locally and internationally. For example it is important to align the taxing policy with
the priorities of the country, taxing policy should address SMEs problems. Investors should not be
hindered to formally register their firms due to the harsh taxing policies. Additionally, aligning the
industrial policy efforts with the current trade and competition policies is need. There should be an
encouragement to SMEs to compete globally. Monopoly practices should be controlled and the
government has to create a trade policy that best fits the needs of SMEs. Such policies could include
reducing import tariffs on factors of production and opening global markets for small investors
through networking them with global values chain (Stevenson, 2010; WBG, 2014).

Another solution is the clustering policy, clusters are defined as the “geographic concentrations
of interconnected companies, specialized, service providers, and associated institutions in a
particular field that are present in a nation or region” (Chaplin, 2010). Industrial clustering can be
a key tool for industrial development. The methodology of cluster development is based on
providing a full value-chain of a certain industry. It targets creating and/or importing all essential
players working on the cluster to a same geographical location. The government should have an
essential role in the development of such clusters ensure their efficient operation (Chaplin, 2010).

Government policies could range from providing infrastructure to targeting industrial
concentration through creating industrial parks. This requires financial funding to support utilities
like electricity and water. In the clustering process, the government usually provides the needed sources of technology and also provides the needed knowledge of the market and the possible innovation opportunities. Additionally, for the clusters growth policy, there has to be a strategy for linking SMEs across borders, as discussed above, the export strategy should be aligned with the needs of these firms and serve the purpose of the cluster (Akerlof, 1970; Gereffi & Stark, 2011).

Clustering policy is adopted in order to overcome some barriers that are faced by SMEs. It is considered a solution for the fragmentation problems. Evidence shows that clusters enhance firms' efficiency and achieve economies of scale. Additionally, clusters make it easy for businesses to start-up; in an effectively managed cluster, suppliers are available for these stat-ups. In developing countries, clusters are mostly labor intensive and they work with work with a small-scale technology. Therefore, an industrial clustering policy entails social inclusion and inclusive growth. Cluster also solve the problem of the high transaction costs between suppliers, manufacturers and traders, this is attributed to many reasons. Among these reasons are the imperfect contracts enforcement, reachability and lack of information (Akerlof, 1970; Gereffi & Stark, 2011).

In addition the general pre-requisites discussed earlier to design and implement an efficient industrial policy; specific issues appear to be of serious importance for industrial SMEs empowerment. In addition to the other famous barrier, problems related to access to land, issuing licenses, and business sophistication are always mentioned among the top barriers to SMEs participation in the industrial sector (Schwab, 2017; World Bank, 2016). Policies related to improving land allocation and administration, easing business licensing, and enhancing clustering and value chains are crucial for promoting SMEs and maximizing their outcomes in developing economies. Since these policies are the focus of this study; a deeper overview on their importance and characteristics will be presented in the remainder of this section.
2.2.1 Land Allocation Policy and SMEs Empowerment

Setting for an efficient land market is another policy instrument that an industrial policy should address. Land markets in mismanagement practiced by government in assigning properties. This is clearly evident in rigid contracting and ineffective procedures in property registration. Poor land administration consequently result in creating barriers to SMEs operations, especially in urban areas. Efforts in the area of land allocation and land ownership are crucial in order to solve the problem of the wasted and misused land (Kolavalli et al., 2011).

2.2.2 Industrial licensing to Promote Industrial SMEs formalization and participation in the economy

Licensing is considered a main barrier to the SMEs developing counties are impeding investors’ efforts especially SMEs to grow and participate in the economy. Evidence shows that SMEs suffer from inadequate access to land and this goes back to the particularly in Egypt, it is the second rated barrier after the access to finance (WBG, 2017).

The OECD (2006) defines businesses licensing as “the practice of requiring prior approval of a government authority for the establishment or conduct of a business”. Approval is based on the provision of specific validated or certified information usually in written form.” The WBG identifies business licenses as a commonly used form of regulation that controls the entry to the market.

Licensing usually imposes a range of rights, obligations and conditions on the investor and puts the investment within formal framework. Business licenses do not include activities like the general business registration. Business registration usually includes taxation, name of the company and statistical purposes. In some cases, permits are part of licenses and sometimes they are not. Permits are usually a provision of regulatory approval for a defined activity. Licensing is close to
procedures like business registration, inspections and permits, nevertheless it is different from them. In a good licensing system, it is a mean to fulfill legitimate and regulatory procedures and a tool to implement regulatory purposes for the public benefit. This protection could include environmental protection, health and safety, preserving scarce resources and national security. Licenses is also a way to regulate the entry to markets and issue the commencement of activities.

Business licensing are offered by the national government or can be delegated to authorities like business associations, chambers of commerce and other non-governmental agencies (IFC, 2006; OECD, 2006 & WBG, 2010).

Wang (2012) argues that criteria and policies that guide the activities and sectors that have to be subject to licensing widely differ from a country to another. There are no defined list of activities that is widely known should be subject to licensing procedures. However, there are justified and unjustified licenses. Justified licenses are licenses that set operating conditions in which businesses are expected to comply with certain requirements, standards and conditions. There are many sectors that needs to be regulated in order to protect environment and people. However, not all licenses fulfills this purposes. This leads to the occurrence of unjustified licenses. As per Wang (2012), unjustified license is the license that tends to regulate things like goods and services certification, notifications of regulatory compliance and process inspections (WBG, 2010).

Unjustified licenses can results due to many issues: first, the government might apply them as a data collection tool about businesses for planning purposes. However, other tools such as marketing surveys, tax reports and business registration reports could be better alternatives to unjustified licensing. Also, they might issued as quasi-fiscal functions; to raise revenues for a certain agency. On the other hand, some countries carry on some procedural facilitations for specific sectors or SMEs or for innovation reasons (Wang, 2012).
2.3 Industrial SMEs in Egypt: Background and Statistics

As mentioned earlier in this study, the SMEs sector is a major contributor to the Egyptian economy. Nevertheless, it is not surprising that the SMEs sector in Egypt suffers from the general barriers to investment in addition to the industrial SMEs-specific barriers in particular with a focus on land allocation and industrial licensing. Data on barriers are extracted from international surveys and assessments on investment climate and doing business: The Enterprise Survey issued by the World Bank, The Investment Climate Assessment issued by the World Bank, The Global Competitiveness Index issued by the World Economic Forum, and the SMEs Policy Index issued by OECD. This in addition to some brief information from literature on the two main institutional barriers: Land allocation and Licensing. It is worth noting that literature and empirical work on this topic in the Egyptian case is still very limited.

2.3.1 Barriers to SMEs investment in Egypt

In addition to the general known barriers to investment in Egypt, the common recognized structural barriers to SMEs activities in particular are mainly access to finance, business licensing, corruption, tax administration, land allocation and administration. This is in addition to cyclical barriers such as political instability and the repercussions of the recent economic downturns. In this section, a snapshot will be presented on the land allocation and business licensing problems in Egypt as mentioned in investment surveys and relevant literature. This background will support the qualitative analysis that will be undergone in the next chapter on the current situation and the remaining steps with regards to these two barriers.

2.3.2 Business Licensing Problem in Egypt

According to the Enterprise survey issued by the WBG (2016), obtaining business licensing ranks the fourth top obstacle facing business in Egypt and the third top obstacle facing medium enterprises in the manufacturing sector in Egypt after the political instability and access to finance.
Days needed to obtain construction and operating license in Egypt are significantly higher than MENA region and world countries (WBG, 2016).

Table (2): Barriers to Investment in Egypt by size of Firm - Manufacturing Sector (2016)

<table>
<thead>
<tr>
<th>Biggest Obstacle</th>
<th>Egypt 2016</th>
<th>Small firms</th>
<th>Medium firms</th>
<th>Large firms</th>
<th>Middle East &amp; North Africa</th>
<th>Lower Middle Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to finance</td>
<td>13.2</td>
<td>13.8</td>
<td>10.6</td>
<td>16.6</td>
<td>9.6</td>
<td>13.5</td>
</tr>
<tr>
<td>Access to land</td>
<td>1.1</td>
<td>1.5</td>
<td>0.3</td>
<td>0.7</td>
<td>2.7</td>
<td>3.9</td>
</tr>
<tr>
<td>Business licenses and permits</td>
<td>8.2</td>
<td>8.0</td>
<td>8.9</td>
<td>7.3</td>
<td>3.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Corruption</td>
<td>6.6</td>
<td>7.2</td>
<td>3.8</td>
<td>10.9</td>
<td>7.1</td>
<td>9.1</td>
</tr>
<tr>
<td>Courts</td>
<td>0.2</td>
<td>0.3</td>
<td>0.1</td>
<td>0.3</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Crime, theft and disorder</td>
<td>2.9</td>
<td>4.0</td>
<td>1.0</td>
<td>0.3</td>
<td>1.8</td>
<td>4.2</td>
</tr>
<tr>
<td>Customs and trade regulations</td>
<td>4.6</td>
<td>3.5</td>
<td>7.4</td>
<td>3.9</td>
<td>3.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Electricity</td>
<td>5.9</td>
<td>6.7</td>
<td>4.7</td>
<td>3.3</td>
<td>12.8</td>
<td>10.5</td>
</tr>
<tr>
<td>Inadequately educated workforce</td>
<td>4.4</td>
<td>3.5</td>
<td>6.4</td>
<td>5.0</td>
<td>8.0</td>
<td>5.7</td>
</tr>
<tr>
<td>Labor regulations</td>
<td>4.1</td>
<td>2.4</td>
<td>7.2</td>
<td>7.7</td>
<td>2.7</td>
<td>2.4</td>
</tr>
<tr>
<td>Political instability</td>
<td>33.8</td>
<td>33.0</td>
<td>36.6</td>
<td>30.7</td>
<td>27.0</td>
<td>13.8</td>
</tr>
<tr>
<td>Practices of the informal sector</td>
<td>3.1</td>
<td>3.7</td>
<td>1.8</td>
<td>2.6</td>
<td>7.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Tax administration</td>
<td>1.9</td>
<td>1.9</td>
<td>2.3</td>
<td>0.6</td>
<td>1.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Tax rates</td>
<td>8.7</td>
<td>8.9</td>
<td>7.8</td>
<td>10.0</td>
<td>9.6</td>
<td>9.2</td>
</tr>
<tr>
<td>Transportation</td>
<td>1.3</td>
<td>1.6</td>
<td>0.9</td>
<td>0.2</td>
<td>1.7</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: WBG, 2016. Enterprise Surveys: Egypt Country Profile. WBG.
As further illustrated in the table (2), the number of days required to obtain construction and operating permits in Egypt is inversely related to the firm size; that is, smaller firms take more time in obtaining licenses compared to larger firms.

Table (3): Days needed to Obtain Licenses and Construction Permits in Industrial Firms in Egypt (2016)

<table>
<thead>
<tr>
<th></th>
<th>Egypt</th>
<th>Small firms</th>
<th>Medium firms</th>
<th>Large firms</th>
<th>Middle East and North Africa</th>
<th>All countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Days to obtain a construction-related permit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Days to obtain a construction-related permit</td>
<td>103.3</td>
<td>104.1</td>
<td>38.4</td>
<td>139.0</td>
<td>99.1</td>
<td>47.5</td>
</tr>
<tr>
<td>Days to obtain an operating license</td>
<td>31.9</td>
<td>34.2</td>
<td>33.7</td>
<td>18.9</td>
<td>38.6</td>
<td>22.5</td>
</tr>
</tbody>
</table>


A recent Investment Climate Assessment undergone by the World Bank argued that the licensing problem has recently shown a slight improvement as indicated in table (3). Days to get permits and operating licenses have decreased significantly WBG (2017).

Table (4): days to receive permits and operating Licenses: 2013-2016

<table>
<thead>
<tr>
<th>Permitting</th>
<th>Operating License</th>
<th>Permitting</th>
<th>Operating License</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013 2016</td>
<td></td>
<td>2013 2016</td>
</tr>
<tr>
<td>0-7 days</td>
<td>9% 32%</td>
<td>0-7 days</td>
<td>4% 41%</td>
</tr>
<tr>
<td>8-15 days</td>
<td>9% 1%</td>
<td>8-15 days</td>
<td>6% 21%</td>
</tr>
<tr>
<td>16-30 days</td>
<td>30% 10%</td>
<td>16-30 days</td>
<td>25% 14%</td>
</tr>
</tbody>
</table>
Kaganova (2017) affirms this problem by noting that the difficulties in obtaining permits and licenses for construction and operation on industrial land “continues to hinder attractiveness of land in many IZs and to contribute to the cost of doing business for potential tenants and Small-Medium Enterprises (SMEs) in particular” (Kaganova, 2017:5). The paper suggests to construct a one-stop-shop similar to that in GAFI to issue permits and licenses for industrial projects in IDA-controlled industrial zones and projects.

Kaganova, 2017 also raises the private sector claim issuing permits for industrial land takes months, and, “even after licenses are obtained, at least 50% of an enterprise’s management time is still spent on dealing with government” (Kaganova, 2017: 5). The time and effort exerted in this process – particularly for SMEs- is a core determinant for the choices of these activities to stay in the informal sector.

### 2.3.3 Land Allocation Problem in Egypt

With regards to land allocation issues, it is counted among the top barriers that hinder SMEs operations in Egypt. According to the Investment Climate Assessment, although the time needed to request land allocation with the relevant permits and licenses have reduced, however, access to land in Egypt is considered a generally deteriorating issue and its problems are becoming acute for smaller firms, and for firms in Upper Egypt (WBG, 2017). The reasons behind this deterioration need to be investigated and analyzed.

<table>
<thead>
<tr>
<th>Time Frame</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>31-90 days</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>31-90 days</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>10%</td>
</tr>
<tr>
<td>More than 90 days</td>
<td>13%</td>
</tr>
<tr>
<td></td>
<td>23%</td>
</tr>
<tr>
<td>More than 90 days</td>
<td>13%</td>
</tr>
<tr>
<td></td>
<td>7%</td>
</tr>
<tr>
<td>Still waiting or rejected</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>29%</td>
</tr>
<tr>
<td>Still waiting or rejected</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>7%</td>
</tr>
</tbody>
</table>

Figure (2): Access to Land percentage citing as a Major constraint in Egypt (2013-2016)


As shown in figure two, the problem is magnified in the case of small and medium enterprises. Smaller and medium firms face bigger problems with regards to land access compared to larger firms as illustrated in the below figure.

Figure (3): Access to Land as a Barrier to investment – by Firm Size (2016)

Compared to other countries, Egypt still ranked as no. 122 among 190 countries by the composite “doing business” index (WBG, 2016). According to Kaganova (2017), "more than 25% of private domestic companies surveyed in 2009 identified access to land as a “major or severe” factor, which places Egypt as no. 38 among 46 countries studied".

Literature analyzing the reasons behind the mal performing land allocation system is limited. However, of the main works done in this regard is what Kaganova (2017) mentioned as the land allocation and administration system in Egypt suffers from several problems related to legal and institutional framework and conflicts between implementing agencies as well as poor information provided to investors.

Loewe (2013), argues that helping small and medium-size enterprises to access land tops the necessary measures perceived as priorities in the new Egyptian industrial policy.

IDA is currently the institution entitled to provide land and infrastructure to enterprises industrial zones including the craft zones. Accordingly, in the chapter six, the researcher will present the results of a qualitative analysis on the recent steps taken with regards to land allocation problem in Egypt, particularly for SMEs.

In summary, the literature reviewed discussed the industrial policy issues form different perspectives. This study presented different definitions of industrial policy, these definitions ranged in scope and purpose, each had specific focus. Then arguments pro and against industrial policy were presented. The study identified the commonly discussed arguments that support the enactment of industrial policy and the arguments that claim that its negative impact is high and that the intervention of the government in the industrial sector is not preferable. The study also addressed factors required or the “pre-requisites” of an effective industrial policy. These factors included factors that can be generalized over any policy like transparency, accountability and
political leadership and other factors that are specifically needed in for the industrial policy like the choice of the intervention; whether vertical or horizontal interventions, also alignment of industrial policy with other policies like trade policy and competition policy.

The thesis study afterwards focused on industrial SMEs and their significance in the industrial sector. Barriers to SMEs were also addressed, the study reviewed the financial and non-financial barriers that face SMEs as per the reviewed literature, these barriers included access to finance, access to land and regulatory bureaucracy. Attendant to that, the study mentioned the most important solutions for SMEs barriers discussed. Then the study focused on two main solutions to SMEs access to market, first, is the land allocation and second is the industrial licensing as a way to facilitate the access of SMEs to the market. The last section in literature gave a background on the industrial SMEs problems in Egypt with a special focus on the land allocation and licensing problems. Form the literature reviewed, it is inferred that there is little research about the land allocation and industrial licensing problems from the investor’s perspective in a qualitative matter that discussed the effect of the legislative and institutional frameworks of these two issues and how are they affecting the investor.
Chapter Three: Conceptual Framework and Research Methodology

3.1 Conceptual Framework

The study intends to highlight the relevance of the current industrial development policies implemented to the needs of industrial SMEs in Egypt. Recent policies and newly enacted laws are assessed with regards to their contribution to solving SMEs problems and overcoming obstacles of formalization and market entry. Based on earlier review of literature, this chapter highlights the main concepts that are interlinked with the industrial policy and process issues in Egypt. The analysis in this study is limited to two main industrial policy issues: 1) land allocation and 2) business licensing. The rationale behind choosing these two reforms is that they are directly connected to SMEs industrial market access and that both reforms received reforms in terms of legislative, institutional and operational perspectives.

3.1.1 The definition of Industrial Policy

Industrial policy is widely defined in literature. Some scholars viewed it as an instrument that governments make use of to create a competitive industrial environment and bring about structural change. Others define it as a dynamic process that has to be regularly monitored and renewed. This study adopted the definition of Levesy (2010) who defined the industrial policy as a list of requirements that are used to shape the policy analysis. Levesy (2010) views industrial policy as an instrument that has to be evaluated and analyzed and additionally, the appropriateness of the instruments used within industrial policy must be understood and evaluated. Levesy describes four main elements that his study considers as determinants to effectively identify and evaluate the appropriateness of an industrial policy. The four elements are best described in four questions as follows:
• Is the policy limited to production and/or manufacturing or does it apply to the entire industrial sector?

• Are the policy instruments used crosscutting sectors (horizontal policies) or are they specified to certain sectors (vertical policies)?

• Are the policy instruments used target the growth of SMEs or are they designed to fit large companies?

• Are the policy instruments being adopted influencing the economic structure of the economy or are they more specified to industrial development? Are they just enabling conditions for better competitive industrial sector or are they designed specifically for industrial structural change?

The above definition is the best fit for the study since it frames industrial policy as a collection of instruments that contribute to the industrial development and consequently affect the performance of the economy as well as enforcing structural change. Moreover, Levey’s definition stresses on the aspects of the policy that concern the inclusion of SMEs, and the chosen sectors. The focus of this study is the relation of the industrial policy instruments to SMEs and the obstacles such enterprises face within the Egyptian context.

Production is only one part of the manufacturing process and so identifying whether the industrial policy targets the entire manufacturing process or just the production phase is important. Some industrial policies are just concerned with production activities while others target the entire manufacturing sector including activities such as R&D and the design of the products, the products themselves and also service provision (Levey, 2010). This study will focus on the entire manufacturing sector since it allows for analyzing the potential linkages between various policy instruments that are all crucially needed manufacturing process. Additionally, the Egyptian
industrial strategy adopted by the Egyptian Ministry of Trade and Industry extends to nearly the entire manufacturing process and is concerned with the linkages that exist between the different components of the manufacturing process. It is also concerned with the alignment of the manufacturing policy instruments to other policy instruments, for example, trade policy and competition policy.

3.1.2 SMEs and SMEs Empowerment Definition

SME definition and scope differs from one country to another and even differs within countries and international agencies. The variations in definitions are qualitative as well as quantitative. Some qualitative definitions include factors like the human dimension and the social aspect, also idea of the relation between the entrepreneur and the management of the firm and to what extent is the management of the firm personalized. SMEs can also qualitatively be defined by the extent of the flatness of the organizational chart. On the other hand, other scholars and institutions define SMEs through measurable elements like total revenues of the firm, the employed capital, the sales turnover and the value of the contracts undertaken.

In the Egyptian context, SMEs have been more commonly defined through quantitative means, as such, the study will adopt a quantititative approach in defining the SMEs. This is also in line with the latest definition of the Ministry of Trade and Industry, the policies of which are the subject of this thesis.
The decree issued by the Minister of Trade and Industry in accordance with Law No. 15 of 2017 on facilitating the procedures for granting licenses to industrial establishments defines industrial SMEs as establishments that carry out industrial activities under the following conditions.

Table (5): Definition of SMEs according to Ministry of Trade and Industry

<table>
<thead>
<tr>
<th>Size</th>
<th>Establishment Age</th>
<th>Annual Turnover/Paid Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>Already Existing</td>
<td>less than EGP1 million and not more than EGP 50 million</td>
</tr>
<tr>
<td></td>
<td>Newly Established</td>
<td>not be less than EGP 50,000 and doesn’t exceed EGP 5 million</td>
</tr>
<tr>
<td>Medium</td>
<td>Already Existing</td>
<td>not less than EGP 50 million and not more than EGP200 million</td>
</tr>
<tr>
<td></td>
<td>Newly Established</td>
<td>the capital should exceed EGP 15 million</td>
</tr>
</tbody>
</table>

Source: Ministry of Trade and Industry, last accessed November, 2017

SMESs empowerment in this study is defined as the process by which SMEs investors that seek entrepreneurship become aware of the power and the dynamics of the work and can easily define market contexts that enable them to establish firms without coordination and information externalities (UNIDO, 2016). SMEs Empowerment is a wide issue; however, this study focuses on the empowerment in terms of facilitating the access to the market.

3.1.3 Egypt Industrial Development Policy Framework

Policies implemented by the Egyptian Government include vertical instruments that are directed towards certain sectors and horizontal ones that are cross-cutting which are more concerned with enhancing the business environment for industrial firms. Within the horizontal policies there are instruments that are directly related to the industrial development and other policies that relate to trade, competition and access to finance. The study will analyze the industrial development policy efforts recently implemented by IDA under the Egyptian Ministry of Trade...
and Industry that are most concerned with SME development. These efforts include reforms in the legislative and regulatory framework for licensing and land allocation.

The scope of this study will cover the analysis of two main elements that the Egyptian government is currently undertaking with the aim of stimulating the industrial sector. The chosen reforms are industrial licensing process and land allocation and management.

These reforms address the facilitation of starting up industrial business. These elements are chosen based on the analysis of the major obstacles faced by SMEs in Egypt Ministry of Trade and Industry, last accessed, November 2017). The strategy document formed by the Ministry of Trade and Industry mentioned that these are priority areas receiving reforms since they facilitate the access of SMEs to the market.

The latest Enterprise survey report issued by the WBG (2016) demonstrates that the second highest obstacle facing manufacturing SMEs after the access to finance is the problem of business licensing. While access to finance is a generally identified SME barrier, licensing is a specifically recognized industrial SME barrier.

And for the land allocation, although there are statistical data that showed an improvement in the time spent on the land allocation process, there is a significant deterioration in the access to land as a barrier by around 70% (WBG, 2017). Therefore, Ministry of Trade and Industry conducted recent reforms targeting land allocation that are another concern for the analysis of this study.

The reforms conducted by IDA in industrial licensing and land allocation are the main concerns of this study, analysis will take place form a legislative, institutional, and operational perspectives. These reforms will not only tackle industrial business entry barriers, they will also
have a great influence on solving the informality problem since entry barriers is one of the main reasons behind the growth of the informal economy in Egypt.

3.1.4 The Framework of Business Licensing in Egypt

As illustrated in the statistical analysis, licensing is one of the top barriers to industrial SMEs. Also, the first reform area reflecting considerable changes recently is industrial licensing facilitation. The study will analyze the effects of the Egyptian Government’s recent efforts in reducing the time and effort required to obtain an industrial license; mainly reform of the concerned laws and regulations that attempt to make industrial investment more attractive. The potential effects of such reforms on SMEs empowerment will be discussed.

The researcher used the OECD definition of business licensing since it is the closest definition to the context of the industrial licenses in Egypt. OECD (2006) defines business licensing as “the practice of requiring prior approval of a government authority for the establishment or conduct of a business”. Business licensing reforms are essential to SMEs since they help the government regulate the market and protect the public against any resource exploitation and hazardous effects. Also, facilitating such licenses should encourage the informal economy in SMEs to formally register. This study assessed the latest reforms carried out by the Egyptian government in two main steps: First, the study carried out a quick review of the legal and institutional frameworks that governed the industrial licensing process in Egypt before and after the reform. Second, the study undertook a quick assessment of the licensing reform in accordance with the Wang (2012) framework developed for business licensing analysis since it provides details for the essential requirements that need to be considered in reforming the licensing system which is presented in the discussion.
According to Wang (2012), the government has to undertake a set of four main reforms to build and efficient licensing system. First it needs to assess the licensing geographical coverage all over the country. If all industrial businesses are required to take a license, this means that there might be some unjustified licenses that have to be eliminated.

The second aspect is identifying and mapping all licenses that relate to the industrial sector, the target is to identify overlapping licenses to be able to eliminate any unnecessary licenses that could add burdens on firms, especially SMEs nationally and locally. Third, it is important that the government conduct a streamlining of all procedures and remove any unnecessary steps and cancel any unnecessary legislations. A new license process should come out with the elimination of the unjustified licenses procedures that will reduce the time and effort exerted by the investors.

Wang (2012) also recommends the assessment of the functioning of the reform and making sure it is really benefiting the public.

Finally, the functioning of the new reform should ensure the effective functioning of the new licensing policy. This will show the extent and efficiency to which the new law is enforced and how this is impacting SME investors. The below figure summarizes Wang (2012) framework of an efficient licensing system.
3.1.5 The Framework of Land Allocation in Egypt

The industrial sector performance is directly related to the efficiency of management and allocation of industrial land, and this is the second reform area addressed by this study. In the Egyptian context, land problems usually originate from the management of state owned lands. The Egyptian land management policies and practices are outdated and inefficient and result in higher obstacles for firms and especially SMEs (Kaganova, 2015).

This study aims to review the recent land allocation reforms undertaken to facilitate access to land for industrial sector in general and for SMEs in particular. The study undertook the analysis by
applying the Kaganova (2015) framework for industrial land reform for the case of Egypt. This framework is specifically chosen since it is tailored to the Egyptian context and it addresses SMEs problems. The land mentioned in this study is defined as the land used for industrial activities that require facilities and infrastructure development, these lands range from industrial zones\(^2\) and craft zones.

Kaganova’s framework has five main dimensions that constitute an effective and efficient land management scheme. First, it is essential to have a *national framework for a policy or a strategy* aiming at utilizing the land available in a way that can be attractive to investors and especially to SMEs in order to enhance economic growth, sustainable development, equal access and social inclusion.

Second, *sufficient effectiveness, accountability and transparency* in the land allocation process that allows an efficient tracking of land allocation and management and simplified access to land for investors. An *inventory about available land* held by government authorities has to be available for the public.

Third, a clear classification between *the local and central government* and a special framework for local land management.

Fourth, overcoming *the overlapping responsibilities* and the spread of functions of land management over the different institutions. Fifth is that the laws and regulations undertaken has to make the explicit recognition that the government land belongs to the people of the country, and that the government is just a guardian and manager. This study will apply this framework to the

\(^2\) Industrial zone is a piece of territory with a continuous border that is zoned for predominantly industrial uses (Kaganova, 2015)
extent that it fits with the current land allocation reforms undertaken within the Egyptian context. The criteria of the analysis will be as follows: a) the availability of a national framework (legal and institutional) that facilitates SMEs access to land; b) The provision of a strategy for utilizing the land and making it attractive to SMEs; c) Is the efficiency, accountability and transparency of the land allocation process taking into account the facilitation between the local and central government?
Figure (5): Conceptual Map

Source: Author Constructed
The figure above shows the framework of the study, the researcher will present two main reforms that are considered industrial policy tools and analyze the case before and after these two reforms. These two reforms are the industrial licensing and the land allocation. For the land allocation, the study will focus on the new roles and responsibilities of IDA and the operational barriers of the land allocation process. And for licensing, the focus on the latest law issued for reforming the licensing system. These two reforms are explored from a legal, institutional and operational perspectives. And analyzed from the perspective of SMEs, how has these reforms affected SMEs inclusion and access to market, as a part of Egypt’s vision 2030. Each reform is analyzed based on the criteria discussed above. The next section will present the methodology and methods used in this research.
3.2 Research Methodology
3.2.1 Qualitative research design

This study aims at understanding the latest reforms undertaken by the Egyptian Government and how these reforms were relevant to the SMEs problems especially with regards to licensing and land allocation. The study uses an exploratory qualitative approach to undertake this analysis, this is the most suitable research design since it enables the researcher to deeply understand and investigate the complicated and interlinked framework studied.

The research questions are based on the “how” nature which eventually requires exploratory tools that provides for best understanding of issues like institutional, legislative and procedural frameworks. Qualitative exploration is the only method that can offer this type of exploration. This design is the best design that enables the researcher to explore the industrial licensing and land allocation reforms since the data that will be collected is basically data from interviews. This qualitative research reveals the contexts and the settings of the data which enables the researcher to deeply explore and understand the studied topic (Marshall & Rossman, 2006)

3.2.2 Overall research strategy

This reteach study is based on an in-depth interview strategy. "In-depth interview strategy stipulates a primary method for gathering data" (Marshall & Rossman, 2006). For triangulation purposes, the study interviewed 1) policy makers and implementers; 2) SMEs investors and 3) experts in the field that were included in the sample in order to give some unbiased opinions. Additionally, the study will verify this by undertaking some desk review based on secondary data.

The in-depth interviews took place one-on-one bases. The data collection process took nearly one month. The duration of the interviews ranged between 15- 30 minutes each. Questions
were semi-structured, there was a list of questions that was targeted for each type of interviewees and this list was subject to changes according to the context of the interview, probing questions were usually added to the interview questions. Interviews with policy makers and implementers were done at their offices, while of the interviews with investors were made at their place and some were conducted over the phone. And for the policy experts, interviews were conducted over the phone since they were hard to reach.

This study used the non-probability two types of sampling techniques; the first is the purposive sampling technique in order to identify the policy makers and policy experts. And for investors, the study used the snowballing technique in order to reach the largest sample of investors. The typologies used allow to put specific criteria for the participants’ selection in order to support the purpose of the study (Marshall & Rossman, 2006). Representation was also considered, for example interviewed investors were chosen on the national levels and local levels.

Twenty interviews were conducted for the purpose of this study. Interviewees were chosen purposively based on and their relevance for the study. Based on these criteria, the following are the 20 interviewees:

Policy implementers:

- Land Allocation Specialist, IDA
- Industrial Licensing leader, IDA
- Management Representative, Licensing Department, IDA
- IDA Representative, Qena

Experts:
• Legal Expert, ERRADA
• Licensing Expert, IDA
• Research Analyst, ERRADA

Investors: all investor were SMEs investors as per the Ministry of Trade and Industry framework identified in the conceptual framework, choice of governorates was based on the regional classification of the Ministry of Trade and Industry that is based on economic diversity (six governorates), economic complexity (four governorates) and governorates requiring comprehensive development (14 governorates). Cairo and Alexandria are governorates that are characterized by economic diversity, Sohag and Qena are governorates that require comprehensive development (Ministry of Trade and Industry, 2016). The researcher was not able to reach investors from the second classification that are characterized by the economic complexities. Interviewed investors were as follows:

• Five investors form Cairo
• Four investor’s from Sohag
• Three investors from Qena
• Two investors from Alexandria

3.2.3 Data collection

The study heavily depended on primary data given the limited evidence in the literature. Nevertheless, the relevant secondary data needed for triangulation purposes were reviewed. To operationalize the primary data collection, the study conducted semi-structured interviews with each participant. Interviews were transcribed right after interviews in an accurate manner. All
interviews were conducted by the researcher on bilingual bases in English and Arabic. Secondary data was collected through desk research from laws, websites and international reports.

3.2.4 Data analysis

The twenty interviews were transcribed separately. The analysis of the transcriptions of the interviews were done traditionally with no use of software. The analysis followed the thematic categories of the conceptual framework. The coding exercise was based on pattern and descriptive coding styles that allowed the analysis to be based in the patterns in the data.

3.2.5 Ethical considerations

The primary data collection used in this study involved human subject matters and consequently it involved a number of ethical considerations. Participants in this research study adjusted their times and offered the researcher the time and the knowledge to answer the study questions and therefore this is highly acknowledged and they were offered the needed information on the study and a quick structure of the interview.

Participants' anonymity and confidentiality were totally guaranteed so not to harm them. Informed consent for the participation in the study was collected from participants orally in order to guarantee voluntary participation. The Institutional Review Board approved the proposal of the study on November 19, 2017 prior to the data collection process. All relevant ethical considerations were highly considered and approved prior to the data collection.

3.2.6 Limitations and delimitations of the study

The first limitation to the study from a methodological perspective is the sample size. The relatively small number of the sample is an issue especially in the topics with regard to business licensing and land allocation. Additionally, there was no sample for investors that tried the new licensing system and therefore the investor was forced to get data about this issue through
interviewing policy experts. Getting interviews with policy implementers that are not confident in the purpose of the study and not so open is considered a limitation of the study. Even getting the data from investors who somehow mistrusted the researcher was also another limitation to the study. In the next chapter, data analysis and a discussion of the data will be presented.
Chapter Four: A Qualitative analysis of the Current Egyptian Industrial Policy and its Role in Empowering SMEs

4.1 Land Allocation Problem in Egypt-Data Analysis and Findings

In this section, the researcher analyzed the latest reforms and their relevance to industrial SMEs in Egypt based on the criteria addressed in the conceptual framework. The analysis is based on three main dimensions: 1) National framework (legal and institutional); 2) The Land Utilization Strategy and 3) Land Allocation Process Effectiveness, Transparency and Accountability. In the three dimensions, the study presented the results of the desk review together with the data analysis of the selected sample of interviews as previously highlighted in the conceptual framework and methodology. This will be followed by a discussion on the main findings of the desk review and the data analysis.

4.1.1 National Legal and Institutional Framework of Land Allocation

This section analyzed the current legal and institutional framework that governs land allocation and the recent developments with regards to the needs of the small and medium industrial investors.

Primarily, it is worth noting that currently Ministry of Trade and Industry is undertaking legal and institutional reforms that aim at creating a better land allocation framework and helps in making industrial land more attractive and better utilized. In order to well understand the current reforms,
the researcher presented a desk review of the most important laws and decrees that govern land allocation in Egypt, followed by the data analysis of the interviewed sample³.

A) The main laws and decrees the govern land allocation in Egypt- Desk Review

The state land of Egypt is governed by nearly 31 laws and around 172 decrees. This is in addition to around 13 laws that manage the industrial lands. Indeed, some of those laws have direct effects on the industrial land as presented below.

Law No. 21 of 1958 on Regulating and Encouraging Industry: This law entails that the Ministry of Trade and Industry is the official body responsible for industrial regulations, approving industrial licenses and specifications. This law allows the Ministry of Trade and Industry in cooperation with the governorates to lease or own state-owned lands for industrial purposes.

Presidential Decree No. 350 of 2005 on Establishing the Industrial Development Authority. This decree was concerned with the establishment of the IDA and gave it the authority to implement several duties mentioned under law 21 (as part of the Ministry of Trade and Industry) including industrial land allocation that is under the National Center for determining the uses of Lands and approving any industrial project outside of the developed industrial zones.

Law No. 59 of 1979 on New Urban Communities defining NUCA responsibilities. The law states that the NUCA is the sole entity responsible for any developments in the new urban communities⁴. Under this law, NUCA is entitled the responsibility to determine the size and location of the required lands in the emerging urban communities. These lands are allocated to

³ There are much more laws and regulations that govern the industrial land allocation, however these specific laws were done after a consultation of a legal consultant at the ERRADA.

⁴ The emerging urban communities are defined in the law as any new collective community that aims at creating an urban center. This urban center could include industrial, agricultural, commercial and other activities.
NUCA by a Prime Ministerial decree, free of charge. If a project was previously implemented in the allocated land or a close area, it can be offered for sale at a reasonable price. NUCA has the right to make contracts with private developers to develop such lands. NUCA has the right to lease, sell and offer usufruct rights for the land. NUCA’s role ends when the land is fully developed, whereby the management of the land is then transferred to the competent local authority.

**NUCA-IDA Protocol:** In 2014 NUCA jointly signed a protocol with IDA that entitled IDA to allocate lands of industrial zones within the new urban communities. However, NUCA still possesses the ownership of this land (NUCA, last accessed December 2016). Based on this agreement, IDA had a delegated right to sign agreements with private developers to develop industrial zones in terms of establishing the needed infrastructure to enable and facilitate the implementation of industrial projects. Hence, infrastructure agreements of this type are signed between the developer and the investor under approval from NUCA and IDA.

**Law No. 7 of 1991 on State Privately Owned Lands.** This law regulates the state privately owned land. Although the law is mainly concerned with agriculture land, it allows local authorities to allocate this land to other sector projects including industrial projects. Article 5 states that this land could be used for other activities (including industrial projects) after the provision of a presidency decree.

**Law No. 143 of 1981 on the Desert Land.** This law and its executive regulations were considered an important milestone in the process of institutionalizing the use and allocation of desert land in Egypt. The executive regulations of the law included an article stating that land

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6 State Private owned land is the land that the government can dispose and the State Public land is land allocated to public utilities (Article 32, Egyptian constitution).
allocated for industrial projects will fall under the authority of GARADP. GARADP is responsible for selecting and approving land areas suitable for implementing industrial projects.

**Law No. 5 of 1996 Regulating Free Disposal of State Owned Desert Lands for Investment Projects.** This law allows local authorities to freely dispose “desert land” for investment projects. The terms and conditions of the disposition are determined by a presidential decree. The ownership transfer of this land to investors is done after the completion of the project. Additionally, the annex of the law indicates that the prime minister has the right to declare certain areas as the industrial lands.

**Law No. 43 of 1979 on Local Administration.** This law manages the local administration in Egypt, article 14 states that the governor and the local administration have the right to dispose or allocate public land areas for investment projects within the governorate’s domain and two kilometers range, including industrial projects. Land areas could be sold, leased or rented.

**Law No. 119 of 2008 on Building and Urban Planning (the Unified Building Law).** The law was issued to unify the construction regulations. Under this law came the establishment of the SCUPD which has representatives from NUCA and IDA. Part of SCUPD responsibilities is approving general policies for urban development. The law stated that, for industrial land allocation, the governor should plan the use of the governorate land based on the requirements of SCUPD policy and IDA should approve these plans which are confirmed to be owned by the governorate.

**Law No. 83 of 2002 on Special Economic Zones.** The law announced the establishment of Special Economic Zones. Projects established in these zones are subject to specific incentives compared to other land areas in Egypt. A special Economic Zone Authority was also established to manage the operation of these zones. Once a special economic zone is established, the
ownership of the land is transferred to the special economic zone authority. The law allows the Special Economic Zones Authority to allocate the land and provide the right to usufruct, and this is the only type of land allocation in these areas.

Law no. 72 of 2017, the amendment of law no. 8 of 1997 on Investment Incentives and Guarantees. This law has major implications on the investment and the industrial lands. The law identifies the GAFI as the agent between the investor and other authorities in the country. It is responsible for providing land, permits and licenses. Other agencies are obliged to coordinate with GAFI in this context. This law also allowed the creation of some investment territories for certain types of investments, some of them are industrial for example, mining, gas and software production. The law allows the inclusion of other sectors after the approval of the cabinet of Ministries. Land allocation under these territories are not subject to the normal tender procedures and the normal competition. Rather, allocation depends on lottery without financial or technical comparisons.

Law no. 83 of 2016 which is an amendment of law 7 of 1999 for state privately owned land. This is considered the latest law issued that had a direct implication on land the industrial use. The first article of the new amended law entitles IDA the right to utilize, manage and dispose all industrial land in Egypt. However, the first article also confirms that the President has to issue a decree indicating the industrial land that will be under the authority of the IDA. Article 7 of this law confirms that the returns of the land utilization, management and disposition will be designated to IDA and are considered to be a source of income to this Agency. It is worth noting that this law mentioned that IDA will only manage the land, it does not own it.
B) The Institutional Framework governing land allocation in Egypt – Data Analysis

Parallel to the above desk review of the legal framework, interviews with selected investors and government representatives were undertaken to understand more clearly the institutional framework governing the industrial land. In this section, the researcher presents the data analysis based on the mentioned interviews.

The fragmentation of land under different authorities. As previously indicated, industrial land in Egypt is divided under four main authorities: Ministry of Trade and Industry, NUCA, local Governorates and GAFI. In this regard, the interviewee indicated:

“The industrial land in Egypt is now clearly classified and at least we can know which land is belongs to which authority. We can say now that industrial lands belong to four main authorities Ministry of Trade and Industry, NUCA, GAFI and of course the governorates. Some other lands that might not be explicitly industrial land but can accommodate industrial projects are also under the governorates or maybe other ministries but this is very rare.” (Land Allocation Specialist, IDA, December 2016)

Industrial land in Egypt is scattered which might create a barrier that faces the investor in the allocation process. The investor does not have accurate information on the correct entity he should pursue in order to apply for a project in a specific location. However, one positive thing here is that IDA is the authority in charge of land allocation since 2006. Nevertheless, while the investor receives land allocation approvals from IDA, the ownership transfer process of the land and the financial payments are still done with the agency that has the sovereignty over the land.

Lack of institutional coordination. Lack of coordination between the institutional authority that allocates the land area and the institutional authority that has sovereignty over the land creates
inconsistencies, double efforts and overlapping responsibilities. As mentioned by Kaganova (2015), the unification of these two roles usually facilitates the process of the land allocation as it unifies the fragmented efforts and give clearer holistic vision for both the investor and the policy makers. Investors were asked about the difference between the land allocation process after being under the IDA, an investor who allocated a land for a medium-size factory in 1991 indicated the following:

“I allocated the land to my factory in 1999, these were the good days, we used to go directly to the Governorate and if the land is available they give it to us, it used to take time, I took three years to allocate my land, however, the process was known and the same authority who was allocating is the same authority who is transferring the ownership of the land who is the same authority you pay for, now authorities can be mixed up. A friend of mine allocated the land from IDA for a marble manufacturing activity and when he went to receive the land, he found it in an area that is allocated for wood industries” (Investor 8, November, 2016).

As shown, the investor perceives IDA taking over land allocation as a negative issue that further complicated the process. Although he praised the simplification of time needed to get the land allocated, he believes that still responsibilities are poorly-coordinated among different authorities which in many cases can lead to technical problems and add further time and effort barriers in the process of land allocation.

The above problem was affirmed by another investor:

“I applied for the land two years ago, I took time since it goes to Cairo, the engineer that studies the feasibility study is in Cairo and we do not easily receive
responses, another problem is that IDA can allocate, but when you come to receive the land it is always confusing and sometimes the Industrial Zones managers that are under the local authority play the broker role, where they tell you this land is not specialized for you industry and so on, they may want a kind of a bribe to facilitate the process.”

(Investor 5, November, 2016)

The investor affirms the problem of weak institutional coordination and the misinformation. He highlights the problem of time consumed in the process of coordinating between the local authority and IDA. He even mentioned another barrier which is corruption in the process of providing the needed information for the investors, where sometimes officials might ask for illegitimate benefits in exchange for information.

Broadening the scope of IDA powers and authorities to simplify the land allocation process: The Egyptian Ministry of Trade and Industry supported the ratification of a law that unifies land allocation and the land management under one authority which is the IDA\(^7\). According to the amendments on law number 7 of year 1999, the scope of authorities and powers of IDA should be broadened beyond land allocation\(^8\). The amendments moved the sovereignty of industrial land under IDA authority. IDA shall be the sole authority responsible for supervision and jurisdiction over all industrial lands. According the law, IDA enjoys all the rights and powers granted to similar institutions such as the New Urban Communities Authority. As discussed with an interviewed IDA employee he states:

\(^7\) As part of the Ministry’s strategic objective to increase the industrial land by at least 60 million square meters in order to enhance the Egyptian export growth (Industrial and Development Strategy, Ministry of Trade and Industry, 2016).

\(^8\) An institutional authority that has sovereignty over the land is the authority that has the control over the land, it has the information about this land, has responsibility of utilizing, finding resources for maintaining any developments on this land and finally can dispose this land. On the other hand, the institutional authority that allocates the land is the authority that can just approve a certain project (Ministry of Trade and Industry, Last accessed December, 2016)
“IDA will own, allocate and transmit the land. The ISA will take care of its financial duties, build its infrastructure” (Land Allocation Specialist, IDA, December, 2016)

This amendment grants IDA the responsibility of setting the general policy framework and plans in charge of the development of the industrial zones and identifying the lands allocated for industrial purposes. This is in addition to setting the operational framework governing the exploitation and development of the land areas within industrial zones. This is expected to positively contribute to the supply of land and facilitate the system of land allocation (Ministry of Trade and Industry, accessed November 15, 2017). Those legally-entitled rights should further enable IDA to create a national framework for utilizing the industrial land in Egypt which is the first priority in solving the access to land problem (Kagonova, 2015). It is expected that if this law is fully implemented it will solve the problems mentioned by investors as barriers resulting from poor coordination and fragmentation of institutional authorities.

It is worth noting that this law is not yet fully implemented since it is awaiting the presidential decree with the specifications of the industrial land area and the approval of transferring the supervision of this land under IDA authority. As elaborated by an interviewed land allocation specialist when asked about why this the investors still need to go to the governorates and to agencies like NUCA:

“The amendment of law 83 doesn’t at all mean that the land is currently under the authority of the IDA, however, there should be a decree with that. There is a committee that has been established to work on this, this committee is under the responsibility of The National Center for Planning State Land Uses and has representatives from IDA, this committee has to work on creating an inventory for the industrial land in Egypt. Let me tell
you, for this to come true, there should be a very strong coordination and acceptance between all the state authorities” (Land Allocation Specialist, IDA, December, 2016).

The Egyptian government is currently trying to undertake strong measures in order to unify the sovereignty over the industrial land in order to avoid land fragmentation and facilitate the allocation process to investors, especially SMEs that usually have difficulties in reaching information due to land fragmentation allover the authorities in Egypt. However, this is not an easy task and it will not get implemented by just amending the law.

The transfer of land from the owning authorities in the state requires tremendous efforts in collecting all the information on the industrial land available and classifying it. This also requires political acceptance from the owning authorities since they will be sacrificing one of their sources of revenue. IDA will need facilitate direct coordination with agencies like NUCA, GARAPAD, and local authorities. As per the different laws like law 59 of 1979, law no. 143 of 1981 and law no. 43 of 1979, IDA should be exerting tremendous efforts in collecting the information on these lands and planning for its management. Additionally, transferring the land will create a huge responsibility on IDA since it will be responsible for managing this land and developing it to accommodate industrial projects’ needs and requirements.

IDA current capacities and capabilities as opposed to investor needs and requirements. Transferring the sovereignty to IDA and widening its scope of responsibilities with regards to land management and utilization is a policy that needs consideration. The fact that the IDA is empowered with the needed capabilities and capacities that can support the implementation of this new system is still questionable. Interviews with investors showed that IDA is not yet fully capable of managing the land all across the country; particularly given the fact that it is located in Cairo and does not have enough geographical coverage outside the Egyptian capital. It can be inferred
that investors, especially SMEs, are already suffering from the low capabilities and the low responsiveness of IDA employees on both the national and the local levels. An investor that submitted a land allocation request in 2015 was interviewed about IDA’s capabilities and responses to his demands and problems faced, he responded:

“If I have a problem, who do I go back to? I think it is only the media. Previously, this process was decentralized, yes it entailed a lot of corruption, it used to take like 2 months, now it will the like 20 months. I submitted my documents to the IDA branch at Suhag in December 2015, when I came back to ask them, they told me call 140 the phone directory and get IDA’s Cairo branch number. I did and called them, they never reply”

(Suhag Investor 3, December, 2016)

The investor shows a concrete example of the argument that the problem of long, time and resources consuming process of land allocation isn’t solved till today. Although the new law granted IDA the responsibility of land allocation that is still under the sovereignty of the governorate, it seems that the coordination between the governorate and IDA is still weak. Additionally, given the fact that IDA is an Agency that just has around 1500 employees, it might not be able to meet the increased responsibilities and the accumulating needs of the investors in general and SMEs in particular.

The Political Leadership and Institutional Cooperation to Support IDA: The success of this reform will depend in the first place on the political will and cooperation between different authorities to facilitate the transfer of the land. Additionally, after the enactment of the presidential decree IDA shall have much stronger power over land areas which should facilitate the transfer process. However, the capacity of IDA employees and their readiness to offer a responsive service is still subject to doubt. Also, the capability of IDA to develop land infrastructure and provide the
adequate services that could make these lands attractive for investors is an issue that needs more research. As noted by an interviewed land allocation specialist, authorities that will transfer the land might not support IDA in its new mission:

“We have to face the fact that after the transfer of the land, other authorities like NUCA will totally pull out their hands, why will they invest in infrastructure and developments of lands that will not yield any revenue to them, we have to be ready for this” (Land Allocation Specialist, IDA, December 2016).

Preparing for this shift will require huge efforts by IDA in case the transferring agencies weren’t cooperative, particularly given that they will not have any incentive for doing this. IDA will need to plan, manage, and utilize the land all on its own.

4.1.2 Land allocation process- Operational Barriers

As mentioned earlier, IDA has taken over the authority of allocating industrial land for investors across Egypt since 2005. In order to explore the effectiveness and transparency in the allocation process by IDA we will give a quick glimpse on the process of the allocation.

There are two ways to allocate industrial land, as noted by an interviewed land allocation specialist at IDA:

“There are two ways to allocate industrial land in Egypt. At IDA we have two types of land allocation: The first is the general allocation. This tender is held for the areas that are of low demand. The second type is the specific allocation, in which IDA has to advertise for the land, this is done for the lands that are attractive. The tender process happens within IDA, however, the transfer of the land might not be at IDA since IDA still does not have
The first type of tendering - the general tendering- is done in land areas that are less attractive and thus less demandable. In this case, the investor has to visit IDA and check out the available land and begin the allocation process. The second type of land allocation is the specific tendering type. The land allocated under this type is usually highly competitive and the most attractive. IDA in this type of tendering works according to a prioritization process. They develop a Terms of Reference (ToRs) that ensures competitiveness. Attractive land areas are defined by IDA and bids are then opened according to certain conditions. These bids are usually advertised in publicly and in newsstudys.

In order to investigate the process of land allocation in terms of effectiveness and transparency, interviewed investors were asked about several issues related to the dynamics of the land allocation process. In this section, several issues pointed out by the interviewed investors will be furtherly presented.

IDA High Centralization, low coordination with local authorities: Primarily, one of the interviewed investors revealed problems related to the coordination between IDA and the land retaining authority. He noted:

“IDA allocates land but it has no information at all, all information is under the localities, the localities should coordinate with IDA for the benefit of the investor, IDA has no background on the history of these lands, and its suitability to the projects designed for it” (Investor 4, December, 2016).
The investor explained that IDA might not have the full information on the land and the optimum utilization ways. This is resulting from the fact that IDA does not have the sufficient geographical coverage, which can be considered a serious limitation and can lead to misguiding the process of land allocation. The investor recommends that IDA should establish a strong coordination and access to information mechanism with local authorities that own the land to facilitate the process of land allocation.

Another investor underscored the same idea of the poor coordination between IDA and local authorities:

“The biggest obstacle we face in land allocation is the bad coordination between IDA and governorates, the authority that transfers the land is the governorate while IDA allocates. Some blocks at Nagaa Hamadi were allocated and these blocks have no electricity or any facilities. For my experience I applied for an extension to my factory in 2016 and they allocated a land to me, when I went to receive the land from the governorate, I discovered that this land is already allocated previously to another investor. I call them and send them emails and no one replies, I was urged to travel to Cairo to see a solution, however, it has not been solved” (Investor 7, November, 2016).

The investor here is highlighting the coordination problem, where IDA is not in well synchronization with the governorate that has the authority over the land. This clearly spots the light on the coordination problem between the central government and the local authorities. Investors have to seek the central government in order to solve any problem. Kaganova (2015) mentioned the importance of coordination between central and local governments as a determinant of an effective land allocation process and a strong access to land framework.
Interviews also commented on the land allocation transparency process, in interviewee when asked about his land allocation process stated the following:

“I applied for land for three times, the first time, it was cancelled as they were issuing the latest investment law, the second time, the tender was announced in a public news study, after three months I asked at and I found it was rejected. I didn’t know what was the problem, I had to ask a relative of mine who knows the dynamics there, he told me put some money under the table to someone from IDA in order to make the feasibility study for you and move it internally. I talked to two guys there and they were really helpful both of them took EGP8000, they made the feasibility study for me and they got me the acceptance.” (Investor 2, November, 2016)

The investor here highlights the problem of the lack of transparency in the land allocation process. He claims that he tried allocating land three times. First time he knew the reason of the cancellation which was a high-level decision as there was a law that was being put in draft. The second time, he was rejected and he did not know why. Someone recommended that he gives a bribe to an IDA employee to make the feasibility study of the land for him and processes it and after he did this, his request was accepted. This shows that IDA might have some loopholes in the land allocation system that might include some rent-seeking behaviors an in transparency.

The Incomplete operational framework of IDA. Despite the important IDA mandate that entitles IDA the full authority on all industrial land across the country, IDA has not yet received the sovereignty on all industrial land. In this regard, IDA established a Special Land Management Unit for managing industrial zones to ensure the maintenance of the infrastructure, provide services to the existing factories and provide training for the land users based on the needs of each region. This unit should also conduct a strategy for managing the industrial land. This is in an
attempt to overcome the present problems and inefficiencies in the industrial zones management. Moreover, new efforts and steps have taken place in an attempt to facilitate IDA's role in land allocation and licensing. Moreover, the strategy preparation and implementation still suffer from several challenges as identified by the interviewed sample.

**Insufficient Human Resources in the land Management Unit:** An IDA interviewed specialist affirmed that IDA land strategy unit is mandated to collect the needed data about available lands from all authorities and governorates and use it as input for the land management strategy.

“IDA land strategy unit made a survey and knew the resources of each governorate and is designing the strategy based on that. This survey team consists of 3 people who conduct this research by themselves.” (Land Allocation Specialist, IDA, December 2016)

The land strategy team in charge of setting the land management unit is working on preparing the needed infrastructure and conducting the needed developments in the lands. However, the human resource capacity provided for this task is far below the needed capacity that should undergo the required studies and analysis. As discussed by Kollavalli et. al (2011), the preparation for managing industrial zones is a huge mission that needs capacities and capabilities.

**4.1.3 Land Utilization Strategy – IDA Initiative for SMEs**

In an attempt to increase the demand on industrial land in specific promising areas and at the same time enhance SMEs activities in this field, IDA announced an important initiative called: “Your licensed Factory is Ready: SME initiative”. This initiative is implemented in Badr, El-Sadat, Port-Said, Merghem and in Upper Egypt. The initiative is considered a step towards SMEs integration in the economy to utilize the industrial land in Egypt. However, there are some mentioned shortcomings that are worth investigation and highlighting. In this section, the
advantages as well as the short-comings of the initiative will be presented from both perspectives: The IDA perspective and the investor perspective.

The IDA Initiative: "Your Licensed Factory is Ready: SMEs Initiative" – IDA Perspective

The initiative is mainly a set of tenders that seek the establishment of around 500 small and medium-sized factories in the form of SMEs complexes\(^9\). The basic idea of the initiative is that if the investor won the tendering process, he/she receives a ready-built factory with complete facilities and all the required licenses (construction permits, industrial licenses…etc.). The investor will only need to get the machines and immediately start operating.

An interviewed Land allocation specialist that worked on this project highlighted:

“IDA is in collaborated with the Engineering Authority affiliated to the Armed Forces to make this initiative. We facilitate for the investor everything, investors only pay 25% of the cost of the complex and the rest is on installments. They pay EGP 10000 (non-refundable) for the ToRs and 5% of the total value of the factory as a part of the registration fees, these payments are done through IDA. They submit a feasibility study of the project along with paying 5% of the total factory value as an insurance payment. We made all the arrangements of the land allocation with NUCA, the land now is under the sovereignty of IDA. These initiatives are targeted for in three sectors: pharmaceutical, food and manufacturing industries sectors” (Land Allocation Specialist 2, IDA, December 2016)

\(^9\) IDA took the land from NUCA and tendered it to the public with a “plan” of SMEs complexes. These complexes/factories are not yet build, they are just a plan that IDA made it collectively with Engineering Authority of the Armed Forces. Then IDA made a tendering process, investors who are selected pay 25% of the total cost of the factory as a down payment. After these complexities are fully sold out, IDA begins in building those factories. Investors continue paying the installments. They should receive the factories built and licensed after 1 year form paying the down payment (Land Allocation Specialist 2, December, 2016).
This is an interesting initiative that is purely targeting SMEs since it facilitates the establishment and operation process for them. Time and efforts are also saved with regards to construction and licensing. Investors are just required to pay IDA the cost of these services. This initiative is considered a typical vertical type of an industrial policy since it is encouraging the growth of the three targeted sectors - the pharmaceutical, food and manufacturing industries sectors- that were previously identified as top promising sectors for SMEs operations in Egypt. The initiative provides specific incentives to investors in the three specific sectors. However, as mentioned by Rogersson (2001), such type of industrial policy that has to be implemented carefully and with clear criteria in order to make sure that they are attracting correct target groups. In other words, the government has to make sure that these complexes are attractive enough to attract the right potential investors that will utilize the received benefits and incentives.

*SMEs weak response to the initiative:* In order to really understand the IDA strategy in conducting a plan that best utilizes the land and makes it attractive for SME investors, we asked the officials working on “Your Licensed Factory is Ready: SMEs” Initiatives on the size of demand on these projects. The number of demanded applications or ToRs is the main indicator of the attractiveness and the demand size of this project. As per an interviewed land allocation specialist, Merghem in Alexandria is the most successful example and the one that witnessed the highest demand.

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10 IDA provides only the initial approvals need to start the operation.
“Merghem is the most successful example, but it was not fully occupied from the first tender, we tendered it in 2016 and we needed to repeat the tender again in 2017 to sell the rest of the complexes” (Land Allocation Specialist 2, December, 2016)

The interviewee highlighted that the demand on the project complexes is not yet at its maximum which required re-tendering again. This could be attributed to several reasons: first, the selected targeted industries might not be attractive enough for investors; second, the longstanding mistrust between investors and the government, which is amplified with the fact that these complexes are tendered on study with no real constructions yet; and most importantly, the reluctance of the investors to risk the tender and insurance fees (pay the initial EGP10,000 in addition to the insurance fees) in case they did not win.

Another statement that was said by IDA representative at Qena, where a complex of this project was also tendered pointed out:

“The IDA allocated a large area in an industrial zone at Qena under the “Your Factory Ready with its license: SMEs” initiative SMEs complexes, the complexes ranged 144 meters, 297 meters and 3027 meters. The price of the smallest possible complex (144 meters) is EGP525000, they pay 25% of the price in the beginning and then the rest is on installments. Only 2 people bought the ToRs while we have a capacity of 40 factories.(IDA Representative, Qena, November, 2016)

IDA representative indicated that the turnout on the Ready Build Factories is extremely low; only around 5% of the complexes were tendered. He gave us a quick glimpse on the sizes of the proposed factories and their prices. The data that he provided shows that the investor has to pay at
least EGP131, 250 (which is the 25% of the smallest complex, the 144 meters that its total cost is 525000). This might be a reason behind the low demand in this area in particular.

The IDA Initiative: "Your Licensed Factory is Ready: SMEs Initiative" – Investor Perspective

Investors perceive the initiative differently. Although investors affirmed that the reasons behind the low demand on the SME complexes in Qena might be different than those in Merghem and Alexandria. While Merghem is now nearly fully-occupied, the case is different in Qena complexes. Investment in Qena is generally less attractive because of the geographical distance barrier. Qena is too far from Cairo where most of the industrial services are located as well as IDA main branch. The previously-determined sizes of these complexes might not be suitable to the needs of all investors. Also, investors argue that these complexes are expensive. An interviewed investor from Nagaa Hamadi (affiliate to Qena governorate) was asked about his opinion on this initiative he said the following:

"Why would I go and buy something that is not there, I am paying my money in a project that is not done yet, what makes me sure that the government will not take this money and give me a bad built complex? The land in Upper Egypt is for free, why will I pay this in the beginning of my project, while I can take the land for free and build according to my needs... Also how Nagaa Hamadi is a place that expels citizens, how do they expect people to come and invest here. Adding to that, do you think a small investor will be interested to buy a factory that is 144 square meters, 144 meters are not small factories.” (Investor 5, November, 2016)

The investor affirmed the previously mentioned disadvantages of initiative. He discussed what he believes to be reasons for the unattractiveness of this land to him, and why he believes that this
project at Nagaa Hamady, Qena will fail. He primarily noted the uncertainty related to the process of investing money in a factory that is not built yet. This is added to the rigidity of the factory designs and plans which might not fit small investors and as well might be beyond their needs and resources.

The operation of firms under the IDA initiative: In order to explore the operation of the firms that won the tenders, winning investors in Merghem, Alexandria were asked about their overall process experience. As per the interviewees, although the capacity of tendered Merghem complexes is 90 factories, only 12 of them are currently working. Eleven factories of the total 12 were previously informal firms, while just one firm is a totally new investment. An investor was asked about his experience and he highlighted the following:

“I first bought the ToR, they first said that it is will cost EGP500...then I knew that I have to pay another EGP2000 for the application. I submitted the feasibility study and they recommended that IDA does it, I paid EGP2000 for it. I paid 25% of IDA and the bank will pay the rest for me and I will pay back to the bank. The myth of a ready based factory with its license is not true! Number 1, They only built 60% of the buildings and I was urged to pay EGP140000 to complete the rest of the building. Number 2, the myth of the licensing…they only give us a temporary permit and then we have to go through the whole process buy ourselves to get the permanent license, and renew our licenses each year.” (Investor 9, December, 2017)

As can be inferred from the investor’s words, the project is argued to be not satisfying the needs of the investor. The limited number of operating factories indicates that there are underlying difficulties in the design framework of the project. Examples of the mentioned problems are the misinformation presented to investors. For example, investors were informed that IDA undertakes
the full licensing process, while in reality IDA just offered them a temporary permit. Also, investors claimed that the established factories were either incomplete (where the investor had to finish the buildings and constructions on his own) or do not fit the nature of his investments. In both cases, investors had to make additions to the buildings and constructions of the factory to start their operations.

Another investor was asked about his experience and the problems he is facing and which phase is he in now he indicated the following:

“I have a problem with the electricity. I need a capacity of 2500 Kilo while they just provide me with 90 Kilo Watt and I should pay EGP 800 for each extra kilo watt, now I need to pay 400000 for electricity and 700000 for the bank as the 25% to start working in the factory, how can I pay all this while I am considered a small investor. Also, Merghem was originally designed for foundries - ferrous metal, but it did not succeed, thus the electricity and the buildings had other features that are not compatible with the needs of the plastic industry. Additionally, the buildings are not well built, come and see when it rains what happens. The factories who are working are the factories that were previously operating informally, they are doing fine because they are capable of coping with the costs needed since they already make profits” (Investor 10, December, 2017)

A similar kind of problems is highlighted by this investor. He claims that the offered electricity is insufficient compared to his needs and that any extra Kilo Watt is expensive for him to afford. Also, he claims that the 25% of the down payment constitutes a real burden. Adding to that, he affirms the previously mentioned problem; that the design of the complexes does not fit the specific characteristics of his industry, since it was originally designed to fit another industry. Finally, he pointed out that the complexes were not well built. But on the other hand, despite these
shortcomings, it can be said that this initiative helped the inclusion of part of the informal plastic factories in the formal economy, which can be considered a great gain.

To conclude, SMEs complexes designed by IDA for the purpose of facilitating investment to SMEs can be considered a good initiative, however IDA has not yet fully utilized the potential gains from this initiative. IDA need to attract more investors and sustain the outcomes of the initiative. Serious measure need to be implemented to overcome the mentioned shortcomings. Matching the supply with the demands and needs of the investors is a crucial action that needs more efforts. In the discussion section, the shortcomings of land allocation and needed actions will be discussed more thoroughly.

4.1.4 To what extent does the current land allocation framework in Egypt support SMEs access to land: Discussion

The above desk review data analysis imply that land allocation for industrial sector in Egypt, particularly in the case of SMEs, despite the recent reforms, still suffers from some major problems that hinders the effective operation of industrial activities; particularly SMEs. The top problems will be summarized in the following points.

A) High fragmentation of the legal and institutional framework

As shown above the industrial land in Egypt suffers from a highly fragmented legal and institutional framework which is one of the reasons behind the SMEs problem in access to land. Figure (6) summarizes all the laws and decrees governing industrial sector land allocation and administration activities.
As shown in the figure above, the industrial land of Egypt is divided upon different authorities through different types of regulations. Since 2006, IDA was granted the authority to allocate land regardless which authority is sovereign over this land. This resulted in the unification of the industrial land allocation, however, this created another problem which is the differentiation between the agency allocating and the agency transferring the land. The investor had to deal with at least two agencies IDA and the agency that has sovereignty over the land, which resulted in operational problems in the land allocation and transfer processes. However, the lack of information about the current legal institutional framework governing the process of land allocation is still perceived a major barriers for industrial activities; particularly SMEs.
B) Law 83 of 2016 as step forward to solving access to land problems.

Law 83 of 2016 was issued to solve the problem of the inconsistence of agencies between the land allocation and the land transfer in which it gave IDA the sovereignty over the industrial land that it allocates. Also, this law mentioned that IDA will just manage the land, not own it which shows that the Egyptian government is not viewing the land as an asset. As Kaganova (2017) mentioned, this is one of the criteria of the effective land allocation system, which stresses on the importance of defining land as an input that the government manages and owned by the people. However, this reform might not be in full consistency with article no. 176 of the constitution for economic decentralization which holds for the transfer of economic assets to governorates. Conjointly, for this reform to work it needs 1) cooperation between authorities that own lands like NUCA and Governorates in order to facilitate the transfer of this land, as Rodrick (2014) mentioned that institutional coherence smoothens the implementation of ; 2) IDA should ensure the availability of the adequate funds and human resources that could handle the responsibility of these lands, which was confirmed by Kollavelli (2011) that human resources integration is significant factor in policy reforms. As Kaganova (2017) indicated, unifying the land allocation framework is an essential industrial policy that should support overcoming the access to land barrier. This institutional reform targeted by IDA will decrease the bureaucratic space as argued Loewe (2013).

C) Overlapping responsibilities between GAFI and IDA

Another confusing issue is the law no.15 of 2015 which mandates GAFI to be the agent between the investor and the other authorities and that it is responsible for providing the licenses and permits for the investor. This is very confusing for investors since they do not whether to
approach GAFI or IDA whenever they would like to start an industrial business. This could be regarded as a challenge to an effective implementation of an effective industrial policy as per Rodrick (2014) framework. Institutional arrangement can either hinder or facilitate an effective implementation of an industrial policy.

**D) Increased duties and responsibilities of IDA and its human resources capabilities**

As noted earlier in the study, Kollavalli et. Al, (2011) and Rodrick, (2004) affirmed that adequate human resources and capabilities are essential for institutions in implementing the industrial policy. Data analysis showed that there might be insufficient human resources and this could turn the potential opportunities of policy interventions into potential threats. Failure to support the investor with needed information and responses to his needs and requirements will result in a wider gap between the investor’s needs and the policy implementation.

Another manifestation of the need to strengthen the human resources at IDA, is that IDA is now responsible for creating the “strategy of Industrial land Utilization” this requires human resources capacities that undertake an effective data collection and planning for the this strategy to ensure a correct implementation of this strategy.

**E) Geographical coverage of IDA and outreach to investors**

As confirmed in Wang (2012), efficient *geographical coverage* is a key success factor of the industrial policy interventions. However, as indicated by the desk analysis and affirmed by the interviewed sample of investors and officials, IDA geographical coverage demonstrates high centralization and poor coordination with local authorities which is a persistent barrier to industrial investors, particularly small and medium investors which already suffer from transport barriers in much more than large industrial firms.
Coordination between the industrial policy institution and the implementing institutional bodies and coherence in the bureaucratic space were proven to be a necessity to ensure the effective implementation of land allocation policy (Loewe, 2013; UNIDO, 2013). Despite this fact, until today, IDA on the central level didn’t yet establish strong and efficient coordination mechanisms with local authorities and other institutions that acquire information and resources on the process of land allocation.

F) Information provided for investors about new legislations and current relevant authorities

Information is essential for the success of any industrial policy. Information can have a positive outcome of industrial policy interventions since it can create information externalities and help investors in their operations (Galal, 2008; Pack & Saggie, 2006; Taha, 2007). However, industrial investors in Egypt suffer primarily from an information problem. Investors do not have accurate information on the functions of the relevant agencies, needed documents, recent changes in laws and procedures. Despite the recent reforms, access to information problem is still a major barrier with regards to land allocation institutional and operational framework.

G) Supply based policy in provision of land

Lin (2012) differentiated between the supply and the demand driven industrial policy, a supply-driven demand policy when the policy is designed based on the economy’s available resources. This is highly manifested in the initiative of “Your licensed Factory is Ready: SME initiative" which showed very low demand from investors in areas like Upper Egypt. This initiative in Upper Egypt shows that it was not planned in a way that reflected the needs of the investors in this geographic location. Even the initiatives that had higher demands, is not done in accordance to the real needs of the investors and a manifestation of this is at “Merghem Complex”. As per Lin, a
supply based policy might fail in case it was not done based on extensive studies. Also data collected on SMEs complex initiative shows that IDA has not yet succeeded in creating an attractive and strategy that is effectively utilized.
4.2 Business licensing Problem in Egypt- Data Analysis and Findings

This section will analyze the process of the industrial licensing based on the issuance of the law no. 15 of 2017 that is concerned with Industrial licensing facilitation. A comparative analysis is undergone between the licensing process before the issuance of the new licensing law and what has to be done according to the law. The analysis is mainly based on investors' opinions on licensing problems as well as the problems from the perspective of government officials and experts.

The analysis aims to observe to what extent the new licensing law should contribute to solving the old persistent problems and as well to find out to what extent the law is being implemented which eventually affects the remaining problems and suggested measures will then be presented in the discussion section.

4.2.1 Business Licensing Process Prior to Law no. 15 of 2017

Previously, industrial licensing procedure used to take an average of 1-2 years and in some cases more than that. This section will present a review on this process prior to the enactment of law no. 15 of 2017. The analysis is based on desk review, interview with a management representative in IDA licensing department in addition to a legal consultant at ERRADA. Primarily, the old process of business licensing required investors to go through six main steps: 1) Land allocation, 2) Business Registry and Commercial registry, 3) Industrial Registry, 4) Preliminary Approval, 5) Construction permit and 6) Final approval Industrial licensing granted. These steps might not have always moved in order, but, for example sometimes, there were steps that proceeded others.
Step 1: Land Allocation: IDA allocates land for tenders (either specific or general tender)\textsuperscript{11} where investors submits all the required documents and the feasibility study of the project. After land is allocated to the investor, IDA gives him a time limit of 36 months to start operations on this land. In case the 36 months passed and the investor did not start operations, he/she will be subject to land withdrawal. These 36 months limit is divided into three phases: one month for the land transfer process; then a maximum of six months to obtain the construction permit; afterwards, maximum 12 months to put the building foundations; then maximum of 18 months for finalizing the buildings and IDA go and preview the site\textsuperscript{12}. The investor has finalize the land allocation process, in parallel with the previous steps.

Step 2: Applying for a commercial registry, which requires the basic documents for the registration of the company. The Commercial Registry was previously under the authority of the Ministry of Trade and Industry and now it is under the Ministry of Supply and Internal Trade. It has branches in all governorates and a representation at GAFI OSS.

Investors seeking commercial registration have two options: The first option is to register through GAFI OSS. This takes place in case that the company is under The Companies law number 159 for year 1981 or under the Investment law number 72 for year 2017. In this case, the investor can register through GAFI directly after the establishment procedures are finalized. The second option is when the investor registers through the commercial registry branch in the relevant governorate. In this case, the investor is intending to register the company under the trade law number 17 to year 1991 (Legal Expert, ERRADA, November, 2016).

\textsuperscript{11} Difference between general and specific tender were explained earlier in the chapter.
\textsuperscript{12} Since IDA is only mandated to allocate the land, the investor receives the land from the Authority that manages the land and the land is under its sovereignty.
Step 3: Applying for an Industrial registry. This requires (a) filling the application form as per presidential decree no.350 of 2005; (b) the company commercial registry; (c) company tax card; (d) indicating the registration with the Social Insurance Authority for employees and (d) the certificate indicating the registration in the Federation of Industries.

Upon the submission and approval of the application, a temporary certificate is issued by IDA. The file should then be transferred to the relevant technical department within one year. Technical inspection of the factory shall take place within one year from the issuance of the temporary certificate. The Technical Opinion is set up for preview. The file shall be transferred to the Industrial Registry Department for the issuance of the permanent industrial register and the delivery of the certificate to the client (IDA Internal Documents, 2017).

Step 4: Applying for the preliminary approval. Here, the investor goes to IDA and applies for the initial permit as per ministerial decree no.825 of 2008. This approval requires (a) Commercial registry; (b) all documents related to the initial "company registration"; (c) certificates of non-compliance. This step mainly entails that the IDA is approving the idea of the industrial project of the investor.

Step 5: Applying for the construction permit. Law no.119 of 2008 granted the right of providing construction permits of any industrial building to the agency responsible for reviewing the industrial activities, which is IDA according to the presidential decree no. 350 of 2005. Although, IDA became the agency that grants the construction permits of any industrial building, however, law no. 119 also states that the granting construction permits should be through technical engineering offices to be accredited from the IDA. IDA or any other agency just approves the construction permits after the process is done at these accredited offices. What really happens is that investors submit the needed documents and the drawings of the building, after approving it by
IDA specialists, sites are inspected through a field visit after the undertaking all the construction in order to approve the buildings.

Step 6: Applying for the final approval -Industrial License. Law no. 21 of 1958 for organizing Industries which is a key law in the governance of the industrial sector. This law regulates the role of the Ministry of Trade and Industry in defining specifications and standards and encouraging industrial activities. This law and its executive regulations specified that the investor has to get the document proving: commercial registry, initial approval for undertaking the industrial activity, industrial registry, land allocation and the construction permit. After obtaining the documents proving that these approvals are completed, the investor starts obtaining the external entities approvals on his activity as a requirement for taking the final approval of the commencement of the activity. This step is called “Regulating the conditions with external parties”. In this step each industrial activity has to regulate its conditions with some external entities based on the nature of each industrial activity. These agencies are: 1) Civil protection- Interior Defense; 2) Environment- Ministry of Environment; 3) Ministry of Health; 4) Interior Cameras-Ministry of Interior; 5) Industrial Protection and 6) Industrial Drainage. In practice, this is the step that used to take the longest time in the process of business licensing. The investor has to meet the conditions of at least six external agencies, these agencies are those who are essential for most of industrial activities.

Civil protection - Interior Defense: Law 148 of 1959 on Civil Security regulates the civil defense issue. It specifies that the Civil Defense Authority assesses industrial buildings and establishments and issue their approval to start any industrial activity. Article 3 and Article 6 of the law state that the Civil Defense Agency has to put the technical and preventative conditions for any industrial
establishment\textsuperscript{13}. In addition to that, Civil Defense representatives have to visit the establishment and make sure that their requirements are met. This procedure is the most time-consuming procedure that alone might take around two years.

\textit{Industrial Protection Institution}: law no.991 of 1976 that regulates conditions related to the industrial safety. It controls the conditions related to the essential safety conditions for any industrial activity. Usually industrial protection procedures cannot start before the finalization of the conditions of the civil protection.

\textit{The Ministry of Environment}: as per law no. 4 of 1994 on Environmental issues which identifies the environmental conditions and precautions with commercial activities. This law articulates the conditions for approving an industrial project from an environmental perspective. It specifies that all industrial facilities have to have an environmental impact evaluation regardless the type of the industry. It also stipulates that similar industrial activities have to be located in areas close to each other, this step takes place with the land allocation step. However, it has to be resubmitted together with the latest manifestation of the project. It might take one year or even more sometimes. It is costly for the investor it may cost around EGP 30,000 -50,000.

4.2.2 Current Difficulties following the Implementation of Law no.15 of 2017- data analysis

The new law changed the entire licensing system. Although, the law is not yet into full action, however, it is necessary to discuss whether the main reforms included in the law will overcome

\textsuperscript{13} Civil Defense Agency is mandated to take the appropriate measures to deal with disasters, hazards and minimize their effects. They are also responsible for directing and implementing the measures of fire and rescue operations, organizing the means of warning and the necessary precautionary ways to avoid or limit the dangers of unexpected events.
the previously mentioned licensing problem challenges. This is in addition to exploring the main claimed problems/weaknesses as per the interviewed sample.

The new law effectuates a new 'notification license system' that classifies industrial projects under two categories: High risk industries and low risk industries. Article two of the law indicates that, for low-risk industries, IDA grants investors the license prior to finalizing the documents and undertaking the needed inspection. On the other hand, for the high risk industries, the investor has to finalize the entire needed documents and inspection has to be fully finalized before the licensing issuance. It is not permissible that the industrial activity starts before finalizing all the required procedures. A list of 45 high risk industries is provided in the executive regulations of the law. In the next table, the main changes that took place in the current law will be presented as opposed to the old process. The following table demonstrates the main reform measures introduced in the new law compared to the old process prior to the enactment of the law.
Table (6): Business licensing process according to law no. 15 of 2017 compared to the old process

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<th>Business Licensing process Prior to Law no. 15/2017</th>
<th>Business Licensing process according to Law no. 15/2017</th>
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| 1) Land Allocation  
2) Commercial registration  
3) Industrial registry | - Same process | - Same process |

**Notification Licensing System and preliminary approvals**

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<td>— Preliminary approvals used to be granted until the other licensing documents are finalized.</td>
<td>— The new law cancelled the preliminary approval that the IDA used to grant investors until the investor finishes his/her studies.</td>
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**Time framework**

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| — There weren’t specific time frameworks designed for each step according to the old process, however, some IDA information indicate that the whole process after getting the industrial registry usually takes around 360. | — Investor submits the administrative documents with regards to his industrial activity and takes the temporary license within one week.  
— The investor is given three months till he submits the technical documents for the project.  
— During those three months, a technical team form IDA should make a field inspection and give a feedback within 90 days.  
— If IDA finds that the industrial establishment is violating the prescribed requirements, it grants the investor a period not exceeding 180 days to improve his/her conditions. For the medium enterprises, this time limit is doubled.  
— IDA is authorized to close the establishment in case that the investor cannot comply and cannot “regulate his condition with the external entities” |

**Distinguishing between low risk and high risk industries**

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| — Non-existent in the law | The law distinguishes between high-risk and low-risk industries:  
- Low-risk industries undergo the normal process and steps  
- For high risk industries, the investor has to finalize all administrative and technical documents before being granted the industrial license. |

**Regulating conditions**

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| — All industries have to regulate their conditions after obtaining the preliminary approvals | — For low risk industries, regulating conditions is required after issuing the license  
— For high rick The investor has to regulate all his conditions with the external entities like the civil defense, environment and health before he applies for the license. |
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<td>Did not exit</td>
<td>Article 17 specifies that there will be offices accredited by IDA and will be mandated to undertake the examination of the investor’s documents, and they will be responsible for determining the extent to which the documents meet the necessary requirements.</td>
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<td>IDA shall issue a license to the accreditation offices that have the necessary expertise to practice this activity in accordance with the conditions, rules and procedures issued by a decision of the Prime Minister.</td>
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<th>Construction Permits</th>
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<td>Law 119 of 2008 stipulated that IDA has to delegate the assignment of the construction permits to technical engineering offices to check the regulations and make the needed inspection, and IDA should not go through this whole process.</td>
<td>The law wasn’t enforced previously, however, according to IDA officials; there is a plan to start enforcing the law. Yet, the research couldn’t obtain information about the institution that will be in charge of issuing construction permits.</td>
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<th>Coordination among external entities</th>
<th>Coordination among external entities</th>
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<td>Each industrial activity had to regulate the conditions with at least six entities which is the longest step in the process</td>
<td>Article 15 stipulates that the a committee has to be formed under the chairmanship of IDA that includes representatives form Federation of Industries and external entities.</td>
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<td></td>
<td>The committee is required to design a set of unified required conditions on industrial activities. For example, the environment and civil defense. This committee shall review the requirements and conditions of obtaining the industrial license in order to facilitate the procedures “regulating the condition with external entities”.</td>
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<td>IDA based on this assessment shall provide this service on behalf of these external entities.</td>
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Source: Author Constructed
4.2.3 Longstanding Problems of business licensing, recent reforms and remaining issues – data analysis

In this section, the results of the discussions with the sample interviewees will be presented. The analysis is classified into two sections: first, the exploration of the licensing problems prior to the issuance of law no. 15/2017. Second, the remaining problems that still occur after the implementation of the law.

A. Longstanding Problems of business licensing prior to law no. 15/2017

This section will give an overview on the main problems with the industrial licensing process prior to the new law no. 15 of 2017 enacted to facilitate the industrial licensing process.

Procedural steps are too long and expensive for SMEs. An important requirement for the industrial licensing and its renewal is the industrial registry. The industrial registry's renewal or application requires different documents. An investor that was interviewed at IDA branch in Sohag Governorate stated that:

“I cannot get my new license from the IDA since I have to get a new registration from the Federation of Industries which is located in Cairo. I am sick to travel and I have a very small activity; the expenses of the trip are too much for me. Why shall I go to Cairo to make this? in addition to the cost of the registration itself” (Investor 6, December, 2017).

The investor highlighted the trouble faced when he has to issue a temporary license; he says that he has to issue the commercial registry which requires a document form the Federation of Industries which is located in Cairo. The investor has to go to Cairo to issue this study which is expensive for him. The investor has a small industrial activity that is not very profitable, and there is no support from the local IDA branch at Sohag. This shows that the investor is having a real trouble with the expenses and the effort that he has to make in order to get one document that is
needed for a step out of six steps of the licensing process. We can also infer from this that there is low coordination between the central and the local authorities, an investor at Sohag has to go to Cairo to get issue a document (Federation of Industries membership).

Talking about the industrial registry, we have to mention that in an interview with a licensing expert at IDA indicated that:

“The industrial registry is another burdening step for the investor. The industrial registry shall only be like an identification card for the industrial establishment, having to renew it and is needed as a requirement for the licensing. The investor can make an industrial registry and submits it for the preliminary approval and till he reaches the final approval this registry gets expired and therefore he has to renew it” (Licensing Expert, IDA, December, 2016)

The expert says that the industrial register is an additional step that burdens the investor and is considered like a red tape to that requires effort and time. He even points out to that an investor that is applying for an industrial license is required might need to make and industrial registry and renew it more than once since it the whole licensing process might take two years or even more.

Vague distinction criteria between industrial activity license and “operating license14”. Some interviewees highlighted that there is confusion between activities classified under the operational license and the ones that require an industrial license; which requires a much more complicated process. The licensing Expert at IDA indicated that:

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14 Operating license: licenses given to activities like running shops. These licenses do not require any industrial activity. (Licensing Expert, 2016)
“There is a thin line between what is operational and what is industrial, for example, some bakery shops are considered industrial while they do not require real industrial activity. The investor goes to apply in the local authority where they produce the operating license then if they see a certain machine in his feasibility study they tell him he has to go to IDA to make an industrial license, while this is due to ignorance of the function of that machine.” (Licensing Expert, IDA, 2017)

The expert here highlights that sometimes there is confusion about the classification of the projects under industrial sector as opposed to other operations. He attributes this to the insufficient knowledge of some employees that are entitled with the application process.

This argument was supported by another investor who had a small factory for liquid soap packaging, the investor stated:

“I am lost between the IDA and the local agency, I have a small establishment that packs liquid soap, this does not entail any industrial activity, however, I was told by the local authority at the governorate that this is an industrial activity and that I have to get an industrial license and I am now at IDA trying to finish my documents and they tell me that this is not industrial, go back to the local office” (Investor 8, 2017)

The investor confirmed the previous argument that some activities are not clear whether they require an industrial licensing or just an operating license. He says that he just operates a packaging activity and therefore it does not require any industrial or manufacturing production. However, the investor was requested to issue an industrial license from IDA. When he went to IDA he was told that this is not an industrial activity.

Time and cost – sometimes corruption in the process of regulating conditions with external entities: It is strongly argued that procedures related to “regulating the conditions with external
authorities” where the investor has to coordinate with other agencies like civil protection, environment and health and comply to their conditions are of the biggest obstacles facing investors and is the most time consuming step. This argument is supported by interviews with IDA management officials on one side and by investor on the other side. Interviewed IDA official confirmed:

“Regulating the conditions of the investor with the external entities is the most tiring and hectic process in all the licensing process. It takes tremendous efforts and time form the investor and he might stay for years because of this. The conditions of these entities are very important for the protection of the general safety, for example, the civil protection that puts the conditions against hazards and fire is so important. But the problem comes in the application of this. For example, the civil defense takes around two year and maybe more. It is a normal governmental agency that has positives and negatives and there are sometimes people who take bribes. Also, another problem that usually shows in the civil defense is that the police officers who preview the site and confirm the establishment’s setting with the conditions usually change every six months, and when they change they start the process form the beginning.” (Industrial licensing Management Representative, December, 2016).

The interviewee confirms that although regulating the condition of the industrial establishment with the external entities is one of the most complicated steps; yet, it is crucial for the safety of these establishments and for the public as well. Nevertheless, the process entails some problems: First, the time and efforts consumed in this process. Second, sometimes investors are urged to pay bribes to complete their work. Finally, operational problem that can be considered one of the reasons of the prolonged time of this process is the high turnover rate of officers responsible for undertaking the site inspection (they usually change every six months. The process
is not sustainable and highly linked to individual officers behaviors. (Management Representative, Licensing department, IDA, December 2017)

The interviewee also gave another example related to environmental conditions:

“The investor has to submit a study with the environmental impact assessment in the step of the land allocation since some industries cannot be located in certain areas. And resubmitted again in the licensing process (after the land is allocated) the new study should be tailored to the land allocated for the activity. Each study could take between EGP 30,000 and 50,000 and sometimes the investor could not take the approval except after a strong recommendation” (Management Representative, Licensing department, IDA, December 2017).

The interviewee argues that the investor has to submit the environmental document twice despite the fact that it is very expensive. Also she stresses again on the role of personal relations and that the issuance of such documents might be corrupted and subject to personal relations.

On the other hand, an interviewed investor stresses on this point:

“Even of the government facilitates all the procedures the external agencies will remain a problem, or problem in licensing is not with IDA, the real problem is with the external agencies that take time and money and many of the representatives there do not understand the nature of our factories, in my factory I paid EGP 111000 for the civil protection and it took me two years to get their approval” (investor 3, December, 2017)

The investor here underscores the previous argument; that is, regulating the conditions with the external entities is a very costly and time consuming step. Any reform action that doesn’t tackle this problem will be incomplete.
B. Current problems with the implementation of law no.15 of 2017- Government Perspective

In spite of the tangible reforms designed in the new law, a closer look on the implementation of the law shows that the law is not into full action yet. This section presents an analysis of the current status of the process at IDA following the implementation of law no.15/2017, based on interviews with an IDA management representative at licensing department, IDA licensing expert and Research Analyst at ERRADA.

In light of an interview with a leader at the licensing department at IDA, when asked about the current licensing process at IDA she confirmed that:

“Prior to licensing, the investor get the so called: “temporary licensing for one year” this temporary licensing is based on the submission of the 1) commercial registry; 2) Industrial registry 3) the land allocation letter. After revising these documents, the investor applies for the licensing (either notification or primary).” (Industrial Licensing Leader, IDA, December, 2016)

Although preliminary approvals were cancelled in the new law, however, an added step replaced – called temporary approval- the preliminary approval step. Apparently, the procedure is still there but it is just about changing the names. Hence the final impact on the licensing process is "no change".

Also, ERRADA Research Analyst who is doing public consultation son the new law stated the following:

“This law is facing a problem in implementation, on Mid-December IDA signed a protocol the Civil Defense that entailed that the civil defense will be continue to put its conditions
The interviewee says that Civil Protection Agency is one of the important agencies that the investor has to regulate the conditions with external agencies. It is argued to be the one that takes most of the time and continues to impose its conditions on the investor in a discouraging manner. This contradicts with the law that specifies that IDA should take the full responsibility of this issue on behalf of the investor.

When the Analyst was asked about the progress of the new law and about the number of licenses issued since the issuance of the executive regulations, she stated:

“As for the high-risk industries (Prior Notification) it is just one license that is not even finalized, and for the low risk industries, very little licenses were issued, and mainly to (Merghem complex) the SME complex established in Alexandria for plastic industries. Investors there took the license, but the problem is that these complexes are not ready yet and the required conditions for licensing are not fully met. For example, buildings are not fully accomplished, electricity still not fully connected, so in my opinion, the licensing is facilitated as per the interest of IDA” (Research Analyst, ERRDADA, December, 2016).

The interviewed analyst argued that there is nearly no licenses issued under the “prior licensing” system. And even under the notification system, the issued licenses are very limited. The interviewee claims that the issued license most of them were given to those complexes at “Merghem” where the government established a complex for SMEs under the initiative “your licensed factory is ready”. IDA tenders SMEs complexes that look to be ready for production and
license shall be attained. The interviewee argues that IDA might be subjective in the selection of the projects.

C. Current problems with the implementation of law no.15 of 2017 - Investors and Experts Perspective

This section will present the investors’ views on the latest reforms with regards to the new licensing process that was implemented after the issuance of the new licensing law and its executive regulations.

The full implementation of the law and its executive regulations took place in August 2017, hence, it is too early to measure any impact of the law. However, the researcher attempted to analyze the relevance of the newly adopted law to SMEs problems from two different perspectives: SMEs investors that recently applied for industrial licensing or are in the process of receiving it; and the perspective of IDA consultants for industrial licensing and process mapping.

Time reduction: Some investors were asked about their experience with the new industrial licensing process at IDA. Most investors indicated that the new notification system saved a lot of time and effort that were wasted before the real start of operations. An investor that tried the licensing process before the reform indicated that:

“The licensing process now is much better because of the time it saved, we used to go to multiple agencies which was really hectic, and we have to consider anyone took a license before this law as a warrior, it used to take us ages.” (Investor 16, November, 2016)

The investor pointed out that the new law is expected to facilitate the process and decrease the time taken to start production. He stressed that the investors were usually overwhelmed with seeking several approvals before the commencement of activities and this was time and effort
consuming for the investors. Investors used to have hard time in obtaining the license and under the new system. This problem is somehow solved.

Another investor that confirmed the same argument which entails that IDA facilitated the commencement of industrial activities especially by the new licensing notification system stated that:

“It just received the temporary license for my new factory in one working day which was a relatively easy process, IDA might take more money, however, it is enough that they give me a facilitated service, we need to start production and start exporting activities and this is always tied to receiving a license.” (Investor 1, November, 2017)

The investor highlighted that the recent reform in the license simplified the commencement of his industrial project and enabled him to start operations and even exporting activities directly after he received a temporary license which was an essential prerequisite for any exporting activity. This is compared to the relatively longer situation in the past, where investors had to wait for receiving the final license in order to start any exporting activity.

Coverage of Industrial license: A concept that was also stressed on by some investors is that the coverage of the Industrial Licensing is very wide. In other words, many activities involve having an industrial license or even having an industrial registry that is part of the industrial licensing process. This issue was discussed by Wang (2012), Wang confirmed that for a licensing reform, a licensing coverage assessment has to be undertaken to ensure that not all the industrial businesses need a license to legally operate. Investors were asked about that issue and some confirmed that there are some small workshops that are not considered industrial and does not require sophisticated type of machinery. Nevertheless, they still need industrial license. And for the new
workshops, they ask them to go to the new industrial zones which are usually far from the city as they need to be close to their customers.

**Lack of enough IDA staff for facilitating the process, bribes, confusion of understanding:** The process is now facilitated; however, interviewees indicated that there are still some problems with the other processes that take much time that goes back to overloading of IDA staff with a lot of responsibilities. An investor that recently applied for a construction permit indicated that:

“The new licensing notification system is a step forward. However, there are still problems with the fact that IDA is the entitled agency to provide the construction permits. The process there takes so long time and there is usually a problem in getting engineers to allocate go and visit the sites. Adding to this, we are always required to put money under the table to make it move faster (Investor 10, December, 2016).

The investor raised the point that IDA human resources might be insufficient compared to the needs of the investors. He stressed that the new licensing system is a development that should have a positive impact on the investor. However, he still sees that a step like the construction permits still takes time due to the lack of engineers. He also commented on the bribes that he has to give to some employees to facilitate his procedures. Another investor mentioned a counter argument in this regard:

“The construction permits now should be much easier, now there are technical agencies that should do this” (Investor 5, December 2017)

The investor claims that there is no need now to go to IDA in order to apply for a construction permit. Rather, the investor carries on this process in an external technical office that is accredited by IDA. IDA is just visited now for the submitting the permit. This shows that there is also a distraction in the understanding, and there is confusion in the implementation
“The best thing IDA has done to us is not letting us deal with the localities, our problem is not with the government. However, our problem is with the local authorities. Egypt is a good place to invest, however the problem is in the endless bureaucracy, but we hope that under the new law we think that licensing will be much easier, however, we are worried form IDA employees, they sometimes do not understand technically what should be done and a lot of times we ask questions that has no answers and we try to call the branch in Cairo but always in vain. Last year I had to go Cairo three times just to renew documents like the industrial registry.” (Investor 10, December, 2016)

The investor here acknowledges the potential that the new law has in facilitating the industrial licensing procedures. He argues that in the past, he used to deal with the governorate and localities for the licensing process which was a complicated process. However, he hopes that under the new law the process is facilitated. He also comments on the capabilities of IDA staff and their knowledge about the procedures, this investor is located at Qena and therefore this shows that there is a local disconnection between central and local authorities.

4.2.4 Business Licensing in Egypt and SMEs Empowerment: Discussion

In this section, the researcher tries to reframe the results of the above analysis in the previously mentioned context of industrial policy and SMEs empowerment. More precisely, the researcher compares the results of the undergone analysis of the main reform measures to the literature review and conceptual framework. Results of the analysis can be categorized under the following points:

A) The effectiveness of licensing reform process

IDA differentiation between high-risk and low risk activities has led to simplification of measures for more than 80% of the industrial projects. It also should enhance the accuracy of the
required measures for high-risk projects since it now designates special requirements for different projects. (Wang, 2012 and WBG, 2010) have affirmed that effective licensing are done to regulate the market, protect the public against negative externalities and to save scarce resources (Wang, 2012; OECD, 2010 & WBG, 2010). Improving this step is expected to lead to these positive outcomes.

IDA aimed at re-assessing the unjustified licenses through eliminating the preliminary license and coordinating with external entities on the nature of conditions and take the responsibility of the agent between investors and external entities. This can be considered a step towards efficient mapping and restructuring of the procedures that facilitates the license process in general. That resembles Wang (2012) framework of reforming industrial licenses.

On the other hand, it could be argued that unjustified licenses were not deeply addressed in the reform. The case of industrial registry could demonstrate this case. Industrial registry is a necessary document for international trade requirements. It is a way to limit the industrial activities to engage in trade activities beyond their capacities and hence limits black market activities. However, the registry is essentially used to help the government in the planning process though giving indications on the number of registered companies and their capacities. These functions could be given to the industrial operating license. In this regard, industrial registry could be perceived as an unjustified license that could have been simply replaced by the license. According to Wang (2012), any license that is designed to collect information is considered an unjustified license. In this regard, industrial registry could be classified under unjustified licenses because its main aim is to register the industrial establishments and act as an Identification certificate of the establishment.
Hence this industrial registry, though important, yet it can be replaced by the license. The license can do the same job and hence the industrial registry requirement in this case can be perceived as per Wang (2012) framework an unjustified license that was not removed.

Rodrick (2014) argued that while designing the policy, government should reflect the needs of the investors with regards to clarifying the requirements of the licenses and any relevant information. Despite the recent reforms, some issues in the industrial licensing are still vague and confusing and were not taken into account in this reform. For example, the analysis showed that a distinction between activities classified under industrial licenses versus those under operational license needs more understanding and have to be well communicated to officials that are in direct communication with the investor.

B) The effectiveness of implementation process of licensing reform

Based on the previous data analysis, we could infer that there is a confusion in understanding the latest policy reforms and a confusion in its implementation. Law no. 15 of 2017 is a good step forward to implement a simplified licensing system that should directly impact the inclusion of SMEs into the market. Nevertheless, analysis showed a confusion in understanding the reform measures for both the implementers and the investors. This was evident in three points;

First, the contradiction between some law articles and signed protocols; as with the case of the Civil Defense Protocol signed with IDA. This contradiction will impact both types of licensing (prior licensing and licensing by notification) and cumbersome the originally most-complicated step which is the regulations with external entities.

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15 An interviewed Research Analyst at ERRADA indicated that IDA has recently signed a protocol with the Civil Defense which is the one of the most significant external entities that regulate the conditions of industrial activities.
Second, the inconsistent understanding of the process in different relevant executive agencies and even among investors. For example, there is no clear unified understanding of the role of the planned accreditation offices that should be launched by IDA. An interviewed industrial license expert indicated that accreditation offices will act as IDA agents in providing license, however, interviewed IDA management representative indicated that it will only regulate the conditions with external entities. Another example of this confusion is the IDA website which has a published operating manual that describes process as per the new law. However, on the other hand, some links on the website are still presenting information related to the old process\textsuperscript{16}. In the time that the new law seeks to clarify and simplify any possible barriers, such confusion can be considered a serious barrier to information access, not just for the investors but also for the executives working on the policy implementation. As Koollavalli et al (2011) and Rodrick (2004) argued, access to all needed information and efficient understanding and implementation of policy tool are essential success drivers of the policy. Hence, the current policy framework is argued to be still suffering from a gap in this regard.

The implementation of the policy is still bureaucratic and complicated. The licensing department consists of four management heads in addition to a legal consultant. Employees that work directly with investor are claimed to suffer from inconsistency in the understanding and the implementation of the process\textsuperscript{17}. This example reflects the challenges discussed by Rodrick (2014) and Galal (2008) which indicate that the government bureaucracy and the institutional arrangements are of the biggest challenges to the implementation of industrial policy. A reason for the confusion in the understanding and the implementation of the policy is the weak institutional capacity. Kolavalli et

\textsuperscript{16} For example, frequently-asked questions link describes the old process (preliminary approval and final approval and no mentioning to the two new types of licensing (prior licensing and licensing by notification).

\textsuperscript{17} As stated by ERRADA analyst that confirmed that since each head comes from a different background, this has different input to the details of the process.
at. (2011) confirmed that coordination between the industrial policy makers and the implementing institutional bodies is a necessity to ensure the effective implementation of the policy. They even suggested that this should be through the existence of a “development agency”. The agency might be the one implementing the designed industrial policy which is in this case IDA. Additionally, Kolavelli adds that the coherence in the bureaucratic space is an essential aspect for in the design of the policy.
Chapter Five: Conclusions and Policy Recommendations

This study aimed at exploring the recent industrial policy efforts in relation to facilitating access to industrial production through simplifying land allocation and industrial licensing procedures. This study aimed at understanding the current frameworks of the land allocation and industrial licensing and exploring to what extent these frameworks and the recent reforms affected the empowerment of SMEs at the business start-up phase. The Egyptian Government undertook recent legal and institutional changes aiming at facilitating SMEs access to market and formal inclusion. These reforms were thoroughly studied and analyzed in relation to the evidence provided in the literature on the main principles of effective industrial policy. The study intended to answer a main question which is “To what extent are the current land allocation and business licensing frameworks and newly designed policies in Egypt empowering SMEs and enhancing their access to industrial market?” And two sub-questions, the first is “How does the current land allocation framework and the designed policy facilitate SMEs access to land?” and the second is “How does the current business licensing framework and the designed policy facilitate SMEs issuance of Industrial licenses?”

The main findings of the research indicate that the Egyptian government undertook promising policy reforms that need to be more studied and analyzed in order to create real change on the ground. The study highlighted the policy challenges with regards to industrial licensing and industrial land allocation. On the policy level, it was clearly observed that there are undefined and sometimes contradicting institutional and legal frameworks which usually leads to inefficient implementation of the policy and eventually affect the performance of SMEs. This is very clear in the contradiction between law no. 72 of 2017 on incentives and guarantees, law no. 83 of 2016 on state privately owned land and law no. 17 of 2017 for industrial licensing which revealed an
overlap in responsibilities between IDA and GAFI. Coordination within the institutional authorities working on these policies is low and reveals a contradicting institutional framework. Analysis showed that there is a poor harmonization at IDA on the central and local levels, also the effectuation of law 83 and the transfer of industrial land to IDA is still delayed due to the low cooperation with GAFI, NUCA, Ministry of trade and Investment and local governorates. Additionally, obstacles in full implementation of law no.17 of 2017 result from the low coordination between IDA and external authorities that regulate conditions of industrial activity.

Furthermore, analysis showed that there is a confusion in the understanding and the implementation of the policies from the sides of the policy makers, policy implementers and investors. This is highly conceded in the understanding of the new licensing process and the procedures of land allocation. Analysis also revealed that policies undertaken are mostly supply-based polices which might not meet the actual requirements of SMEs, a clear manifestation of this is the SME initiative implemented by IDA “Your license factory is ready”. Interviews showed that the low demand on the complexes granted under this initiative and their poor performance is for the reason that that these complexes does not adequately match the needs of the investors. This leads us to another reason behind the limited change the ground which is the low communication between the government and investors which results in limited awareness of the government with the needs of SMEs investors and a main reason for information externalities.

Adding to that, analysis showed high level of centralization in the industrial policy demonstrated in the performance of IDA on the national and local levels. Centralization is not only seen on the operational level, however, even enactment of no.83 of 2016 contradicts with article no. 176 of the constitution for economic decentralization and the transfer of economic assets to governorates. It was also concluded that there is a lack of strong human resource capacities and a
communication strategy to policy implementers lead to an ineffective policy understanding and implementation.

Based on the previous literature work reviewed and the analysis of the study, the researcher has the following policy recommendations to facilitate SMEs access to market:

- An effective industrial policy requires strong consultation with the investors especially before conducting legislative changes in order to understand what are the specific needs and tailor the policy efforts according to those needs. IDA might conduct public consultation on the new licensing process and latest land allocation reform efforts with SMEs that recently conducted these processes. These consultations should enable tailoring land allocation and industrial licensing regulations and procedures to the nature of SMEs and the framework conditions in each region of Egypt and open the room for a more demand based policy.

- Completing the policy framework by conducting a thorough legislative analysis to identify gaps and overlaps of the recent law with existing laws and regulations, then suggest a legislative reform process. This reform process might not require enactment of new laws, however, it might just require amendments to existing laws and their effectuations. For example, the Egyptian government needs to support the effectuation of law 83 of 2016 that authorized IDA to have sovereignty over the industrial land through stipulating a decree to transfer the land from other authorities, political leadership needs to support the transfer of the land to IDA. Another example of legislative analysis that should take place is the revision of the latest investment law in accordance law 83 of 2016 which gives GAFI and IDA similar mandates. The legislative analysis also has to include a revision of the industrial registry procedures that might be defined as unjustified. Also, a clear
identification of the difference between operational and industrial activities is a highly needed.

- Conduct a thorough institutional analysis of all involved institutions in land allocation and industrial licensing, coming up with an institutional reform agenda suggesting changes to mandates, roles and capacities of involved institutions. This analysis has to take into account the dynamics between institutions involved and nature of their mandates. For example, in the licensing reforms proposed, there has to be a clear classification between the role of IDA in issuing the license and the role of external institutions putting the conditions like the civil defense, these institutions provide a technical inspection in the licensing process which might not be easily transferred to IDA. As per the new responsibilities of IDA, the institutional analysis shall include a review of the land management unit mandates and requirements. The management of the land after the new law requires to be done by an authority that is beyond the scope of a committee, or a unit at IDA.

- Institutional coordination and the political support are key for the success of IDA in implementing its new mandates. The clear differentiation between IDA roles and GAFI roles should be a task to solve the problem of the overlapping responsibilities, especially after the latest investment law. Additionally, the effectuation of law 83 will not take place without an adequate political support to help in smooth transfer of the industrial land to IDA.

- Ensuring the adequacy of the human capactiates at IDA that are entitled to implement the new industrial policy reforms is a crucial issue for the success of this reform. IDA’s widened scope of work and responsibilities has to be met with human capacities strengthen
in the coming period. Continuous trainings and seminars for IDA employees have to be conducted to ensure the understanding of the new policy and that proper capacity building is done.

- IDA with its new responsibilities in land allocation and industrial licensing had to have more spread geographical coverage, IDA should have branches across all the Egyptian governorates that accommodate industrial zones. The Egyptian government had to create a strong cooperation mechanism between the central and the local levels that ensure the adequate autonomy to IDA representatives in the governorates. This mechanism has to include a recruitment system that enables IDA branches to recruit technical employees from the governorates. Also there should be an electronic system that automatically connects those branches to the central branch at Cairo.

- Ensuring the clarity of the understanding of the new reforms and their implication from the sides of the policy drafters, implementers, and investors through creating a good communication strategy after collective consultations and understanding on all levels, nationally and locally. For example, after reaching in a consensus on the new licensing process and its requirements, this could be communicated through training sessions and workshops to introduce the new policies.
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