

PN-177R-514

ISN = 34346

THE SMALL-SCALE ENTERPRISE SECTORS IN EGYPT

A Critical Analysis of Seven Selected Studies

by

Gary N. Howe, Ph.D.

October 1984

Prepared for the

**Social Analysis and Rural Development Division
Office of Technical Support
Bureau for Near East
Agency for International Development
Washington, D.C. 20523**

Contract No. NEB-150-0-4103-00

THE SMALL-SCALE ENTERPRISE SECTORS IN EGYPT

A Critical Analysis of Seven Selected Studies

TABLE OF CONTENTS

FOREWORD	2
EXECUTIVE SUMMARY	3
INTRODUCTION	6
I. SUMMARY AND SYNTHESIS	9
1. The Small-Scale Industrial Sector: Arthur D. Little Report	9
2. The Small-Scale Industrial Sector: Clark Report	16
3. Artisanal Production in Major Industrial Areas: Checchi Report	17
4. The Ubiquity of Artisanal and Household Production: Michigan State University Reports	26
5. Elements of the Social Context and Organization of Small-Scale Production: Abdel Fadil and PADCO Reports	31
II. ANALYSIS AND CRITIQUE	34
III. CONCLUSION	48

FOREWORD

Three factors have prompted further consideration of Egypt's formal and informal small-scale enterprise sectors:

- o The Government of Egypt's general concern about increased economic productivity,
- o USAID/Egypt's programmatic developments centering on revenue generation, and
- o An Agency policy priority focussing on private sector development.

Specific attention was drawn to these sectors as a result of the recent assessment of the Decentralization Sector Support Program and of the determination to design a follow-on program. The role of the private sector, especially at the various levels of local government, is considered critical in maintaining and undergirding the success of the current decentralization program and in promoting the required resource mobilization and institutional development in the follow-on program.

Although the immediate context is relatively new, USAID/Egypt's concern about the small-scale enterprise sector has existed for some time. Indeed, at least seven studies on some aspects of this sector have been prepared during the past five years. These, then, have become a starting point for determining possible USAID/Egypt interventions in support of local private sector growth and investments in formal and informal small-scale enterprises.

The attached report is a synthesis and critique of the findings and proposals in these seven studies. It does not, nor was it intended to, evaluate the independent value of each study. The report was prepared by Dr. Gary N. Howe as economist. He found that the seven studies in their ensemble do not present "a comprehensive statistical picture of small-scale production in Egypt", but do allow "the formation of a composite image of the principal characteristics of small-scale production."

Dr. Howe's study revealed that the findings and proposals of the seven studies failed to specify the prospects for the small-scale enterprise sector in relation to the large-scale sector, the differences between the formal and informal small-scale enterprise sectors, and the social role of informal small-scale enterprises.

In his conclusions Dr. Howe offers some cogent and thoughtful suggestions of possible next steps towards acquiring a better understanding of the formal and informal small-scale enterprise sectors and developing appropriate interventions in support of their development. The report is concerned with Egypt, but the findings and suggestions have potentially wider application.

William R. Niner

November 1984

EXECUTIVE SUMMARY

Terms of Reference

The terms of reference for this report stipulate summarization of the major findings and proposals in the reports listed below, identification of collective deficiencies in methodology, information and analysis, and specification of further investigation necessary to enhance AID involvement in and support of private sector growth and investments in small scale enterprises.

The literature reviewed consists of:

1. Mahmoud Badr, et al., "Small Scale Enterprises in Egypt: Fayoum and Kalyubiya Governorates, Phase 1 Survey Results," Michigan State University Rural Development Working Paper, No. 23, 1982 (referred to as MSU);
2. Stephen Davis, et al., "Small Enterprises in Egypt: A Study of Two Governorates," Michigan State University International Development Working Paper, No. 16., 1984 (referred to as MSU);
3. Arthur D. Little International Inc., "Phase 1 Draft Report: Review and Evaluation of Small Scale Enterprises in Egypt," January, 1982, and Phase 2 Final Report, "A Strategy for Support of Small Enterprises in Egypt," March, 1982 (referred to as ADL);
4. Checchi & Company, "Artisan Sector Studies Project: Enterprise Survey Analysis: A Profile of Artisanal Establishments in Greater Cairo, Alexandria, Assiut and Damietta," November, 1982 (referred to as Checchi);
5. Clark, Paul G., "Private Sector Industrial Development Strategy," Boston University, 1981. Industrial Strategy Assessment Report for AID (referred to as Clark);
6. PADCO, Inc., "National Urban Policy -- Main Report." Sections on Employment and SSEs and Urban Growth (referred to as PADCO);
7. "ILO Employment Strategy Mission to Egypt." Especially section by Mahmud Abdel Fadil (referred to as Abdel Fadil).

Principal Findings

1. The reports reviewed do not present in their ensemble a comprehensive statistical picture of small-scale production in Egypt. However, their partially overlapping surveys do allow the formation of a composite image of the principal characteristics of small-scale production.

2. According to the reports:

a. The private sector in Egypt is substantial (accounting for approximately 30% of industrial production) and growing. The new policy framework initiated by Law 43 has given impetus to the development of relatively large-scale private and mixed enterprises.

b. At present a large part of private production in Egypt is accounted for by small and very small enterprises which do not enjoy Law 43 advantages.

c. These small and very small enterprises are characterized by relatively localized marketing, low levels of fixed and working capital, and heavy reliance upon skilled labour which is in relatively short supply.

d. Overall, these enterprises (with the exception of tiny household based producers) have significant potential for expansion and employment

generation serving national and international markets.

- e. Their expansion would be facilitated by:
- relaxation of the regulatory climate (equalization of conditions with Law 43 companies)
 - provision of credit through mechanisms specifically geared to the needs of small-scale producers
 - development of labour training schemes directed towards the production of appropriate labour resources
 - more stable supplies of raw materials at more equitable prices.

3. The reports and their principal proposals suffer from three major shortcomings:

- a. a failure to specify the prospects of the small-scale sector in relation to its environment;
- b. a failure to specify the differences between the formal and informal areas of small-scale production and the necessarily different supportive strategies appropriate for each;
- c. a failure to specify the particular social role of the informal sector and the necessity to put any evaluation of its "efficiency" in terms of its social stabilization effect in addition to its physical production.

4. The prospects of the formal small-scale sector will be conditioned by the development of the large-scale sector and the former's ability to develop in a fashion complementary to the latter. Optimal use of support resources is dependent upon identification of specific growth sub-sectors and the provision of inputs appropriate to their particular needs. The reports offer no such detailed identification of sub-sectors and their requirements, nor do they exhibit any recognition of the need for such. There is need for formulation of a detailed and coherent indicative/directive support strategy broken down to the sectoral and sub-sectoral levels.

5. As above, there is a clear need for more precise specification of anticipated market growth. Checchi's study indicates that Clark's generalized optimism about exports is quite misguided. Equivalent optimism about internal markets should be modified on the basis of analysis of likely points of expansion of large-scale production. Again, any expansion of the role of small-scale production will certainly involve major inter- and intra-sectoral relocation of small-scale activities. Support strategies should seek to facilitate this rather than ossify the existing distribution of enterprises.

6. Proposals in the reports are heavily oriented to the requirements of formal small-scale enterprises. In spite of widespread recognition of the role of the informal sector in LDCs since the ILO's reports in the early 1970's, there is no attempt to systematically differentiate between and identify formal and informal elements in the small-scale sector. This is very seriously incorrect, and could have quite negative results. The large informal sector would not benefit substantially from an inflow of capital into production. It would, however, benefit from an attempt to improve utilization of existing resources through increased specialization, regulation of marketing and standardization of products. Unfortunately, these possibilities are not seriously explored in the reports, which fail to recognize that support for the small-scale sector involves development

of two major strategies: one for formal producers; one for informal producers.

7. The reports fail to recognize that not only does the informal sector have specific requirements corresponding to its quite unique basis of organization, but that it also has a quite particular status which should radically condition visions of its reorganization. It is the point of absorption of a mass of labour that can find no foothold in the formal sector, and, as such, plays a crucial social role for a population otherwise bereft of means of subsistence -- giving the sector an extraordinary role in the preservation of social stability. This suggests that the requirements of the sector should be taken very seriously, and that proposals should in no way undermine the labour absorbing role.

8. In spite of their attention to detail within the parameters of their survey designs, the reports surveyed fall far short of the desired level of specificity with regard to growth sectors for formal small-scale producers and the requirements of informal producers. This suggests the need for additional studies concentrating upon:

a. areas of growth of small-scale production in the context of the expansion of large-scale production; identification of requirements for expansion into these areas; an inventory of current private and institutional resources; specification of critical areas of needed support; selection of institutional mechanisms capable of injecting necessary support into the right places at the right times;

b. the existing division of labour among informal producers; possibilities of regulating and standardizing markets through use of existing institutions; identification of institutions capable of expanding existing capacities in this regard and resources required for these to have broad social impact.

INTRODUCTION

1. Since the inception of a new direction in national domestic and external economic policy in 1973 (the commencement of the Open Door), the government of Egypt has sought to develop the private sector of the Egyptian economy on the basis of substantial changes in its operating environment. Initial attention was focused on the development of new, relatively large scale productive enterprises involving both Egyptian and foreign capital -- within a modified fiscal and regulatory structure exclusively oriented to new enterprises adding to existing productive capacity. More recently, it has been recognized that there exists a significant sector of private industrial production which in aggregate terms contributes substantially to industrial production, capital formation and employment -- which antedates the new policy, and which has not received the support enjoyed by enterprises formed within the new framework.

2. In many respects, the nature of this previously existent private industrial sector differs markedly from post-Open Door elements, being in general both smaller in scale of individual units of production and distinct in terms of organization in the sense that a large part of production exhibits "informal" characteristics. The differential organization of this sector and the fact that it has not received the support given to Law 43 companies has stimulated interest in the development of specific supportive measures for the expansion of the sector -- involving, in terms of USAID's major concerns, private sector growth, aid to the informal sector, and decentralization.

3. Although the non-Law 43 private industrial sector is dominated by relatively small firms, it is by no means homogeneous. In principle it can be divided into "formal" and "informal" sectors, which have quite distinct bases of economic operation in both production and marketing, and quite different needs. All informal enterprises are private and small-scale, but not all small-scale and private enterprises are informal. This should be borne in mind when assessing both the completeness of existing information and the efficacy of supportive proposals assuming that there exists a uniform set of needs throughout the sector of small-scale private production. There is a very common tendency to confuse formal small-scale enterprises with informal enterprise by denominating the whole range of small scale private production as informal, with the resulting confusion being compounded by characterizing the needs of the true informal sector as the same as the formal small-scale sector. Analytically, the formal small-scale sector is given the name of the informal sector, while the informal sector is endowed with the characteristics of the formal sector. It should be part of the contribution of any case study that such confusion be decisively laid to rest.

4. The purpose of this review is not to evaluate the independent value of each source, but to summarize and synthesize the information offered, indicate major deficiencies in description and analysis relative to minimum requirements for development and implementation of effective support strategies, and suggest high priority areas for development of the data and analysis base. The first part will summarize information on the small-scale and informal sectors. The second part offers a critique of the sources with particular reference to insufficiencies in characterization of the structure and requirements of the informal sector. The third part will

indicate research and analysis priorities in the light of the critique of the existing information base.

I. SUMMARY AND SYNTHESIS

1. The Small-scale Industrial Sector: Arthur D. Little Report

1.1 The Arthur D. Little Report is the most nationally comprehensive of the reports surveyed, addressing the national universe of private sector industrial establishments employing between 10 and 200 workers. It is also the only report outlining the structure of Egyptian production as a whole, the size and composition of the industrial sector, and the role of the private sector within it.

Table

Employment by Sector, 1980-82
(thousands)

	1974		1979		Annual Avg. Increase		1980-81		1981-82 Annual Avg. Increase	
	No.	%	No.	%	1974-79(%)	No.	%	No.	%	1980-82(%)
Productive Sectors	5715.4	63	6206.3	59	1.7	6352.3	56	6478.1	55	2.0
-Agriculture	4212.4	47	4165.0	39	-2.4	4206.2	37	4240.8	36	0.8
-Industry and Mining	1149.5	13	1351.0	13	3.3	1386.5	12	1448.5	12	4.4
-Petroleum						21.5	.2	23.0	.2	9.0
-Electricity	38.3		60.2	1	9.5	58.5	.5	61.5	.5	5.1
-Construction	315.2	3	629.2	6	14.8	680.0	6	704.3	6	3.6
Distributive Sectors	1288.2	14	1580.0	15	4.2	1790.2	16	1873.1	16	4.6
Service Sector	2035.2	23	2773.1	26	6.4	3196.0	28	3453.4	29	8.0
Total	9038.8	100	10560.3	100	3.2	11338.5	100	11804.6	100	4.1

Source: ADL, Table 2

1.2 Tables 1 to 3 indicate the significance of the industrial sector in the Egyptian economy. Although agriculture continues to be the largest source of employment (36% in 1981-82), industry and mining provides 12% of employment, with the industrial workforce having expanded at an annual rate of 4.4% between 1980 and 1982 (see Table 1). At this point, industry

of 4.4% between 1980 and 1982 (see Table 1). At this point, industry occupies a stable and somewhat less than dominant position in the Egyptian economy. Its recent growth rates have been rather marginally above the general growth rate. Table 2 shows that the share of the private sector in industrial production has risen from 29.9% in 1976 to 33.1% in 1980, with

Table 2

Private and Public Sector Contribution to Industrial Production
(Percentage of Value of Output)

	1976	1977	1978	1979	1980 (est.)	1980 (relative distribution)
Textiles						
--Public	74.5	76.6	72.7	72.1	73.5	29.4
--Private	25.5	23.4	27.3	27.9	26.5	21.5
Foodstuffs						
--Public	76.4	78.9	78.9	75.2	70.4	29.8
--Private	23.6	21.1	21.1	24.8	29.6	25.3
Chemicals						
--Public	61.6	57.1	56.8	66.6	61.7	12.0
--Private	38.4	42.9	43.2	33.4	38.3	15.1
Metals and Engineering						
--Public	85.4	87.0	87.0	86.4	83.3	27.3
--Private	14.6	13.0	13.0	13.6	16.7	11.0
Metals and refractory(1)						
--Public	27.6	--	55.8	50.7	51.2	1.5
--Private	72.4	100.0	44.2	49.3	48.8	2.9
Leather Products						
--Public	--	--	--	--	--	--
--Private(2)	100.0	100.0	100.0	100.0	100.0	24.2
Total						
--Public	70.1	71.5	69.7	67.3	66.9	100.0
--Private	29.9	28.5	30.3	32.7	33.1	100.0

(1) Excludes most building materials including cement, bricks and cement products. Although cement production is exclusively public sector, brick production in the private sector is very important.

(2) This refers to leather products only and excludes tanneries including some public sector companies. Furthermore, these public tanneries are involved in some production of leather products.

Source: ADL, Table 6

the strongest subsectoral showing in leather products (100%), metals and refractory (48.8%), and chemicals (38.3%). Comparing Table 2 with Table 3 it is evident that private production is concentrated outside the relatively

slower-growth subsectors such as textiles (private sector production in textiles is concentrated in garment production, where the public sector accounts for only 20% of production -- in metal fabrication 55% of production takes place in the private sector in thousands of small establishments) and foodstuffs, where government investment in production

Table 3

Industrial Production 1976-80
(Gross Value of Output, Current Prices, LE Million)

	1976	1977	1978	1979	1980	1976-80 Annual Increase %
Textiles	755.8	836.5	1097.5	1163.3	1382.8	16.3
Foodstuffs	774.8	845.9	958.1	1190.4	1459.7	17.2
Chemicals	292.7	354.2	413.4	521.3	671.6	23.1
Metals and Engineering	446.2	541.4	653.8	836.5	1129.7	26.1
Mining and Refractory*	27.9	35.2	60.3	83.6	100.9	37.9
Leather Products	162.2	170.5	248.9	362.5	413.7	26.4
Total	2459.6	2783.7	3432.2	4157.6	5158.4	20.3

* Excludes most building materials including bricks, cement and cement products.

Figures only cover industries under the Ministry of Industries supervision. Hence, some joint ventures, building materials and private sector companies are not included.

Source: ADL, Table 5

to meet basic needs has been heavy and where regulation of prices is relatively rigid. At current prices private sector output was rising at 23.5% compared to 18.9% in the public sector*. According to ADL, most new

* Footnote: These figures indicate a strong and growing private sector presence, with substantial participation of small enterprises. For the sake of accuracy, however, it should be noted that ADL's figures for output are at current prices, uncorrected for inflation. The World Bank has used a figure of 11% as general deflator, which would approximately halve the private sector's rate of growth when expressed in real terms. In fact, this deflator is rather low -- others have estimated a rate of inflation at

private investment has been made by new companies formed under Law 43, which signifies a rise in the capital/labour ratio and a probable orientation away from basic consumer products.

1.3 According to ADL, the base of the production represented in the above tables is approximately 7,800 industrial establishments employing more than ten workers. Of these 265 are public sector enterprises, the remaining group of over 7,500 (accounting for 25% of all industrial workers and 29% of industrial output in 1980) being private. In terms of numbers, private sector establishments have an overwhelming presence in Egyptian industry -- and among the private sector enterprises employing more than 10 workers small units are predominant. Only 120 have 200 or more employees; 510 have between 51 and 200; and approximately 6,900 have between 10 and 50. Establishments with between 10 and 50 workers accounted for 19% of industrial output.

1.4 Surveying enterprises employing between 10 and 200 workers (effectively concentrating on the 10-50 employee range), ADL found marked differences from Law 43 companies (which were not addressed in the survey because of their larger size). Among the smaller companies operating outside the framework of Law 43, only 6.5% are joint-stock enterprises -- with the vast majority being either held by single individuals or by

* (cont.) between 15% and 20% over the last decade, which would further reduce real growth. Moreover, when comparing private and public sector, it should be noted that the use of a general deflator tends to misrepresent patterns of real output. The higher incidence of controlled prices in the public sector suggests that the rate of inflation of its product prices is less than in many areas of the private sector: use of a sub-sectorally differentiated deflator would probably indicate that the superiority of the real rate of growth of the private sector over that of the public sector is somewhat less than the uncorrected figures suggest.

partnerships. Proprietorial supervision is the norm, with little or no development of specialized management/marketing skills. Technology is varied, it being suggested that acquisition of knowledge about machinery and acquisition of the machinery itself are problem areas. The survey reports frequent complaints about the inadequacy of supply of skilled labour (which is typically acquired through apprenticeships, on-the-job training, and hiring away workers from other employers), as well as about the inadequacy of the vocational training system, which seems to principally supply workers to the public sector and prepare them for the conditions of production found there. In regard to labour, ADL reports very poor working conditions and frequently low levels of remuneration in the sector. Furthermore, employers seek to minimize the number of permanent workers and maximize temporary labour -- apparently in an effort to avoid what are perceived as constraining labour regulations. Among the enterprises surveyed by ADL marketing is decisively subordinated to production, with 60% making no effort to promote sales. ADL attributes this apparent lethargy to the existence of "enormous unsatisfied demand" (however, ADL also reports that entrepreneurs are clear about the immediate basis of competition). According to ADL this ample local market explains a rather low level of export promotion among small scale enterprises.

1.5 ADL offers little information on markets other than those involving supply to final consumers. There is no data on intra-sectoral relations with enterprises of equivalent size, which is an important indicator of levels of specialization. Subcontracting with larger companies is said to be a limited phenomenon, but among firms surveyed, 45% did sell some products to public enterprises. These exchanges are restricted by the absence of a small business set-aside programme in the purchasing strategy

of the government and public sector enterprises, as well as by the fact that public sector competitors allegedly enjoy privileged access to imported raw materials.

1.6 Small-scale private enterprises operate with only very limited use of formal credit. ADL identifies credit as a major factor in the expansion of production, employment and productivity in the small-scale enterprise sector, and the proprietors surveyed generally indicated a need for credit. The reasons offered by ADL for currently low levels of credit are quite varied. A major factor is the tax avoidance so common in the sector. On the one hand, this practice gives little credence to enterprise balance sheets, thus determining a pattern of bank lending only against collateral -- a problem where most enterprises operate with a minimum of fixed capital (e.g., very few enterprises own the physical accommodation of their activities). On the other hand, a desire to avoid the demands of the government in relation to taxation and proper labour relations prompts avoidance of official lending institutions. It should be noted that there are also problems on the demand side: small enterprises are averse to the perceived risks associated with borrowing, particularly those associated with fixed payments, giving rise to a preference to raising capital among relatives. The result, according to ADL, is a major problem of credit supply (especially among the smallest manufacturers), not least with regard to working capital.

1.7 According to ADL, the only constraints on the expansion of the private, small-scale enterprise sector are on the supply-side. Positive development seems boundless, given

tremendous market opportunities made possible by the opening up of

much of the economy to private investors, a rapidly growing economy, and a large and growing domestic market.

1.8 From this perspective, the forces stunting the growth of enterprises and the sector are neither in the market, nor in the will/entrepreneurial ability of the sector, but in the institutional environment and government policy. Thus ADL notes that Law 43 "is the principal mechanism for encouraging and directing private investment", but it applies only to new companies. From the point of view of the small scale enterprise, the government's orientation is regulatory rather than promotional, being concerned with policing a regulatory environment from many of the terms of which Law 43 companies are exempt -- with the result that up to a third of all small scale enterprises operate "underground" to avoid government regulation (with an allegedly negative impact upon possibilities of expansion). For ADL, the conditions for expansion of the small scale enterprise sector, which is more labour intensive and less troubled with labour problems involve extension of Law 43 conditions to all enterprises (especially with regard to relaxation of Labour Law) and improvement of credit facilities.

1.9 In relation to credit, according to ADL, "available funding for further growth does not appear to be a particular constraint for development banking at this point." The issue is one of developing an institutional structure capable of delivering credit to the smaller enterprises. While the DIB has extended loans to small producers, the percentage of small producers receiving loans has not been great, not least because of a conservative credit risk orientation on the part of DIB and a collateral policy favouring more highly capitalized enterprises. According

to ADL the solution to growth is a mixture of deregulation and credit -- a combination of which promises indefinite expansion and employment generation.

2. The Small-scale Industrial Sector: Clark Report

2.1 In many respects the conclusions of ADL are echoed in the Clark report. While issues concerning small-scale enterprises are not clearly explicated (perhaps because it is felt that there is little differentiation among the operating environments of different kinds of enterprise), Clark endorses the environment that Law 43 has created, suggesting that it is a "significant source of competitive market pressures in a more liberalized economy." ADL represented the internal market as the basis for indefinite employment-generating growth, whereas Clark gives the export market a more dynamic role. Although Clark offers no concrete analysis of potential export markets, nor of the specific measures necessary to exploit international market opportunities, the report suggests that Egyptian exports should be relatively labour-intensive (corresponding to local comparative international advantage). In this regard, it should be noted that Clark's own data indicate that the capital-labour ratio in Law 43 companies is twice as high as in non-Law 43 companies.

2.2 As does ADL, Clark emphasizes the potential role of government policy in stimulating growth -- particularly (in Clark's case) with regard to fiscal readjustments favouring retention and investment of profits. Having determined to his own satisfaction that export industries and Law 43 companies are more efficient and introduce a healthy climate of competition

into the industrial structure, Clark suggests that export-led growth could be maximized through implicit subsidies in the form of effective government insurance against fluctuating exchange and interest rates to reduce risks. Overall, there would not appear to be any particular requirement for special attention to the needs of small-scale enterprises beyond a certain equalization of the conditions of operation of private sector operations. In relation to credit, Clark states that "the general view of the banks seems to be that the supply of funds for medium term lending is quite adequate to meet the demands of private companies that have sound investment projects". However, Clark does suggest that there is a need for funds to be directed to small-scale industrial enterprises (capitalized at between EL200,000 and 300,000). It should be noted, in view of the figures offered by ADL, that enterprises of this size are anything but small in the Egyptian context. Apart from this call for credit, Clark does not address the particular conditions of small-scale and artisanal production. The sole differentiating characteristic of small-scale enterprises for Clark is that they are small and thus have the unique possibility (denied to large enterprises) of becoming large: "These small scale firms are strategically placed to expand into larger industrial firms in the future, to respond to export incentives, and to make effective use of improved availability and terms of financing."

3. Artisanal Production in Major Industrial Areas: Checchi Report

3.1 ADL and Clark operate within a more or less recognizable space of analysis. Clark essentially addresses private production in general in Egypt. ADL presents a more concrete picture of industrial production in Egypt, emphasizing the large number of small firms found in the industrial

sector -- but without suggesting that small-scale production operates in a fashion substantially different from that of larger firms. Checchi, however, exposes an economy whose lineaments begin to present features rather different from those which the theory of the firm has developed in relation to, a massive sector in which capital plays, perhaps, a significantly lesser role in the dynamics of production and productive organization than labour.

3.2 ADL, examining establishments with between 10 and 200 workers identifies approximately 6,900 establishments with between 10 and 50 workers in the whole of Egypt. Checchi, surveying only establishments with up to 50 workers in Greater Cairo, Alexandria, Assiut and Damietta, estimates that there are approximately 77,000 small-scale manufacturing and repair establishments (up to 50 workers) employing 207,000 workers. The sector is dominated by small establishments employing no more than 4 workers -- there were 74,690 establishments with less than 10 workers, employing 173,370 (none of these entered into ADL's estimate of the size of the small-scale industrial sector because of the survey cut-off point of a minimum of 10 employees). Overall, Checchi estimates that artisan sector firms (10 employees or less) employ two-thirds of the private sector industrial work force, with an annual gross product of EL 1.32 billion (equivalent in value to approximately 25% of the entire production of the formal industrial sector in 1980 -- see Table 3).

3.3 As Table 4 demonstrates, production is concentrated in the area of final consumer goods, the largest groups at the ISIC 4-digit level being (in terms of percentage of total work force) furniture (12.4%), fabricated metal products (12.2%), and tailoring (10.5%). Very small units play an

important role in this sector: 37% represent themselves as one-man shops,
and another 28% have but one employee in addition to the proprietor.

Table 4

Distribution of Establishments and Workforce by Major Economic Activity

<u>Major Economic Activity</u>	<u>Establishments</u>		<u>Workers</u>	
	<u>No.</u>	<u>% Share</u>	<u>No.</u>	<u>% Share</u>
<u>Food, Beverages, Tobacco</u>	4080	4.7	23290	11.3
incl.: Bakery Products	2340	3.1	18100	8.8
<u>Textiles, Apparel, Leather</u>	22010	28.7	53560	25.9
incl.: Textile Processing	520	0.7	4030	2.0
Textile Goods	750	1.0	1820	0.9
Carpets and Rugs	950	1.2	2760	1.3
Ready-made Garments	670	0.9	2870	1.4
Tailoring (Cut & Sew)	13080	17.0	21740	10.5
Leather Processing	880	1.1	5730	2.8
Leather Goods	730	1.0	1760	0.8
Footwear	4020	5.2	9700	4.7
<u>Wood Products</u>	18540	24.2	39400	19.1
incl.: Wood Parts and Material	1870	2.4	4530	2.2
Misc. Wood products	1650	2.1	3430	1.7
Furniture	11820	15.4	25650	12.4
Upholstery	2720	3.5	5040	2.4
<u>Paper and Printing</u>	1450	1.9	5560	2.7
incl.: Printing and Publishing	1080	1.4	418	2.0
<u>Chemical Products</u>	710	0.9	4040	2.0
<u>Non-metallic Mineral Products</u>	3170	4.1	13730	6.7
incl.: Clay products	1670	2.2	5030	2.4
<u>Basic Metals</u>	800	1.0	2840	1.4
<u>Fabricated Metals</u>	10130	13.2	30390	14.7
incl.: Fab. metal products	8660	11.3	25180	12.2
Non-electric Machinery	620	0.8	2190	1.1
<u>Other Manufacturing</u>	1670	2.2	4410	2.1
incl.: Jewelry	1300	1.7	3520	1.7
<u>Repair Services</u>	14230	18.5	29420	14.2
incl.: Equipment Repair	1480	1.9	2340	1.1
Auto Repair	8040	10.5	20160	9.8
Photo Services	1280	1.7	2250	1.1
<u>Total</u>	<u>76790</u>	<u>100.0</u>	<u>206640</u>	<u>100.0</u>

Source: Checchi, Table 16

3.4 These artisanal units operate at a very low level of capitalization. A tiny percentage own their own accommodations and even working capital is kept at low levels (average stocks of raw materials run to only two days' supply. In terms of mechanization, 42% rely on hand

tools, 23% use manual machinery, and only 35% have some (simple) power-driven machinery. At the risk of generalization, the most significant force and factor of production for about half of these enterprises appears to be not capital, but labour -- particularly skilled labour. The unit of production is entirely organized around the skill of the proprietor and his employees, with most proprietors gaining their skills from prior on-the-job training. No less than 68% of the labour force is accounted for by proprietors and skilled production workers. Proprietors complain of a limited supply of skilled labour. It is significant in this regard that there is a tendency for skilled workers to open their own establishments with initial investments overwhelmingly accumulated on the basis of personal savings.

3.5 Particularly in the very smallest establishments, there is a strong tendency for sales to be made directly to the local consumer on an on-order basis (71% of the survey stated that their products were "custom-made"), and proximity to the market is reported to be one of the prime considerations in the location of establishments. Because of this strong direct-sale, local orientation, Checchi reports that "artisanal goods and services are seldom marketed outside the region of production, and are very rarely exported." In general, it is alleged that "most artisans have little feel for the problems and expenses of marketing." At present, Checchi notes that "most artisan establishments are producing for low-income markets which cannot afford, and do not demand, high quality goods and innovative product design."

3.7 The relative conservatism of the market (the schematic identification of which in Checchi signifies a definite advance over ADL's

and Clark's vague optimism about markets-in-general), appears reflected in producers' conceptions of their future, thus "[T]hey tend to perceive the future of their operations as a continuation of past trends with minor adjustments (such as purchasing a new piece of equipment or hiring another employee) rather than as one demanding major changes in their time-honored production and marketing practices." This perception is not particularly compatible with ADL's optimism about developments that would be spurred by increased availability of credit. In fact, artisan sector access to and use of formal credit is limited, prompting Checchi, like ADL, to call for the development of credit delivery facilities. However, it is worth noting that Checchi reports that many artisans have fear of the fixed payments involved in formal loans. Working capital credit, such as there is, tends to come from materials suppliers (raw materials are by far the greatest non-wage expense) and customers, which involves minimal risks in as much as they can be repayed on delivery of typically small orders.

3.8 Avoidance of fixed capital investment and financial obligations is striking, extending even to the maintenance of very low working stocks of raw materials in spite of the disadvantages associated with frequent and small purchases from suppliers. Checchi's data do not suggest that this general orientation (aversion) to risk should not be identified with some conjectured traditionalism or irrationalism. In spite of the absence of significant ties with formal, large-scale marketing and credit institutions, there are strong ties between artisans in the various subsectors, indicating a degree of specialization among shops giving rise to localized clusters of related producers in the proximity of final markets. While there is no concrete evidence on this point, such organization may -- particularly in the artisanal shoe industry -- mark a

flexible and extremely rational response to the rise of large-scale mechanized production. Furthermore, in shoe manufacturing at least, there is some subcontracting from larger to smaller, artisanal units -- particularly in products requiring highly skilled labour.

3.9 In spite of affirming that artisan production has an important potential in household and commercial furnishings, Checchi, in contrast to ADL and Clark, is not altogether sanguine about the prospects of the sector when considered on a sub-sector by sub-sector basis. Departing from a more detailed study of four sub-sectors (shoe and leather products, furniture and wood products, carpets and rugs, and Khan-el-Khalili crafts -- a selection which, unfortunately omits the major employment subsectors of foodstuffs, textiles and apparel and fabricated metal products), Checchi identifies major problems for artisan sector exports. Carpets and rugs face stiff competition from even lower wage areas abroad. Handicrafts require greater quality control and product innovation. Furniture requires orientation to international design and quality standards. Leather products need design assistance. In even the best case, expansion of production for export would involve major changes in production techniques, commercialization and finance, none of which seems within the immediate reach of smaller artisanal firms. This preliminary study indicates that, at very least, export promotion should be conducted on the basis of detailed market studies, with full awareness that obstacles are not merely financial (lack of credit, etc.), but also extend into commerce and the very organization of the productive process. In contrast to Clark's optimism about the possibilities of expansion of labour-intensive exports, Checchi indicates that Egyptian products face major competition from areas where labour costs are even lower.

3.10 While generally optimistic about the expansion of the domestic market (the issues of the composition of growing demand and the roles of large- and small-scale production in servicing it are not addressed), Checchi identifies a number of obstacles to expansion on the production side. Prime among these is the problem of labour supply. This low-capitalized, low-mechanized sector is heavily dependent upon skill-intensive labour processes. Checchi identifies a shortage of skilled labour as a major preoccupation of artisanal proprietors, precipitating recommendations for greater support for manpower training*. A further issue

* Footnote: This certainly represents an advance over simple endorsement of credit as solution to the sector's problems in as much as it addresses a demonstrably key factor of production in the artisanal process of production and circulation. However, calls for support for increased manpower training for the artisanal sector may reflect a major methodological flaw in the manner in which Checchi (and ADL and MSU) approached the small-scale and artisanal sectors, i.e., their approach to the issue through the individual unit of production and its problems rather than through the organization of the sectors as wholes within the context of their objective positions in the overall system of social production and reproduction.

With regard to labour, it is quite conceivable that what Checchi describes as a shortage of skilled labour (from the perspective of the would-be employer) is accompanied by a glut of skilled labour in the sub-sector. The shortage of labour referred to by Checchi is, in fact, a shortage of skilled workers offering themselves as employees. However, we have already seen how Checchi describes a process of enterprise formation in which skilled workers transform themselves from employees to independent proprietors. The shortage of employable labour may be quite unrelated to issues of training in the sense that abundant labour (relative to overall demand for products) exists in the form of independent producers, who are both unwilling to hire themselves out as wage labourers and able, because of the nature of the organization of production, to enter production without entering the wage relationship. If this is indeed the case, the sector may not benefit at all from expansion of training programmes. In fact, these might simply add to the rate of independent, small artisanal enterprise foundation in an already heavily competitive situation (some degree of market saturation would seem to be indicated by the strong aversion to undertaking even short-term commitments to anything other than the acquisition of what is immediately necessary for orders at hand). If

of concern to proprietors is the supply and high cost of raw materials. It is felt that public sector enterprises have an advantage in both price and regularity of supply of raw materials -- though these issues have to be evaluated against the tendency to purchase raw materials in small quantities on an irregular basis in response to orders for industrial products.

3.11 The final set of constraints adduced by Checchi as determinants of the current state of the artisanal sector are institutional. In a manner similar to ADL, Checchi argues that the overall orientation of the government to the artisanal sector has been regulatory rather than promotional, with an inhibiting effect on development. There is the suggestion that artisanal units are kept small deliberately in order to evade the burdens imposed by compliance with government regulations -- principally in relation to taxation and labour laws. Unfortunately, given the importance given to this factor in both ADL and Checchi, the evidence presented is entirely anecdotal -- no information is presented on effective levels of compliance with the law, nor of the real burden represented by such compliance, nor of the alleged correlation between size and compliance. Checchi is undoubtedly on more solid ground when it suggests that government support for the sector is weak. According to Checchi, DIB is not strongly supportive of artisan producers, while HIPCO, the government agency charged with overlooking and promoting the sector, is both understaffed and without powers other than coordination of the efforts

Footnote (cont.) this is the case (and Checchi provides little information to either prove or disprove this -- in spite of its rather clear relevance to how the sector should be approached with support), the issue is surely not how to add more skilled labourers, but how to increase the production and income of existing producers by inducing changes in their organization permitting greater specialization and use of machinery.

of other government agencies. Compared to the Law 43 companies, the artisanal sector is almost completely neglected -- particularly relative to its contribution to production, capital formation and employment.

3.12 Checchi also reports on non-governmental elements of the institutional environment, important among which are the Cooperatives developed within the post-1960 institutional framework. In 1980 there were 384 Primary cooperatives (250 of which were producer cooperatives) encompassing 40,000 members (the legal structure allows for basic Primary cooperatives with ten or more members engaged in a similar activity, United cooperatives grouping two or more Primary cooperatives, and General cooperatives grouping 2 or more United Cooperatives). According to Checchi, cooperatives (with some exceptions) have not played a major role in the development and organization of the sector, it being alleged that there were more members in 1960 than at present. Although a small number of cooperatives run factories and showrooms, the basic function of cooperatives has been to help members (and also non-members in some cases) acquire raw materials and machinery, albeit the cooperatives themselves do not have loan extension facilities. Cooperatives do not appear to be dynamic organizations. On the contrary, Checchi observes that there is "little evidence that cooperative staffs actively sought to increase membership or maintain contact with the artisan community." In itself, this is a curious phenomenon, i.e., that independent producers with common problems with raw materials acquisition, with the supply of trained labour, and, perhaps, with marketing should not have used cooperative organization to greater effect -- a fact which necessarily affects perceptions of the possibility of using cooperative (although not necessarily existing Cooperative) structures as channels of support and reorganization. Checchi

suggests that this weakness comes from the difficulties inherent in maintaining cooperative forms in a highly competitive situation (an observation which would seem to contradict Checchi's previous remarks on rapidly expanding markets). In fact, information presented suggests that the situation is quite complex. As a whole, the leather workers' cooperative of the old city of Cairo thrives undoubtedly as a new guise for a much longer established form of quasi-guild organization. Checchi's data suggest that the relation between the state and the Cooperatives may be a factor in the limited development of the latter -- it is not insignificant in this regard that the date given for the beginning of the decline of the cooperatives is the very same year that they were reorganized within a government dictated framework.

4. The Ubiquity of Artisanal and Household Production: Michigan State University Reports

4.1 ADL surveyed industrial enterprises employing more than 10 workers in Egypt as a whole. Checchi uncovered a very large group of private industrial producers not enumerated by ADL in four major producing areas. The data presented by MSU suggests that the size of the small-scale private industrial sector is even greater than indicated by Checchi. MSU focuses its attention upon Fayoum and Kalyubiya governorates, including small towns and rural areas (and handicraft and domestic production) such as were not covered in Checchi. The overall estimate is that in these two governorates alone there were no less than 94,000 small scale industrial establishments with less than ten workers (such establishments account for 99% of all those surveyed), involving nearly 140,000 producers. MSU estimates that approximately 1 in 15 inhabitants of the areas studies are

involved, at least on a part time basis, in small manufacturing activities, a figure which has to be set in the context of an economically active population which is a relatively small percentage of the total population. Contrary to many expectations, such production is pervasive in smaller communities, in which household based production is the industrial norm.

4.2 The average size of units surveyed by MSU in terms of employment is but 1.5 workers, including proprietor: 60% of establishments had but one worker. Taking the sector as a whole, very small scale dairy production is the dominant activity in terms of number of establishments. Excluding the tremendous number of very small-scale dairy producers, 40% of establishments are engaged in textile production broadly defined, with garment making being a major contributor. Again contrary to prevailing images of the industrial sector, women constitute a large percentage of the labour force: dairy production is almost monopolized by women, and in textiles women supply nearly 50% of the labour force. The overwhelming number of household enterprises are run by women. However, except for dressmaking, 99% of the non-household enterprises are owned by men. Overall, family labour is the major source of labour (which is to be expected where one person operations are so numerically important). Family labour contributes 65% of labour, with hired labour and apprentices contributing 25% and 9% respectively.

4.3 MSU divides its sample into two groups : household enterprises and micro-enterprises. Household enterprises are, as the name suggests, based in the home. They are frequently very small scale and based on family labour (principally of women). Their products are simple and are oriented to a low-income market. They produce on order for consumers and merchants

(with the latter sometimes providing working credit/raw materials). Returns to labour are very low indeed (capitalization is negligible except in the case of manually operated machines employed in garment production). Micro-enterprises operate from workshops outside the home; they use more hired labour; they produce a greater range of products for various income groups; and they typically produce on consumer orders (which "restricts the market to a very local one and limits the potential for innovation, specialization and expansion").

4.4 Unlike Checchi and ADL, MSU gives useful information on the process of formation of enterprises. Both types of enterprise are based on skill and capital (the latter frequently in rather small amounts -- especially in household enterprises). Skill is typically acquired on the job, while "the primary sources of capital for the vast majority of the surveyed enterprises are retained earnings, personal savings, or loans from relatives". MSU confirms Checchi's observations in relation to a constant process of fission in the informal sector, giving rise to a proliferation of very small enterprises. Thus, "[S]ubstantial numbers of owners in micro-enterprises indicated that workers tend to leave the firm immediately after being trained", and "[T]his is also the major doorway into the industry for the entrepreneurs: working for someone else to learn the business, then starting out on their own." In this context, expansion of the enterprise is a cyclical process. Given very low levels of capitalization and limited market outlets, the typical course of expansion (as Checchi indicates) is to hire another worker. In a context in which skill is a major force of production, additional labour must be trained. However, trained workers tend to leave to establish their own shops. Thus, the process of expansion of the unit is also a path leading to fission: sectoral growth involves

more rather than larger enterprises. MSU does not explicitly recognize or analyse this process, but does note its effects, i.e., that on-the-job training may simply lead to greater competition within the sub-sector, and that expansion tends to take the form of proliferation.

4.5 MSU indicates that alternative possibilities for allocation of labour (rather than capital) play a crucial role in enterprise formation in the very small-scale and household enterprises surveyed. According to MSU, all the micro-enterprise groups except dressmakers earn more than the current agricultural wage -- i.e, returns to labour in the micro-enterprise group do not fall beneath the level of male wages outside the sector, which suggests that micro-enterprises are formed up to the point at which the returns to the marginal enterprise are equal to the returns to labour in alternative labour allocations. On the other hand, dressmaking and many domestic enterprises "enjoy" returns lower than the prevailing agricultural wage. This does not disprove the relation between marginal formation of informal sector enterprises and alternative employment wage rates. Quite the contrary, those units receiving returns lower than the agricultural wage (for male labour) involve predominantly female labour which has little access to employment as agricultural wage labour (and, then, only beneath the male labour wage rate). As MSU states the case, "many people are involved in household activities because they must combine this work with other responsibilities, or because their skills are limited, their ability to change occupations is minimal." The subsectors dominated by female labour are particularly prone to extremely low returns because of low skills, low female access to capital, and limited alternatives because of domestic responsibilities. Thus MSU: "Because these activities require

little capital and minimal skills, there is an ease of entry into the industries and much competition among producers -- sometimes monitored and manipulated by merchants handling raw materials supplies -- which keeps returns to producers very low." In such a context, domestic production will tend to be full time rather than part-time, involving very long hours with extremely low returns. A large number of very small-scale enterprises are based on a minimum of capital and very low income, deriving their existence only from the absence of alternative viable deployments of labour.

4.6 Unlike ADL and Checchi, MSU raises the issue of the relation between the extent of the very small-scale industrial sector and general conditions of demand for labour in the Egyptian economy. MSU also indicates that the future of the sector is linked to the overall development of demand and production in the economy as a whole. Noting fears of a shift in demand towards more sophisticated products, the development of large-scale production, and national marketing, MSU observes: "If the [household] producers are to maintain their (quantity) share of the market, prices of products of household enterprises may be pressed down even further, with the result that incomes of producers may be further depressed." Having made the point (as ADL and Checchi do not) that the market confronted by small-scale enterprises is very much affected by the way that larger-scale production and marketing develop, MSU observes that the prospects of household enterprises are dim. On the other hand, MSU states that micro-enterprises have bright prospects. Unfortunately, however, this is not supported by an analysis of specific markets and conditions of production that significantly differentiate the paths of development of the household- and micro-enterprise sectors.

5. Elements of the Social Context and Organization of Small-Scale Production: Abdel Fadil and Padco Reports

5.1 Neither Abdel Fadil nor PADCO are based upon surveys specifically addressing small-scale production. They do, however, offer insights into the context and operation of the small-scale production sector. Abdel Fadil (whose study relates to labour supply to the informal areas of all sectors) makes brief reference to the conditions under which informal sector production can survive relative to larger-scale industry, an issue which is not adequately addressed in the other reports. Noting that artisanal sector workshops are "heavily oriented toward the production of a wide range of household goods for local markets, including some basic consumer staples clothes, shoes, food, furniture, metallic products," it is argued that "[T]he concentration on these branches reflects the existence of a competitive edge in artisanal type of operations mainly because of the absence of scale economies, product differentiation or low-priced market niches, availability of relatively cheap labour, minimal overhead costs, and a substantial personal contribution in the form of long work hours." What the position of artisanal production will be in the context of an observed expansion of large scale industry (e.g., in shoemaking) is not addressed, though this must be a major preoccupation in any long-term support scheme.

5.2 Abdel Fadil also indicates that even MSU's survey, which extends into household and handicraft production, does not exhaust the limits of the informal sector as the ILO defines it. Abdel Fadil identifies approximately 260,00 odd-jobbers in Egypt in 1976, all of whom fall into the category of working poor. While figures on this group are nebulous, and

while it may in many cases be fruitless to distinguish between industrial and non-industrial occasional and entirely independent workers, it is necessary to recognize the existence and influence of this large category of workers. Abdel Fadil implicitly indicates that informal sector establishments are pressed from two sides: large-scale production, on the one hand; a mass of independent actual and potential producers, on the other. Neither of these two "environmental" factors are properly considered in ADL, MSU and Checchi.

5.3 If Abdel Fadil emphasizes the neglected dimension of the organization of the external environment of small-scale production, PADCO contributes to comprehension of the internal organization of the sector. PADCO's observations on the importance of linkages between artisanal producers in the overall process of production (giving rise to locational clustering effects) and the existence of mechanisms of social control restricting entry into production suggest the existence of a range of inter-producer relations of major significance for how artisanal units operate and survive. In different ways, Abdel-Fadil and PADCO indicate the importance of the structure of the general environment and social relations within the small-scale sector as important variables in understanding the dynamics of the sector. Unfortunately, these are issues which the methodology of ADL, Checchi and MSU precludes them from addressing. Concentrating upon the individual production characteristics of small-scale enterprises within a standard quantitative survey methodology, what is not in the survey is not in the analysis -- leaving the false impression that the sector can be understood simply in terms of its own quantifiable characteristics, and not in terms of its social organization, and not in terms of its environment of markets and the development of other

productive sectors.

II. ANALYSIS AND CRITIQUE

1. The critical failings of the major substantive studies reviewed here (ADL, Checchi, MSU) involve the lack of clear and systematic differentiation between formal and informal small-scale enterprises, on the one hand; and lack of specification of the impact of environmental influences on production and marketing, on the other. In the first case, the effect is to offer policy proposals (e.g., reduction of regulation, provision of credit, manpower training) which probably do refer to the needs of the formal small-scale production sector, but which have no relation at all to the requirements of the informal sector. In the second case, lack of specification of, for example, markets (as conditioned by a changing structure of consumption and the emergence of large scale private and mixed industrial enterprises) leads to an inappropriate level of generality in proposed support strategies -- as opposed to clear specification of potential areas of growth and detailed identification of the ensemble of required inputs (including, inter alia, support in appropriate technology, formation of commercial structures and market information, and credit specifically tailored to productive and commercial conditions). It further involves (particularly in the case of the informal sector) a lack of appreciation of the manner in which environmental considerations render redundant many of the more conventional approaches to enterprise support.

2. Although the development of supportive structures for specific sectors and subsectors can hardly have as its frame of reference the transformation of their total environment, a minimal understanding of this environment is imperative for the formulation of effective and relevant

policy instruments, for sectors and sub-sectors do not merely exist in their environment, they are shaped by it -- not merely in their externals, but in their very mode of functioning.

3. The relevant environment of the small-scale and artisanal industrial sectors in Egypt is not exclusively the government and government policy. These sectors take their place in the total ensemble of economic relations and transformations. Moreover, because these sectors cannot be in any way identified as the dominant forces in the organization of the Egyptian economy (inasmuch as the larger economy does not assume its shape in response to their specific requirements and dynamics), they are subordinate elements of the ensemble, responding to conditions created by other sectors of production and commercialization.

4. Most immediately relevant are: a.) the emergence of large-scale industrial production (particularly important for the future of the formal small-scale sector); and b.) a series of social transformations leading to the emergence of an excess of labour supply over the requirements of the large-scale production sector (particularly important for the future of the informal sector). Both of these factors affect the formal and informal small-scale productive sectors, albeit in varying degrees. The difference is based upon a fundamental discontinuity in the organization of the formal and informal sectors which is obscured in MSU, ADL and Checchi.

5. The dynamics of formal sector enterprises are determined by rewards to capital in a productive structure where costs are represented as capital inputs. Informal sector enterprises are affected by returns to labour where labour is not a capital cost, but simply the expenditure of

the producer's own labour time -- and where capital costs are minimal. Unfortunately, this distinction, which is the key to entirely separate opportunities and obstacles, is not observed in the studies reviewed. MSU's household enterprise category certainly falls within the informal sector as it involves low capital and low hired-labour inputs. It is also clear, however, that the informal sector also includes a large number of the micro-enterprises surveyed by MSU and Checchi. Very many of these use very low levels of capital inputs (low credit, low stocks, low use of implements other than hand tools), and the use of hired labour is low. On the basis of information presented it is not possible to estimate the size of the formal and informal groups within the small-scale production sector, because the only consistently used basis of categorization is number of workers, which is not a perfect indicator. However, the difference is real and significant (albeit it is probably better to think of a continuum rather than two absolutely distinct empirical categories). In order to clarify the significance of the formal/informal distinction for policy formulation we will split the small-scale sector into two groups:

a. a "formal" group whose inputs appear as capital outlays and whose production tends to be concentrated in areas with some minimal capital outlay requirement (particularly in fixed capital) for production.

b. an informal group whose inputs are simply expenditure of labour time and whose production tends to be concentrated in areas requiring minimal capital outlay

6. The formal group is based upon the productivity of capital outlays (or returns to capital as conditioned by the productivity-enhancing dimension of capital expenditures) and is consequently threatened by the development of larger enterprises achieving higher levels of productivity

of capital on the basis of economies of scale. Notwithstanding the content of the reports surveyed, it is impossible to grasp the dynamics of the formal small-scale sector without an analysis of the development of the large-scale sector and the specific opportunities it offers for complementary small-scale sector development. In this case, to argue that an expanding market is necessarily good for the small-scale formal sector is misleading, for to the extent that a larger market justifies the formation of large-scale enterprises engaged in mass production, market expansion might very well involve an effective retraction of the effective market for the products of small-scale enterprises. In this regard, undifferentiated attempts to raise the level of competitiveness of small enterprises through credit schemes allowing greater capitalization of production may well be fruitless inasmuch as such credit is insufficient to raise productivity to the levels of large-scale enterprises.

7. In fact, the possibilities of expansion of small-scale formal enterprises are not linked to a general expansion of consumption, but to the expansion of demand for products in whose production capital investment is required but in which extremely capital-intensive techniques are economically inappropriate. The reports do make some allusion to this. In cases of purchases from small-scale producers by large-scale enterprises demand seems to be heavily weighted towards products requiring high levels of skill-input (results of processes as yet undominated by capital-intensive techniques) and products with relatively short production runs (e.g., seasonal products, fashion products, etc.). This suggests that the future of the small-scale sector is somewhat different from that portrayed in the reports surveyed: demand for small-scale sector products does not rise uniformly with overall expansion of consumption. Rather, some small-

scale production will be entirely displaced by large-scale production, while there will be expansion in other areas. A viable support strategy would, therefore, be directive in the sense of being oriented only to areas of production where small-scale producers have a relative advantage -- examples of which are the basic machine tool and repair subsector and construction in producer goods, "fashion" and seasonal items in consumer goods.

B. This has specific consequences for the design of support projects. Given that attention should be focused on particular subsectors, financial and commercial support should reflect the differentiated productive, commercial and financial requirements of those subsectors. Thus, on the level of production, support should be given to maximally flexible machinery. Commercial support should express the particular rhythms and distribution of consumption. Finance should express the particular characteristics of production and commerce (e.g., in relation to the different productive and commercial turn-over times of specific groups of products). Particular attention should be given to preserving the underlying basis of small-scale sector competitiveness. This does not necessarily imply a drastic rise in the level of capitalization, for existing relations between large- and small-scale producers suggest, as has been noted, that the latter's advantage lies in the combination of a certain level of mechanized inputs with the availability of flexible skilled labour -- in which case a move towards a reduction of dependence on skilled labour (that Checchi considers as a response to shortages in the skilled-labour supply) could have a negative effect (thus the demand for labour training schemes specifically oriented to growth subsectors and actual small shop conditions should be taken just as seriously as demands

for credit).

9. The difficulties of the small-scale formal sector should not be put exclusively in terms of capital and labour inputs. In the Egyptian case, it appears that one of the problem areas of small-scale producers lies not in production, but marketing -- there being a very strong local, on-order bias (at least among the smallest enterprises). Indeed, the problem of marketing would seem to be a major contributing factor to small-scale enterprise difficulties -- the observed low level of recourse to credit because of fears of incurring fixed financial obligations, maintenance of low stocks of raw materials, and avoidance of regulations endowing employees with job security are probably all connected in some degree to unstable market outlets whose local character further restricts the level of possible specialization. If this is the case, then it clear that the current condition of the sector expresses the interaction between production, finance and commerce -- all of which should be addressed if the possibilities of expansion and employment generation are to be fully exploited.

10. The problems confronting the formal small-scale sector (probably including all the sample surveyed by ADL and elements of the Checchi and MSU samples) are considerably more complex than those identified by ADL and Checchi in relation to both existing factors internal to the sector and to its developing relations with the sector of large-scale production. Nonetheless, the proposed elements of supportive strategy -- particularly credit, manpower training and reduction of government regulation -- do have a certain validity once they are directed to clearly specified potential growth sectors and are tailored to fit the actual conditions of small-scale

production, commerce and finance (e.g., credit will only enter if supplied in appropriate forms -- current recourse to formal credit is low because of its specific conditions in terms of collateral and payment, while there is substantial recourse to informal credit at higher interest rates because of a lower demand for collateral and more flexible payment schedules). However, it is likely that this sort of strategy will have a negligible effect upon the very large number of informal small-scale producers -- partly because of the problems of delivery of inputs to so many small enterprises, and partly because of the particular (and fundamentally different) dynamics of a sector based on returns to labour with low capital barriers to entry in a situation of a constant surplus of labour relative to the requirements of the formal economy.

11. The informal sector (which probably includes a very significant percentage of the producers surveyed by Checchi and MSU), is affected by developments in the capitalized sectors of production, particularly by an extension of large-scale production techniques to a broader range of consumer products -- undermining the informal sector market by bringing the informal producer's unaided labour power into direct competition with the machinery of the formal sector. In this regard, the prospects of the informal sector in industry are not particularly encouraging. With little ability to move into new and complementary markets in an expanding economy (because of technical and capital requirements involved in servicing large scale industry and a more "internationalized" structure of consumption), its market will be increasingly restricted to strata of the population whose income is so low that it falls beneath the range of industry required to earn a "normal" return on capital employed.

12. As significant as the effect of development of large-scale industry upon the small-scale informal sector is the overall environment of labour supply relative to the requirements of the formal sector. In this area the relation between labour supply and the vitality of the enterprise is diametrically opposite for the formal and informal sectors. Leaving aside the issue of the relation between demand for labour and effective market size, when the supply of labour is excess to the requirements of the formal sector the resultant downward pressure on wages can be represented as beneficial to the formal sector insofar as labour costs are reduced. However, the very same phenomenon has a negative impact upon informal sector enterprises. This has to be understood in terms of the general social function of the informal sector and its economic basis of operation.

13. As has been noted, the informal sector enterprise is characterized by a very low level of capitalization and a very high reliance upon proprietorial labour (and skill). Ease of entry into production is relatively great (this was noted for household enterprises in the MSU study, but the distinction between household enterprises and micro-enterprises was probably drawn in an overly absolute fashion). Given that the poor in Egypt can never afford to be wholly unemployed, there is a tendency for all labour not absorbed in the formal sector to enter the informal sector in search of a minimal basis of production and income (again, MSU referred to this obliquely when commenting upon the lack of alternatives of labour involved in household enterprises). The informal sector is the social reflection of contradictions in the development of the dominant formal sector. An excess of labour in the economy thus directs labour into the informal sector, increasing informal sector production and competition, and reducing the income of individual informal sector

enterprises. There are few inherent equilibrium maintenance mechanisms in this situation. In the formal sector declining incomes would lead to a withdrawal of capital and a reduction of supply -- with the effect of restoring (to some extent) profitability. There is no such mechanism in the informal sector: given the absence of alternative labour allocations production will continue under lower price conditions, on the basis of lower returns to proprietorial labour. Cheaper labour in the formal sector signifies lower returns to enterprises in the labour-dominated informal sector.

14. In fact, it seems that competition in the informal sector is already quite substantial, as might be expected in a "labour rich" economy. Differentiated analysis of formal and informal production in the small-scale sector is hindered by inattention to the distinction in the reports surveyed, but the already cited phenomena of production-to-order and maintenance of low stocks of raw materials would seem to indicate that individual enterprises confront uncertain markets. Similarly, attempts to avoid increased costs attributable to commercialization through elimination of intermediaries would seem to indicate a definite downward pressure on prices. Competition and instability of markets help to explain the observed fissiparous tendencies of the sector. Where markets are unstable and where proprietorial labour is central to the enterprise, there will be a tendency for hired labour to confront unstable employment. Given that the income of the working proprietor is one of the main sources of income, any retraction in demand will lead to the unemployment of employees before the idling of the proprietor -- thus there will be a tendency (noted in Checchi and MSU) for workers with sufficient skills (acquired on the job) to leave employment to establish their own productive units. Hence the

characteristic growth path of the sector is proliferation rather than growth of enterprises.

15. From this perspective, the prospects of the informal sector are radically different from those of the formal small-scale sector. It is conceivable that the latter (with assistance in the form of carefully-crafted support for production, finance and commercialization in growth sub-sectors) can expand to provide employment and higher incomes in the context of the development of a greater large-scale production sector -- both in relation to the productive requirements of the large-scale sector itself and in relation to a putatively expanding market for final products. The future of the informal sector, beset on the one hand by capitalized production, and, on the other, by its function of absorbing surplus and displaced labour at the expense of enterprise income, is dim -- in spite of the very important social function that it performs. It does not seem very likely that the informal sector can immediately take over significant roles in producing for the large-scale sector, given that this requires a level of capitalization and standardization of production alien to the informal sector as it currently exists. Equally, lack of developed production technology and commercialization would seem to hinder any profitable incursion into new consumer markets.

16. This is not to suggest that income in the informal sector cannot be increased and employment stabilized. However, the support strategies appropriate for the formal sector are probably not appropriate for the informal sector. It seems unlikely that government regulation is a significant factor in the informal sector as a whole. What is more, an increased supply of labour trained to the techniques prevalent in the

sector does not promise positive results. Admittedly, the surveys uncovered complaints about shortages in skilled labour, but it is important to note that this probably involves a shortage of skilled hired labour. Given the observed tendency for skilled labourers to set up their own independent small productive units it is unlikely that an overall increase in skilled labour will lead to an increased supply of skilled labour for hire. It might well have the effect of raising the number of productive units, increasing overall production relative to demand, and lowering the average level of income.

17. It is also unlikely that an expansion of available credit will significantly ameliorate conditions in the sector. The vast number of small-scale informal producers determines that any foreseeable credit input would reach only a small proportion of producers. Furthermore, it is not clear that increased investment in machinery would be beneficial either to individual enterprises or to the sector. As long as alternative employment opportunities are severely restricted, reaction to declining prices stemming from a reduction in the costs of a small number of producers on the basis of utilization of capital equipment would probably take the form of a matching price reduction on the basis of the extension and intensification of the manual labour of non-capitalized producers. This would reduce overall sector income and jeopardize the economic viability of the capitalized producers. One could conceive of capitalization sufficient to set in motion economies of scale offsetting competitive cost reductions on the basis of increased self-exploitation of informal sector labour. However, this could hardly be conceived of as support to the sector. It would essentially involve aiding a tiny minority of enterprises to become small- and medium-scale formal producers -- and it would also accelerate

the confrontation between large-scale and small-scale production. The route of credit to small-scale informal enterprises does not seem fruitful overall -- especially when it is understood that undermining the viability of the mass of informal producers does not mean simply a switch from "inefficient" to "efficient" production, but the undermining of a productive sector whose "efficiency" has to be calculated not only in terms of its physical output but also in terms of its social stabilization function of giving some sort of remunerative employment to an otherwise unemployed "surplus" population.

18. The terms of reference of this report do not include the formulation of policy or programme proposals. Nonetheless, the clear failure of the reports surveyed to address the special characteristics and prospects of informal small-scale production prompts the question of what a policy supportive of the informal sector would look like. Certain very broad considerations and possibilities have suggested themselves in the process of review of existing literature and proposals. The informal sector cannot be abolished to integrate its labour force into higher productivity large scale industry. The sector exists in part precisely because large scale industry cannot absorb available labour in the current phase of its development. Moreover, the possibilities of industrial concentration within larger industrial units to split apart. The indefinite future of the sector seems to involve the dominance of small-scale establishments. Any support effort must take this fact into account and exploit existing possibilities.

* Footnote: The reductions in cost from increasing capitalized productive inputs can be overestimated. Significant expansion of production in individual units would overburden the system of local marketing, giving rise to the necessity of assuming increased costs of commercialization.

19. While there does exist some level of specialization among informal enterprises, a large part of production would appear to involve a substantial number of different productive processes taking place within each individual workshop, a situation dictating high skill requirements within each shop and the absence of even elementary economies accruing to scale and the division of labour. In this context, it is probable that a significant reduction in unit costs (and, possibly, an increase in enterprise income) could be gained by an increase in intra-shop specialization and inter-shop cooperation without a major increase in fixed investments and financial obligations. This does take place to some extent already, but there are definite obstacles. Fluctuations in demand for the final product of individual producers encourages diversification rather than specialization. Equally, the unstandardized nature of the sectoral product militates against long production runs of a uniform character.

20. These obstacles are not insuperable. For example, the development of capitalized cooperative marketing agencies could enhance product standardization on the basis of large-scale collective purchase contracts (perhaps involving competition with large scale production on its own ground) while regulating fluctuations in demand through the expansion and reduction of inventories of standardized products and parts through stock acquisition and control (while also providing greater collective purchasing power in the acquisition of raw materials). A change in the system of commercialization (which would itself involve the extension of collective credit while developing institutions capable of providing technical assistance in design and production) could stimulate the greater utilization of existing stocks of resources (principally skilled labour) without major displacement of producers by machinery, and without the

generalization of somewhat risky financial obligations. If the capitalization of individual producers poses a threat to the sector, the capitalization of collective commercialization offers distinct gains. Cooperatives already fulfill some of these functions, albeit in a very limited fashion. In the light of the possibilities offered by cooperatives (in transforming the informal sector without its destroying its base in individual, labour-intensive production), it would be worthwhile examining the rather patchy recent history of cooperatives in Egypt (the successes as well as the failures) to determine whether current problems are inherent to informal sector organization (as Checchi seems to suggest) or correspond to superable exogenous factors. A policy designed to improve informal sector production and income cannot be based on improving the lot of a limited number of individual producers (possibly at the expense of others) -- it must address general conditions. Support for the social organization of the sector affecting all producers promises more generalized positive results than discriminatory credit -- by harnessing already existing forces of production. In substituting capital for labour what is involved is not fortification of the informal sector, but its dissolution -- without any current prospects of reallocation of labour to productive activities.

III. CONCLUSION

1. The reports surveyed here have a certain complementarity in scope. ADL surveys a sample of all industrial enterprises in Egypt employing between 10 and 200 workers. The Checchi report is somewhat complementary to ADL in that it is mainly oriented to establishments with 10 workers or less (though its survey universe includes establishments with up to 50 workers), but the survey is of the four major urban industrial areas -- and not of Egypt as a whole. The MSU studies partially complement Checchi in the sense that the present information on rural and sub-artisanal industry. However, this information is for two governorates only, and jobbing labour is not included. Abdel Fadil's paper on informal labour to some extent covers jobbing labour, but only from the point of view of numbers. Thus these reports hold some information on most of the types of production and employment significant in the sector of small-scale production, enabling the development of a composite image of elements of the overall situation.

2. While their contribution to the description of the objective characteristics of small-scale producing units is undeniable, the reports exhibit major failings with regard to provision of an adequate basis for support strategy development. In spite of the general understanding of the importance of informal enterprises and labour in developing countries in the "development community" since the early 1970's, these reports fail to attempt to distinguish between formal and informal elements of the small-scale industrial sector. ADL offers a tentative definition of the distinction, but fails to incorporate it into its survey and analysis of findings. In consequence, the reports offer little insight into the

relative strength of groups with quite different bases of operation. Moreover, the prescriptions based de facto on the nature of the formal sector promise no support to the informal sector.

3. The second failing refers to the failure to place small-scale production in its environment -- particularly the development of large scale manufacture. If there is to be greater scope for the expansion of private production in the future in Egypt, as far as the small-scale sector is concerned it will be expansion in the shadow of large scale productive enterprises. There is no analysis of the manner in which small-scale production does or can relate to large scale production, nor is there an analysis of overall market structure. Experience elsewhere in the world suggests that possibilities of expansion are concentrated in particular sectors and sub-sectors, and that any growth of small-scale production will have to be accompanied by sectoral and sub-sectoral redistribution. The reports are insufficiently oriented towards the developing structure of Egyptian production to be able to identify critical areas of expansion, and are, consequently, incapable of furnishing suggestions related to needs specific to particular areas. These failings produce a double inadequacy:

a. insufficient specificity with regard to the special status and needs of the informal sector;

b. insufficient specificity with regard to potential growth areas (and needed support) of the formal small-scale sector.

4. In the last analysis, major recommendations offered can be reduced to the need to pour in credit, a policy of little relevance to production in the informal sector, and of little value in the formal sector without precise identification of where and how credit should be applied.

While there is probably no need to mount a comprehensive survey to fill the "data gaps" in these studies, there is a pressing need to more clearly define the formal sector's future growth areas and to address the issue of support for the informal sector in a fashion that reflects its basis in labour rather than one that reflects an economic orthodoxy built upon quite different structures where capital rather than labour is the basic economic input.

5. In relation to the formal sector, it is not enough to specify a need for credit. We have suggested that specific growth areas have to be identified. It is also necessary to address institutional questions outside of the direct sphere of production. Stable production will depend upon an adequately developed commercial structure as well as upon delivery mechanisms for market information and dissemination of techniques of satisfying quality standards. Effective support for production will depend upon a precise identification (and satisfaction) of labour requirements in terms of the prevailing practices of growth sectors. All this is contingent upon detailed study of particular sub-sectors rather than an attempt to gloss and homogenize the requirements of the small-scale private sector "as a whole" within a simplistically optimistic perspective in which enchantment with "promise" obscures the complex practical issues involved in its effective exploitation. In relation to the informal sector, the first issue is to recognize the problem. The second involves an attempt to define a policy that does not seek to transform the existing basis of informal production, but uses more effectively what is there. This involves an analysis of the existing division of labour among informal sector producers and the obstacles to more thoroughgoing specialization, which, perhaps unlike the solution of the problems of the formal small-scale

sector, involves taking the issue of forming a collective response to the situation more seriously.

6. In very specific terms, what is required is:

a. an analysis of developing market structures in Egypt with reference to consumer demand and producer demand for inputs;

b. an analysis of the specific areas of this demand that are particularly ripe for service by small-scale producers -- on the basis of identification of short/seasonal production runs, and a markedly high skilled labour input;

c. an estimate of necessary inputs for efficient production in these sectors in terms of

- equipment and technology
- qualified labour
- credit tailored to amount of capital required for fixed investments and the turn over time of fixed and circulating capital
- market information
- marketing channels;

d. an analysis of the assets of existing small-scale producers in these and proximate sectors;

e. identification of critical areas of discrepancy between necessary inputs and available assets;

f. identification of institutional structures capable of effectively delivering inputs.

7. The above relates mainly to formal small-scale producers. In relation to the informal sector the immense difficulties (in terms of capitalization and training of a very large number of producers) involved in promoting a significant shift into new areas of production are such that this should probably not be considered a principal component of support

strategy. What should be done is:

- a. identify major sub-sectors of informal sector industrial activity;
- b. identify existing formal and informal institutions bearing upon collective marketing and organization of specialization;
- c. explore the possibilities of strengthening institutional structures with an eye to
 - providing capital to develop collective marketing on the basis of standardized products and sub-assemblies
 - creating a framework for sub-sectoral standards of product and quality
 - supplying information on new and potential outlets
 - supplying information on productive techniques and sources of low-capital technologies
 - providing working capital and cheaper raw materials through the actions of buying agencies.

B. These suggestions respond to the need for much greater specificity in relation to stipulation of areas of need, and to a necessary recognition that social relations among producers are important to sectoral viability -- particularly among informal producers. The tendency in the reports surveyed is towards a rather general approach in which a reduction in government "interference" and an increased supply of capital will, of themselves, produce positive results. This may or may not be the case, but what is certain is that both factors would yield considerably greater returns if couched within a framework specifically oriented to the concrete, differentiated needs of producers operating in the Egyptian environment.