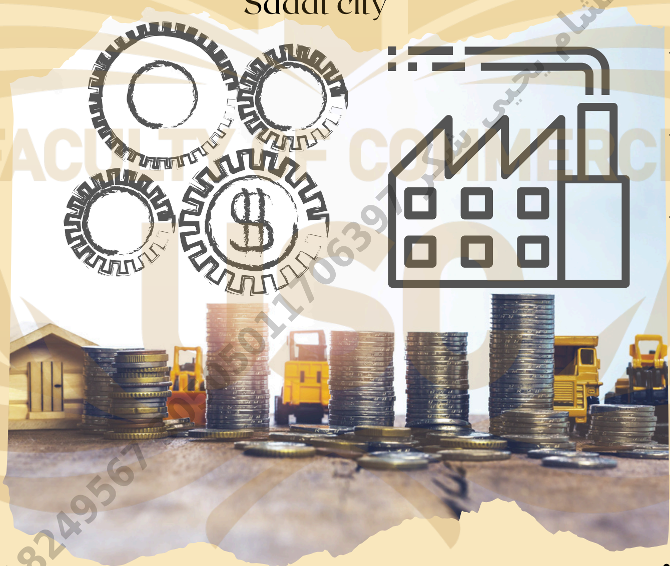
# INDUSTRIAL ECONOMICS

Special edition For students of fourth Grade
at Faculty of commerce University of Sadat city



Economic and Public Finance Dept.
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# Lectures in

# Industrial Econon

**(Part one)**

**2024/2025**

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# Chapter 1[1]

# Introduction

## 1.1 Definition of Industrial Economics

Industrial Economics is the study of firms, industries, and mar
firms of all sizes – from local shops to giants in the market. It c
range of industries, such as electricity generation, car productio

Industrial Economics helps us to understand such issues as:

a) The levels at which capacity, output, and prices are set;

b) The extent that products are differentiated from each other;

c) how much firms invest in research and development (R&D)

d) how and why firms advertise.

One of the key issues in industrial economics is assessing whet
is competitive. Competitive markets are normally good for co
industrial economics courses include analysis of how to meas
competition in markets. Industrial Economics uses theor
understand firm and regulatory decision making.

## 1.2 SCOPE OF INDUSTRIAL ECONOMICS



Industrial economics is a distinctive branch of economics wh

P.W.S. Andrews. Although this name is becoming popular o
authors, particularly in the American circle, prefer 'Industrial O
title of the subject. At present there is no clear-cut consensus o
subject. There are two broad elements of industrial economi
known as the descriptive element, is concerned with the infor
the subject. It aims at providing the industrialist or businessman
the industrial and commercial organizations of his own country
countries with which he might come in contact. It would give hin
regarding the natural resources, industrial climate in the countr
infrastructure including lines of traffic, supplies of factors of
and commercial policies of the governments and the degree of c
business in which he operates. In short, it deals with the infor
competitors, natural resources and factors of production and
and regulations related to the concerned industry. The secon
subject is concerned with the business policy and decision-m
analytical part dealing with topics such as market analysis, p
techniques, location of plant, investment planning, hiring and
financial decisions, product diversification and so on. It is a
subject and much of the received theory of industrial economics
this. However, this does not mean that the first element, i.e. des
economics, is less important. The two elements are interdepend
adequate information no one can take proper decision abo

of interest: for example, to understand the relationship betwe advertising and profits. While most courses will not require st their own empirical analysis (that is left to the econo understanding and interpreting empirical results is an importan

There are three major approaches to the study of industrial orga approach is primarily descriptive and provides an overvi organization. The second, price theory, uses microeconomic r firm behaviour and market structure. The third approach is c policy as to economic regulation, antitrust law and more genera governance of law in defining property rights, enforcing contra organizational infrastructure.

## 1.4 INDUSTRIAL STRUCTURE

Industry structure pertains to the number and size distribution an industry, according to University of Maryland Universit industries, such as the restaurant and retailing industries, conta competitors. Other industries contain relatively few competitor also be comprised of different-sized competitors. The nun competitors and several other key factors are extremely importa a firm's profitability.



### 1.4.1 Rivalry Intensity

product. Sales are typically stagnant in the maturity or third sta
life cycle. This can have a negative impact on profits. Compan
industry environment also have less flexibility in lowering pri
may set off price wars, furthering diminishing profitability.

### 1.4.2 Ease of Entry

The importance of industry structure is also evident with an
entry. And the ease of entry is greatest in new industries. Ne
provide the best profit opportunities for smaller businesses.
strong in a new industry because demand is relatively high amo
smaller competitor may even be the industry leader, especially
technology or product. In contrast, industries that are difficul
negative impact on profits. Smaller companies may not hav
distribution. They may also lack the necessary capital for
businesses, according to QuickMBA.com, an online business re

### 1.4.3 Availability of Substitutes

Another industry structure element influencing a firm's pr
availability of substitutes. Consumers will pay higher prices fo
if no substitutes exist. Hence, companies in the industry earn g
example, pharmaceutical companies possess 20-year patent



according to a 2002 article by Forbes.com. This means c
manufacturer generic substitutes for two decades. Conversely

decentralized structure to better serve customers in certain geo

Companies that conform to this type of structure may stand to g

a profitability standpoint. Those that stay centralized may s

profits, because they may not know the exact needs of consu

geographical regions.

## 1.5 MEANING OF INDUSTRIALIZATION

The term 'industrialization' has been derived from the word

means to manufacture or to produce some things. As hum

produce anything, he can increase the utility of the products; t

industry means to increase the utility or to create utility.

According to Professor Sargent Florence- 'Industry refers as in

manufacturing sector and excludes agriculture, mining and m

may include building and public utilities.

The world industrialization is generally used in two senses—a

a wider sense. In the narrow sense, industrialization refers to

development of basic and manufacturing industries. Its mai

increase the general living standard by increasing efficiency

factors of production. On the other hand, in the larger p

industrialization, not only basic and manufacturing industries a



through this medium the changes in the entire economic struct

is carried out

craftsmen are replaced by assembly lines. Industrialization in
growth, more efficient division of labour and the use of technol
to solve problems as opposed to dependency on condition
control.

### 1.6 Characteristics of Industrialization

On the basis of above definitions of industrialization, the main

industrialization can be outlined as follows:

1. **Transfer of sources of production:** The factors of producti

resources from primary sector (agriculture sector) to manufactu

and to services in tertiary sector as a result of industrialization.

2. **Deepening and widening use of capital:** Industrialization m

use of capital. Industrialization is a process of deepening and m

use of capital. It reduces per unit cost of production and increas

potentiality of enterprises. As a result, per capita income increa

encourages saving and capital formation, further opening new a

industrialization.



3. **Development of new process:** In the process of industrializ

of society.

5. **Economic development of the country:** Industrialization cr

development of all the sectors in the country which expedites t

economic progress of the country.

**1.7 Form or Pattern of Industrialization**

There is no definite pattern of industrialization because i socioeconomic conditions, policies, shortage/excess of infrastructure and technical development of the country. That is or patterns of industrialization are found according to the condit different countries.

**Following are the main forms or patterns of industrializatio**

I**. Pattern according to Control**: Following are the patterns of according to control-

- Industries working under government control
- Industries working under private sector control
- Industries working under the control of big industrial house
- Private industries working under the control of govern Industrialization

rate of growth also increase regularly.

□ Backward Industrialization: Under this pattern of industrializ

industries continuously keep on declining and the rate of growt

decreases.

III. **Patterns According to Ownership of Capital:** Following

of industrialization according to ownership of capital-

□ **State Initiated Pattern:** If the state takes initiative in the es

of industries; such pattern is known as 'State Initiated Pattern'.

pattern of industrialization is often found in Russia, China and

socialist countries. Such industries are also termed as industries

sector.

□ **Private Initiated Pattern:** If initiative is taken by private in

in the establishment of industries, such pattern of industrializat

as 'Private Initiated Pattern'. This kind of group of industries is

termed as industries of private sector. This form of industrializ

mostly found in capitalist countries such America, Germany, Ja



□ Jointly Initiated Pattern: When industries are established by industrialization according to location:

- **Centralised Industrialization:** When the establishment and development of a industry is based on some particular location, industrialization is known as Centralised Industrialization. Prio independence this form of industrialization was found in India. Centralised Industrialization some places are industrially devel other are highly backward leading to unbalanced industrializati

- **Decentralised Industrialization:** When the establishment a development of industry is not on some particular location, but are located in entire areas in a balanced manner such industrial known as Decentralised Industrialization.

**V. Pattern according to Size:** Following are the pattern of ind according to size-

- **Large –scale industries:** Large-scale industries are the exac of small-scale industries. Here the capital invested is large and technology is in use here. Example, Automobiles and Heavy M



- **Small-scale industries:** Small scale Industries are those ind machinery does not exceed twenty-five lakh rupees is known a

enterprise.

The integrated form of large, small, medium and micro industr

of industrialization in India.

**VI. Pattern according to Intensity-** Following are the pattern

industrialization according to Intensity-

- **Capital Intensive Industrialization:** When priority is given

industries in which comparatively more capital is invested; suc

industrialization is known as Capital Intensive Industrializatio

- **Labour Intensive Industrialization:** When priority is given

industries in which more labour is required, such form of indus

is known as Labour Intensive Industrialization.

VII. **Pattern according to Rate of Growth**- Following are the

industrialization according to rate of growth-

- **Revolutionary Industrialization:** When industrialization o

takes place at a greater speed and enough changes appear in its



industrial economy, such industrialization is known as Revolut industrialization is known as Developmental Industrialization.

kind of industrialization has been followed in India.

VIII. **Pattern according to Output:** Following are the pattern o

according to output-

□ **Consumers' goods industries:** These industries produce go

consumer consumption such as tea, coffee, clothes sugar, jute e

□ **Capital goods industries-**These industries produce capital g

These goods are used for further production. Iron & steel equip

cement, heavy chemical, etc.

**Determinants of Industrialization Growth**

There are two kinds of determinants of industrial growth- (I) E

and (II) Non-economic Factors.

These factors are described as follows-

**(I) Economic Factors:** Following are the economic factors of i

**Natural Resources:** The economic prosperity of any country d

upon the availability of its abundant natural resources and their



exploitation. The production of an economy depends upon its n rate of industrial growth from such country which have p

resources with them.

**ii. Capital Formation:** Capital is required for industrialization,

agriculture and development of means of transportation. The in

of capital formation helps in industrial growth. Capital formatio

of modern industrial growth. According to Planning Commissio

development of any country depends upon the availability of ca

**iii. Human Resources:** Growing population is an important fa

growth. Workers are needed to work in factories/industries. As

more workers are needed. The growing population also provid

for business to sell their product to more people. Man is the m

economic activities. Due to increase in population, there is incr

one of the factors of production, i.e. labour. The credit of con

idle natural resources of the country into wealth producing

labour itself. Increase in population includes growth of supp

demand of goods and services. Likewise increase in popula

beneficial for industrial growth because more population =need

of industries.

**iv. Market:** In a perfect dynamic state, the various factors o

dynamically oriented from one industry to another industry obtained. Thus, technological factors include degree of mechan

know-how, product design etc. New inventions make it easier

and also help produce goods more efficiently. Technological d

an important part to influence the industrial productivity. 'T

motive power and mechanical improvements to the process c

accelerated the pace of industrialization to an unprecedented deg

us the vision of the vast and unexplored frontiers that still lie a

realm of applied science and technology.

Innovation and pragmatic progress are the indicators of industri

the quantity of production increases and cost reduces through i

innovative techniques in the area of agriculture and industries, p

increased in substantial quantity.

**vi. Structure of Economic Organization:** Strong econom

structure is highly essential for industrial growth. Only with the

organization, the land can be made suitable for agriculture, av

can be used economically and efficiently and new industries c

In this way with the help of suitable economic organizational st

growth of a country can be chartered successfully.

**vii. Improved Transportation:** Improved transportation he



industrialization. There needs to be a good transportation system

the products to the consumers. Roads, canals, railroads and ships

**(II) Non-economic Factors:** Industrialization is not only economic process but is also related to socio-cultural activi factors. According to Nurkse, 'Economic development has muc endowment, social attitudes political conditions and histo Following are the non-economic factors of industrial growth

i. **Political Stability:** According to professor W.A. Lewis, 'The behaviour of Government plays an important role in encouragin economic activities.' Without government efforts, no econo industrial progress. If peace and security arrangements are fou it means that the government is stable and the public have accordingly industrial growth will be at faster rate. Uncert political environment and weak administrative structure creat growth of industries.

ii. **International Condition:** International conditions also growth to some extent. If relations are good with neighbourin there are adequate possibilities of export and international co-o the industrial growth will be at a faster speed and vice versa.

iii. **Religious Considerations:** Religious considerations also ha economic industrial growth. Professor W.A. Lewis has writte upon the country either restrict is industrial progress by ad religious considerations or to speed up the industrial growth by courage in the public of such countries. In this regard Professo has written that industrial growth is neither a mechanical pr general problem of linking different resources. Afterwards entrepreneurship and like all human entrepreneurship's result fir the ability quality and attitude of the people who take this ventu

Other factors: Following are the other factors which affecte industrialization:

**i. Quality of human resource:** Manpower plays a significa industrial productivity in most industries. If labour force i qualified and is not properly motivated, all the steps taken to in and productivity will have no result the employees' performa have and immense effect on industrial growth. Three import influence productivity of labour are ability of workers, wilines the environment under which he has to work.

**ii. Government Policy:** The industrial policy of the Gover important factor of industrial growth. If the government fram such policies which create favourable conditions for saving, in capital from one industrial sector to another and conserva resources, give protection and incentives to certain industries industrial growth and vice versa.



**iii. Availability of Finance:** The industrial growth will remai industrialization is not possible because following are the main

the speed of industrialization:

i**. Nature of Industrialization**: If the industrialization is

manufacturing consumer goods, then the speed of the industry

But speed of industrialization will be higher if it followed throug

capital goods industries.

ii. **Level of Technological Development:** If any country ad

technological development in its initial stage of industrializatio

speed of industrialization is often slow and vice versa.

iii. **Government Policy:** If the policy of government shows ac

country's industrialization, the speed of industrialization wou

vice versa. Government's price policy, trade policy and tax poli

the industrialization. After 1991 policy of economic libe

favourable environment for the development and establishmen

India.

iv. **Change in Social Conditions:** If the social conditions of th

in hand in glove with the industrialization, they the speed of ind

increases otherwise it decreases.

available human resources of that country. If the human resour
are able, efficient and disciplined, then they will give their fu
operation in industrialization and the speed of industrialization
vice versa.

**Other Factors:** Availability of Natural Resources, politi
Industrialization labour relations are other factors which give
of industrialization.

# Chapter 2[2]

# Organisation of a Firm

## 2.1 Meaning of a Firm

Firm can be defined as an organization that employs produc
obtain products and/or services which are offered in the marke
making a profit. A few key words in this definition deserve furth
all firms are organization but not all organizations are firms. An
complex social system created by people to cooperate in the ach
goal.

For instance, political party is an organization but its goal is
positively transform society by means of collectively exerting
What distinguishes firm from other organization is the aim of
through selling products and services in the market.

An organization is much wider term. An organization is an
multiple people, such as an institution or an association that has
and is linked to an external environment. It could refer to busi
well as non-business, such as charity, a social club among other
governmental versus the NGOs.



There are many theories of the firm that have developed in micro
seek to explain/model why firms are of a certain size, why they

(1) Traditional Definition--Input/Output: A firm is an "a
translates inputs that it purchases from the market into output
the market."

(2) Minimum efficient scale of production: the size and numb
industry is in part related to the degree of "economies of scale
example, higher levels of production may permit the use of mo
effective) techniques and the use of common resources.

(3) Minimize transactions costs: Firms are established t
transactions costs associated with various functions, including
distribution, sales, transportation, etc.

(4) Contracts: Firms as "a series of contracts between a nu
including (a) the workers, (b) the managers and (c)the supplier

(5) Theory of incomplete contracts: whereby firms are establi
not possible for the parties (wholesalers, retailers, suppliers o
complete contracts to govern transactions or obligations betwe

(6) Loophole for the Exercise of Market Power: Firms resultin
horizontal integration may be motivated primarily by the
competition, increase their market power and avoid governmen

## 2.2 OBJECTIVES OF THE FIRM



- Maximize profits (or rather expected profit)

## 2.3 Types of Firm

There are several types of firms that differ from each othe
ownership structures.

1. Individual or Sole proprietorship or sole traders

2. Partnership

3. Co-operative Society

4. Joint Stock company

5. Public or State undertakings

### 2.3.1 INDIVIDUAL OR SOLE PROPRIETORSHIP

Individual or Sole proprietorship is the oldest and simplest forn
organization. A sole proprietorship is a form of private enterpri
managed and controlled by one person, and consequently, that p
all costs and obligations. This type of business is also called sir
single proprietorship. The sole proprietor arranges the fina
business affairs individually. A single man performs twin
organiser as well as that of an entrepreneur. Legally, sole
inseparable from its owner and business. The functions
supervision and risk taking are performed by the individual p
work is also performed by himself or with the help of his/her fa

The main characteristics of Sole Proprietorship are as follows-

**I. Single ownership:** Sole Proprietorship form of organization

by individual.

**II. Individual Management and control:** Such organization controlled by Sole Proprietor. Competent people can be emplo management of such enterprise.

**III. Individual Financing:** Such organization is finance ma Proprietor.

**IV. Individual Accountability:** Sole Proprietor is sole benefic He has to bear the losses, if any. In this sense, the Sole Proprie person are accountable to the Sole Proprietor.

**V. Unlimited Liability:** The liability of Sole Proprietor is ur words, if the business assets are not sufficient to meet the busin private assets are to be used to discharge the business liabilities

**VI. Minimum Government Regulation:** There are minin regulations to set up such form of organization. For instance, w stall or a cycle /scooter/photocopier shop without much However, in some cases a license may be required to be obtaine



start a restaurant, a license from local authority is required.

**2) Independence:** In this type of business the owner is altoge
He can make any type of transaction as he like without any inte
other person. There is no check on his approach toward his pro

**3) Quick Decisions:** As the sole proprietor does not require n
or approval, he takes quick decisions on various matters rel
operations. This makes functioning of business simple and eas

**4) Complete Control:** The proprietor in this type of busin
control over the functioning and working of the business.

**5) Personal Incentive:** Since the risk is entirely his own respon
has personal incentive for hard work in order to get more profi
and late hours with full care and encouragement. Such hard
produce good result.

**6) Easy to Supervise:** An individual proprietorship has a sma
can easily supervise and handle without much difficulty.

**7) Need of Small Capital:** Sole Proprietor has the advanta
business with a comparatively small amount of capital. Perso
capital but high qualities of enterprise can easily start the busin

**8) Flexible Management:** The sole proprietor can easily bring
the size and nature of activity according to changing condi
flexibility to business.

**10) Direct Relations with Consumers:** The entrepreneur esta direct relationship with customers and can satisfy them easily the goods according to the taste of his customers. Customers ca also place orders of their liking directly to the entrepreneur.

**11) Business Secrets:** In sole proprietorship the secret of bus out. Full secrecy can be maintained since business secrets a proprietor only.

**12) Sole Receiver of profit:** All profits of business belong to so motivates the proprietor to work hard and develop; the busines more profits since there is direct relation between efforts and re

**13) No Danger of Labour Disputes:** The individual proprietor Firms not have many employees. He selects them personally ar their grievances or problems, etc., on the spot and tries to reme to personal contract between the two and results in highe productivity. Every employee gives a personal touch to his w danger of labour dispute like strikes and lock out.

**14) Easy to Dissolution**: It is very simple to dissolve sole prop so because the proprietor is the only person concerned. He is run the business. He can easily dissolve the present business a one. There is no specific regulation which governs the di

**2) Limited Financial Resources:** The sole proprietor has limit
limited capacity to raise funds because of limited personal asse
reduces the scope for expansion and growth of business.

**3) Unlimited Liability:** The sole proprietor has an unlimite
personally liable for all business debts. He is fully responsible
loss. He fears that his own capital may be lost in case of lo
hesitates to take certain bold decision and risk because of unlin

**4) Limited Managerial Skill**: The sole proprietor has limited
and need not possess expertise in all areas like production, finan
Limited managerial skill reduces the scope for efficient manag
and the growth of business.

**5) Difficulty of Large Scale Production:** In this type of
entrepreneur lacks capital and other factors of production. Bein
supervise properly so he cannot have large scale production.

**6) High Cost of Production:** Being a small scale producti
cannot reap the benefits of the economies of large scale produ
the high cost of production and higher prices. All this makes an
the demand for his products.

**7) Less Possibility of Use of Machines:** Generally, the individu



difficulty in getting capital. Production is carried on a small sc

**9) Lack of Technical Development:** One of the disadvantages proprietorship is the lack of technical development. Metho remain backward because of insufficient capital and other fact Due to the unlimited liability on his head, he cannot bear the exp and technical innovations.

**10) Difficult to Face Economic Crisis:** An individual prop factors of production at his disposal, whereas his liability is unl face heavy losses or economic crisis for a long period in t adversities he has to close down his business.

**11) Lack of Continuity/Stability:** Such form of organization of continuity/stability since the continuity and stability of the solely on one person. The illness of the proprietor may cause t of business and the death of the proprietor may cause the perm

## 2. PARTNERSHIP

As a form of business organization, partnership has a much compared to the individual proprietorship. When two or more join to start and run a business on the basis of their com responsibility in the matter of profit or loss, it is called the par words, the individual proprietorship is converted into partnershi more than one person are taken as partners in the business. Part takes place among those persons who either relatives, friends

**Features of Partnership of Firms**

Following are the main features of partnership:

**I. Two or More Persons:** There must be at least two pe partnership but all such persons must be competent to contra Section 11 of the company Act1872, every person except competent to contract:

(A) Minor

(B) Persons of unsound mind (e.g. lunatics, idiots)

(C) Person disqualified by ay law to which they are subject (e.g enemies, insolvents)

However, the Partnership Act is silent about the maximum nun members that partnership any have. It is a section 464 of the co Act, 2013 which gives us the maximum limit. It states that (1) Noassociation or partnership consisting of more than such num persons as may be prescribed shall be formed for the purpose o carrying on any business that has for its object the acquisition c by the association or partnership or by the individual members the rules regarding this agreement. It specified that the agreeme

partnership arises from a contract and not status. Partnership is

and contractual in nature.

**III. Business:** A partnership requires the existence of a busines

defines business as every trade, occupational and profession. T

instance the case where two or more people share the income f

party. This agreement will not be called a partnership as there i

which exists in the relationship. Further, associations formed to

charitable, religious, or social activities cannot be deemed as pa

because there is no business. It should also be noted here that i

future promise or agreement to carryon business at a future tim

be called a partnership until that time arrives and the business i

**IV. Profit Sharing:** Unless specified otherwise, there must be

profits and losses. It should also be noted that sharing of profits

prima facie evidence and not a conclusive evidence of the exist

partnership. This implies that, everyone who shares the profits

need not necessarily be a partner of his remuneration but is sim

**VI. Unlimited Liability:** Partners have unlimited liability sinc

the partner is joint and several. In other words, they are collecti

individually liable to the creditors of the firm. If the firm's asse

sufficient to meet firm's debts, then firm's creditors can recove

from the private assets of one or all the partners.

**VII. Joint Ownership and Control:** Firm is owned and contro

the partners since every partner has a right to take part in the m

of the business.

**VIII. Non-transferability of Share:** A partner cannot transfer

partnership to any other person without the consent of all other

**IX. Duration of Partnership:** The partnership may or may not

duration depending upon the provision in the partnership agre

consent of all partners.

**Types of partners:**

A person who deals or intends to deal with a firm must know

are and to what extent each partner is liable. To ascertain the e

it becomes necessary to know the various types of partners.





i. **Actual or Ostensible:** He takes an active part in the conduc for all acts of the firm. He need not give public notice of his ret

insanity or permanent incapacity to perform his duties is no gro

dissolution of the firm.

**iii. Nominal Partner:** He lends his name to the firm without ha

interest in the firm. He neither contributes to the capital nor sha

or takes part in the conduct of the business of the firm. He alon

partners is liable to third parties for all acts of the firm as if he

partner. He must give public notice of his retirement. His insan

capacity to perform his duties is no ground for the dissolution o

**iv. Partner in Profit Partner:** He share the profits only and no

along with other partners is liable to third parties for all act of t

must give public notice of his retirement. His insanity or perma

to perform his duties may be a ground for the dissolution of the

Partner only: He is a third person with whom partner agrees to

profits derived from the firm. He has no right against the firm

for the acts of the firm. Here, there is no question of public not

he is a third person and not a partner. His insanity or permanent capacity to contract, an agreement lawful business, sharing of p

mutual agency.

**2) Careful Decisions:** Under the partnership, decision is not ta

individual but by all the partners after a great deal of discussion

the chances for wrong decisions.

**3) Division of Work:** This management of business is not done

person but it is divided among different partners. It creates divi

and they can make better supervision of the business.

**4) More Capital:** More capital can be invested than in case of

proprietorship.

**5) Large Scale Production:** The sources of business are increa

many partners. By investing a huge amount of capital, theses p

reap the advantages of large scale of production.

**6) Division of Labour:** The division of labour become easy un

partnership because of the large-scale production. Thus, these p

can reap the benefit of labour division also.



**7) Use of Machines:** Due to availability of sufficient amount o

**9) Easy credit:** It becomes easy to get credit in the partnership

responsibility of repayment of loans does not rest on an individ

the partners. The creditor feels more secure in advancing loan t

to the individual proprietor.

**10) More Financial Resources:** A partnership facilitates pooli

resources of all its partners. This increases the scope for expans

growth of business.

**11) More Managerial Skill:** A partnership facilitates pooling o

skill of all its partners. This increases the scope for efficient ma

expansion and growth of the business. For example, a proper h

experience of production can look after production activity, a p

the experience of marketing can look after marketing activities

**12) Flexible Management:** The partner can easily bring about

size and nature of activity according to changing conditions. Th

flexibility to business.

**13) Sharing Risk:** The risks of partnership business are shared

agreed basis. Hence, the share of loss in case of each partner wi the mutual confidence of the partners. They may have mutual c

the start of business, but it may go on shaking and may even co

day. In the absence of mutual confidence, the business gets a se

may be closed down.

**2) Personal Disputes:** Partnership leads to several personal dis

in turn disturb the proper functioning of the business.

**3) Difficult to Separate:** No partner can sell his shares to othe

to his wishes. Therefore, one cannot separate from the business

permission of other partners.

**4) Delay in Decision:** Sometimes partners do not agree with ea

particular issue and the decision may not be reached for lack of

There is scope for misunderstanding and conflicts in the partne

may lead to delays in decision-making and may lead even to di

the firm. When some partners adopt rigid attitudes, it becomes

to arrive at a commonly agreed decision. It makes unnecessary

decisions and the business adversely affected.





**5) Lack of Responsibility:** Under partnership, every partner is

**7) Difficult to Close:** When one or more partners want to leav

or want to close down the business, the difficulty arises in the c

assets.

**8) Uncertainty:** The existence of the partnership is quite uncer

business is generally closed down due to the misunderstanding

or insolvency of a partner. Thus, the future of the partnership is

## JOINT STOCK COMPANY:

The term 'company' implies an association of number of pe
some common object or objects. Joint Stock Company is
important forms of business organization of the modern age.
large-scale enterprises which cannot be operated on the basis
proprietorship or partnership. To start such an enterprise a huge
is collected by a joint stock company. It is an extended from
business. When a of Firms number of persons, who are unkno
join together to invest their money in some common business, it
stock company.

### Features of Joint Stock Company-

A joint stock company has following featu



### I. An Artificial Person Created by Law

- The company can enter into contracts.
- The company can enforce the contractual rights against othe
- The company can be used in its own name.
- The company can be owned and hold property in its own nar
- The company has nationality. The registration of a company determines the nationality of that company to that country.

**Unlike a natural person**

- The company has no physical shape or form.
- The company cannot shake by hand.
- The company cannot marry.
- The company cannot take oath.
- The company cannot commit a crime.
- The company cannot be sent to jail

**II. Legal Existence-** A Joint Stock Company has legal existenc stands as an individual. The company is a legal person and it ca upon as an individual in the court of law for any wrong deed or can sue any person.

Board of Directors which is elected by its shareholders through

democratic system of casting vote.

**V. Collective Ownership-**The Company is not owned by a

collectively by all the shareholders to the extent of their shar

can neither withdraw his capital equivalent to his shares, no

shares. The most he can do is that he can sell his share or s

another person, who becomes the shareholder or a joint owne

Shares have a ready market in terms of stock and exchange

number of share can be sold or purchased at the current price.

**VI. Perpetual Existence-**

The term 'perpetual existence' means the continued exist

insolvency or unsoundness of mind of its members or transfe

members does not any way affect the existence of the compa

come and members may go but the company goes on forever.

compared with a flowing river where water (members) ke

continuously still the identity of river (company) remains the sa

continues to exist even if all its human members die. Accordin

a hydrogen bomb cannot destroy a company. Since it is creat

brought to an end by the process of law.



**VII. Common Seal-** The term common seal means the officia

**Merits of a Company-**

**The merits of Joint Stock Company are as follows:**

**1) Limited Liability-**

Having limited liability of the owners, the person who fears ris capital in the business. The shareholders are not liable to pay ar the face value of their shares. Therefore, the company can start may have even greater risk.

**2) Large Capital-**

Unlike individual proprietorship or partnership a joint stock con capital in large quantity. It can obtain capital easily and even interest by floating its shares in the market.

**3) Large Scale of Production-**

The large-scale production can be established on the basis c company. Thus, company can reap all the advantages of large s

**4) Long Life-**

The Company has long life or its of more permanent nature. It d difference to the company if the death of a share-holder occu share to another person. The shareholders may change but the c normally.

**6) Easy to Separate-**

Unlike individual proprietorship or partnership, its sharehol from the company by selling their shares to other.

**7) Benefits of Small saving-**

One can invest his small saving of even Rs 100 by purcha company. In this way small saving can be utilised in the large- which build the strong base of the company.

**8) Easy to Increase Capital-**

It is quite easy for a joint stock company to raise more capital w by floating new shares and selling debentures in the market.

**9) Spread of Risk-**

The risk of a company is spread over a large number of shareh limited to a few persons but is spread over all the owners of t can diversify his risk by purchasing the share of different comp

**10) Free Transferability of Shares-**

The shares of the public company are freely transferable. Sha their shares whenever they need cash or want to buy share profitable company. Thus, free



transferability of shares provides liquidity to member's investm

**12) Champion of Democracy-**

The Company is managed or run on democratic system. The s the 'Board of Directors.' They can change the directors if the with their performance. They can make open criticism of unsuitable policies of the board in their annual general meeting

**13) Service of Able Persons-** Persons who do not have capital Firms managerial or business ability are appointed as managers company can take advantage of the service of able and efficien

**14) Economic and Technical Development-** The emergence c Companies has facilitated large scale production which has hel economic and technical development. Having huge capital and resources, it can spend them for research on new methods of pr and modern type of machines.

**Demerits of a Company-**

The demerits of Joint Stock Company are as follows-

**1) Lengthy and Expensive Procedure for Formation-** Forma company (e.g. Memorandum of Association and Articles of As and Statutory Declaration) is required to be prepared and filled

compliance of the legal requirement. it is required to spend cons
afford in complying with the various legal requirements.

**3) Separation of Organization and Enterprise-** In the join
shareholders are the entrepreneurs and the paid managers are th
separation of organization and enterprise is harmful because the
safeguard adequately the interest of the entrepreneurs.

**4) Danger of Monopoly-** The joint stock company can create
market. Sometimes a few companies producing similar goods
create monopoly. They exploit the consumers by charging high
of the monopoly.

**5) Lack of Interest of the Share-holders-** The shares of the c
scattered and the transferability of shares kills the interest of sh
company. They become indifferent towards the company affair
functions to the directors, who usually promote their own inte
the company.

**6) Inequalities** – The dividend of the company is distrib
shareholders. Labourers, who are more in number, are pa
Generally, a single person purchases a majority of shares and t
part of the total dividend. It leads to the unequal distribution of w
in the country.

**9) Speculation-** Limited liability and free transfer of sha
speculation in the market. Economic activities are adversely a
speculation or change in the value of shares.

**10) Delay in Decision-Making and Action-**For a company,
process is time consuming since all important decisions are ta
Board of Directors or shareholders in their meeting and it is d
meeting all of sudden. The delay in decision making may result
opportunities.

**11) Labour Disputes-** In the joint stock company, there is
between workers and the actual owners who are share-h
managers do not ay proper attention to get workers' co-operatio
not have knowledge about the workers' problems. The grievanc
burst into labour disputes e.g. strike, lock-out and industrial
Labour form trade unions and fight collectively against th
company.

**12) Exploitation of the Shareholders-** Generally, the common
completes information and knowledge of the company's affairs
company then make exploitation of the innocent share-holders.

**13) Corruption- Corruption,** favouritism and biasness becom
a joint stock company. The directors of the company encour
higher levels to change the economic policy of the countr

diseconomies, defects of division of labour and demerits of use
are commonly found in the joint stock company.

## PUBLIC OR STATE UNDERTAKINGS

Industrial and commercial undertakings owned and run by th
known as public sector undertakings. Some of them are come u
of public utilities such as railways, posts and telegraphs, hydr
road transport, etc., others are run like Joint Stock Companies a
profits. Still others are quasi-public undertakings in which the
majority shares along with private share-holders.

### Merits of Public or State undertakings-

The Public or State enterprises have assumed great importan
times. They possess the following merits-

**1) Development of Backward areas-**Private enterprises c
development needs of the backward areas. Extension of pu
essential for the economic reconstruction of the backward area

**2) Public welfare-** The aim of public enterprises is not to ea
social or public welfare which promotes national interest. The
do not give direct profit but are essential for the public welfare a
enterprises, e.g. power projects or construction of dam and roa



**3) End of Industrial Profit-** The growth of capitalism is c

**5) Facilities to workers-** Labour is also provided with more
public enterprise as compared to private enterprises.

**6) Reasonable Prices-** In the private sector, capitalists from m
higher prices but the public enterprises produce generally of be
and sell them reasonable prices.

**7) Economic and Social Equality-** The state enterprise is
bringing the social and economic equality in the country. Inco
enterprises does not go into private pockets but is spent on pub
the public enterprises reduce inequality in wealth and income d

**8) Quality Products-** It is also admitted that the goods pro
enterprises are superior to the goods produced by private sector

**9) Easy Credit-** It is easy to collect more capital for the s
compared to private enterprise. Further, a lot of capital can b
foreign country for public enterprises. Therefore, public ente
useful in countries lacking in capital as the government can eas
both internally and externally.

**10) Efficient workforces-** The state undertakings have the adv
service of more efficient, talented and able workforce.



**11) Research-** There is a greater possibility of intensive
enterprises as compared to the private enterprises. The state

**The demerits of state enterprises are as under-**

**1) Corruption-** Bribery, corruption and dishonesty are very co

state enterprises. The excess of these things converts the prof

enterprise.

**2) Political Favouritism-** Political favouritism and nepotis

disadvantages of the state enterprises. Every minister or pol

favouritism and nepotism in the recruitment and appointment

dear. There is tyranny of the bureaucracy. The junior official b

boss and respectable citizen receives no courtesy. Political

bureaucratic machinery appoint inefficient person who adv

working of state enterprises.

**3) Frequent and Sudden Transfer-** Very frequent and sudde

government employees at distant places with political motive

normal functioning of the state enterprises. Such types of tran

waste of expenditure, delay in work and inefficiency of enterpr

**4) Wasteful Expenditure-** There is a great deal of waste in the

government funds and property are used carelessly which resul

at a greater cost. It increases the cost of production in state ente

**5) Lack of Incentives-** The government servant does not have t

to do their best as a man in private enterprise has. In the govern remains locked-up without any reason in different offices for a

excessive bureaucracy is one of the main disadvantages of state

**7) Unnecessary Interference-** There is general tendency of the bureaucrats to interfere in the free working trade and con especially in backward areas. Frequent transfers of the gover from one place to another further put a hurdle in the daily enterprise.



**Types of Companies in Egypt**

The main authority that governs establishing all types of comp the General Authority for Investment and Free Zones. The Co 159 of 1981, the New Investment Law No. 72 of 2017, and th Law with their executive regulations and adaptation are the go regulate and manage the establish a company in Egypt from the dissolution. The most widespread types of companies in Egyp 159 of 1981, are as follows:

1. **Joint Stock Company (JSC)**
2. **Limited Liability Company (LLC)**
3. **Branch of a Foreign Company**
4. **One Person Company**



**1. Joint stock company in Egypt**

Egypt must be placed to public subscription once they have b
registered.

**ESTABLISHMENT:**

- Submit trade Name Clearance Certificate which checks
  company taken by another company or not shall.
- Registration of a joint-stock company in the Commercial
  be under the supervision and control of GAFI.
- Derived the Company name from the purposes for which
  name of one or more of the shareholders.
- Paid 10% of the capital prior to the establishment and
  certificate from an authorized bank by The Central Bank

**PURPOSES:**

A joint-stock company activity providing like any other bu
applicable laws and regulations.

**MANAGEMENT:**

- A JSC shall have a minimum of three founding sharehol
- The management of the company shall be proceedin
  directors comprising of at least three members elected b
  a limited duration.



**CAPITAL:**

- Pay an amount of LE 500,000 from the minimum capita
company that offers its shares for public subscription.
- Holding a company's establishment for the purposes of s
investment, pay the minimum capital is LE 5 million, of v
on the establishment, and the authorized capital must not
the issued capital.

**TAXES:**

Taxes paid on company profits for JSC.

**2. Limited liability company in Egypt**

If you have decided for a limited liability company in Egypt, i
that each stockholder is in charge of his/her limit of shares in
considering that bonds and shares are not negotiable. A limited
in Egypt can be 100% foreign owned, but the board of directo
least one national. The minimum share capital when registering
is set at 50,000 Egyptian Pounds.

**ESTABLISHMENT:**

- Registration limited liability companies in the Commer
are subject to the supervision and inspection of GAFI.
- Include registration of the LLC in the Commercial Regis



**PURPOSES:**

**MANAGEMENT:**

- Foreign (100%) owns a limited liability company and th provision indicating a maximum ceiling for ownersh foreigners.
- One entity does not own a limited liability company, un Consequently, at least two partners are a must. management, thus the appointment of the managers is by
- There may be one or more managers, and also there mu Egyptian manager.

**CAPITAL:**

The minimum share capital required to form an LLC is LE capital into equal shares, either in cash or in kind, and the va must be at least LE 10.

**PROFIT-SHARING**

- In case of the capital of the limited liability company d 250,000, no obligation for the company to distribute par the employees.
- If the capital reaches the mentioned capital, distribute 10% to employees, provided that such 10% does not exceed

- develop in new communities.

A branch of a foreign company can be only registered in E

construction works or generally work of contractual nature acco

concluded with any Egyptian entity either the Egyptian Go

Sector, or Private Company.

Although the branch can engage in commercial, financial

contractual activities, limited the activities that the branch will

stated in its contract in Egypt, which means treating the branc

company in all matters except corporate governance.

**REGISTRATION OF A BRANCH OF A FOREIGN COM**

Any foreign company has to register the branch in the Comme

General Authority for Investment and Free Zones whatever its

carries out any commercial, financial, industrial, or contracting

**PURPOSES:**

Registrate a branch can undertake any form of legal activity

Commercial Registry provided that it has a signed contract

entity either the public sector or private sector to prov

encompassed by such activity, limit the activities that the branc

those stated in its contract in Egypt.



**MANAGEMENT:**

**CAPITAL:**

There are no requirements for the minimum capital investmen
However, made and transfer the initial capital investments in fo
Egypt through a registered Egyptian bank.

**TAXES:**

The net profit of a branch is subject to corporate tax at the sam
companies.

**PROFIT-SHARING:**

Branches are bound to distribute at least 10 % of their annual n
employees (not exceeding the total annual wages and salaries pa
employees of the branch).

**4. One Person Company**

Introducing the One Person Company is a new type of company
Law No. 159 of 1981 after making its last amendments in 201
of company, the small investor becomes able to establish a com
his own, a company in a unique form of companies.

One Person Company is a company that is owned by a single
natural or a legal entity, within the purposes that it's establi
owner of the company shall be liable only for the company's c

company is the owner-partner in which is liable for its
amount of the company's capital.

- There is another advantage for the One Person Com
decision is made within the company as the owner
company exercises all the powers granted to the board of
powers of the ordinary and extraordinary general assemb
partner.

**ESTABLISHMENT AND WORK OF A ONE-PERSON C**

- Establish a one-person company by one natural or l
Thereafter, any more partner in the company shall not
company.
- The founder shall establish a company in Egypt by h
representative by submitting an application to the
company shall have its regulation including its name, pur
its founder, duration, and managing system, the address
branches, the amount of its capital, and the company liqu
data mentioned by the Executive Regulations.
- An approval from the prime minister or the competen
founder of the company is a public law person.
- Paid the company's capital in full prior to the esta
company.

## CLASSIFICATION of Industries[3]

An industry is a group of organizations involved in producing/ handling the same type of product and service. Industries are par activity. Secondary activities or manufacturing converts ra products of more value to people. Industrial systems are m processes, and output. The inputs are raw materials, labour, other infrastructure.

The process is the plan the manufacturer has of how to turn r finished products of value. And finally, the output is the end of which the income is earned. In this unit, you will learn about th industries and the features of small, medium and large scale ind

Industry refers to the economic activities concerned with the pro extraction of services and provision or services. Hence we can s are concerned with:

- Production of good (steel energy)
- Extraction of minerals (coal mining)
- Provision for services (tourism)
- There are also Emerging Industries: 'Sunrise Industries'



Industries can be classified on the following basis-

- Agro-based industries: The industries which are use agricu
input or based on agriculture are known Agro-based industry
use plants and animal-based products as their raw materials
processing, vegetable oil, cotton textile, dairy products, and lea

- Mineral based industries: Mineral-based industries are those
are based on mining and use ‘mineral ore’ as raw material. The
provide to other industries. They are used for heavy machin
materials.

- Marine-based industries: The industries which use raw mate
sea or ocean are called Marine-based industries. Examples, fish

- Forest-based industries: These industries use raw materials f
forest like wood. The industries connected with forest are paper
and furniture.

**2. Ownership-**On the basis of Ownership industries are divide

- Private sector: Private industries are businesses that are ow
by an individual or group of individuals for profit motive.

- Public sector: Public industries are owned and managed by
Example, Hindustan Aeronautics Limited (HAL).

- Joint sector industries: These industries are jointly operated

• Small-scale industries: In small scale industries less capital a
invested. In small scale industries work is done manually. For
intensive technique is used in small scale industries. Example,
pottery, and handicrafts.

• Large-scale industries: Large-scale industries are the exact o
scale industries. Here the capital invested is large and advance
use here. Example, Automobiles and Heavy Machinery.

## LARGE SCALE INDUSTRIES

Large scale industries are those industries which require hu
manpower and have a influx of capital assets. Large scale indu
industries which require huge infrastructure, man power and
capital assets. In other words the industries which produce th
amount by using the improved technology, efficient man power
are known as medium and large scale industries. The term 'larg
is a generic one including various types of industries in its purv

For example, All the heavy industries of India like the Iron a
textile industry, automobile manufacturing industry fall unde
industrial arena. However in recent years due to the IT boom and
of revenue generated by it the IT industry can also be inc
jurisdiction of the large- scale industrial sector. Last but not the
industry also forms and indispensable component of the larg

scale industries is almost essential for the development of
industries.

**Importance of Large Industry-**

Large scale industries play a significant role in the overall econo
of a nation. The contribution of industrial sector to the total
Products (GDP) is only around 17%. However, the importa
sector, in the process of overall economic development of th
remarkable. The importance of medium and large scale i
explained as the following points:

1. **Improvement in productivity:** In large scale industries, lal
and specialization technique is used. In large scale industries, w
among the labour according to their efficiency which save time
productivity. Huge and modern machines are used in these indus
productivity and reduces cost per head. It enables the
commodities at a cheaper rate.

**2. Import substitution:-**Capital goods and consumer goods w
from the foreign countries can be produced inside the country th
industries. Our country depends upon foreign countries f
chemicals, heavy electricity, chemical fertilizers and other
unless we develop large scale industries. Due to the developm
industries, all these commodities are produced inside the count

products and other industrial products. It means large scal
changed the pattern of export and increased the quantity of exp

**4. Development of basic industries:** The industries produci
iron, steel, copper, cement, etc are called basic industries. The
to establish and promote the other industries. Thus, the establis
industries helps the development of basic industries.

**5. Proper utilization of resources:** Large and medium indust
for the scientific utilization of available natural resources such
water and human resource.

**6. Generate employment opportunities:** Development of la
scale industries help to remove the problem of unemployment
range of employment opportunities to unskilled, semi-skilled a
resource.

**7. Helps to modernize the agricultural sector:** For the
agriculture, modern tools and technology are needed. The mediu
industries produce the modern machine, chemical fertilizers, ma
and transportation. Thus, establishment, of agro-based mediu
industries helps to increase the agricultural production and proc

**8. Improvement in living standard**: The employment and in



of the people increases with the establishment and devel

**10. Development of transportation and communication:**

large scale industries help to develop the transportation and

because these facilities are basic infrastructure of industrial

means of transportation are required to transport and distrib

production to different places and the means of communicatio

have up to date market information.

**Advantages of large scale industries:**

Following are the advantages of largescale industries:

1. There is greater scope for specialization in a large industry t

industry. Specialized personnel contribute to the quality and qu

output. Any job is divided into several parts, each handled by a

has specialized in it. By doing it repeatedly, he attains proficien

degree of skill. In a small industry this is not possible. A job ca

divided into parts because of the number of persons employed

and the capital invested is small.

2. In a large industry there is greater scope for specialized mac

example, where alpines are manufactured in a large industry, th

several machines which do different types of jobs before a com order for some reason, the proprietor has to send it to a repairing may be situated far away from the factory. Taking machine workshop and then bringing it back involves wastage of much money. This adds to the cost of the articles manufactured.

In a large industry much time, energy and money can be saved a repairing department in the premises of the industry itself.

4. A large industry enjoys the commercial advantage of buying material is bought in large quantities for which advance contra For the purpose of sale of manufactured articles agencies different places in the country, and if possible, abroad.

5. A large industry is capable of standing adverse times. A goo foresee impending adverse times and can make arrangements i them. Raw material can be stored in large quantities if there possibility of its shortage in near future. The risk bearing industrialist being greater, the manufactured articles can be sto them goes down and then gradually released manipulating the this is not possible in a small industry.

**Problems of Medium and Large Scale Industries:**

Medium and large scale industries suffer from various prob problem is waste of resources. While economies of scale

**1. Lack of Raw-Material:** Medium and large scale indus materials in large amount in regular way. But most of the raw m areas and their availability is not at right time. So, these indust raw materials easily which hampers productivity.

**2. Lack of Energy:** Medium and large scale industries require power energy like coal, petrol, diesel, electricity, etc. E requirements are not available in sufficient amount these indus

Due to this reason, some of these industries are closing down.

**3. Lack of Technical Knowledge:** High levels of technology power are essential for establishment and operation of thes country doesn't have sufficient technical manpower. Therefor have to be imported, who are comparatively expensive and o when required.

**4. Lack of Capital:** Large amount of capital investment is establishment and development of medium and large scal entrepreneurs don't have such sufficient amount to invest. Eve are able to invest are not interested to invest in these sectors favourable industrial policies.

**5. Limited Market:** The medium and large scale industries proc of goods. Therefore, the market for these goods should be a

There are other problems of medium and large scale industrie transportation and communication facilities, unable to comp goods, lack of industrial security, and lack of sufficient researc

**Small scale industries**

Small scale industries constitute an important and crucial industrial sector. This sector is the second largest manpowe agriculture, in our country. A wide range of products, from crafts and consumer goods to highly sophisticated produ processors, mini computers, electronic components, electro–me are manufactured by small and medium enterprises. They contribution in increasing exports, in addition to satisfying dor several commodities. The small scale sector has grown steadily important place in the economy. Contribution of the sector in te of employment, output and exports is quite significant.

The small scale industries have worked as an engine of growth and developing countries. Despite the extraordinary synchroni small scale industries acted as a prime mover in slipping up i enhancing poverty alleviation and bringing about sustainability an increasing realization of a need to introduce the concept of S Enterprises (SMEs) in place of Small Scale Industries (SSIs) over 80 per cent of the industrial base of most of the developed

All countries do not use the same definition for classifying their
does universal definition appear to be necessary. The definitio
on the purpose these definitions are required to serve and th
govern the SME sector thus defined.

**Table 3.1 Definition of SMEs in Different Coun**

| Country | Category of Industry | Criteria/ Country's Official Definition |
|---|---|---|
| North America<br>USA | Very small Enterprise<br>Small Enterprise<br>Medium Enterprise | < 20 Employees<br>20–99 Employees<br>100–199 Employees |
| Canada | Manufacturing | Independent Firms having < 200 employees |
| Denmark | Manufacturing | <500 employees, production units with more than 5 employees |
| France | SME | 10–199 Employees |
| Germany | SME | < 500 employees |
| Grece | Small Enterprises<br>Medium Enterprises | < 50 employees<br>50–500 employees |
| Ireland | SME | < 500 employees |
| Itlay | Small Enterprises | < 200 employees |
| Asia<br>China | SME | Depends on product group usually < 100 employees, investment ceiling 30 million Yuan |
| Indonesia | SME | < 100 employees |
| Japan | Manufacturing<br>Wholesale Trade<br>Retail Trade and Services | < 300 employees or asset capitalization < 100 million<br>< 50 employees or asset capitalization < 30 million yen |
| Korea | Manufacturing<br>Services | < 500 employees<br>< 20 employees |

example, the European Commission considers micro firms to l than 10 workers and with an annual turnover not exceeding EUI firms those with up to 50 employees and an annual turnover of r 10 million and medium firms those having up to 250 worke turnover below EUR 50 million.10 In the United States, the up by the Small Business Administration Office of Advocacy f workers.11 Parameters related to annual revenue are also used t but they vary, depending on the sector of activity and the expo firm. In countries such as Canada, Australia, New Zealand ar different classification ceilings is used, depending on the patterns. Southern and Eastern Mediterranean Countries (SEM have an official definition and use different working definitions, of MSMEs, and the implementation of targeted policies somewhat challenging. Table 3.2, below, provides an overviev definitions used in the four countries under study, using either t number of employees' criterion. The overlaps between working in the countries under study, might result in cross-country inco data on MSMEs presented in the remainder of the chapter, son to bear in mind when comparisons between countries are made

**Table 3.2 Working definitions of MSMEs in Egypt, Jorda Tunisia**

| | | |
|---|---|---|
| | | Medium-small: between 20 and 49 e<br>Medium: between 50 and 100 emplo<br>Large: more than 100 employees |
| **Morocco** | Maroc PME | Micro: less than MAD 3 million in tur<br>270.000)<br>Small: between MAD 3 and 10 millio<br>EUR 270.000 and EUR 900.000)<br>Medium: between MAD 10 and 175 r<br>(between EUR 900.000 and EUR 15.7 |
| **Tunisia** | Registre National des Entreprises | Micro: less than 10 employees<br>Small: between 10 and 50 employee<br>Medium: between 50 and 200 emplo<br>Large: more than 200 employees |

MSMEs play a crucial role in economic development, regardle definitions. First, they have an important potential to inno technological change (Acs and Audretsch, 1990). Some studies that MSMEs are more efficient at innovating than large fir benefit from advantages in terms of flexibility, autonomy a spurring talent and performance (Zenger and Lazzarini, 2004). contribute towards enhancing competition by giving other firms established ones, an incentive to cut production costs and boos ultimately exerting positive effects on national productivity Third, MSMEs are considered as seeds for future large compan MSMEs account for 60% to 70% of jobs in most OECD countri considered an important source of job creation and a major ch alleviation. In light of these considerations, many intern institutions and governments, of developed or developing cou in the preamble of the latter the difficulties facing MSMEs in the to their US counterparts. The mainstreaming of a “think sm policy-making and the elaboration of a comprehensive strategy structure in support of MSMEs, based on a number of dimen their development regardless of the sector in which they ope adoption of the Euro-Mediterranean Charter for Enterprise an elaborate MSME policies across the SEMCs.

**STRUCTURE OF THE MSME SECTOR in Egypt**

**SIZE AND SECTORAL DISTRIBUTION OF THE MSME**

In Egypt, firms are considered micro when they employ less tha small and medium when they employ between ten and two hu and large above that according to the definition of the Central B 2017, micro enterprises constituted approximately 91% of all medium ones around 8% of the total and large firms less than 1 of Egypt, 2017). This figure points to the predominance of mi the country’s private sector. Egyptian micro firms have li expansion and suffer from a range of structural weaknesses, limited to the lack of managerial skills and financial res competition and low profit margins.23 Moreover, most micr informal and cannot sufficiently benefit from government init of their development (Saif and Ghoneim, 2013).

providing nearly 75% of total employment in the private sector
99% in some non-agricultural sectors. The informal sector r
share of national GDP. Informal employment constitutes an imp
for highly educated workers but is often associated with low wa
conditions and limited mobility to formal sector jobs – for educa
individuals alike. It is estimated that nearly 58% of total en
country is created in the informal sector, a share reaching 7
workers as compared to 43% among urban ones (Angel-Urdi
2012).

## MAIN CONSTRAINTS TO JOB CREATION IN THE EG
## SECTOR

### 1- BUSINESS ENVIRONMENT

The Egyptian economy is characterised by a number of structura
imbalances hindering the development of MSMEs. These
exchange crunch, high levels of inflation and unemployment rat
respectively in 2016, according to the World Bank Developmen
ratios of domestic and external debt to GDP (87% and 18% res
according to the Central Bank of Egypt) and a significant dr
sector.



Egyptian MSMEs face a number of challenges and difficulties i
with public administrations over registration, licensing, cust

MSMEs also suffer from the absence of strong and effective
firms - that is the absence of strategic alliances. Interestingly
owners more often than not consider that they suffer from "ur
from large domestic firms, perceived as having enough good c
public administration to receive preferential treatment. Saif and
somewhat confirmed the underlining point that large corporatio
main target of institutional frameworks for private sector de
country, receiving more benefits from government policies.

**2- FIRM MANAGEMENT**

In Egypt, the government usually borrows from the domestic fi
interest rates higher than in international markets, with two
implications. First, the burden on the government budget balan
commitments. Second, the crowding-out effect for the private
reduce their lending to private businesses in order to a
government. Saif (2011) highlighted that the private secto
received only 10% of the available financing from the banking
largely insufficient for private businesses to meet their own nee
untapped potential for productivity gains. The situation
problematic for Egyptian MSMEs, lagging behind in terms of
compared to both their larger counterparts in the private
homologues in other SEMCs. The MSME sector has access t

## ACTORS AND POLICIES IN SUPPORT OF THE EGYPT

## SECTOR

### EGYPTIAN INSTITUTIONS INVOLVED IN MSME DEV

In Egypt, a number of ministries are involved in the making of p of MSMEs. The Ministry of Trade and Industry is responsible competitiveness and the internationalisation of MSMEs. Investment with helping the latter in their development, throu and implementation of cluster policies. The Ministry of Finance promoting reforms for a favourable investment climate. The M Solidarity with regulating civil society organisations and other n organisations providing community development services. Th not usually involved directly either in the implementation elaborated, or in their monitoring – something that is particular light of the importance of correcting and adapting policies, d effectiveness in supporting MSMEs and changing conditions o

The responsibility over the implementation of policies in sup given to a number of specialised government agencies, bac instruments and related authorities. These include agencies p services to entrepreneurs and owners of small businesses throu



stages of their development with the authorities and financial i

as incubators. Table 2.2 provides an overview of these instituti

**Table 3.3: Egyptian institutions involved in the impleme policies**

| INSTITUTION | MAIN AIM |
|---|---|
| General Authority for Investment and Free Zones | *Enhancing the investment climate and facilitating the g through the establishment of a one-stop shop providing services for start-ups.* |
| Industrial Development Authority | *Assistance and guidance in relation to establishment pr registration plans available to investors in the industria* |
| Egyptian Financial Supervisory Authority | *MSME promotion through the establishment of microfi offering products and services to the sector.* |
| Central Bank of Egypt | *Creating incentives for banks to lend to MSMEs.* |
| Egyptian Banking Institute | *Providing a wide range of capacity building services to awareness among entrepreneurs about methods and st financing.* |
| Social Fund for Development | *Providing a safety net to protect vulnerable groups aga of economic programmes and enhancing the developm* |

## EGYPTIAN POLICIES IN SUPPORT OF MSME DEVEL

In Egypt, a number of policies in support of the development formulated under different policy frameworks, including the in the niche strategy and the cluster approach. These framework below, along with the main economic challenges they aim to ac

The innovation strategy is built on the premise that R&D is important drivers of growth in the private sector and mos MSMEs, notwithstanding that investing in R&D activities migh and costly option for the latter. This is particularly delicate in t



considering the limited funding available for innovative MSME

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