DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

RECIPIENT COUNTRY STATUS FOR EGYPT: POLITICAL AND ECONOMIC ASSESSMENTS

Explanatory Note:

Egypt is a founding Member of the EBRD and in 2010 during the Annual Meeting of the EBRD Board of Governors in Zagreb indicated its interest to become a recipient country of the EBRD. For Egypt to become a recipient country it was first necessary to amend Article 1 of the Agreement Establishing the Bank to allow for the geographical extension of the Bank's operations to the member countries of the Southern and Eastern Mediterranean (SEMED). The report of the Board of Directors to the Board of Governors on the process of extension (BDS11-187 (Final)) and the related Resolutions Nos. 137, 138 and 139 of the Board of Governors, envisioned a three-phased approach to the geographical extension of the Bank's operations to the member countries of SEMED.

- **Phase I**: In the initial phase of engagement the Bank was authorised to carry out technical cooperation and other similar non-investment activities with the use of cooperation funds. The EBRD Board of Directors approved the commencement of the first phase of activities in Egypt on 11 October 2011.

- **Phase II**: In the second phase of engagement the Bank was authorised to carry out investment activities in Egypt drawing on the Investment Special Fund for SEMED countries. This required first the entry into force of the amended Article 18 of the Agreement Establishing the EBRD (on 22 August 2012) and adoption by the Board of Governors of a Resolution granting Potential Recipient Country status to Egypt (on 26 November 2012, extended on 11 November 2014).

- **Phase III**: Following the entry into force of the amended Article 1 of the Agreement on 12 September 2013 and a decision by the Board of Governors that Egypt meets the requirements of the amended Article 1 of the Agreement, Egypt is granted recipient country status, which allows for ordinary operations in the country funded by ordinary capital resources.

The Board of Directors reviewed the Recipient Country Status Documents for Egypt at its meeting on 30 September 2015 and recommended that the Board of Governors adopt Resolution No. 186 granting Egypt recipient country status. The Board of Directors further decided that the Bank should make public the political assessment and the assessment of transition challenges provided by Management to inform their review and recommendation to Governors, and that these should be posted on the Bank's external website following the Board of Governors decision to grant Egypt recipient country status. The Board of Governors adopted Resolution No. 186 making Egypt a recipient country of EBRD on 30 October 2015.

Political Assessment[1]

Egypt

Egypt is committed to and applying, albeit unevenly, the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank. While several important milestones have been reached, further reforms are needed to embed the application of democratic principles more firmly.

Free Elections and Representative Government

Egypt held several referendums and elections in the last four years, all under the supervision of the independent Higher Election Commission. Yet, because of the absence of an elected parliament during much of that period, the sitting presidents have held both legislative and executive powers.

Free, fair and competitive elections

Since Egypt's uprising in January 2011, the country undertook a public referendum on a Constitutional Declaration in March 2011, the election of the lower house of the Parliament in December 2011 and January 2012, the election of the Shura Council (the upper house of the Parliament) in February 2012, two presidential elections (in May and June 2012, and in May 2014), and a constitutional referendum in January 2014. All referendums and elections were undertaken under the supervision of the Higher Election Commission which is made up entirely of Egyptian judges.

The European Commission (EC), the Parliamentary Assembly of the Council of Europe, and the Foreign Affairs Council of the EU reported on the 2011 and 2012 elections. Though there were reported irregularities, several local and international civil society organisations (CSOs) were not permitted to observe the elections, some candidates' representatives had limited access to polling stations and there were reports of limited episodes of violence, these elections were generally held in a smooth and peaceful manner.

In July 2013, the Egyptian authorities presented a democratic roadmap which comprised three steps in the following order: drafting and ratifying a new Constitution, holding parliamentary elections, and holding presidential elections. Later, the Egyptian Government brought forward the presidential elections, held in May 2014, while the parliamentary elections will constitute the final milestone in the roadmap.

In August 2015, the Higher Election Commission revealed the new constituency-boundaries for the parliamentary elections, confirmed that the elections will be undertaken in two rounds on 18 and 19 October and 22 and 23 November of this year, and began the process of registering candidates.

Over 85 Egyptian and international institutions monitored the 2014 presidential election, including the European Union and the US-based Democracy International, in addition to

[1] The assessment was prepared in accordance with the Bank's updated political methodology, as approved by the Board on 26 February 2013 (BDS12-280 (Rev 3)).

thousands of independent observers. During the election, the Presidential Election Committee (PEC) decided to extend the voting by a third day. This falls within the legal framework of the elections and the PEC's mandate. However, it was widely seen as an attempt to enhance voter turnout. Following the three days of voting, the official results were a turnout of 47.5 per cent of registered voters and delivered a victory to the former Defence Minister, Abdel-Fattah al-Sisi, with 96.9 per cent of the vote.

In its report following the May 2014 presidential election, the European Union Election Observation Mission (EU EOM) concluded that the PEC operated in an impartial manner and administered the election efficiently and in line with the law. The EU EOM report also noted that voting, counting, and tabulation were administered in an orderly and well-organised manner and that state media provided approximately equal coverage to both candidates. However, the EU EOM report also indicated that "respect for freedoms of association, assembly and expression remained areas of concern" in the election. Although turnout in the election was similar to levels seen in previous elections, the EU EOM report further indicated that the non-participation of several political groups, which in some cases challenged the legitimacy of the process or opposed the democratic roadmap, undermined universal participation in the election. The EU EOM report also stated that achieving a level-playing field for the campaigns of the two contenders in that election was prejudiced by insufficient campaign-financing regulation and noted that broadcasters operating in Egypt provided limited coverage of opinions opposing the undertaking of the election and the roadmap on which it was based.[2]

Separation of powers and effective checks and balances

In the absence of an elected parliament, the President has held both executive and legislative powers in recent years. However, according to the 2014 Constitution, the parliament once elected has fifteen days to retroactively review, amend, and revoke all laws passed by the executive in the period before the parliament's inauguration. The Constitution stipulates that laws not presented and discussed by the parliament, or presented but not approved, become retroactively null and void without the need to issue a decision to that effect. Independent legal experts state that the parliament could also extend the fifteen days period.

Egypt's 2014 Constitution clarifies the separation of powers, with significantly broadened prerogatives entrusted to the parliament. The president has the right to appoint the prime minister who is to form a government, which in turn has to be approved by the parliament. If the parliament votes against the government, the president has to mandate the party with the largest number of seats in the parliament to select a prime minister, who has to secure parliamentary approval for the government within thirty days. Failing that, new parliamentary elections should take place.

The President has the right to appoint members directly to serve in the parliament; however, the Constitution restricts the number of directly appointed members to a maximum of five per

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[2] European Union Election Observation Mission, Final Report on the Presidential Election, 26/27 May 2014 in the Arab Republic of Egypt. http://eeas.europa.eu/eueom/missions/2014/egypt/pdf/eueom-egypt2014-final-report_en.pdf

cent. It also restricts the president's right to dismiss the parliament, by requiring a public referendum for such a proposal.

For the first time in the history of the Egyptian republic, the parliament will have the power to remove and/or prosecute the president. Members of parliament can withdraw confidence from the president and call for a referendum on early presidential elections if they attain a two-thirds majority in the House of Representatives.

The Constitution also empowers the parliament by broadening its legislative oversight over the government. In addition to facilitating the processes of parliamentary inquiries and hearings on government policies, for the first time in the Republic's history the Constitution mandates that state budgets must now be approved by the parliament, without exception. The parliament will vote on every chapter in the state budget (including the budget of the Defence Ministry) and not only on the budget in its entirety. Failing to obtain a parliamentary majority requires the government to withdraw the budget. The Constitution also mandates the parliament to vote on the Central Accounting Agency's report on state budgets.

Effective power to govern of elected officials

Under the Constitution, the power to govern rests with elected bodies in the executive and legislative branches, checked by the judiciary. However, Egypt's transition since the uprising in 2011 has been turbulent and governance arrangements have at times departed from these principles. For example, from February 2011 to June 2012, the Supreme Council of the Armed Forces (SCAF) had sweeping powers of law-making over government and in internal policing. In June 2012, Egypt's Supreme Constitutional Court invalidated a third of the parliamentary seats, which led to an executive decision by the SCAF to dissolve the Parliament. In November 2012, former President Mohamed Morsi issued a unilateral constitutional declaration that immunised his decrees retroactively from any legislative or judicial scrutiny. He also issued a presidential order by which he dismissed the Public Prosecutor.

In the period from July 2013, when a new Democratic Roadmap was introduced, until the election of the current President in May 2014, no executive office was held by an elected official.

The 2014 Constitution balances presidential prerogatives with parliamentary legislative powers and oversight over the executive and clarifies the role of the military. The Constitution designates the president as the Supreme Commander of the Armed Forces; yet mandates that the armed forces cannot engage in military operations without the approval of a two-thirds parliamentary majority. In the absence of a House of Representatives, the president must obtain the approval of the government and the National Defence Council, half of whose members are the most senior officers of the Armed Forces. The 2014 Constitution also reserves for the Supreme Council of the Armed Forces the right to approve the president's choice for the position of defence minister for eight years since the enacting of the Constitution in January 2014.

Civil Society, Media and Participation

There are several restrictions on the operations of local and international civil society organisations in Egypt, which have generated concerns. At the same time, the sector has grown significantly in the last four years and Constitutional protections for CSOs have been enhanced. Relative to the situation in Egypt prior to 2011, political participation has exponentially increased. Some forms of media are free, while others face significant constraints.

Scale and independence of civil society

For at least four decades, Egypt has had sizable and powerful labour unions and farmers associations. Since the country's 2011 uprising, the number of civil society organisations (CSOs) registered with the Ministry of Social Solidarity has risen from around 26,000 in 2010 to over 46,000 in 2015. Hundreds of CSOs have been established with the objective of strengthening human, civil, and political rights. There are varied NGOs and civic groups that expose and fight corruption, promote the interests of various social segments (for example, women, homeless children, and Nubians), as well as specific reforms (for example of the security and civil services). Also in the last four years, there has been a noticeable dynamism within university student unions and professional syndicates. Several CSOs have been active in debating and opposing governmental policies, most notably in reforming the state's energy subsidies.

However, in the same period, several local and international NGOs were prevented from operating freely in the country. In December 2011, the Egyptian authorities raided the offices of several local and international NGOs, seized their documents and computers, and banned a number of their officers from leaving the country. The legal grounds for this action included operating without licences, receiving illegal foreign funding and carrying out political training programmes. The Central Bank ordered all banks to provide to the Government details of the financial transactions of these NGOs and some of their officials whose private accounts were used in receiving foreign funding. This investigation was based on the Penal Code as the un-licenced NGOs were not regulated under the Associations Law in effect.

The 2014 Constitution ensured the independence of several national councils, for example, the National Council on Human Rights and the National Council for Women. It empowered them with the ability to initiate investigations, including against the executive authority, by the Public Prosecutor in areas related to their mandates. The Constitution also allowed the establishment of NGOs by notifying the government, without requiring its approval, and stated that the executive authority cannot interfere in their work or dissolve them, except after a judicial order.

Meanwhile, several CSOs maintain that they continue to be governed according to the 2002 Law. In June 2014, after a societal dialogue that included four rounds of consultations with a large number of CSOs, and after receiving recommendations from a group of independent experts on civic engagement, the Ministry for Social Solidarity put forward a preliminary draft of a new Associations Law. Though it was supported by many local NGOs, over 25 local and international ones signed a letter that detailed their criticisms of the draft, which, they argued, would prevent them from operating in the country.

In September 2014, the Ministry for Social Solidarity gave all NGOs not registered with the Government a period of three months to amend their status. Many ignored the order on the basis that both the 2002 Law and the amended 2014 draft law are unconstitutional following the ratification of the 2014 Constitution, which enhanced legal protections for CSOs. Under Egyptian Law, however, the 2002 Associations Law remains in force until the legislature ratifies a new association law. In November 2014, the Government extended the registration period without setting a specific deadline.

In September 2014, an amendment to the Penal Code was introduced which criminalises receiving foreign funding for activities intended to harm national security or unity. The Government maintains that this amendment is intended to track the funding sources of several violent groups that have been targeting Egypt in the last few years, and which have perpetrated terrorist operations that resulted in the deaths of tens of Egyptians. The Egyptian Government maintains that by the end of 2014, over 120 foreign NGOs were operating in the country. In the same year, local NGOs received in excess of USD150million in foreign funding, representing an approval rate of 98 per cent of the requests submitted in that year by NGOs to the Government.

After its election, the Parliament is expected to issue a new Associations Law. In this process, it will review both the 2002 Law and the draft law presented in 2014.

Independence and pluralism of media operating without censorship

The 2014 Constitution specifies the right to freedom of expression and access to information, and guarantees freedom of the press. It prohibits the executive from censoring, confiscating, suspending, or shutting down any newspaper or media outlet. It specifies that no custodian punishment would be imposed as a result of published material. It also allows the issuance of publications after only a notification, rather than requiring the government's approval. The Constitution empowers an independent Supreme Council for the Regulation of the Media, which is composed by media professionals and members of CSOs, with supervising the media landscape. The Government amended the 1996 Media Law with the effect of lessening the punishment for several defamation crimes, including "insulting the President". This included removing prison sentences. Egypt has no legal restrictions on blogging on the internet.

Egypt has a diverse media scene. There are hundreds of private newspapers, radio stations, and TV channels where a wide range of views are expressed on political, economic, and social matters, including criticism of the Government and the Armed Forces. Over the past few years, the penetration of social media increased significantly, especially with young Egyptians. There are hundreds of public online platforms and portals that do not face any censorship.

At the same time, limitations on media freedom persist. According to some international CSOs, there have been numerous attacks on local and foreign journalists in the last four years. In 2013, several TV stations supportive of political Islamist forces were taken off the air and many of their journalists were prohibited from reporting in Egypt. The Government stated that these TV stations lacked the proper licences to operate or abused the ones given to them according to the regulations governing satellite channels broadcasting through Egypt's Nile-Sat. Lawsuits in which some of these channels are accused of inciting religious hatred and promoting sectarian rhetoric are ongoing. Despite the constitutional clauses guaranteeing freedom of the media, the Penal Code retains several clauses related to the press that include criminal liability for "inciting violence", insulting state institutions, and reporting that would be deemed “threats to public order”. In its March 2015 Progress Report on the Implementation of the European Neighbourhood Policy in Egypt, the EC noted that the freedom of the press was reduced significantly.[3] Following the publication of the report, the Egyptian Government expressed reservations concerning this assessment of the media in Egypt.

Three journalists working for an international news station were charged with aiding the Muslim Brotherhood, which the Egyptian Government designated a terrorist organisation in December 2013. The three journalists received primary sentences ranging from seven to ten years. This case received significant international attention and resulted in calls by international organisations and CSOs to dismiss the case. The UN High Commissioner for Human Rights expressed concern over restrictions on media in Egypt and urged the Egyptian authorities to release the journalists.[4] However, the Egyptian Government repeatedly emphasised that it cannot interfere in a judicial matter. A year after their arrest, one journalised exited the country, another was released on bail, and the third was granted a Presidential Pardon. In August 2015, an Appeals Court reduced the sentences to three years. The defendants can appeal within sixty days from the date of the issuance of that sentence. If they do, the case will be referred to the Court of Cassation, whose verdict will be final.[5]

Multiple channels of civic and political participation

Since 2011, Egypt has witnessed a steady improvement in general political participation. The turnout in referendums and elections has significantly increased in the last four years although it remains low by international standards. In the January 2014 referendum on the Constitution, turnout exceeded 38 per cent of eligible voters. Turnout was at 47 per cent in the May 2014 presidential election, significantly higher than in the period before 2011.

The 2014 Constitution was drafted by a committee of ten constitutional law experts. The draft they produced was reviewed and amended by a Commission of Fifty persons representing large political groups in the country, the largest Egyptian Islamic and Christian institutions, most professional syndicates, several farmers associations, and representatives from different Egyptian universities. Public and private Egyptian media covered the Commission’s debates extensively. However, several CSOs maintain that the process was not inclusive of all major political groups in Egypt.

Freedom to form political parties and existence of organised opposition

Egypt’s new Law of Political Rights significantly restricts the executive’s ability to influence elections. It empowers the Supreme Elections Commission with supervising all aspects of elections, from setting dates, to the process of registration, to the ability of disqualifying candidates. The country’s Election Law reserves 75 per cent of parliamentary seats to individual candidates, 20 per cent for party-based candidates, and 27 seats (around five per

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[3] Implementation of the European Neighbourhood Policy in Egypt Progress in 2014 and recommendations for actions, March 2015.

[4] http://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=14757&

[5] In May 2015, one of the three journalists sued that news organisation claiming that he was manipulated by not being informed that the branch of the network he worked for lacked the required licences to operate in Egypt.

cent) to be appointed by the president. The process of forming political parties is clear and, as per the Constitution, prohibits executive interference. The 2014 Constitution allows parties to be formed merely by notification, without requiring the approval of the executive. It is also unlawful to dissolve a political party except by way of a judicial ruling.

In December 2013, the Egyptian Authorities designated the Muslim Brotherhood a terrorist organisation. Following that ruling, its political party Freedom and Justice, which won over 40 per cent of the December 2011 / January 2012 parliamentary elections, was dissolved.

Rule of Law and Access to Justice

The 2014 Constitution provides for the independence of the judiciary and strengthens the rule of law in the country. The judiciary is assertive in protecting this independence. The Constitution retains the possibility of trying civilians in front of military courts, which continue to take place in Egypt. Rulings by criminal courts, in which large numbers of people were sentenced to death, have called into question the adherence to due process in several cases.

Supremacy of the law

The 2014 Constitution places new limits on the powers of the executive, including the Interior Ministry, in legal processes. It improves the rights of defendants by putting checks, restrictions, and time limits on detentions, searches, issuance of warrants, and the issuance of judgements. Many of these reforms were explicitly called for by CSOs focusing on judicial reform. The Constitution emphasises and specifies legal due process in civil and criminal cases. It renders any violation of these restrictions and due process a criminal offence. While Egypt's 1971 Constitution had enshrined the parliament's supervision over all ministries, the 2014 Constitution strengthens parliamentary powers by clarifying and facilitating the processes through which members of parliament can question ministers and withdraw confidence from any executive.

In 2014, the Supreme Constitutional Court ruled that the State of Emergency Law of 1958 (which, since then, had remained in effect) is unconstitutional in that it authorised the arrest and detention of persons suspected of endangering public order and security without proper legal processes. The 2014 Constitution states that a declaration of a state of emergency must be presented to the parliament, and limited to three months, renewable for a similar period, and also subject to parliamentary approval.

The Constitution allows civilians to be tried in military courts in cases in which there are direct attacks on military installations or military districts. This narrows the scope for referrals of civilians to military courts compared to the previous decades. However, in October 2014, after a series of terrorist attacks on state buildings, the authorities designated many state, public, and governmental buildings as military assets. In the last quarter of 2014, tens of civilians have been referred to military courts.[6] The Egyptian Government maintains that most of those were defendants in cases of attacks on military checkpoints and personnel. In its March 2015 Report on the Implementation of the European Neighbourhood Policy in

[6] Statement by the Office of the UN High Commissioner for Human Rights, on 2 December 2014.

Egypt, the EC stated that the jurisdiction of military courts in trying civilian was expanded.[7] Rights organisations have charged that the use of military courts to try civilians represents a potential threat to protection of citizens' legal and constitutional right to due process.

Independence of the Judiciary

The Egyptian judiciary is highly assertive in protecting its independence. The 2014 Constitution confirmed the clause issued in the 2011 Constitutional Declaration that judges cannot be fired or dismissed except by the judiciary itself. In August 2012, the Justice Minister transferred the authority of conducting investigations in the judiciary from the ministry to the Higher Judicial Council, a move that strengthens the judiciary's independence. The 2014 Constitution enshrined the independence of all the entities of the judiciary, including not just the Supreme Constitutional Court, but also the Cassation and Appeals Courts, the State Council, and the Public Prosecutor. The Constitution stated that no executive authority can dismiss any judge and made it a criminal offence for any executive at any level to interfere in judicial matters. In February 2014, the Supreme Constitutional Court ruled that several articles of the Election Law, presented by the Government and approved by the President, were unconstitutional, resulting in a delay in the timetable for holding parliamentary elections.

Government and citizens equally subject to the law

The 2014 Constitution enshrines the equality of all citizens before the Law.

In July 2014 the Interior Ministry estimated the number of people detained in the year since July 2013 to be around 20,000, almost all of whom belong to groups that the Government had declared terrorist organisations. At that time, several CSOs stated that the actual number is higher. Independent observers estimate that that number has decreased since summer 2013. The March 2015 EC report noted that "lengthy pre-trial detentions with no formal charges were prevalent."[8] The Egyptian Government asserts that all detentions in the country take place following legal processes and based on judicial orders and that the durations of detentions are regulated by the Egyptian Civil Law.

In March and April 2014, a criminal court judge issued death sentences to over 1200 people accused of attacks on police stations that had resulted in the death of two police officers. These sentences are under appeal. The judge was later reassigned to a different position. In December 2014, another judge sentenced 188 defendants to death in their trial for attacks on police stations in which 14 policemen were killed. These sentences have also been referred to the Court of Appeals. In May 2015, a judge at East Cairo Court referred 122 defendants, including former president Mohamed Morsi, to the highest Islamic jurisdiction authority in the country, to assess the viability of death sentences on the defendants, on charges of armed prison break in January 2011 and espionage. These were sentences by a Primary Court that will be referred to the Court of Appeal. These sentences were later confirmed, and the matter

[7] Implementation of the European Neighbourhood Policy in Egypt Progress in 2014 and recommendations for actions, March 2015.
[8] Implementation of the European Neighbourhood Policy in Egypt Progress in 2014 and recommendations for actions, March 2015.

has been referred to the Court of Cassation for a final verdict. None of the death sentences passed in these cases has so far been carried out. UN human rights experts operating under Special Procedures of the Human Rights Council[9] and several international CSOs maintain that some of these cases had serious procedural deficiencies. In these cases, the vast majority of the defendants were tried in absentia, a condition that, according to Egyptian Criminal Law, compels the judge to issue the maximum sentence applicable on the defendants. The Law states that once the defendants are present, the cases will be retried.

In August 2013, 37 defendants died of suffocation while in Police custody. The police officers and personnel, who were in charge of the custody of the deceased, were tried. In March 2014, a court sentenced the senior police officer accused in the case to ten years in prison and another three officers to one-year suspended sentences. This case has also been referred to the Court of Appeals.

In February 2015, the Egyptian authorities issued the Terrorist Entities Law, which defines a terrorist entity as any group "practicing or intending to advocate by any means to disturb public order or endanger the safety of the community and its interests or risk its security or harm national unity." The law tasks the prosecution with creating a list with the names of terrorist entities and a list with the names of people in, or associated with, terrorist entities. The lists must be considered by the Court of Appeals. Any entity or individual mentioned on either list can protest their inclusion to the Court of Cassation. Several international and Egyptian CSOs voiced strong reservations against the broad scope of the Law. It comes after several attacks on state buildings, military and police personnel and civilians, in which tens have been murdered by violent jihadist groups.

Effective policies and institutions to prevent corruption

Corruption remains a significant concern both for business and for citizens. According to the MENA Enterprise Surveys conducted by the EBRD, World Bank Group and EIB in the SEMED countries in the past 2 years, corruption ranked as the second highest obstacle to doing business for firms operating in Egypt.

Egypt ranked 94th out of a total of 175 countries in Transparency International's 2014 Corruption Perceptions Index. This suggests that corruption remains a significant issue for the authorities to tackle; at the same time, the 2014 ranking was an improvement compared to the 2013 Index, which ranked Egypt 114th out of 177 countries**.**

Since 2011, successive governments took significant steps to combat corruption. Several large transactions, including privatisations undertaken in the last two decades, were subjected to judicial review. Senior officials from the administration that ruled Egypt prior to 2011, as well as members of previous Governments, were put on trial for abuse of power related to alleged economic gains and misappropriation of public funds and assets.

The 2014 Constitution enshrined the independence of the Central Authority for Supervision of Accounts, endowed it with wide prerogatives over the executive, and stipulated that the parliament will review and vote on its annual report on an itemised basis. In 2014, the

[9] http://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=14801&LangID=E

mandate of the Administrative Control Authority was extended to cover strategy development, prevention, and investigation. The Administrative Control Authority now has direct supervision over the National Coordinating Committee for Combating Corruption, whose mandate was also widened.

The Government established an inter-ministerial committee in 2014 under the chairmanship of the Minister of Transitional Justice, formerly a senior judge, with the task of developing a programme of institutional reform. The programme aims, among other objectives, to improve administration of and control within public institutions. Egypt is in the process of updating its decentralisation strategy, which aims to endow local authorities and municipalities with wider administrative and budgetary responsibilities.

Civil and Political Rights

The 2014 Constitution enshrines civil and political rights and introduced new protections, previously not covered by the Egyptian Constitution. There were improvements in gender, regional, and youth inclusion related to political participation and in consultations regarding social and economic decision making. However, concerns remain regarding freedoms of speech and assembly.

Freedom of speech, information, religion and conscience, movement, association, assembly, and private property

The 2014 Constitution devotes a chapter to specifying and codifying political, civil, and human rights, such as freedoms of speech and assembly**.** These include rights that no previous Egyptian Constitution has enshrined, for example freedom of thought, opinion, scientific research, and artistic creativity. The Constitution also binds the Egyptian state to international human rights agreements, covenants, and charters ratified by the country. The official mandate of the Ministry of Transitional Justice includes monitoring and consolidating rights and freedoms specified in the Constitution. In its March 2015 Progress Report, the EC noted that the Constitution includes an unprecedented level of protection for human rights and individual freedoms, but that there is a distinction between the rights enshrined in the Constitution and the practice applied by some state institutions.[10] The Egyptian Government maintains that this distinction is primarily due to cases of violations perpetrated by individuals.

The Assembly Law, issued in November 2013, allows the executive to ban protests if “they pose threats to security, peace and public order, influence the course of justice, or delay traffic or transport.” The law also grants the government the right to declare public spaces off limit for protest. The law further obliges protest organisers to submit plans of their demonstrations, if they exceed ten individuals, to the Ministry of Interior, at least three days in advance of the protest. The Ministry has the right to cancel or change the route of the planned demonstration. In its March 2015 Egypt Progress Report, the EC noted that freedom of assembly is seriously restricted.[11] Several demonstrators were arrested and put on trial for

[10] Implementation of the European Neighbourhood Policy in Egypt Progress in 2014 and recommendations for actions, March 2015.
[11] Implementation of the European Neighbourhood Policy in Egypt Progress in 2014 and recommendations for actions, March 2015.

violating the Assembly Law. Some were charged with multi-year sentences. The March 2015 EC Report stated that often trials in which activists were charged were based on violations of this law.[12] The Egyptian Penal Code maintains that defendants found guilty in multiple criminal charges are to be sentenced according to the gravest of the charges for which the Court has ruled them guilty. In the most prominent cases of activists charged with multi-year sentences, the sentences were related to charges of arson, illegal possession of arms and attacking public buildings, not holding protests in violation of the Assembly Law. The Law is currently under review by the Supreme Constitutional Court. The Parliament is expected to review the Law once elections are held.

In August 2013, the authorities dispersed two large sit-ins of supporters of former President Mohammed Morsi, which were led and organised by the Muslim Brotherhood. The dispersals resulted in hundreds of deaths. In November 2013, Egypt's Interim President at the time set up a Fact-Finding Committee to investigate the dispersal of the sit-ins. The report, which was published at the end of 2014, maintained that the casualties included security officers who participated in the dispersal, and attributed the responsibility for violence that occurred to the Muslim Brotherhood. The report assessed the compatibility of the methods used by the security forces in dispersing the sit-ins with the steps required by law in such situations. The Egyptian National Council for Human Rights also established a fact-finding mission into the dispersal of the sit-ins. Its report, which was issued in March 2014, attributed the heavy casualties on both the "disproportionate use of force" and "failure to exercise self–restraint" by the security forces and on the incitement to violence, forcible crowd-sourcing, and usage of arms by groups of protestors.[13] There are several investigations that remain open with regard to the dispersal, but so far these do not entail judicial prosecution processes.

Political inclusiveness for women, ethnic and other minorities

The 2014 Constitution for the first time obliges the state to eliminate all forms of discrimination. It guarantees equal political and economic rights for groups with disabilities and the elderly. It mandated the establishment of an Independent Commission to combat discrimination. Egypt introduced social and economic measures to assess and report on gender equality in terms of access to jobs, equal remuneration, education and health metrics, and exercising political rights. Since the 2011 uprising, there has been a significant improvement in women's political participation, including in voter turnout in recent elections.

There is also a noticeable improvement regarding women's social security. The Constitution strengthened the rights of several National Councils, including the National Council for Women. There have been hundreds of seminars organised in the last two years, including by the Ministry of Social Solidarity, to educate women about human trafficking, domestic violence, female genital mutilation, legal rights, and early marriages. The EC's March 2015 Report noted that there was progress in investigating cases of targeted sexual violence against women.

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[12] Implementation of the European Neighbourhood Policy in Egypt Progress in 2014 and recommendations for actions, March 2015.

[13] http://www.nchregypt.org/media/ftp/rabaa%20report%20translation.pdf

However, significant differences in the conditions of women remain between urban and rural parts of the country and across social segments. In addition, women's political participation remains low when compared to international standards.

Though the Government is leading several initiatives to affect equitable distribution of resources among the country's governorates, there remain significant differences between large urban centres and the rest of the country with regard to utility penetration and availability of services. Also social and economic inclusion in southern Egypt is significantly lower than in other parts of the country.

Freedom from harassment, intimidation and torture

The 2014 Constitution prohibits torture. It stipulated that international treaties ratified by Egypt become integral parts of the national legislation. As a result, the Egyptian legal system now adheres to the international definition of torture as contained in the Convention against Torture. The country has not yet ratified the International Convention against Torture.

In December 2014, the Office of the UN High Commissioner for Human Rights stated the authorities must ensure that security forces do not use excessive force. It also urged individuals using demonstrations to air grievances to exercise their rights peacefully.

Assessment of Transition Challenges

Egypt

Egypt's economy is on a clear recovery path after the last few years of low growth and an overall weak macroeconomic environment. The government has started serious reforms last year to address longstanding economic and structural problems. Combined with the progress that has been made in the country's democratic roadmap, this has led to improvements in investor and consumer confidence, and growth accelerated to 5.5 per cent from 1.2 per cent in the first half of fiscal year 2014/15.

Yet Egypt faces significant challenges in its transition to an open market-oriented economy. The state is heavily involved in some sectors and its role as regulator, guarantor of competition and enforcer of contracts remains weak. Lack of regulatory independence is an issue in most regulated industries, including telecommunications, natural resources, power, railways, road and urban transport. As a result, there is a lack of a level playing field for private business. A number of industries, notably including textiles, cement, steel and mining are dominated by a few oligopolistic or monopolistic groups. These industries have historically been highly protected by implicit subsidies such as under-priced energy inputs, however the authorities have recently undertaken significant steps to overhaul fuel subsidies. Another key impediment to private sector development is limited access to finance, especially to MSMEs. Obstacles include weak financial infrastructure, weak contract enforcement and the high incidence of connected lending and public sector crowding out of private borrowers. Regional disparities in Egypt are striking, and are reflected in income, poverty, infrastructure, educational attainment and unemployment differentials. The widening rural-urban divide is driven by a dependence on low value-added agricultural activities in rural areas and disparities in the investment climate in different regions.

The Egyptian authorities have shown commitment to reforms and have taken important steps to enhance the regulatory framework for businesses and investment and to foster private sector-led growth. Besides the bold energy subsidy reforms already undertaken, notable steps have recently been taken to improve the business environment. A new investment law increases protection afforded to investors, offers tax and non-tax investment incentives, and streamlines investment procedures by authorising a one-stop-shop for investors. Investor dispute resolution efforts have also been stepped up. More broadly, the authorities have recently amended the competition law, and issued new microfinance, renewables and mining laws. In addition, major revisions are being prepared to bankruptcy laws, the Companies Act and the land management framework, with a view to reducing burdensome regulation, levelling the playing field for firms, and supporting SMEs. However, some of the other planned reform measures, such as the introduction of the capital gains tax and the VAT, have faced implementation capacity challenges which have resulted in delays.

1. CORPORATE SECTOR

Agribusiness
Market structure: *Large*
Market institutions: *Large*

Key challenges: (i) continuing to reform subsidies on water, fuel, and electricity; (ii) increasing productivity in the agricultural sector through training, improved water management and better access to finance; (iii) improving functioning of land markets; and (iv) developing modern processing, logistics, retail, and distribution systems.

Agriculture accounts for little less than 14 per cent of Egypt's GDP but absorbs about a third of total employment. Liberalisation and economic integration with the EU have reduced average tariffs on most agricultural imports in Egypt, and recent reforms to fuel, cotton and fertilizer subsidies have also reduced the level of protection afforded to the sector. Although fuel price hikes and gradually rising electricity tariffs have increased input prices for the agricultural sector, farmers still benefit from some level of fuel, electricity and water price subsidisation. Cotton subsidies were removed in January 2015, but price guarantees for wheat and sugar cane are still in place. Fertiliser production is still predominately state-controlled, however subsidies for retail use have been reduced, with a 33% hike in prices in October 2014. On the consumer side, certain food products, such as bread, sugar and oil, are heavily subsidised but targeting is poor (75 per cent of the population is eligible for the ration card scheme). The government has recently introduced measures to improve the efficiency and targeting of the existing wasteful bread subsidy scheme. In particular, a new "smart-card" system for distributing subsidized bread has now been introduced in 17 out of Egypt's 29 provinces. Thanks to these improved targeting measures, consumption is reported to have been reduced by 15-35 per cent, which also helps reduce dependency on wheat imports. Egypt is the largest importer of traded wheat in the world but import infrastructure such as grain terminals is outdated or undersized and thus inefficient. The production of cotton, a key cash crop, has been declining significantly due to lack of investment and resources, but still accounts for a large part of agricultural employment and is an important export commodity.

Farms are very fragmented and relatively unproductive. Obstacles to increasing yields include lack of skills, antiquated farming practices, inefficient irrigation systems and inefficient use of pesticides. The farming sector has to be consolidated in order to take advantage of economies of scale and to facilitate modernisation. A prerequisite would be to ease the process of owning and leasing agricultural land. Meanwhile, efforts to reclaim desert land for agricultural purposes continue, with an initiative under way to reclaim 4 million acres in the next few years. Access to rural credit remains limited. The main provider of finance to farmers is the state-owned Principal Bank for Development and Agricultural Credit, though there are plans to transform this into a viable commercial bank and improve access to financial services to farmer. There is no fully functioning warehouse receipts system in place although there is some warehouse receipt finance mostly by international banks. Processing, logistics and retail distribution activities remain underdeveloped, partly as a result of the lack of adequate infrastructure. Around 80 per cent of retail is still unorganised. International supermarket chains have so far not been particularly successful in penetrating the market. Although the creation of a Food Safety Agency was announced in 2008, it has so far not been established and quality and hygiene standards need significant improvement.

Manufacturing and Services
Market structure: *Large*
Market institutions: *Medium*

Key challenges: (i) enhancing the business environment by improving the efficiency of public service delivery, reducing bureaucracy, implementing modern competition policy, and improving contract enforcement and bankruptcy procedures; (ii) supporting the gradual *removal of distortions linked to energy price subsidies and trade barriers; (iii) increasing the productivity and efficiency of the sector by introducing modern management practices including energy efficiency and promoting higher levels of R&D in order to enable the move to higher value-added production; and (v) when the political climate allows it, privatising and restructuring most remaining state-owned companies, especially in the textile and petrochemicals sectors.*

There are challenges with market structure in a number of industries, such as textiles, cement, and steel, which are dominated by a few oligopolistic or monopolistic groups. In addition, the state still controls about 16 per cent of the manufacturing and services sector. Large-scale privatisation, launched in the 1990s, is incomplete with around 150 companies still under the control of nine public holding companies including those in the petrochemicals, pharmaceutical and textile sectors. Further privatisations were envisaged but progress has been slow in recent years as it is associated with corruption under the previous regime. In an attempt to reinstate investor confidence, a law barring challenges to state deals was issued in 2014. It allows only the government, its involved institutions and business partners to challenge state business and real estate deals. The law is meant to promote doing business in Egypt which has been badly hit since 2011, as many deals have been revoked by uninvolved third parties. Appeals against the law have been filed in the Constitutional Court. Pre-privatisation restructuring poses a major challenge.

Egypt is a member of the WTO since inception and has gradually integrated with the EU under the Association Agreement in place since 2005. The simple average Most Favoured Nation tariff of 9.3 per cent for non-agricultural products is among the highest in the EBRD region, albeit lower Jordan and Tunisia. Prices are liberalised in the manufacturing sector, but there are distortions from energy subsidies resulting in higher energy intensity. Nevertheless, the authorities have recently taken significant steps with regards to energy subsidy reform. In July 2014, the price of 92 octane gasoline increased by 40 per cent while 80 octane gasoline rose by 78 per cent. At the same time, diesel increased by 63 percent and natural gas price for selected industries by up to 75 per cent. The authorities are planning a gradual lift in energy subsidies with a view to eliminate them over the next five years, with the exception of those for liquefied petroleum gas which are targeted to the poor. A smart card system for fuel is planned to be introduced in June 2015.

The general business environment and market-supporting institutions need further development. Competition policy is guided by the competition law adopted in 2005, and it is overseen by the Egyptian Competition Authority (ECA). Amendments to the competition law were passed in 2014 that moved it closer to international best practice, in particular with respect to strengthening the independence of the ECA. However, ECA is still not fully independent and the extent of its enforcement authority and mechanisms is unclear. Egypt ranked 112th out of 189 countries in the World Bank Doing Business 2015 report for ease of doing business. The ranking is very high in terms of ‘starting a business’, but very low in terms of ‘resolving insolvency’ and ‘enforcing contracts’. Judicial procedures tend to be lengthy and costly. Bureaucracy is a major issue for foreign companies with substantive delays for all types of transactions and tax payment as well as licencing procedures could be substantially simplified. Corruption seems to be mainly low-level, but it is cited as a major obstacle to doing business by local entrepreneurs.

Real estate
Market structure: *Medium*
Market institutions: *Large*

Key challenges: (i) further increasing transparency and streamlining the process of acquiring construction permits and property registration; (ii) creating a comprehensive and accessible property register; (iii) improving the framework for foreclosures in order to facilitate the development of the mortgage market; (iv) increasing the focus on energy efficiency and sustainability in all real estate sub-segments; and (v) increasing the supply of modern commercial and affordable residential property.

There is insufficient supply of modern class-A properties and a large share of offices is located in buildings designed as residential properties. However, supply is increasing and there are substantial investments in the main cities. A number of large local developers operate in the market. There is a significant lack of modern affordable residential properties. Informal (unlicensed) housing is widespread. The authorities plan to add 1 million low and middle-income housing units over six years under the Social Housing Programme to address this. To implement the Social Housing Program, in 2014 the government adopted a new Social Housing Law which introduced a new entity, the Social Housing Fund (SHF). The retail market still has one of the lowest GLA per capita in the MENA region. The tourism sector, one of the key sectors of the economy, is more developed, mostly privately run but relatively heavily regulated (with significant administrative barriers especially for smaller companies). A number of leisure groups control a large portfolio of hotels and cruise ships. The state still retains ownership stakes in a number of properties. International hotel operators are active in the country (including through management contracts with state owned hotels). The mortgage market is under-developed (mortgages represented less than 0.5 per cent of GDP in 2011, compared to 13 per cent in Morocco). There is a need for more energy efficient and sustainable investments in all real estate sub-segments.

The supporting institutions to the real estate sector need further improvement, although there have been efforts to address the issue. Access to land for development is difficult as property registration is incomplete and the system of title deeds as well as clear rules for tendering and acquisition have not yet been fully established. Dealing with construction permits is a significant problem – according to the 2015 World Bank Doing Business survey, acquiring a construction permit takes on average 179 days and is very costly (Egypt ranked 142nd out of 189 countries on this dimension).

ICT
Market structure: *Medium*
Market institutions: *Medium*

Key challenges: (i) commercialising and further privatising the fixed-line incumbent (Telecom Egypt is currently 20 per cent private) (ii) further developing the regulatory framework (e.g. in terms of the implementation of competitive safeguards and tariff rebalancing); (iii) ensuring full regulatory independence; and (iv) improving the enforcement of intellectual property rights protection.

Based on legislation adopted in 2003, the telecommunications sector is regulated by the National Telecommunications Regulatory Authority (NTRA), with financing separated from the state budget. The Ministry for Communications and Information Technology (MCIT) is the chairman of the NTRA board. There is currently a draft amendment to the telecom law that aims to improve NTRA's enforcement and address data issues and competence overlaps with other entities. Intellectual Property rights protection remains an issue, although there are efforts to address this. A programme has been launched to fight fraud and piracy through the use of digital signatures.

The fixed-line segment used to be monopolized by state-controlled Telecom Egypt, but important steps have been taken to strengthen competition. In April 2014, the NTRA issued its newly-approved unified licence to three mobile operators – Vodafone, MobiNil and Etisalat Egypt – allowing them to offer landline services in addition to mobile services. Fixed line penetration is relatively low at about 15 per cent. Broadband internet penetration is very low and the internet take-up by businesses is very slow. Local internet content market has not yet developed. To address this, in 2013 the government adopted the National Broadband Plan (eMisr), with ambitious objectives of increasing household broadband coverage and penetration (both fixed and mobile).

In the mobile segment, there is competition between three operators, Vodafone Egypt, MobiNil and Etisalat. The sector has been influenced by the entry of major foreign strategic investors as Orange owns 99 per cent of Mobinil, Vodafone owns 55 per cent of Vodafone Egypt and Etisalat owns 66 per cent of Etisalat Egypt. However, the state still retains a large minority stake (through the fixed-line incumbent Telecom Egypt) in the second-largest operator, Vodafone Egypt. . Mobile penetration has been rising rapidly, reaching about 109 per cent in 2014.

The Ministry of Communications and Information Technology has been working towards creating an enabling environment for foreign investments, forging deeper public-private collaborations, and providing incentives for small and medium-sized enterprises to move up the value chain in mobile and open-source applications.

2. ENERGY

Natural Resources

Market structure: *Large*
Market institutions: *Large*

Key challenges: (i) increasing competition upstream and downstream by restructuring and unbundling the vertically integrated, state-owned companies that control the extraction and distribution of petroleum, gas and other mineral resources; (ii) continuing to tackle fuel subsidies and ensure gas tariffs reach cost-recovery levels, while at the same time improving the system of targeted transfers to the most disadvantaged; (iii) strengthening the legal and regulatory framework, including setting up an independent regulator; and (iv) increasing the transparency of revenue flows from extractive activities.

Mineral resources accounted for about 47 per cent of Egypt's goods export revenues between 2010 and 2014 and around 5 per cent of the country's GDP. Due to declining oil production and growing domestic consumption, Egypt became a net oil importer in 2010. However, with the discovery of new gas fields in the Nile Delta, it has the potential to increase its existing gas exports. In 2012, 12 per cent of the gas production was exported, down from 29 per cent in 2009. Of this, around 93 per cent is exported in form of LNG[14], mainly to Asia (with South Korea, Japan, China and India being the main destinations), followed by Europe and South America. The rest is exported to Jordan[15], Syria and Lebanon via the Arab Gas Pipeline (AGP). The country is a major transport corridor for both oil and gas: 10 per cent of the world's LNG trade and around 6 per cent of seaborne oil trade transits through the Suez Canal, while the SUEZ-Mediterranean (SUMED) pipeline is the major conduit for Persian Gulf oil. Fees collected from the operation of these two transit routes are a significant source of revenue for the Egyptian government. The country has the largest refining capacity in Africa with nine refineries and a crude oil processing capacity of 760,000 barrels per day.

The Ministry of Petroleum and Mineral Resources is in charge of managing the mineral industry in Egypt through five independent state-owned entities: the Egyptian General Petroleum Corporation (EGPC); The Egyptian Natural Gas Holding Co (EGAS); the Egyptian Mineral Resources Authority (EMRA); Ganoube El Wadi Petroleum Holding Co. (Ganope) and the Egyptian Petrochemical Holding Co. (Echem).

EGPC manages the upstream oil exploration and production activities, including awarding new licences, other than those located in Southern Egypt. Alone, it accounts for about 20 per cent of the oil output and controls the bulk of Egypt’s refining capacity, with a market share of 86 per cent. Private sector participation and international oil companies (IOCs) play a significant role in the upstream oil and gas sector, on a production sharing basis (PSAs) with EGPC, EGAS and Ganope. The state encourages participation through international bid rounds, the last of which took place in 2013. The downstream oil sector is liberalised but dominated by incumbents owned by EGPC (e.g. Misr Petroleum). Seven out of nine gas distribution companies are privately operated since 1997, and LNG terminals are majority private owned. Oil refining, storage and pipelines are largely state-operated and owned, although some of these projects have been ring-fenced in SPV structures which operate on a commercial basis (e.g. ERC refinery). Going forward, a significant challenge is to further liberalise the sector and create a more competitive environment both upstream and downstream. This could be achieved by implementing ownership unbundling for EGPC's subsidiaries in charge of refining, distribution and marketing activities.

Egypt is facing a growing energy crisis as over the past three-four years domestic production of oil and gas has slowed and even fallen while demand continues to increase. As a result, Egypt’s energy-intensive economy is facing growing energy shortfalls, evidenced by regular blackouts and the unavailability of gas and electricity for business. Given domestic shortages, the government has effectively ruled out any new export projects in the medium-term. This

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[14] EIA

[15] Until recently, Egypt maintained long-term gas supply contracts with Jordan and Israel at below-market prices. Egypt has continued pressure to review long term supply contracts with Jordan has brought to a renegotiation of the existing agreement last October 2011. The new agreement brings purchase prices closer to market levels. Additionally, Egypt has unilaterally cancelled its 7-year gas supply agreement with Israel—Egypt’s EGPC and EGAS and Israel’s East Mediterranean Gas have started arbitration procedures against each other last May 2012. Since the fall of Hosni Mubarak’s government, the section of the pipeline that crosses Sinai has suffered numerous attacks by local armed groups. This has caused major disruptions and has put Jordan under stress to diversify its supplies of gas.

situation is unlikely to change unless upstream supply volumes improve dramatically. In an effort to boost investment in its energy sector, the government has made it a priority to repay arrears owed to international oil companies. Between December 2013 and December 2014, the government has repaid nearly US$5bn in arrears, and hopes to repay all its remaining debt (US$3.1bn) in the first half of 2015. A new mineral resources law was issued in 2014 – the first amendment to the sector's legal framework in 60 years – also aimed at encouraging investment in the sector.

The authorities have implemented bold energy subsidy reforms. In July 2014, they began implementing a broad restructuring plan to bring energy prices closer to cost recovery levels, raising the prices of gasoline, diesel, and natural gas prices for consumers and selected industries. Prices have risen by up to 40% for 92 octane gasoline; 78% for 80 octane gasoline; 63% for diesel; and 75% for natural gas for selected industries. In addition, electricity prices have been raised for both commercial and residential use under a plan to eliminate power subsidies by 2018. These substantial measures will ease the substantial subsidy burden on the budget (of about 7 per cent of GDP), reduce market distortions that have encouraged highly energy-intensive production and allow better targeted subsidy spending towards the poorest. Recent falls in global energy prices provide a favourable environment to continued subsidy reform implementation and smooth the adjustment for energy-intensive sectors.

Other reforms on the agenda include the establishment of an independent oil and gas regulator (this function is currently retained by the state-owned energy companies who issue licences and allocate energy subsidies) and adopting a new licencing policy for the future oil and gas exploration contracts signed with IOCs. The new policy envisages a larger state's share in PSAs and improved transparency over licensing and revenue distribution, the lack of which is a major challenge for the sector. The country is neither EITI compliant nor an EITI candidate at the moment.

Sustainable Energy
Market structure: *Large*
Market institutions: *Medium*

Key challenges: (i) strengthening the legal framework to promote the development of renewable generation and energy efficiency; (ii) continuing to tackle cross-subsidisation and subsidies; `and (iii) the introduction of an agency with responsibility for the achievement of national energy efficiency targets.

Egypt ranks among the 11 countries in the world with the fastest growing GHG emissions and its energy mix is dominated by fossil fuels. However, the authorities have ambitious aims of increasing the share of renewables in the country's energy mix from 1% at the moment to 20% by 2020, and there is significant potential in solar and wind. Moreover, substantial progress has recently been made in laying the groundwork for improved energy efficiency and greater renewables uptake. In 2013, customs on inputs for renewable energy projects were decreased from 10% to 2%. This was followed by a comprehensive Renewable Energy Law in 2014 that improved the incentives for private sector investments in electricity generation from renewable sources. Previously, renewable projects have been dominated by state-owned firms and publicly financed. Feed-in tariffs for purchasing electricity from renewable sources have been introduced, guaranteeing prices for investors. In addition to these reforms, the recently enacted overhaul of the fuel subsidies will increase energy efficiency and boost the attractiveness of renewables. Egypt has prepared a National Energy Conservation plan to deal with energy efficiency. The Supreme Council for Energy is the coordinating body between the various government entities, however there is no body responsible for achieving the target and no specific legal foundation for the policy. Given the fact that Egypt is highly water-stressed, cooling water availability (including climate change projections) needs to be taken into account in thermal power generation.

Power
Market structure: *Large*
Market institutions: *Large*

Key challenges: (i) structural modernisation including commercialisation, effective unbundling and privatisation; (ii) development of a market system that promotes investment in new generation capacity; (iii) removal of cross-subsidies and implementation of cost reflective tariffs; and (iv) strengthening the regulator through reinforcement of its institutional independence and transfer of greater power.

Access to electricity is high in Egypt, with around 99.4 per cent of the population connected to the electricity system. Generation mostly comes from thermal gas plants. However, the country has witnessed rapidly growing demand and has recently suffered from intermittent blackouts and rationing due to insufficient capacity during peak periods. The country has hydro generators, 547 MW of wind power (with another 200 MW currently under commission) and a hybrid solar (20 MW) and gas (120 MW) power plant. However, generation remains largely (89 per cent) thermal-fired. There are three Independent Power Producers (IPPs), representing around 8 per cent of generation capacity, who have participated in 20 year Build, Own, Operate and Transfer (BOOT) schemes and there are plans for further BOOTs, beginning with the Dairut project.

The Egyptian power sector is functionally unbundled but remains almost entirely state-owned with only 8 per cent of generation under private sector control. Despite the unbundling, operational control is in practice centralised in the hands of the state-owned Egyptian Electricity Holding Company (EEHC). A single-buyer market design is in operation but there is no competition among incumbent companies and all tariffs are regulated. Tariffs are not cost reflective so that electricity prices are comparatively low, relying on both explicit (fiscal transfers) and implicit (cheap gas prices) subsidies. In particular, industrial and domestic consumers receive low cost power. However, electricity prices were increased in July 2014 as part of the general reform of Egypt's subsidy system and will continue to rise gradually, doubling over the next five years.

Major changes are underway for the structure of the power sector. In February 2015, a new electricity law was approved that would gradually liberalize the electricity transmission market with the aim of moving from the single-buyer model with government-subsidised prices to a competitive market where private sector producers can sell electricity directly to consumers at market prices. Initially, two parallel markets will be in operation, a competitive one and one in which prices are set by the state. As electricity prices are liberalised over the next five years, though, the competitive market will expand to include more consumer segments.

In aggregate, the network is well interconnected with its neighbours and the country was a net exporter in 2009. However, network reinforcement is needed to facilitate transit flows and accommodate growing demand. The regulator, the Egyptian Electric Utility and Consumer Protection Agency was created in 2000. It allocates licences but has no tariff-setting powers.

3. INFRASTRUCTURE

Water and wastewater
Market structure: *Large*
Market institutions: *Large*

Key challenges: (i) tariff reform to improve the sustainability of services; (ii) restructuring and commercialisation of water utilities (reduction of losses, labour restructuring and productivity improvements); (iii) increased decentralisation of operations by granting more autonomy to municipalities and water utilities; and (iv) further development of PPPs financing for water and wastewater treatment plants.

Although access to water is widespread (99 per cent of the population has access to water and 95 per cent of households are connected to piped water), there are still gaps with regards to service quality, especially in wastewater collection and treatment outside urban areas. Aggregate water consumption in Egypt is not sustainable - the International Water Agency estimates that annual consumption at 68.3 km3 is about 10 km3 above sustainability levels and probably not adequate to adapt to future climate change. Fifty years ago, the country had 2,100 cubic metres of water per capita annually; now it has less than 800 cubic metres and is below the UN's water poverty line of 1,000 cubic metres of water per person per year. The world average is more than 7,000 cubic metres, according to the UN. Overall, Egypt faces an annual water deficit of around 7 billion cubic meters.

Access to sanitation is much poorer: only about 70 per cent of the population has access to any form of sanitation and 36 per cent of the population has access to sewerage. While 89% of households in urban areas are covered by public sewers, only 12 % in rural areas have access to water and sanitation services. The reasons behind such poor service deliver in rural areas relate mainly to the complex institutional structure, weak accountability to customers and low cost recovery. There are technical and legislative constraints to the introduction of low-cost sanitation technology in rural areas, though revisions to the engineering code of practice are currently under way to change this. The government has launched in 2014 the National Rural Sanitation Program (NRSP) to provide sustainable access to sanitation services in rural areas. The initial focus is to cover around 700 villages in seven governorates (Beheira, Sharqiya, Daqahlia, Menoufia, Gharbiya, Damietta and Giza) in the Nile Delta that are discharging untreated wastewater to Al-Salam Canal and the Rosetta Branch. The NRSP aims at reinforcing a series of performance improvement measures at the local utility level mainly through: (i) strengthening the capacity of Water and Sanitation Companies at the governorate level (ii) improving the overall accountability framework. The program is also promoting a new tariff structure which will allow for sustainable cost recovery.

The sector was partially unbundled, but remains highly centralised. The Holding Company for Water and Wastewater (HCWW) incorporates 24 maintenance and operations companies supplying around 90 per cent of the population with a workforce of 98,499. HCWW owns all water and sanitation infrastructure in Egypt. Investment is undertaken by the National Organisation for Potable Water and Sanitary Drainage (NOPWASD), except in the cities of Cairo and Alexandria which have two utilities each – one for water and one for wastewater. Operational performance is relatively reliable (four days of insufficient supply per month), but water losses, at 20-50 per cent, are high in the context of resource scarcity. Financial performance in the sector is very weak due to low tariff-based revenue and low productivity. Metering is not widespread. Investments are financed by the central government, sometimes through IFI or donor financing.

There is some private participation in the sector. The country's first-ever PPP was awarded in 2009 for the New Cairo Wastewater Treatment Plant and there are further projects under tendering (notably the Abu Rawash Wastewater Treatment Plant) and under prefeasibility studies. There are also several private contracts for meter installations. HCWW has outsourced customer care and billing to a private company. In addition, in 2012 Egypt amended its rules for PPPs to allow disputes to be resolved through arbitration rather than through Egyptian courts, as one of the series of measures to make PPPs more attractive to investors.

Tariffs are extremely low and do not reflect the cost of resources, network costs or the sustainability component. At EUR 0.04 per m^3 of water, tariffs are very low even compared to MENA standards and cover only about 35 per cent of costs, whereas wastewater tariffs are charged as a 25 per cent surcharge on water bills and only cover 10 per cent of costs. Automatic monthly upward adjustment of tariffs has recently been introduced and tariffs on heavy consumers raised, but these are insufficient to meaningfully close the gap on operating cost recovery. HCWW's production costs are more than double the tariff paid by the highest consumption segment, and it received operating and investment subsidies from the government. This situation contributes to deteriorating technical and managerial resources.

A formal regulatory agency was established, the Egypt Water Regulatory Agency (EWRA), as part of the 2004 reforms. EWRA's tasks include reviewing proposals for tariff adjustments, monitoring the application of technical standards and reviewing customer complaints. In practice tariff decisions are taken by the government.

Urban Transport
Market structure: *Large*
Market institutions: *Large*

Key challenges: (i) reforming the institutional relationship between operators and public authorities, including the need to fully and operationally separate the regulatory from the operational functions; (ii) cost control at public operators to improve financial sustainability of services and create more room for asset maintenance; (iii) tariff reform to improve fare box ratios and support financial sustainability; (iv) capacity building for service planning and route tendering; and (v) tackling high congestion and emissions in larger cities through a combination of regulatory and market-based instruments.

Service provision of urban transport is decentralised. Cairo and Alexandria both have a Transport Authority that acts as both a regulator and operator of the sector. Cairo Transportation Authority (CTA) is the largest operator in Egypt. It is responsible for mass transit in the capital, including buses, a surface metro, ferries, the Heliopolis tram network and river buses. The Greater Cairo Bus Company (GCBC), a subsidiary of CTA, is responsible for operating the buses. In Alexandria, public buses and trams are operated by Alexandria Governorate's Agency for Public Passenger Transport.

Private sector participation – mainly microbuses - is widespread and estimated to have around a 56 per cent share of public transport in Greater Cairo (in passenger terms), however service and safety standards could be improved. The metro network is underdeveloped in scale by international standards (but growing) and there is a shortage of high capacity buses, but some modern technologies have been introduced on a pilot basis (e.g. 100 compressed natural gas buses are operated in Cairo). Under the Cairo Air Improvement Project, buses are gradually being converted from diesel to low-emission CNG engines. Institutional cooperation among the different agencies planning and operating public transport services is weak. There is need for an integrated public route structure and a competitive route tendering regime for buses, which are part of the job description for the newly established Transport Authority for Greater Cairo (under the Ministry of Transport). Public operators need substantial financial support (USD 130 million in direct subsidies in 2006 and USD 1.5 billion in indirect fuel subsidies in 2005). Investment is financed mostly by grants to the public operator and IFIs (World Bank provides carbon finance for vehicle scrapping).

Congestion and air pollution are major problems in Egypt's large and rapidly growing cities, particularly in light of the increasing motorisation. Regulation and operation are not separated, service and emission standards need improvement and operator revenues are not cost-based and unpredictable, hindering investment.

Roads
Market structure: *Large*
Market institutions: *Medium*

Key challenges: (i) full separation of regulation from operations; (ii) divesture of the road maintenance companies; (iii) improved financing through expanding the toll-road network, and/or higher tolling rates and/or transport fuel excises; and (iv) implementation of PPPs.

The road network of Egypt comprises some 54,000 km of roads, of which the main roads (25,000 km) are under the control of the General Authority for Roads, Bridges & Land Transport (GARBLT), a subsidiary of the Ministry of Transport, and the rest under the responsibility of 22 local administrations. While the extent of the road network has grown significantly in recent years and seems to provide adequate cover, many roads are insufficiently maintained, road safety is poor by international standards and congestion is reported to be a problem, particularly in Greater Cairo. Market-supporting institutions and the regulatory framework need further strengthening. In particular, the policy making and regulatory function needs to be formally separated from operations, as GARBLT is the holding company of the four largest road and bridge construction companies that undertake most of the construction and maintenance work. Road funding is provided by budget transfers and road tolls, which are common but relatively inexpensive in comparison to other MENA countries. Fuel excises are low and do not provide enough resources for the sector. There is a national PPP coordination unit within the Ministry of Finance. One road PPP has been completed and there is a pipeline of several road PPPs, although implementation over the past decade has been slow.

Railways
Market structure: *Large*
Market institutions: *Large*

Key challenges: (i) the corporatisation and further restructuring of the Egyptian National Railways (ENR), including full separation of infrastructure from operations, and costs optimisation; (ii) tariff reform to improve the fare box ratio; (iii) strengthening the regulatory and institutional framework by separating the policy making, regulation and operation functions into distinct entities; and (iv) granting third party access to the network.

The Egyptian National Railways (ENR) is the vertically integrated rail incumbent owned by the Ministry of Transport. ENR has a market share of about 40 per cent in passenger traffic but only about 1 per cent of inter-city freight transport. Third party access to the track is not envisaged, but private sector participation is legally allowed in the construction and operation of new lines. In 2008, ENR was reorganised along strategic business lines to prepare its corporatisation: long-distance passenger services, short-distance passenger services, freight services and infrastructure services. In spite of this reorganisation and the relatively high ridership (the highest in Africa), the company is loss making, largely due the high headcount costs and low revenues. Tariffs are low compared to costs – freight tariffs are EUR 0.24 per tonne-km (half of the MENA average), EUR 0.007 per passenger/km in third class and EUR 0.03 in first class. The level of fare evasion is very high. Subsidies are paid according to a Public Service Obligation contract. The National Authority for Railway is the formal regulator of the sector. However, policy making and operations are not fully separated.

In 2014, Egypt's Ministry of Transport has reiterated plans to build a high-speed rail connecting Alexandria and Aswan and passing through Cairo, Assiut, and Luxor, with feasibility studies currently under way, in collaboration with Spain. Plans are also underway to expand the Greater Cairo Metro Network, funded by a combination of government spending and loans from the French Development Agency and European Investment Bank. The network currently consists of three lines, and an extension of the third line and a creation of a fourth are currently planned, with an estimated completion date of 2020.

4. FINANCIAL INSTITUTIONS

Banking

Market structure: *Medium*
Market institutions: *Medium*

Key challenges: (i) deepening financial intermediation and expanding access; (ii) privatising state-owned banks; (iii) developing skills and products for lending to SMEs.

Key facts and indicators		**2010**	**2011**	**2012**	**2013**
Number of banks		39	39	40	N/A
Market share	5 largest banks (% total assets)	56.0%	69.9%	49.6%	54.2%
	state owned banks (% total assets)	N/A	58.3%	40.9%	38.8%
	foreign owned banks (% total assets)	N/A	31.6%	31.1%	23.4%
Total Assets	(% GDP)	N/A	94.7%	88.6%	89.2%
	of which credit to private sector (%GDP)	N/A	28.6%	31.2%	29.0%
Growth of private sector credit	(%)	N/A	N/A	22.1%	N/A
Credit to private sector in FX	(% total credit to private sector)	N/A	24.9%	25.6%	N/A
Total deposits	(% GDP)	N/A	71.0%	66.4%	67.7%
Total deposits in FX	(% total deposits)	N/A	N/A	N/A	N/A
CAR	(%)	N/A	16.0%	15.7%	13.4%
Non-performing loans ratio	(%)	14.0%	11.0%	9.9%	9.5%
Loans/ deposits	(%)	N/A	N/A	N/A	N/A
Quality of legal and regulatory framework		Medium			
Proportion of banks that have good corporate governance practices		More than 50% of banks			

A significant portion of the Egyptian financial sector remains in state hands, and financial intermediation has declined amidst economic and political uncertainty. While banks have adequate liquidity and capital, banking penetration is low – it is estimated that only 10 per cent of Egyptians have a bank account – and intermediation to the private sector is crowded out by the Government.

The financial sector in Egypt has a history of state ownership. As late as 2004, only 30 per cent of banking assets were held by private banks. Despite the privatisation of Bank of Alexandria in 2006, the two largest banks, National Bank of Egypt and Bank Misr, remain state-owned and dominate the market, with 32 per cent and 19 per cent market[16] share by asset, respectively in 2014. Ownership of Banque du Caire, Egypt's third largest state-owned bank (market share 4 per cent) was transferred to Bank Misr in 2007, as a prelude to a merger. The Government sought to privatize BDC in 2008, but the auction did not reach the price set by the evaluating committee. Since 2010 ownership has been held through Misr Capital Investment Company.

Most Egyptian banks are relatively liquid, rely mostly on local currency deposits for funding and, in principle, have room to extend loans as well as to lengthen maturities. Banks' funding profile is characterized by a high share of customer deposits, whereas reliance on wholesale funding is very low. The loan to deposit ratio stood at 43 per cent at end-2014. The ratio of loans to assets is relatively low, at around 32 per cent, and securities and investments in Treasury Bonds account for a significant part of bank assets. 75 per cent of loans are in local currency. Most loans are short term, with little medium term lending. The constraints on longer term lending are not only related to the availability of funding but also the types of projects being financed and the creditworthiness of potential borrowers.

After a period of high non-performing loans (as high as 22 per cent in 2004), attributed largely to a long period of lax financing of state-owned projects and enterprises, an NPL management unit was created at the Central Bank of Egypt (CBE) and as a result, NPLs declined to around 9.5 per cent in 2013 from 11 per cent in 2011. Capital adequacy is at reasonable levels, benefiting from the zero risk-weight of government securities.

Although access to finance remains a challenge, efforts are under way to support financial inclusion. Egypt's first microfinance law was issued in 2014 addressing regulatory gaps, allowing microfinance institutions to expand their outreach by increasing their leverage and diversifying their funding base. The CBE has also issued several initiatives to address low access to finance, such as the Mortgage Finance Initiative for low and middle-income individuals. Moreover, requirements for opening small bank branches have been eased to expand bank outreach and efforts are underway to develop mobile payments.

The CBE is responsible for the regulation and supervision of the Egyptian banking system. Broad-based banking sector reforms were launched by CBE in 2004 in consultation with IMF, World Bank and ECB. Reforms focused on four pillars: (i) consolidation and privatisation of the banking sector, (ii) financial and managerial restructuring of state-owned banks, (iii) addressing of the issue of nonperforming loans, and (iv) upgrading of the Supervisory function at the CBE. The CBE has made progress restructuring non-performing loans at state-owned banks, divesting part of its ownership in the banking system, enforcing

[16] Bankscope

existing prudential requirements and issuing new corporate governance rules. The CBE is now completing the second pillar of Basel II (upgrading supervisory review), and is also working on the third pillar, which involves improving disclosure of banking data. Egypt is on track to implement Basel III by 2019 as agreed internationally.

Financial Reporting is based on Egyptian Accounting Standards ('EAS') which are broadly in line with IFRS. Disclosure has been improving but still remains below international standards. There tends to be a great delay in the publication of annual reported by the state owned banks whose fiscal year ends in June. Banks currently do not publish consolidated accounts.

Insurance and other financial services
Market structure: *Large*
Market institutions: *Medium*

Key challenges: (i) increasing insurance penetration and encouraging a more dynamic sector by privatising the dominant state-owned insurer; (ii) expanding the availability of leasing, particularly to small businesses and individuals; (iii) developing further the institutional frameworks for mortgages, including land registration and long term funding.

Key facts and indicators 2013

Insurance	Insurance penetration (premia as % GDP)	0.7%
	of which Life (share of total)	0.3%
	of which Non-Life (share of total)	0.4%
	Availability of insurance products	Little
	Insurance legislation	Inadequate
Pension	Pension fund assets (% GDP)	32.6%
	Pension type - Pillar II	No
	Private pension funds	Yes
	Pillar II legislation	Little
Leasing	Leasing penetration (premia as % GDP)	0.5%
	Leasing legislation	Moderate
Mortgage	Mortgage penetration (debt stock as % GDP)	1.0%

The insurance market and other non-banking financial institutions are underdeveloped in Egypt compared to other EBRD countries of operations in the SEMED region. Insurance penetration ratio is low, with premia at only around 0.7 per cent of GDP (0.3 per cent for life insurance and 0.4 per cent for non-life insurance). Egypt's life insurance market is dominated by the two largest players (Egyptian National Insurance Company (Misr Life) and Al-Ahleia Insurance), which are both state-owned and control 41 per cent of the market. The remaining market comprises 12 life insurers, where the largest three (Pharaonic American (ALICO), Commercial International Life Insurance, Allianz Life Insurance – Egypt) account for 80 per cent of the premia. The non- life segment shows more dominance of the public sector, which holds 60 per cent of net premia. Competition between the other 18 private sector players which make up the rest of the market is fierce in the non-life segment; the largest company (Allianz) only holds a 10 per cent market share. 10 international life companies are present in Egypt, including MetLife, Allianz, ACE, Generali and Swiss Life. There are no listed companies. Sector profitability may have been affected by the revolution and subsequent economic and political events. The regulatory framework was strengthened with the establishment in 2009 of the Egyptian Financial Supervisory Authority, which supervises the non-banking financial sector. The government has not indicated any plan to privatise the four state-owned companies, Misr Insurance, al-Chark, al-Ahlya and Egypt Reinsurance, which were brought together under the umbrella of Misr Insurance Holding (aggregate capital funds of EGP 750mn).

Despite reforms, mortgage finance remains underdeveloped in Egypt, mainly due to unattractively high interest rates for borrowers as well as costs and procedures for lenders. As of September 2014, there were 9 operating Mortgage Finance Companies out of 12 licensed ones. Total outstanding mortgage loans extended by both banks and mortgage finance companies stood at 0.28 per cent GDP in 2013. On the lending side, the costs of underwriting, lengthy foreclosure process, problems with property registration (estimates are that 40 per cent of property is not properly registered) limits banks' scope to underwrite mortgages.

The Egyptian Mortgage Refinance Company (EMRC) was established in June 2006. EMRC was meant to issue bonds collateralised by real estate loan portfolios, in order to help enhance the bond market and provide long-term finance for mortgages. At the end of 2013, the EMRC had extended 513 million EGP in mortgage refinance loans (a 21 per cent increase from 2012). However, so far, it has not issued any bonds. In December 2012 EMRC increased its issued and paid in capital from EGP 240 million to EGP 363 million.

Egypt's leasing segment remains underdeveloped. There were 211 companies registered at the end of H1 2012; however only 17 were active, and accounted for over 90 per cent of the new leasing volume. Leasing penetration is low at only 0.5 per cent of GDP, in particular compared with the rest of the EBRD region. Cars, real estate (26 per cent) and production lines each make up around a quarter of leased contracts in Egypt. Equipment makes up the remaining 27 per cent, of which 21 per cent is in heavy equipment, driven by the growth in the real estate segment. Commercial leasing competes directly with bank lending; leasing companies target large clients, which generally can, and prefer to, borrow from banks. There is virtually no retail leasing and very little leasing to small companies.

In Egypt, public pensions are provided through three mandatory social insurance schemes: the Government Employees Pension Fund, the Pension Fund for military personnel, and the Public and Private Enterprises Employees' Pension Fund (PPEEPF). The PPEEPF also manages special schemes for employers and self-employed, individuals working abroad, as well as casual and informal sector workers. Alternative social insurance schemes can be established on a voluntary basis by companies employing at least of 100 workers and with total capital of EGP 10 million.

Voluntary occupational pension plans have been established in Egypt since 1975. They are known as Special Insurance Funds (SIF) and are licensed by the supervisor. Although the law prescribes voluntary membership in SIFs, in practice participation becomes quasi mandatory due to related mode of financing of most pension funds through specific allocations from companies' activities surpluses. In addition, almost all trade unions in Egypt may sponsor occupational plans which provide flat-rate pensions (and under certain condition lump sum payments) to adherent members after the attainment of retirement age. As a result, there were 632 Special Insurance Funds in 2010. However, total subscriptions and contributions accounted for only EGP 3.3 billion (or 0.27 per cent of GDP). The large majority of the Funds' investments were made in government securities (more than 70 per cent of total assets), with the rest kept as bank deposits.

The Country's private pension industry is also nascent, with the latest available data (YE 2010) suggesting that only 5.3 million people (6 per cent of the country's population) are enrolled in a public sector scheme, and only about 3 million in a private pension. Total private pension savings amounted to around EGP 40 billion (USD 5.8 billion) as at the end of 2013, equivalent to approximately 2.3 per cent of GDP. This is very low relative to levels in developed countries (over 50 per cent), and even relative to some of our COOs (5-20 per cent). The private pension industry is dominated by defined benefit plans, with more modern defined contribution plans only recently introduced.

Over the past few years, the Egyptian government has embarked on a pension reform process that aims to improve the performance of public pension funds and reinforce the administration and management capacity of the private pension industry, as well as strengthen supervisory control over pension schemes. In June 2010, the Egyptian Parliament passed a pension reform law that would replace the public pay-as-you-go (PAYG) pension system with a system of individual accounts, cover informal sector workers and gradually raise the pension age from 60 to 65. However, implementation has been put on hold since the revolution.

Micro, Small and Medium-sized enterprises
Market structure: *Large*
Market institutions: *Large*

Key challenges: (i) lessening legal barriers in terms of collateral requirements and enforcement of insolvency law; (ii) developing tailored MSMEs credit practices as well as establishing dedicated SME departments; (iii) improving credit information systems and information available to SMEs; (iv) supporting Egyptian SMEs' move to the formal sector; (v) streamlining laws and regulations related to MSMEs.

Key facts and indicators		2013*	EU benchmark
SME sector	Share of enterprises	N/A	99.8%
	Share of employment	90.0%	66.5%
	Contribution to value added (% of GDP)	55.0%	57.6%
Private credit bureau coverage (% of adults)		19.6%	51.9%

* 2013 or latest available data

Improving access to finance for MSMEs is one of the key reform challenges in the financial sector. An estimated 2 million MSMEs account for over 90 per cent of active enterprises in Egypt and contribute to over 80 per cent of GDP and 80 per cent of total employment. However, only around 10 per cent of MSMEs are formally registered. Out of the total population employed in MSMEs, 88 per cent work in micro enterprises, with 72 per cent employed in enterprises with 1 to 4 workers. However, according to a survey by NILEX[17], SMEs account for only 10 per cent of total capital accumulation in Egypt and, while 75 per cent of SMEs apply for banking loans, 92 per cent of applications are rejected. A survey conducted by ERF found that overall only 5.3 per cent of MSMEs have access to bank credit in Egypt, a figure which is extremely low, but corresponds to about half of the registered companies having access. These companies are concentrated in manufacturing (44.3 per cent)

[17] NILEX is a specialised exchange for SMEs, launched on 3 June 2010 to enhance financial intermediation and facilitate access to finance.

and trade (43.8 per cent). While banks are permitted to lend up to EGP 50,000 to unregistered businesses, most banks do not work much in this segment. However, as much as half of the MSMEs in the informal sector may be served by microfinance institutions.

Underwriting and servicing small loans is seen as unprofitable for Egyptian banks. Bank lending to SMEs is estimated to account for only 6 per cent of total loans, and around 1 per cent of GDP. A few banks are moving into mid-market and some small enterprise lending, reportedly managing on a portfolio basis due to the highly variable credit quality. Constraints to lending to MSMEs appear more related to the institutional capacity and risk appetite of the private banking sector, as well as low bankability and low financial literacy of MSMEs, rather than liquidity. Historically, Egyptian banks have remained risk averse and relied on collateral requirements rather than cash flow projections and interest rates to discriminate between credit opportunities, which are symptomatic of weak institutional risk management. Currently, Egyptian banks seem to approach SMEs as small corporates, often without adopting specific credit practices and appropriate internal incentive structures. SMEs access to finance is limited also due to the high degree of informality. In addition, SMEs access to finance is also uneven in terms of geographic distribution. Most Egyptian SMEs are concentrated in three main governorates (Cairo, Sharkeya and Gharbeya); the same pattern is observed for SMEs that have access to bank services, which are concentrated in same governorates. There is room to improve the access to finance in other regions.
There are more than 400 microfinance institutions in Egypt that offer microcredit programmes, including four banks (of which two public banks: Banque du Caire and Banque Misr). At the end of 2012 they provided around USD 263.6 million worth of credit to MSMEs (0.2 per cent of GDP) to 1.1 million borrowers. NGOs account for 68 per cent of the outstanding loan portfolio, while banks and service companies account for the remaining 26 per cent and 6 per cent, respectively. In spite of this large number of institutions, market studies indicate a very significant supply gap.

In an effort to address this, Egypt's first law regulating microfinance services was issued in November 2014. The law regulates microcredit provided by non-bank micro-financiers, such as companies and non-governmental organisations, placing them under the authority of the Egyptian Financial Supervisory Authority (EFSA). Banks will continue to be regulated by the Central Bank of Egypt. As well as establishing a credible supervisory system, the law sets out solvency and disclosure requirements for licensing and protects participant, which should encourage greater investment in microfinance initiatives.

Other efforts to improve SME access to finance have included developing non-bank financial services such as leasing and factoring and improving the Credit Information Infrastructure with the I-Score Credit Bureau[18]. So far, these reforms have not resulted in a substantial change in SME financing. Leasing penetration is low at only 0.3 per cent of GDP, and alternative sources of finance such as equity capital remain small and have decreased in the recent past years.

Additional constraints also relate to inadequate local regulations, which set some minimum criteria for an MSME to be considered as "bankable". Among these criteria, the main hurdle

[18] A government initiative started in 2007 which entails information collection and sharing by 25 banks and the Social Fund for Development (SFD), the I-Score Credit Bureau provides information on borrowers and credit scoring services.

is the requirement to have at least three years of audited financial statements, for companies that request a loan above EGP 100,000 (USD 17,000). In addition, less than 30 per cent of property has been properly registered, limiting the ability to use it as collateral. This is compounded by a lack of information on potential borrowers. For example, the public credit registry gathers information on individuals, not companies. Banks can use bureau information to assess the creditworthiness of micro-enterprises but do not have information they would use for small businesses. Credit information coverage of the private bureau is low at 16.4 per cent of adults at the end of 2012, while the coverage of the public credit bureau is almost negligible, at around 4.3 per cent. Ensuring creditors' rights remain a challenge as secured creditors are not paid first when a business is liquidated or outside insolvency procedure and they are not able to seize their collateral after filing for insolvency. Foreclosure procedure is lengthy and costly. Access to finance for MSMEs might be improved by programs that would expand the availability of credit information, provide credit guarantees/risk sharing, or and reduce the cost of underwriting, for example by introducing methodologies that improve the lender's capacity to process and service large numbers of small loans.

Private equity
Market structure: *Large*
Market institutions: *Medium*

Key challenges: (i) develop institutional quality private equity funds in the medium size and SME segments; (ii) broaden the range of products; (iii) regain international commercial investors' confidence and attract more local institutional investors as the insurance and pension segments stabilize / grow; (iv) enhance governance standards.

There are five dedicated country funds and 8 regional funds that include Egypt in their scope, however only 2 regional funds have capital left to deploy in Egypt. Prior to the Arab Spring, the country was on the radar screen of large international players as well, which target larger cap deals. However, political uncertainty has resulted in a short to medium-term negative impact on investor sentiment: international investors have balked at the political risks, leading some major fund managers to pull back. One Egypt based fund manager has recently decided to cease its private equity fund business altogether due to the challenges it faced when fundraising for its MENA and Africa funds. Instead it will focus on large scale Infrastructure projects alongside its established co-investor base.

As a result, there has been a potential loss of momentum in the market. Deal numbers have dropped from 21 in 2008-2009 to only 13 from 2010-2012. Invested capital in 2008-2009 was USD 3553 million, while it was only USD 166 million in 2010-2012.

Private equity has reached a number of sectors, including telecoms and IT (mainly venture capital investments in start-ups or small companies), agribusiness, basic materials (such as cement, fertilizers or steel), financial services and oil and gas.

Currently five institutional-quality country dedicated fund managers are present in the market. Over half of the funds in Egypt target growth capital; one fund has a buyout strategy and one fund makes turnaround investments. Eight regional fund managers including Egypt in scope have been identified. In 2012, an estimated EUR 470 million in private equity capital was active in Egypt, equivalent to just over 0.2 per cent of GDP (compared to 2 per cent of GDP in 2009). While this is much higher than the MENA regional average (0.054 per cent in 2012), the penetration level is fairly low and has been decreasing since 2008 .There is potential for further development, particularly in the middle and small cap segments of the market. There is also a lack of capital in specialty niches such as venture capital, mezzanine, and distressed assets funds.

There is limited local investor participation; whilst there is some participation by private individuals and banks; pension funds, insurance companies and corporates remain absent.

Capital markets
Market structure: *Medium*
Market institutions: *Medium*

Key challenges: (i) improve the functioning of the government bond market as a basis for money market and corporate bond development by building a reliable sovereign yield curve and liquid secondary markets; (ii) develop the corporate bond market as an alternative to bank-led finance; (iii) build the institutional investor base (insurance, pension funds); (iv) encourage flagship local and/or dual listings on the main board; (v) build a critical mass of SMEs and encourage listing on Nilex (SME board).

Although the Stock Exchange and government bond markets have been in existence for some time, key elements of the market infrastructure remain inadequate. A persistent structural surplus of liquidity impeded the development of well-functioning money markets, despite attempts by the Central Bank of Egypt (CBE) to introduce a range of instruments (e.g., tradable CBE certificates of deposit, CBE auctions of non-negotiable deposits). Egypt's domestic debt market is small relative to other emerging markets and not very diversified in terms of issuers and investors, dominated by government issuance (70.9 per cent of total outstanding bonds in July 2013, or 2.81 per cent of GDP). The Ministry of Finance publishes issuance calendar periodically and indicative daily bond yields using four different maturity bonds (3, 5, 7 and 10 years). Commercial banks are the main investors in government securities. The Egyptian government also issues development bonds and housing bonds in order to raise financing capital for specific projects. Although Egypt's government has established the basic building blocks for a government securities market, Egypt still lacks a reliable local currency yield curve. The corporate bond market is at an early stage of development. The volume of outstanding bonds has risen to USD 1.64 billion (0.64 per cent of GDP) in July 2013 from USD 0.83 billion (0.35 per cent of GDP) in year-end 2011.

The Egyptian Stock Exchange (EGX) is government-owned and comprises two segments: the main market, where a total of 219 companies were listed by May 2015, and NILEX, for small and medium capitalisations. Total market capitalisation has increased these last years increased from USD 59 billion by end 2012 to about USD 66 billion in May 2015. NILEX is a much smaller exchange, with only 33 companies listed. Market capitalisation on NILEX stood at USD 162 million in May 2015 (0.06 per cent of end 2014 GDP). The value traded on NILEX makes up only a small share (0.3 per cent) of total value of securities traded in Egypt including EGX and OTC, which amounted to LE 502 billion in May 2015, a substantial increase from LE 148 billion in 2011. Egypt's stock market is quite concentrated: the main Index, EGX 30, represented around 41 per cent of total market capitalisation in May 2015. Trading on EGX is about 45 per cent institutional, 55 per cent retail. In November 2014, an agreement was reached between NASDAQ Dubai and Egypt's securities clearing house, Misr for Central Clearing, Depository and Registry (MCDR) to promote cross-listings of Egyptian firm's shares in Dubai.

The EGX operates a primary and secondary bond market, although activity on the latter is limited and lags far behind its equity markets in size. There have been a number of initiatives to enhance liquidity, including the launch of the FIX HUB, which facilitates foreign investors' entry to the Egyptian market by linking EGX to 175 international markets via an international network. Currently only the fifteen commercial banks have the right to buy treasury bills and bonds directly from the government as primary dealers. Despite their role as market makers, this arrangement has not resulted in liquid debt markets. Improving liquidity in secondary market for government paper could also encourage activity on the corporate side, which remains small and short-dated, with five outstanding issues worth USD 2.65 billion.

The Egyptian Financial Supervisory Authority was established in 2009, and is responsible for supervising and regulating non-banking financial markets and instruments, including the capital markets as well as non-bank financial activities such as insurance, leasing, mortgage finance, and factoring. Planned regulatory changes going forward include amendments to the Capital Market Law relating to money market instruments, investment funds, accounting standards for SMEs, and disclosure.

In this regard, the EGX market benefited from a significant number of developments, including new products and mechanisms, such as the listing of the first ETF, block trading mechanism, market maker and introduction of a new settlement system. The legislative and regulatory infrastructure was modernised, with the introduction of new listing and disclosure rules, as well as new arbitration rules.