



SPECIAL STUDY

The EBRD's Investment Climate Support Activities Case study: Egypt

Regional

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European Bank
for Reconstruction and Development

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Abbreviations

ABI	Annual Bank Investment
AfDB	African Development Bank
ASB	Advice for Small Businesses
AsDB	Asian Development Bank
BAS	Business Advisory Services
BEEPS	Business Environment and Enterprise Performance Survey
CPF	Country partnership Framework
E2C2	Energy Efficiency and Climate Change
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EPG	Economics, Policy & Governance
ESD	Environmental and Sustainability Department
EU	European Union
EvD	Evaluation Department
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GET	Green Economy Transition
HQ	EBRD Headquarters
ICGI	Investment Climate and Governance Initiative
IFC	International Finance Corporation
IMF	International Monetary Fund
LC	Local Currency
LTP/ LTT	Legal Transition Program/ Legal Transition Team
MSMEs	Micro, small, and medium enterprises
NBE	National Bank of Egypt
NIF	EU Neighbourhood Investment Facility
OCCO	Office of Chief Compliance Officer
OECD	Organisation for Economic Co-operation and Development
OGC	Office of the General Counsel
RO	Resident Office
SBI	Small Business Initiative
SBS	Small Business Support
SEFF	Sustainable Energy Financing Facility
SEMED	Southern and Eastern Mediterranean Region
SME F&D	SME Finance & Development
SMEs	Small and medium-sized enterprises
SSF	Shareholder Special Fund
TC	Technical Cooperation
UNDP	United Nations Development Programme
WB	The World Bank
WiB	Women in Business Programme

EBRD Investment Activities in Egypt (February 2018)

EBRD Investment Activities in Egypt

Cumulative Activity

# of projects to date	78
Net Cumulative Bank investment	€3,531m
Private sector share of cumulative investment	71%
Cumulative disbursements	€1,327m

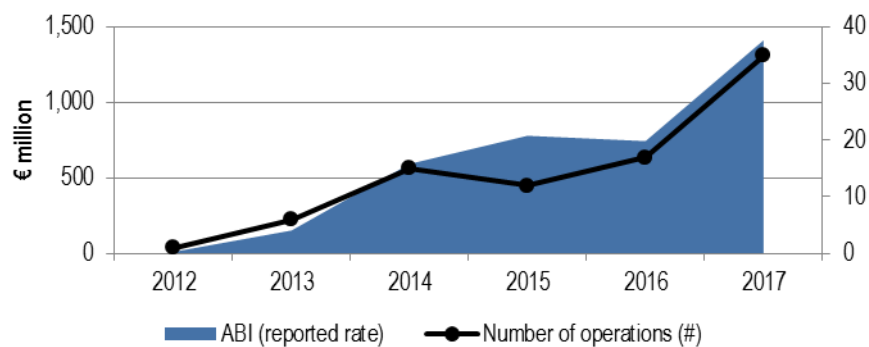
Transition

Expected Transition Impact	70.0
Portfolio Transition Impact	66.4 (66.4)

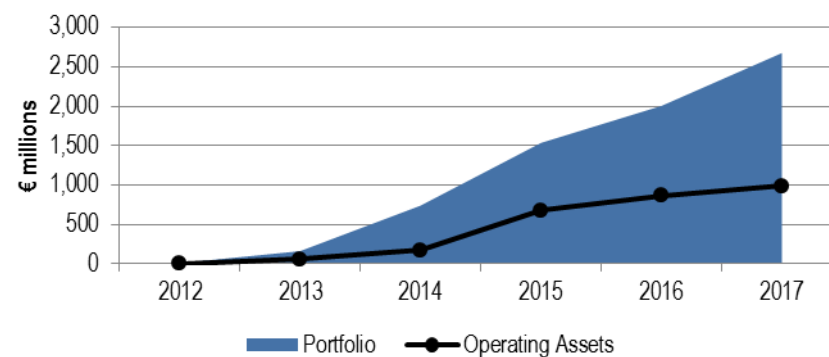
Portfolio and Operating Assets

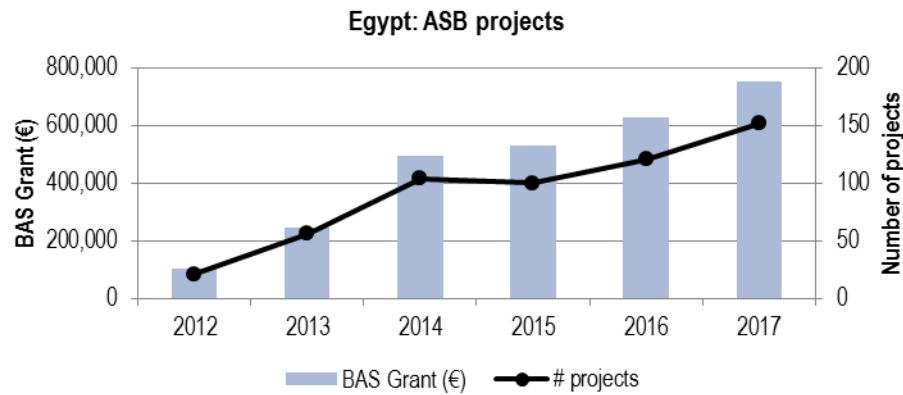
Portfolio	€2,730m
Number active portfolio projects	74
Operating assets	€998m
Private sector share of portfolio	62%
Equity share of portfolio	8%
NPL Ratio (Non Sovereign)	2.0%

Egypt: ABI and Operations

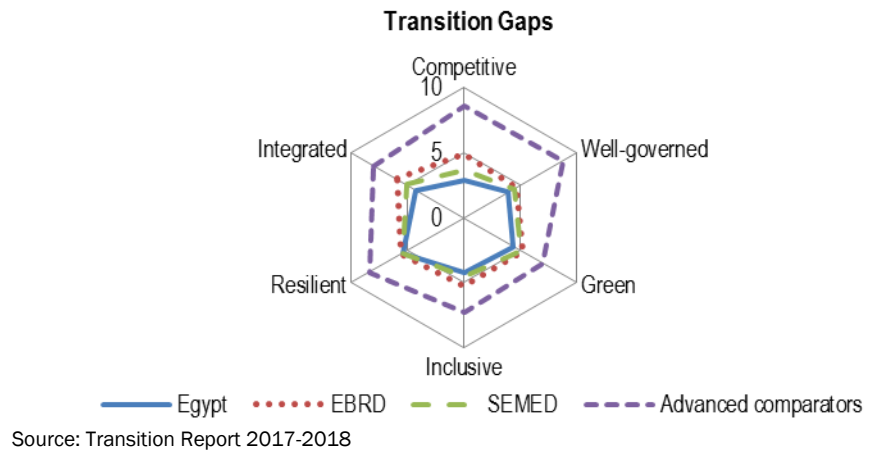


Egypt: Portfolio Dynamics

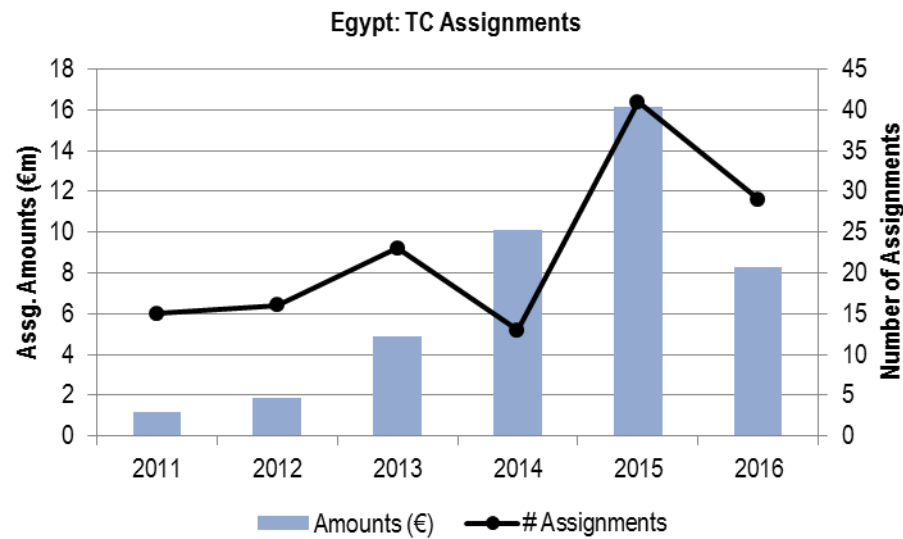




Source: Business Performance Navigator and EBRD Transition Report 2017-2018

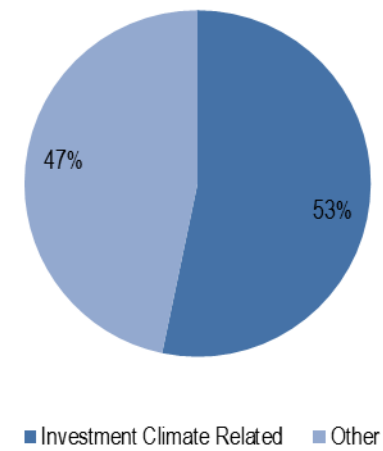


Source: Transition Report 2017-2018



Source: TCRS

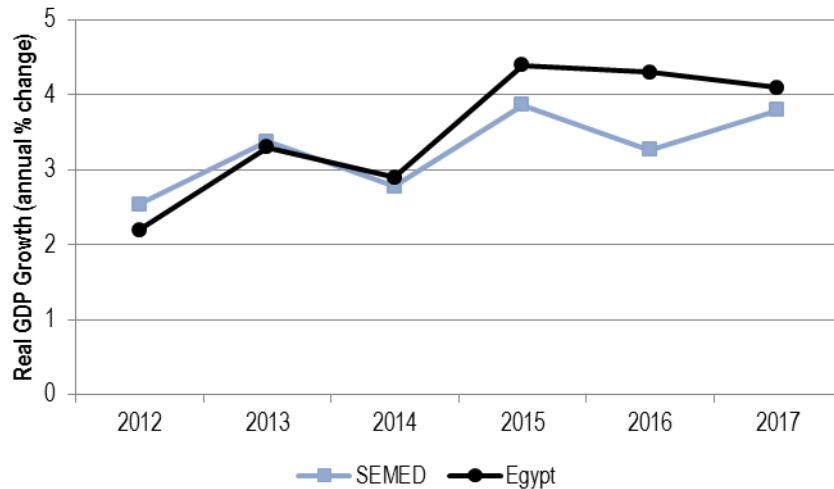
Egypt: 2011-2016 TC Assignments: Proportion of IC support



Egypt context figures

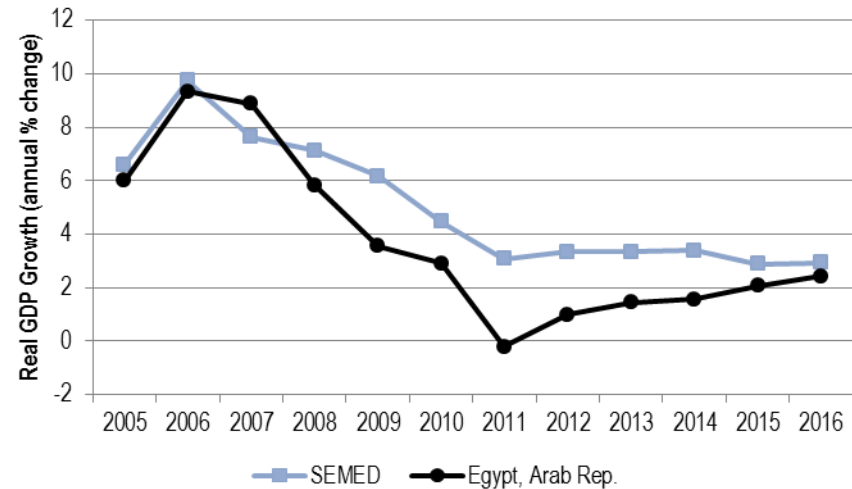
Population	97m	
GDP per capita, PPP (const. 2011 int. USD)	10,319	Est. July 2017
Global Competitiveness Index WEF (out of 137)	100	2016
Corruption Perception Index Transparency International (out of 176)	108	2017
Ease of Doing Business(DB) ranking (out of 190)	128	2016
DB 2018 Distance to Frontier (0 to 100)	54.67	2018
Youth unemployment (ILOSTAT estimate)	33%	2017
Ratio of female to male labor participation rate (ILO estimate)	30%	2017

Real GDP Growth: SEMED & Egypt



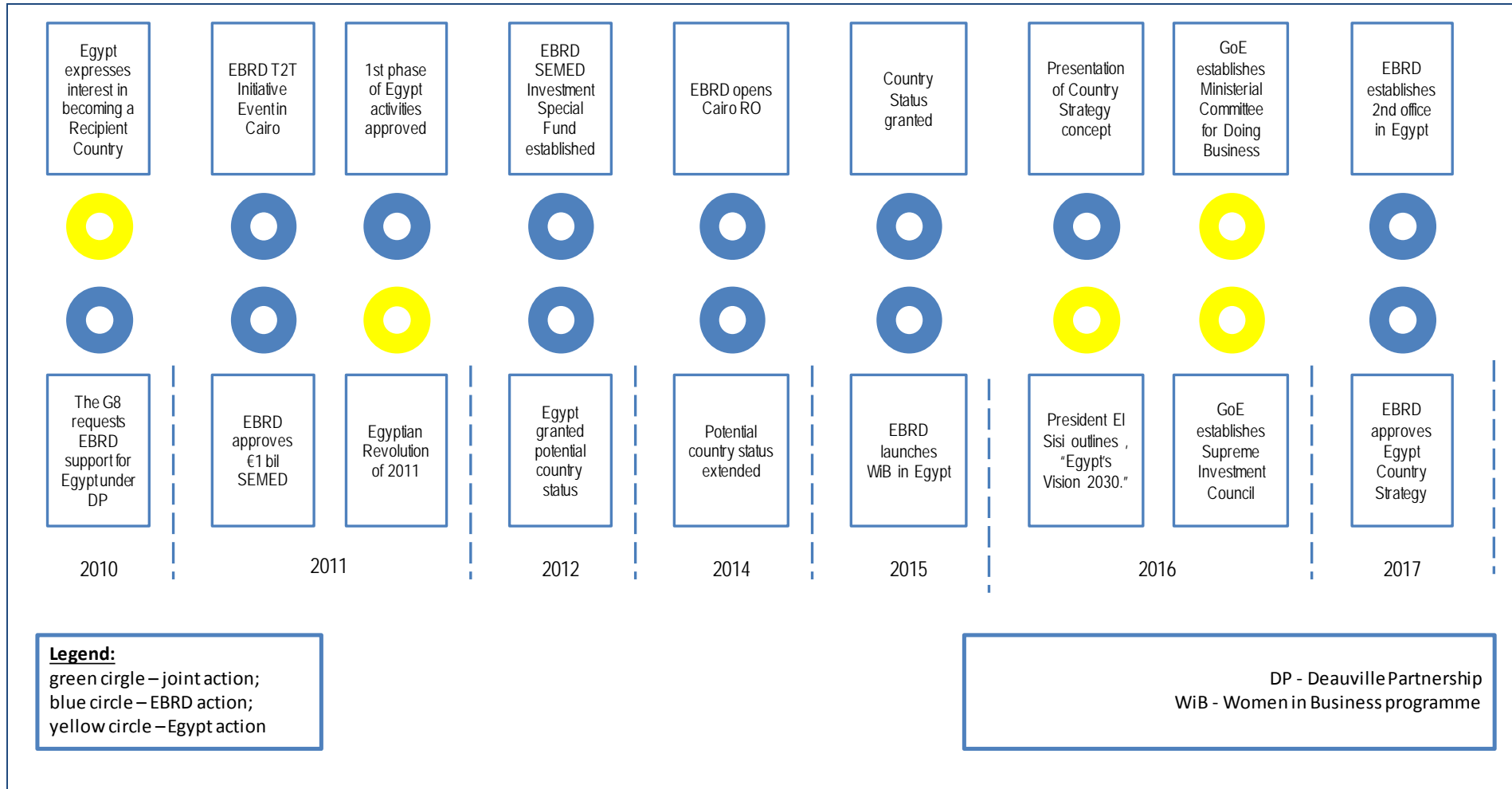
*Weighted averages, based on the countries' nominal GDP values in PPP US dollars.
 Source: IMF
 World Economic Outlook Database, October 2017 (2017 figures are IMF staff estimates)
 Regional Economic Prospects in EBRD Countries of Operations (November 2017)

FDI net inflows (% of GDP): Egypt v. SEMED region



*Simple average
 Source: World Bank

Timeline



1. Approach

This case study report contributes to the bigger evaluation of the EBRD's activities in supporting improvements to the investment climate in its countries of operation and contains the results of the evaluation of relevant EBRD activities in Egypt in the period 2010-2017. The report is based on the analysis of internal and external documents and semi-structured interviews with EBRD colleagues, government officials, donors, clients and other key stakeholders in the country.¹ A full list of interviews conducted is presented in Annex I. A local consultant prepared a background report on the evolution of the Egyptian investment climate since 2005, which was used in the preparation of this case study report.²

For the purpose of answering the evaluation questions, EvD used a logical framework that was built around the EBRD's inputs and activities and the results emanating from those: outputs (resulting from specific activities), outcomes (from the set of activities at the sectoral level) and impact (country level long-term changes) (see Annex II). The operational focus of the analysis encapsulates two transition qualities, well-governed and competitive, which in EvD's opinion constitute the core of the efforts aimed at improving the country's investment climate. The "what" part of the analysis sums up the key projects and policy engagement activities which are significant for the improvement of the investment climate. The "how" analysis briefly describes the delivery mode and the level of collaboration across the Bank's streams of work and administrative matrix.

The country context is more complex and requires a nuanced approach. Only some elements are relevant for the EBRD's strategic fit. For the purpose of answering the questions of this evaluation EvD used the OECD's Investment Policy Framework (IPF) which had helped to define the EBRD activities related to improving the country's investment climate. The EBRD's four Strategic Priorities, specific activities and suggested indicators are presented in the country strategy. Based on this information, the Bank integrated its intentions into the IPF. This Framework is a widely used tool for benchmarking countries' policies and identifying the needs for national governments to undertake further reforms. Not all of those policies are relevant for the EBRD as they might be outside the mandate of its activities. Annex III presents the policy areas as per the OECD IPF that were targeted in the EBRD's 2017 Strategy for Egypt³. EvD also integrated the EBRD transition qualities which are covered by the Bank's strategic intentions.

This report is not intended to be an evaluation of the Egyptian investment climate and should not be treated as such. It is an evaluation of the Bank's activities in relation to improving the country's investment climate.

2. Political and Economic Context

Egypt has undertaken a series of fundamental changes at both economic and political levels. In 2011, after 30 years of Hosni Mubarak's reign and inspired by the 2010 Tunisian revolution, the Egyptian people organised a set of demonstrations and nonviolent civil resistance. These resulted in the overthrow of the government and the coming to power of the Muslim Brotherhood in 2012. One year later, military-endorsed demonstrations ousted Morsi and ended the Muslim Brotherhood's short stint in office. President Abdel Fattah El-Sisi, the former head of the Egyptian Armed Forces, became the new president by popular election in 2014 following the adoption of

¹ Interviews in Cairo, Egypt, took place in April 2017. In total 17 people shared their views on the relevant Bank activities in Egypt

² Acumen Consulting "Investment Climate in Egypt", Internal Report, May 2017

³ Strategy for Egypt (BDS/EG/16-1 (Final))

the constitution (voted via referendum) and was re-elected in 2018. The country elected a new Parliament at the end of 2015. These are elements of political and democratic stabilisation yet Egypt continues to suffer from incidences of violence and security threats.

Egypt extends over a total area of 1,001,450 km² in the heart of northern Africa. The country is divided into 27 governorates and is considered the most populous country in the Arab world – having over 97 million inhabitants as of mid-2017, with 134 million inhabitants forecast by 2040⁴. Egypt is a large and growing market with a highly concentrated population - around 95% lives within 20 km of the Nile River delta with the rest of the territory being sparsely populated. Estimates for 2017 indicate that 74.7% of the population is younger than 40 years old, and within this group 31.3% are younger than 15 years old. Youth unemployment stood at 33%, compared to a total labour force unemployment rate of 11.5%, while female unemployment was double the overall rate at 23.5%.⁵

The EBRD's Private Sector Diagnostic report⁶ considers that rapid population growth combined with high rates of unemployment poses significant growth challenges and requires a more developed and vibrant private sector. There is an ever increasing demand on resources and services (land, water, energy, transport, health and education) and a pressing need for job creation to absorb the large number of new entrants into the labour market. Economic indicators show a 5-year average GDP growth of 3.19% (2011-2016)⁷. The fiscal deficit increased to an estimated 12% of GDP in FY16 from 11.5% a year earlier and the projected figure for FY2016/17 is 10.9%⁸. The EBRD assesses that an average yearly GDP growth of at least 4% is required for the country to be able to absorb the new entrants to the workforce, and a sustained GDP growth rate of at least 6% to bring down the unemployment rate to 6% by 2020. The Diagnostics report considers that the Egyptian government has limited options to increase spending or expand employment in the public sector due to the high fiscal deficit and rising public debt levels. The report suggests that a strong private sector will be increasingly needed to drive economic growth and job creation.

3. Investment Climate in Egypt

The EBRD's SEMED Enterprise Survey 2015 states that the investment climate is a key factor in taking full advantage of the private sector's productive capacity. Following both the global financial crisis and the Arab Spring, governments in the SEMED region sought to stimulate their economic growth. The creation of a more favourable business environment was considered a means of triggering growth through the establishment of more competitive and fair conditions for all businesses. The main challenges in the business environment experienced by managers of firms on a daily basis in the four SEMED countries are reported to be: (i) political instability, (ii) corruption, and (iii) competitors' practices in the informal sector.

The MENA Enterprise Survey report 2013-14 found that for Egypt specifically, firms identified these same three as their top business environment obstacles. Political instability was the main obstacle as the economy took a downturn in the wake of the 2011 uprising, and also due to the developments of summer 2013. Corruption was the next biggest constraint, with firms reporting that informal payments were requested for obtaining electrical connections, construction permits and operating licences among others. The third major obstacle identified was competitors'

⁴ Population Dashboard, The World Bank.

⁵ World Development Indicators (2017), The World Bank.

⁶ EBRD (2016). Private Sector Diagnostic, Egypt. London: EBRD, pp.1-10.

⁷ World Development Indicators (2017), The World Bank.

⁸ Egypt's Economic Outlook- October 2017, The World Bank.

practices in the informal sector, with approximately half of the firms indicating that they were competing against unregistered or informal firms. The informal sector in Egypt has been on the rise due to the complex bureaucratic system, unclear rules of enforcement and insufficient legal protection. It was estimated that the informal sector amounted to roughly 40% of GDP and 66% of total non-agricultural employment in the private sector. In 2016, the percentage of firms competing against unregistered or informal firms reached 43%.⁹

The EBRD’s Private Sector Diagnostic – Egypt (2016) identified challenges and opportunities to enhance the business environment, focusing on the role of the private sector. The private sector development key challenges were found to cut across different sectors and to have a negative impact on the fundamental dimensions of a well-functioning market economy: competitive, well-governed, green, inclusive, resilient and integrated. The top constraints to private sector development were:

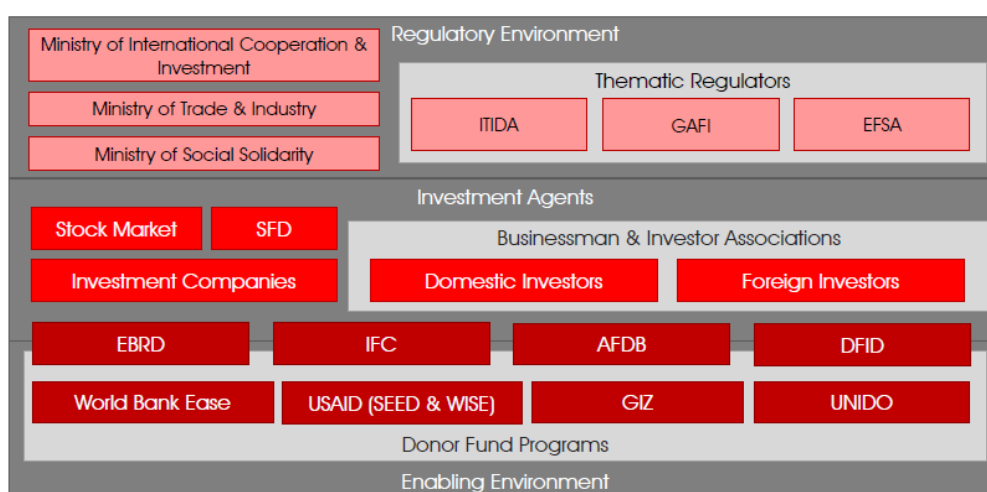
1. Limited access to finance
2. Policy uncertainty and macroeconomic vulnerabilities
3. Legacy of complex, burdensome business regulations and an uneven playing field
4. Lack of adequate market-based incentives in both the energy and infrastructure sectors
5. Weak contractual environment and ineffective enforcement of quality and safety standards restrain the development of domestic value chains

In Egypt, the EBRD engages in policy dialogue in the different sectors in which it invests with the aim of achieving its operational objectives and improve the investment climate. Based on the interviews conducted with Bank staff, the EBRD’s main government counterparts in the area of improving the investment climate are:

- the Ministry of Investment and International Cooperation
- the Ministry of Trade and Industry
- the Ministry of Finance
- the Central Bank of Egypt

A scheme of the key investment climate stakeholders is presented in Chart 1. More details on the entities, their key mandates and services, and classification are presented in Annex IV.

Chart 1. Key stakeholders in Egypt’s investment climate support activities



Source: Acumen Consulting

⁹ World Bank. Enterprise Surveys. What Businesses Experience. Egypt 2016 Country Profile.

4. History of the EBRD's Engagement

As one of the founding members of the Bank, Egypt expressed its interest in becoming a Recipient Country at the 2010 Annual Meeting of the EBRD Board of Governors in Zagreb¹⁰. In 2011, a three stage approach was presented to extend EBRD operations to the SEMED member countries through the Report of the Board of Directors to the Board of Governors on the geographical extension of the Bank's operations to the member countries of the Southern and Eastern Mediterranean (SEMED) (BDS11-187 (Final)), and resolutions No. 137, 138 and 139 were adopted in September 2011¹¹. In 2012 the Southern and Eastern Mediterranean (SEMED) Multi-Donor Account was established to support the EBRD's activities in Egypt, Jordan, Morocco and Tunisia. The fund was intended to finance activities in priority sectors and its contributors comprise Australia, Finland, France, Germany, Italy, the Netherlands, Norway, Sweden, Taipei China and the United Kingdom. The Multi Donor Account played a key role in initial operations in the SEMED countries.

In October 2012 Egypt requested to be granted potential recipient country status. A month later, through Resolution No. 155, it was adopted by the Board of Governors for the 26 November 2012 - 26 November 2014 period¹². In November 2014, the Board of Directors extended Egypt's Potential Recipient Country status until 25 November 2015¹³. Finally, the Board of Governors adopted Resolution No.186 granting Egypt Recipient Country Status in November 2015¹⁴.

The 2017 country strategy (BDS/EG/16-1 (Final)) was based on thorough country diagnostics and proposed the following strategic orientations to guide the Bank's engagement in the country:

1. Support Egypt's Private Sector Competitiveness through Stronger Value Chains, Improved Access to Finance for SMEs and Increased Economic Opportunities for Women and Young People
2. Improve Quality and Sustainability of Egypt's Public Utilities through Private Sector Participation and Commercialisation
3. Support Egypt's Green Economy Transition
4. Strengthen Governance and Level the Playing Field for all Businesses

The fourth pillar advances the conviction that improvements in governance standards are a prerequisite for a leaner and more transparent institutional environment. In turn, this would support entrepreneurship and private sector investment, encourage transparency and accountability of the public sector, and help bring about a level playing field. It also notes that the general business climate and private sector development are affected by the lack of clarity on the role and responsibility of the government as an economic referee. Regarding the private sector, it notes that weak corporate governance (especially among second tier corporates) hinders general competitiveness and limits financing options for companies.

To address these challenges, the Bank makes efforts to supplement investments in the public and private sectors with appropriate governance and policy reform programs and seeks to extend capacity building to institutions. It is considered that progress on governance would provide support to the EBRD's activities under the first three pillars of the country strategy.

¹⁰ Letter to Governors – Recipient Country Status of Egypt (SGS15-2409)

¹¹ Board of Governors Resolutions No. 137, 138, 139, 140 and 141 (SGS11-284)

¹² Letter to Governors - Board of Governors Resolution No. 155 (SGS12-267)

¹³ Egypt: Extension of Potential Recipient Country Status and Report of the Board of Directors to the Board of Governors on a Net Income Reallocation to the SEMED Investment Special Fund (BDS14-292 (F))

¹⁴ Letter to Governors – Board of Governors Resolution: No.186 – Recipient Country Status of Egypt (SGS15-261)

5. Inputs and Activities in the sphere of investment climate improvement

This study's proposed theory of change uses Bank inputs, activities and results at the country level. Inputs are the contributions that the Bank's resources, both financial and human, make towards enhancing the investment climate. Input indicators are obtained internally.

The EBRD's Entry and Presence in Egypt

The EBRD's entry to Egypt in turbulent times is considered to be one of the largest, if not the largest, Bank contribution. Philip ter Woort has led the Bank's efforts in Egypt since April 2013. The Egypt RO was initially a start up in a temporary office building, which over three years was transformed into a fully-fledged country office. Unlike in most cases, the first country director for Egypt was not relocated from London, and his previous experience of setting up the Mongolia RO from scratch was a valuable asset, which had a definite stamp on the setup of the Cairo RO.

The first SEMED Managing Director, Hildegard Gacek, was appointed in April 2012 and was based in HQ with very frequent visits to the region. Under the banner "SEMED: The future is female", the EBRD announced the appointment of Janet Heckman as Managing Director for SEMED Head of Egypt based in Cairo in February 2017. Catarina Bjorlin-Hansen had been appointed as Deputy country director in August 2016. The position of Deputy Head became essential as the demand for financing was increasing. It can also be considered a response to the need for high ranking and senior officials to facilitate engagement with the authorities. The relocation of the Managing Director to the field and the introduction of support from a Deputy represent progress in addressing the needs of not only the country but the region as well. Moreover, the selection of Cairo as the MD's base points to the pivotal position of Egypt. Moreover a Principal Economist (Sector, Economics, Policy & Governance), and an Associate Regional Economist, SEMED are based at the RO. Given the importance of engaging in policy dialogue in Egypt, it was repeatedly stated in the interviews that having a country-based governance/policy specialist who could engage in daily and in-situ policy dialogue, rather than visiting from HQ from time to time, would be very beneficial. This relates to earlier identified challenges in Egyptian public institutions: status-driven process, with frequent reshuffles and inconsistencies in implementation. However, resolution of this issue, as expressed by an EBRD director, "*is dependent on the availability of donor funding, which is often a challenge*".

HR data indicates that in December 2013 there were 13 staff working in Egypt, including six regular¹⁵ employees and seven non-regular employees (fixed-term, short-term consultants and temps). By November 2017 there were 39 staff in the Cairo RO¹⁶ (33 professional staff, seven support staff, one contractor/consultant/temp). In four years, the resident office has grown almost seven-fold in terms of human resources, in line with the increasing demand for finance.

The RO team includes a significant Small Business Support (SBS) presence (11 people). The evaluation revealed that there are some perceived HR issues that prevent SBS from delivering its full potential. It appears that SBS staff suffers from two limitations. The first is that as they are TC funded, there is no prospect of progression; assignments are temporary and categorised as non-eligible for overtime pay or performance-based benefits. In SEMED, SBS has started to experience high employee turnover rates. One interviewee noted that "*talented and experienced*

¹⁵ Staff employed under letters of appointment for an indefinite duration.

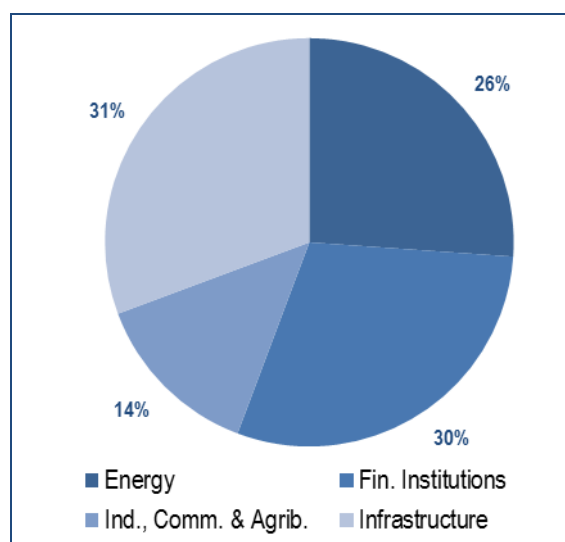
¹⁶ Excluding the managing director, deputy head, one intern, two drivers and one attendant.

people leave for more attractive positions in the private sector or other international organisations”. Another expressed that the “recent downgrade of SBS project specialist to analyst category is negative for the talent acquisition process - SBS in SEMED will be losing very good and experienced people who are not happy with the formal administrative title and remuneration”. The implication for the EBRD is that when people leave after two or three years under these terms of contracts, there is a need to recruit replacements, creating a cycle. More recently, in November 2017 the EBRD stepped up its support in the country by announcing the opening of a second office in Alexandria with two analyst positions. Its focus is on SME work through the EU-funded Advice for Small Business Programme. The EBRD became the first IFI to have an office outside of the capital.

EBRD investments and TC

As of November 2017, the number of EBRD projects in Egypt amounted to 73, representing a net cumulative Bank investment of €3,242 million. The private sector represented 73% of cumulative investments, and overall cumulative disbursements totalled €1,105 million. The sovereign projects included power sector energy efficiency, railway restructuring, and wastewater projects in 2014; power plant and metro projects in 2015; Locomotive Renewal and the Fayoum Wastewater Expansion Programs in 2017. The portfolio’s sector composition (see Chart 2) largely drives the direction and scope of the Bank’s policy dialogue. In terms of cumulative investment, Egypt has become one of the EBRD’s top two countries of operation, and accounted for 57% of both SEMED’s total portfolio and number of operations as of November 2017. Egypt has 75% of SEMED’s annual business investment.

Chart 2. The EBRD’s Portfolio Composition in Egypt, November 2017



Source: EBRD Business Navigator

The Strategy for Egypt asserts that donor funds were crucial for launching the Bank’s operations in Egypt. These funds supported the early diagnostic work, identification of investment opportunities, building the capacities of prospective clients, and sharing the transition experience with the policy makers and private sector stakeholders of COOs in Central and Eastern Europe. TCs assisted the skills transfers and local private MSME growth, thanks to several advisory and investment programmes, including ASB and the Direct Finance Facility. The Strategy indicates that it expects donor funds to continue supporting the preparation and implementation of

projects across sectors. Also, donor grants will be deployed for policy dialogue where the EBRD supports Egypt's reform agenda, mainly in the areas of economic governance, women and youth inclusion, access to finance, commercialisation of public utilities and the green economy. To cover these expenditures, the Strategy indicates that the Bank will rely on a number of donor funds managed internally or externally, in addition to resources made available by its shareholders:

1. The SEMED Multi-Donor Account: supported by several bilateral donors and considered the "fund of first resort" in SEMED. It provides TC grants.
2. The Small Business Impact Fund: It has a dedicated SEMED window and is a funding vehicle for SME-related activities.
3. Bilateral donors: TC funds are also sought from bilateral donor accounts administered by the EBRD which have expressed interest in supporting activities in SEMED.
4. The EU Neighbourhood Investment Facility's (NIF) Southern window. A funding source for TC and co-investment grants, mainly supporting investment operations co-financed with other IFIs in sectors such as transport, energy, municipal infrastructure, and private sector development.
5. The Middle East and North Africa Transition Fund, under the umbrella of the Deauville Partnership. Offers TC grants for policy and institutional reforms.
6. Climate funds: donor resources will be sought from
 - a. The Global Environment Facility, for capacity building and co-investment instruments in the areas of climate change mitigation, water management and material efficiency;
 - b. The Green Climate Fund for SEFF-type structures and innovation support;
 - c. The Global Infrastructure facility for climate smart infrastructure and energy distribution infrastructure.
 - d. The Special Climate Change Fund: Additional grant resources for water efficiency will be sought (targeted at climate resilience actions).
7. The EBRD Shareholder Special Fund (SSF) is endowed by the Bank's net income. It will provide TC and non-TC support in areas which cannot be covered by other donor sources, but where advancing transition remains a priority area.

In terms of TC support, the TCRS data point to 137 assignments for the 2011-2016 period, amounting to approximately €42 million. As to the type of assignments, 38% were classified as capacity building, 20% as project preparation, and 18% as project implementation support. According to EvD's investment climate classification¹⁷, half of the assignments (53%) are considered related to investment climate support activities. Since the start of the EBRD's engagement in the SEMED region, donors and shareholders have contributed over €250 million in technical cooperation (TC) and non-TC instruments, including risk sharing and capital grants, to support specific investments. In terms of numbers, over 200 individual TC and framework programmes have been approved, amounting to more than €115 million¹⁸.

The Bank manages the SEMED MDA donor funds, contributed by Australia, Finland, France, Germany, Italy, the Netherlands, Norway, Sweden, Taipei China and the United Kingdom. It also manages the resources of the Shareholder Special Fund and SEMED cooperation funds account, dedicated to donor activities in the region, from the Bank's net income. In addition, the EU

¹⁷ Assignments from TCRS and classified following the methodology presented in the main report

¹⁸ <http://www.ebrd.com/ebd-donors-and-the-SEMED-region.html>

Neighbourhood Investment Facility, the Global Environment Facility and the Climate Investment Funds contribute to strengthening local economies in the region¹⁹.

With the aim of boosting growth in Egypt and in line with the EBRD's priority of promoting a more inclusive and sustainable economy, the Bank partnered with Egypt's largest commercial bank, National Bank of Egypt (NBE), to launch the Women in Business programme in 2015. The initiative provides technical support, tailored advice and training for women entrepreneurs. The funding derives from the EU Neighbourhood Investment Facility, the SEMED Multi-Donor Account and the SEMED Cooperation Funds Account.

Contributions from HQ-based Teams

The Office of the General Counsel (OGC)

OGC works on banking operations and has staff that focuses specifically on SEMED, and Egypt operations in particular. Collaborating with other teams is regarded as positive: *"co-ordination among different teams in projects and initiatives [OGC] was involved in was good"*.²⁰ OGC participated in the preparation of the country strategy, a process led by the EPG team. It provided in-depth country knowledge while LTT's inputs provided sectoral insights. The country diagnostics draft as a whole was also reviewed by OGC from a legal point of view. It consulted in-country external counsel to obtain views on the document and check for factual accuracy. In the transactional context, the country lawyer's contribution is important as they possess specific knowledge of Egyptian legislation related to banking, company, investment, and collateral. The OGC country lawyers are also responsible for monitoring the status of the country's legislation in relation to EBRD operations.

OGC selected Egypt as a pilot country for preparing a new format of legal assessment. This Practical Legal Guide is intended to replace the much longer Country Legal Profile document (which is usually 200-300 pages long). The Guide on Egypt has a chapter dedicated to the gaps in legislation, which were included in the diagnostics document in an abridged format. One of their findings was that there is a need for policy dialogue with the authorities to close the gaps and improve the legal and regulatory framework.

OGC's involvement in policy dialogue is limited, and to date has mostly been concentrated around the process of preparing the country diagnostics and strategy. OGC staff participated in the country mission and met with a variety of stakeholders, preparing a brief forward-looking report and conclusions. For example, one of the findings was that there is a need to concentrate efforts on engaging in the work related to the new insolvency law. As no other IFIs or donors were working on the issue at the time, this was identified as an apparent niche for the EBRD and it was recommended that the Bank step in and use its expertise to help the country counterparts.

Legal Transition Team (LTT)

The specificity and scope of LTT projects is mostly tied to the needs of the banking teams. The LTT obtains ideas on the gaps in financial legislation from banking lawyers who work in-country. These gaps also provide ideas for launching policy dialogue activities. On this cooperation, LTT staff has expressed *"that EBRD's investment and policy teams work in tandem, which is beneficial to bankers and investors"*. The LTT leads policy dialogue activities, and a positive element is that the EBRD is considered credible when engaging with authorities due to its status

¹⁹ idem

²⁰ Quote from the interview with the EBRD staff

as a private sector investor. In Egypt, the LTT is leading on four current and anticipated country projects (see Annex V for more details).²¹

In recent years, especially since the creation of the Client Service Group and changes in scorecard format for banking and policy teams, there has been an approximation of the policy dialogue and investment work streams where “*bankers and country lawyers have been asked to get more involved in policy dialogue*”.²² LTT lawyers contribute their in-depth sectoral expertise and many years of experience, but the team is small. Most focus areas have only one lawyer, based in the HQ, responsible for all COOs. When there are banking lawyers on the ground, it does make a difference and works well, especially in specific policy areas. There are very few LTT lawyers in the field, and they include a donor-funded 2-year position for a specialist to enhance access to finance in SEMED countries. There does not seem to be enough budget to fund specialists across the region and LTT’s focus is very much on sectors.

A general comment expressed by various interviewees was that high staff turnover at the EBRD undermines the productivity and efficiency of the policy dialogue on legal and regulatory reform. For example three different people have been responsible for the LTT’s portfolio in Egypt over the past few years, which negatively affects relations with the in-country counterparts, who also change quite frequently. Having a lawyer with responsibility for policy co-ordination based in the Cairo RO might be the optimal solution, as was noted repeatedly during the interviews. At that time, OGC was in the process of recruiting a locally-based lawyer. It was a challenging task as, among other requirements, the candidate needs to be fluent in local Arabic, and be confident in engaging with top-level management and officials.

Box 1: Review and assistance with developing draft legal framework on public procurement (TCRS project 620)

The central government of Egypt was, at the time of approval, undergoing a period of intensive reform, including the modernisation of public procurement regulations and the institutional framework. The objective of this TC is to enhance Egypt’s public procurement legal framework.

The TC Project is consistent with the EBRD Political and Economic Assessment of Egypt, which noted the lack of regulatory independence and a resulting lack of a level playing field for private businesses among the main transition challenges. It was also based on the findings of the 2012 EBRD SEMED Public Procurement Assessment. The project assignments include assistance with developing public procurement regulations and capacity building related to introducing a comprehensive electronic public procurement in Egypt.

The project is led by the LTT and the donor source is the EBRD SSF. The approved amount is €276,441 and the expected project duration is 45 months (14/01/2015 - 03/10/2018). The Egyptian Agency for Government Contracts is in responsible for implementing the national public procurement policy and developing new legislation. An ad hoc working group was set up by the government of Egypt to work on

Office of the Chief Compliance Officer (OCCO)

OCCO sets the Bank’s integrity and ethical standards, acting as an independent check to make sure that these standards are incorporated into operations. OCCO develops integrity policies and provides expert advice to assess integrity risk. Two members (one at the Associate Director level and one at the Principal level) of the OCCO Project Integrity team are dedicated to the Bank’s

²¹ Legal Transition Programme 2017 Report and 2018 Operational Plan (SGS18-055). February 2018.

²² Quote from an interview with EBRD staff

projects in the SEMED region. They assess the integrity and reputational risks in proposed operations and advise Banking teams on how to mitigate them. They cover the areas of anti-corruption compliance enhancements and work closely with Banking teams to help reform clients on anti-corruption/bribery compliance, where needed. This includes several clients in Egypt. Most recently, OCCO has also expanded its work to raise awareness within the private sector of the importance of anti-corruption/bribery compliance. In April 2018, the Cairo RO and OCCO hosted a compliance event for Egyptian companies on Building an Effective Anti-Bribery/Corruption Compliance Programme, which brought together 50 Bank clients from a cross-section of industries.²³ The OCCO team also conducts Integrity Due Diligence training at HQ and at the SEMED ROs, which the Team visits at least once a year (on average). Their contribution is particularly important in a newer country of operation, especially given the context in which the Bank operates in Egypt. They are responsible for protecting the Bank's credibility and reputation.

Economics, Policy & Governance (EPG)

EPG is a recently established department that brings together the majority of the Bank's economists (country and sector pillar), governance and political advisers. Historically its work was driven by investment operations, but in recent years, with the launch of Policy and Partnership Vice-Presidency, the revamped approach to policy dialogue, governance issues, and ultimately changes in the Bank's transition concept, the team "*started thinking and acting seriously on the systemic issues.*"²⁴ EPG leads the Bank's emerging work on knowledge management, including launching and supporting a number of communities of practice that enhance the horizontal flow of information in the Bank. EPG's Governance team leads the implementation of the EBRD's Investment Climate and Governance Initiative (ICGI), which however does not feature prominently in Egypt at the time of this evaluation, being limited to four pilot countries. More recently however, the Governance team is involved in managing the support to the Suez Canal Economic Zone and in the efforts to potentially set up a Foreign Investment Council in Egypt.

A number of EPG staff focuses their work on Egypt, notably the SEMED regional lead economist, a political advisor and a governance specialist, all based in London and visiting the country on a regular basis. The regional economist is a leading figure who steers the process of country diagnostics, country strategy preparation, monitoring its implementation, engaging in policy dialogue with the local counterparts, and being closely involved in the work related to PPD platforms. This is done in close tandem with the RO staff, who lead this process on a daily basis and maintain relationships with the country counterparts. EPG considers the recent trend towards locating regional economists to the field as very positive because it contributes towards building a closer dialogue and better understanding with the local counterparts. Additionally the team of sectoral economists contributes to improving the investment climate in specific sectors where the Bank invests (electricity, energy efficiency, food, etc.) and engages with the key government counterparts.

The Senior Political Counsellor closely engages with the Egyptian government in policy dialogue on relevant issues. The Counsellor was involved in the process of approving Egypt's Strategy and was heavily involved in negotiations with the authorities to come agree acceptable formulations of diagnostics and strategy. It was a challenging task due to the highly centralised and hierarchical governance system. A growing collaboration was noted between GPA and the portfolio risk team, as they worked together in discussing the country portfolio risks.

²³ <https://intranet.ebrd.com/11098/building-a-compliance-community-in-egypt>

²⁴ Quote from an interview with EBRD staff

EPG is involved in a range of exploratory/emerging TC projects that are aimed at unlocking certain spheres/regulatory bottlenecks that are important not only for growing the Bank's portfolio, but for enhancing some elements of the investment climate. Specifically it helps to build the institutional capacity of the General Authority of the Suez Canal Economic Zone in order to unlock the full potential of this free economic zone for investors.

Key activities and initiatives

- Country private sector diagnostics and strategy preparation: After Egypt obtained the status of country of operation, the G7 shareholding countries demanded that the country strategy be backed by thorough analysis if it was to be considered for approval. The EBRD committed financial and human resources to an extensive process of preparing and discussing the country diagnostics to respond to this demand. The timing was right according to those involved: “[It] is the right moment for the EBRD to engage with the Egyptian Government on more radical reforms as they feel the pressure from inside (i.e. demography) and experience ‘Egyptian fatigue’ of external partners”.²⁵ The EBRD was heavily involved in negotiations with the Egyptian authorities to come to a consensus on the acceptable formulation of both the country diagnostics and strategy. A party to the negotiations highlighted that “*investment climate in Egypt is really poor and therefore it is high in the Government agenda*”.²⁶ The detailed country diagnostics were prepared in 2016 on the basis of a new methodology. There was to some extent an internal learning process during its preparation, which covered in-depth regional and sectoral angles. Externally, a conference was organised to present the private sector diagnostics on 3 April 2017 in Cairo.
- The EBRD is engaged in policy dialogue in all the sectors in which operates. A first example of this commitment is its heavy engagement in the energy and natural resources sectors. Oil and gas resources are considered viable yet there is not enough investment in the extraction industry. While demand has increased, production has declined, to the extent where Egypt transformed from an exporter to an importer, losing its surpluses and foreign income. The EBRD is supporting the development of a regulatory framework as well as the efforts to liberalise the gas market. In the sphere of energy and natural resources policy dialogue, the EBRD is working and coordinating with the largest players, EU, EIB, IMF and AfDB, even though the cooperation is not formalised. The EBRD's input is based on its role as an investor, and it effectively applies its knowledge and expertise to identifying gaps and designing projects to address them, as well as building capacity in the sector. The EBRD is also in close and regular dialogue with the Ministry of Petroleum, which manages all state-owned enterprises. Internally, policy dialogue is conducted in collaboration with E2C2 and ESD in the GET areas.
- A second example of policy dialogue engagement took place at the end of 2016. The EBRD contributed to the publication of the “Policy roadmap for a low carbon cement industry” report. This included a set of recommendations which were the result of dialogue with the government. The resident office and E2C2 and banking teams worked together and gathered the support of the key industry stakeholders, mobilised TC funding and involved donors and ministries. This effort was relevant because Egypt experienced gas shortages which had a heavy impact on the cement industry, the most energy intensive industry. The authorities issued coal licenses to address the power issue. Up

²⁵ Quote from an interview with EBRD staff

²⁶ Quote from an interview with EBRD staff

until 2014 the industry had mainly relied on government subsidised natural gas and heavy fuel oil to fire its cement kilns. With the gradual decline of gas subsidies, cement companies switched to coal and petroleum coke (petcoke). This resulted in an increase in CO₂ emissions. Due to the inherent negative environmental effects, the EBRD engaged in dialogue to shift policy towards clean energy and a lower carbon footprint. However, the ensuing recommendations for legislation still require further follow-up on the process of proper implementation.

- A third case of policy dialogue engagement was the EBRD's efforts towards modifying the Central Bank regulations on Tier 2 capital. These permit third parties to extend tier 2 capital²⁷ eligible subordinate loans to commercial banks. The instrument was developed by the EBRD in cooperation with the Central Bank and Emirates NBD.
- Local Currency: the EBRD was able to source local currency in Egypt and became the first IFI to successfully do so when the EBRD Treasury department managed and funded the outstanding Egyptian Pound loan portfolio.

6. Results

First approved Country Strategy based on sound country diagnostics

Resulting from the inputs and activities related to the preparation of the diagnostics document, which were very expensive and time and effort-consuming, thorough diagnostics were presented on the basis of a new methodology. Externally, the private sector diagnostics were presented in April 2017 in Cairo. The attendance and participation at the event are a good indication of the interest in and appreciation for the EBRD's work and its role in the country by both the private sector and the authorities.

Another result is that the country strategy was approved in February 2017 without a single abstention, which is an indication of the successful culmination of the endeavour. It met the requirements and demands of the G7 shareholders for the approval of the first strategy for Egypt. In addition, Management reported that the EBRD private sector diagnostics fed into the IMF programme's conditionality.

Well-established EBRD presence in Egypt

As a result of entering the country, establishing an RO presence and hiring staff, the EBRD has built a clientele, and a strong brand. Clients in Egypt have expressed that the working relationship with the EBRD is more efficient than that with IFC for instance, when closing deals. As a client stated *"EBRD is more effective than IFC on deals. It is more innovative in following process and minimises time. The teams are professional"*²⁸ The EBRD's procedures are considered better with the advantage of more rapid decision making and processing times, compared to other IFI's. In the same vein, the service provided by the EBRD is regarded as superior by some clients due to less bureaucracy and delays. The local team is highly regarded,

²⁷ Investopedia defines Tier 2 capital as "the secondary component of bank capital, in addition to Tier 1 capital, that makes up a bank's required reserves. Tier 2 capital is designated as supplementary capital, and is composed of items such as revaluation reserves, undisclosed reserves, hybrid instruments and subordinated term debt".

²⁸ Quote from the interview with EBRD client

and clients state that “ASB consultants are top notch in their field”.²⁹ Clients generally express great satisfaction with their interactions with EBRD staff.

The EBRD is also considered to be a credible institution by investors and to have a greater capacity to implement governance, given its rich practical experience in implementing reforms. It is regarded as being in touch with the country and having an understanding of the local market and its difficulties. The RO presence allows it to be thoroughly engaged with partners on the ground. However, this is not the case in big projects which seems to be a strong driver for Egyptians historically.

On the SME side, ASB has made efforts to promote business development and the team has travelled across the country to raise awareness of their programme. ASB recently celebrated their 500th project in the three years of their existence. Due to the devaluation of the Egyptian pound, a large number of businesses fell under the SME category according to the EU’s classification and €50 million threshold. As ASB has to date succeeded in reaching over 600 clients, feedback has been positive from the ground; a client expressed: “ASB program is well geared towards small and medium businesses”.³⁰ ASB’s presence, both in terms of number of projects and sum of grants has been on the rise since operations began in 2012. For the 2012-2017 period, the SEMED region has benefited from a cumulative 15% of BAS grants, and Egypt from one third of SEMED’s total share. Only 13% of projects are in a rural location; therefore the opening of the office in Alexandria reflects the EBRD’s commitment to reach outside Cairo and into the regions. Also, almost 40% of ASB projects in the country have encompassed the cross-cutting issue of gender. SMEs are a priority for the EBRD in Egypt, among other reasons because they are a major source of job creation. This addresses one of the challenges of the Bank’s strategic priority on competitiveness – SME’s are disproportionately affected by access to finance constraints, in particular women-led businesses.

Policy Initiatives

- As a result of the policy dialogue on modifying the Central Bank regulations on Tier 2 capital, in February 2017 the EBRD issued a subordinated loan for up to US\$ 125 million to Emirates NBD Egypt. This was the very first instance under the new regulations where a third party lender offered this kind of instrument to a bank in the country. NBD Egypt was the very first bank to implement this new transaction structure.
- Results from the EBRD’s engagement with other stakeholders, including private sector, include³¹:
 1. Reform of the feed-in-tariff programme – achieved jointly with IFC, AfDB, and Proparco
 2. Implementation of the new downstream Gas Market Law – achieved jointly with the WB, EU, and AfD
 3. Co-design of the TC for the Petroleum Sector Reform – achieved jointly with the WB
 4. Support for the electricity market reform and transition to market-based procurement of renewable generation capacities – achieved jointly with the WB
 5. Development of a green logistics centre for the 6th of October Dry Port PPP project – done jointly with the private sector
 6. Extension of the yield curve – achieved jointly with the Central Bank of Egypt.

²⁹ ditto

³⁰ ditto

³¹ Update on Egypt (2017)

The EBRD has achieved substantial progress in a relatively short period of time. In Egypt, the entrance of the EBRD during a very difficult time, while others left, is widely appreciated. Through its work, the Bank has been able to build a strong brand in the field. Its presence provides confidence to investors and contributes to the improvement of the investment climate. The Bank's activities, and internal and external cooperation, have been effective in delivering results across its different work streams.

With regard to launching one of the EBRD's flagship initiatives in Egypt, the current situation and dynamics suggest that the model of investment councils supported by the Bank in other countries could potentially be replicated in Egypt. The possibility of signing the MOU establishing the Foreign Investment Council is a good sign of the current interest and potential commitment to such a platform. On the other hand, the Business Ombudsman initiative currently has very little potential for replication as there is an array of conditions for its proper functioning that are not yet in place. The independence such body requires would have to be ensured. Another element is the need to recruit highly qualified professionals with solid experience in the private sector (and preferably not connected to previous positions in government). Given the state of PPD, where the government is historically reluctant to engage with big domestic investors, it would be difficult to establish a mechanism like the Business Ombudsman which requires a level of trust in the mechanism and its professionals. In sum, in terms of dialogue platforms, EvD considers that an investment council supported by the EBRD could be replicated in Egypt, but the possibility of creating a Business Ombudsman is marginal.

Contributing to Impact

In terms of the macroeconomic situation, it is challenging to directly attribute the EBRD's work or to quantify its contribution to the dynamics in core indicators. Nevertheless, a discussion of the evolution of such measures gives a sense of the investment climate evolution across time.

Doing Business ranks economies based on the ease of doing business in each country, ranging from 1–190. In the period 2008-2017 Egypt's ranking has oscillated between 109 and 183. The lowest score (183) was measured in 2011 during the country's crisis. Following this dip, its position improved the most in 2013, coinciding with the start of EBRD operations in the country. Currently, the ranking has remained stable at the position of 126 for 2016 and 2017, after a fall from 2015 (113). Egypt's score puts it on a par with the regional average for Middle East and North Africa, but far behind countries with which Egypt competes for FDI and export competitiveness.

FDI net inflows suffered a substantial decline between 2007 and 2011, with the biggest slump occurring in 2011. These however have followed an upward trend in subsequent years with an overall increase from approximately negative net inflows of US\$ 2,800 million in 2012 to almost US\$ 6,885 million in 2015 (WB latest available data). The value of inward direct investment by non-resident investors in the Egyptian economy has been increasing but despite measurable progress, Egypt still fell short of making the ATKearney FDI Confidence Index top 25 investment destinations. The latest reports (2015 and 2016) indicate a drop in the perceived attractiveness of the Middle East in general as an investment destination.

In June 2017, Fitch Ratings affirmed both Egypt's Long-Term Foreign and Local Currency Issuer Default Ratings at 'B' along with a Stable Outlook. Two months later, Moody's affirmed Egypt's B3 rating and considered the country's outlook stable. It indicated that reform progress has been impressive yet warns that while political stability has improved to some extent, this momentum may face a backlash during the upcoming presidential election, among other events. In

November 2017, Standard and Poor's upgraded Egypt's outlook from stable to positive on rising reserves and strengthening economic growth while its 'B-/B' ratings were affirmed, and the country's sovereign rating remained at B-.

7. EBRD Engagement and Co-operation with other donors and IFIs

Egypt has a very busy and diversified donor landscape and all key IFIs are active in the country, some of them for as long as 40 years (i.e. the World Bank). The evaluation team had an opportunity to meet representatives from some of them and the majority of feedback was very positive. The EBRD's particular value is in the fact that, as a newcomer, it does not overlap with other providers of finance and in many cases it becomes a pathfinder, engaging others on the best way to invest in energy, transport, or industrial projects. The EBRD is quoted to be *"one of the strongest donors on the technical assistance perspective, along with GIZ and USAID"*. The EBRD is considered the strongest entity in providing business development services directly to clients and building capacity to SMEs. It is considered that it would be good for EBRD *"to focus on building the capacity of national providers of capacity building"*.

At the same time, over the first several years the team on the ground has experienced some difficulties in *"plugging in"* with some core donors in the area of the Bank's specialisation. The decision to take it step-by-step, although it meant somewhat slow process, has delivered good results over the mid-term. Some projects and initiatives, after delivering results (in banking, power and energy, or infrastructure), proved their high demonstration effect and stimulated more approaches by international actors. Guided by the practical issues faced in investment projects, the Bank has valuable inputs to offer for the policy dialogue around regulatory and legal change. Yet, the Bank has a very realistic approach to cooperation and engagement, as it is a relatively small actor for the scale of the country and the scope of the challenges it faces.

Some key elements of the donor and IFI landscape in Egypt are as follows:³²

- The European Union, Germany, the United States and Switzerland are the four remaining traditional donors with a bilateral cooperation with Egypt. They support the economic and social dimensions of the 2030 Egypt Vision: political and social inclusion, equity.
- Other OECD donor countries contribute through regional programmes. The Nordic countries support activities against corruption and promoting basic personal rights.
- The EU, Germany and France cooperate on issues of economic development and employment.
- Switzerland engages in multilateral cooperation with Egypt via the WB, the EBRD, and the AfDB.
- The WB leads on technical support for economic reform as part of the IMF loan agreement.
- Japan supports infrastructure development and technical transfer
- China makes direct foreign investments.
- The Gulf States provide budget support and are influenced by geopolitical developments. They are the fourth biggest donor in terms of Official Development Assistance (ODA) on the African continent, after the US, the EU and the UK.

³² The Swiss Cooperation Strategy 2017-2020 for Egypt

- UN agencies play an important role in assisting the poorest segments of the population. The UNHCR is in charge of all aspects of registration, documentation and refugee status determination on behalf of the government.
- The USAID Strengthening Entrepreneurship and Enterprise Development (SEED) project offers technical support to business service providers, entrepreneurs, and micro, small, and medium enterprises (MSMEs)³³.
- The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH office in Cairo works in the areas of renewable energies and energy efficiency, water supply and sanitation, irrigation and waste management, sustainable economic development for employment³⁴.

Portfolio figures from other IFI's are not publicly available nor is there specific information on support for investment climate activities. An excerpt of other IFI contributions includes:

1. IFC announced new finance for Egypt for the next fiscal year (FY) 2018/2019 at approximately US \$ 1.5 billion compared to the US\$ 1.3 billion which it committed during the previous period. IFC focused on creating new markets, supporting power and renewable energy projects and fostering entrepreneurs, including high-potential technology start-ups.
2. The World Bank's lending to Egypt, in the form of commitments by Fiscal Year amounted to US\$ 5,460 million (including IBRD and IDA commitments) for the 2013-2017 period, including US\$ 1,555 in 2016 and US\$ 1,500 in 2017³⁵. Their 2015 Country Partnership Framework (CPF) for Egypt focused on (i) improving governance; (ii) enhancing private sector job creation; and (iii) improving social inclusion.
3. The EIB disclosed 17 loans to Egypt during 2013-2017, totalling almost €2,451 million. These supported credit lines and the energy, transport and water sewage sectors.

Government-led donor coordination is not consistent and subject to many changes (at government and institutional level). Moreover, the existence of a large number of ministries and multiple government agencies means that the internal coordination of domestic policy is a huge challenge, particularly in a situation where large sectors of the economy are outside the government's control (and managed by army forces).

In this situation donors often lead coordination efforts themselves and the EBRD participates in some of them, based on the expertise required and the level of exposure. For example colleagues from the RO team participate in the work of the Secretariat of the Development Partners Group in Egypt, part of the aid structure led by the United Nations Development Programme (UNDP). The aim of the group is to improve coordination among development partners via in-depth consultation, cooperation and collaboration on policies, principles and priorities; procedures, and practices. DPG has three main objectives: a) development coordination and effectiveness, b) learning and c) building partnerships. The group is composed of 26 bilateral partners and 21 multilateral organisations, contributing with official development assistance ³⁶.

Conclusions

Egypt has a busy ecosystem of international partners supporting its recovery from the crisis and implementing long-term systemic reforms. The EBRD entered as a new player, joining well

³³ <https://www.usaid.gov/egypt/fact-sheets/strengthening-entrepreneurship-and-enterprise-development-seed>

³⁴ <http://supply.gizeg.com/>

³⁵ <http://www.worldbank.org/en/country/egypt/overview>

³⁶ United Nations in Egypt. <http://eg.one.un.org/content/unct/egypt/en/home/about-egypt/upcoming-un-days.html>

established institutions which have been present there for quite some time. It has been able to differentiate itself from the general set and avoid extensive overlap in its initiatives because it is dedicated to the private sector. This focus is the Bank's competitive advantage as the IFC is the only other IFI with a similar strategic approach. Engaging mostly in the private sector also means that the EBRD has a limited leverage on public policy and is not considered as a policy-based lender. On the other hand, it was the first to introduce strict conditionalities and covenants in sectors which had previously enjoyed loans worth millions of euros without many strings attached. The Bank's harsher approach, although challenging in terms of winning new clients, yields high results and appreciation when introduced at a mature stage of partnership. EBRD finance offers good value for money over the long term, as was expressed in a number of interviews with the public and private sector.

In Egypt change has to be gradual, and large, rapid reforms cannot be expected. There is a tradition of implementing mega projects – they create a unifying idea and bring people together in a meaningful way. There is a nationalistic ethos and such projects rally public support. Egypt is also a very young country – a third of its population is under the age of 15, and a third of the youth is unemployed, which creates many grievances and often spurs public protests. It is for this reason that radical reforms are difficult to introduce and implement, since the Government is cautious and keen to avoid civil unrest. Also, a large proportion of the national economy is run by the military forces, with limited civilian control and no insight or influence for IFIs, donors, or investors.

EBRD policy dialogue efforts have achieved results in a limited period of time and it is delivering on the country strategy. This is particularly commendable given the complex context in which it operates and the challenges it faces. This study points to a need for policy dialogue with the authorities to close the gaps and improve the legal and regulatory framework. The managing director, deputy head, senior bankers, economists, political and governance advisers are engaged in continuous policy dialogue with their main government counterparts, bringing a tangible impact and positive feedback from counterparts and reinforcing the strong brand built by the EBRD in this country. It is fair to say that the Bank can and should play a leading role in the policy dialogue defined by the area of its expertise. It can and should employ innovative tactics (for Egypt) and maintain a hands-on approach in linking the key stakeholders.

The field presence in itself can be considered as having actual transition impact and enhancing the trust of investors. By engaging and coordinating with like-minded institutions, the EBRD helps create a mass of parties that support reforms and improve the investment climate.

The EBRD's involvement in activities aimed at supporting the investment climate in Egypt is relevant. It has been successful and it fully encompasses and contributes to the good governance priority in the Bank's newly adopted country strategy. There is an appetite for a greater volume of investments in the country. As Egypt has become one of the two largest countries of operation in terms of investment – currently the portfolio amounts to €2,730 million and 74 active portfolio projects³⁷ - the EBRD needs to step up its policy engagement and provide the necessary resources.

Looking forward, there is an internal consensus that the EBRD's contributions in the sphere of investment climate are important. In particular the Bank's successful experience in nurturing public-private dialogue (PPD) should be harnessed, for example through its support in establishing the Foreign Investment Council. The Ministry of Investment and International Cooperation reported in October 2017 that discussions were taking place to potentially set up

³⁷ 78 projects to date and net cumulative Bank investment of €3,531m

this advisory council to function as a platform for dialogue among large investment corporations and the government, aimed at settling disputes and removing hurdles to foreign direct investment to Egypt. This is expected to be achieved through the establishment of a steering committee to the advisory council in collaboration with the EBRD. As for regulatory and legal matters, contract enforcement, insolvency resolution, trading across borders, tax payment, and supporting exporting industries are among the key areas requiring dedicated effort in the coming years in order to improve the business climate. Nevertheless, it must be noted that progress in improving the investment climate is possible but, as with any other COO, only in cases where the government and wider society are clearly and consistently committed.

The EBRD's intended role and operational priorities for investment climate improvement

EvD finds that the EBRD's intended role and operational priorities for the investment climate are centred on identified challenges to the private sector and take into account the context in which the Bank operates. The Bank's objectives are clear and the inputs are relevant to their achievement.

Effectiveness of the Bank's activities in the area of investment climate support across the streams of work.

EvD considers that cooperation across the streams of work has been effective, and all departments report good collaboration. The coordination of efforts for Egypt's country diagnostics is an example of good collaboration as many EBRD departments were involved and the work was extensive and in-depth, and covered regional and sectoral angles.

The importance of engaging in policy dialogue has been evidenced, yet this effort remains challenging and the effectiveness of the Bank's activities in this sphere is affected. The most cited difficulty was the frequent change of leadership and management of the main public agencies. There is a lack of continuity, as expressed by the parties involved: *"building and maintaining relationships is complex when the key counterparts remain in office for only a year or a year and a half!"*³⁸ This limits the capacity of the Egyptian public authorities to implement recommendations – staff shifts, not only at the top level but also at the mid-management tier. EBRD local staff indicates that *"even when adopting the approach of working with a team of five counterparts, this may not be any more effective"*.³⁹ Counterparts might be substituted during the implementation phase and it takes time for the new appointments to understand what is being done and to carry the implementation forward. These issues are exacerbated by the highly centralised governance system.

Effectiveness of the Bank's use of internal and external resources to design and deliver investment climate support activities

The EBRD's inputs for investment climate improvement include entering the country when Egypt needed it the most and while others were leaving. By the same token, it gives confidence to investors and sends a good signal to the markets. The EBRD engaged in an unprecedented effort to prepare in-depth country diagnostics, upon which the first country strategy was based. As

³⁸ Quote from an interview with EBRD staff

³⁹ Quote from an interview with EBRD staff

confirmed by someone who had been involved “it was a very time and effort-consuming exercise in part due to its originally wide scope and in part to the fact that Egypt is a new country of operations and so had not had a Strategy review by that time”.⁴⁰

EvD notes, however, that limited human resources are regarded as an issue across the board. There is a need for more local staff, yet the recruitment process is challenging. Salaries at the Principal and Senior levels also need to be competitive to attract and retain talent, in competition with the local market. This would, for example, impose limitations on the replicability of the Egypt country diagnostic effort and on engaging in policy dialogue broadly.

Policy dialogue is challenging due to high turnover, both on the Egyptian side and, to a lesser extent, the EBRD. As the EBRD’s resources are more limited than those of other institutions such as the World Bank, it could play a different role, being more hands-on in linking the different investors.

Evidence of effective learning processes with regards to investment climate support activities and operational experience.

The EBRD could be less accommodating, and more rigorous in illustrating why models that have worked elsewhere could be effective. In the case of Egypt, this could be done after appropriately accounting for the context. Internally, the EBRD does not currently engage much in such efforts, although applying lessons from past experiences to newer COOs could enhance effective learning and save resources. In the past, similar internal exchanges were facilitated through the “Transition to Transition” initiative and its series of events, aimed at facilitating a “peer-to-peer” exchange among CEE countries.⁴¹ Taking it to the SEMED region might be a relatively easy initiative to implement although care must be taken when presenting the comparators, with regard to internal sensitivities and the Egyptian leadership’s vision of the country’s development path. Also, in some instances the CEE experience of transition from a centrally planned economy might not be relevant for Egypt and other SEMED countries, which are familiar with the market economy.

⁴⁰ Quote from an interview with EBRD staff

⁴¹ <http://www.ebrd.com/news/2011/transition-to-transition-conference-in-tunis.html>

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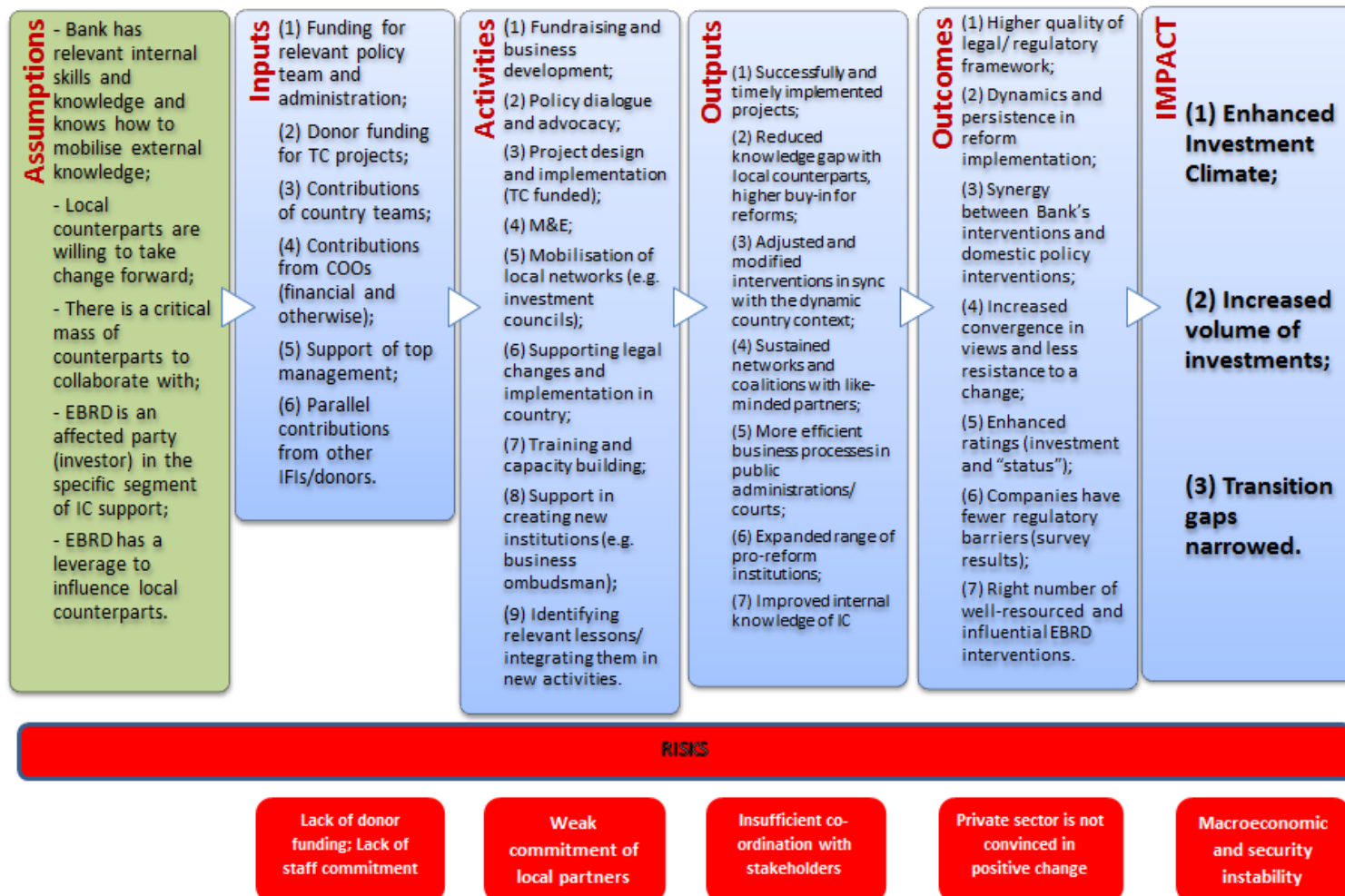
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Update on Egypt (2017)

Annex I: List of counterparts interviewed

No	Name	Position	Organisation/Unit
1	Janet Heckman	MD	SEMED, Cairo RO
2	Catarina Bjorlin Hansen	Deputy Head of Egypt, Associate Director	SEMED, Cairo RO
3	Anastasios Giamouridis	Principal Economist, Energy and Natural Resources, SEMED+Greece	EPG, Cairo RO
4	Aly El Khashab	Associate Banker, FI	Cairo RO
5	Mamdouh Afia	Regional Head, ASB, Associate Director	SEMED, Cairo RO
6	Mai Ismail	Principal Banker, Manufacturing and Services	SEMED, Cairo RO
7	Dina Wafik	Associate Banker, SME Finance and Development	SEMED, Cairo RO
8	Magda Kowalska	Senior Banker, Equity, Associate Director	SEMED, Cairo RO
9	(1) Ingy Lotfy, (2) Amira Shoukry, (3) Nashwa Habib	(1) Senior Economist, Economic Growth Office, (2) Enabling business environment senior advisor, SEED programme, (3) Gender and Youth manager, SEED Programme	USAID
10	Moataz Yeken	Senior Advisor to the Minister	Ministry of Investment and International Co-operation
11	Eva Seddik	Head of Investment Promotion	GAFI, General Authority for investment
12	Ahmed Mashour	Chairman	EJB, Business Association of Young Entrepreneurs
13	Mohamed El Akhdar	Managing Director	Beltone Financial
14	Farid Tadros	Senior PSD Specialist, MENA	IFC/WB, Trade and Competitiveness
15	Dina El-Shenoufy	Chief Investment Officer	Flat6Labs

Annex II: Results Framework for the Investment Climate Study



Annex III: OECD Policy Framework, EBRD Transition Qualities & EBRD Operational Objectives

		Policy Areas of the OECD Policy Framework							
		Investment promotion and facilitation	Competition policy	Financing investment	Investment Policy	Corporate governance	Developing human resources for investment	Investment in infrastructure	Investment framework for green growth
EBRD Transition Qualities		Competitive			Well Governed		Inclusive	Integrated	Green
EBRD Operational Objectives under each of the four Strategic Priorities	Competitiveness	1.1 Productivity, competitiveness, SME value chains		1.1 Productivity, competitiveness, SME value chains		1.1 Productivity, competitiveness, SME value chains			
		1.2 SME access to finance	1.2 SME access to finance	1.2 SME access to finance		1.2 SME access to finance	1.3 Economic opportunities for women and youth		
	Public Utilities				2.3 Promote the power and gas sector			2.1 Improving municipal public services 2.2 Improving connectivity and logistics	
	Green Economy								3.1 Diversification of the energy mix 3.2 Mitigate climate change 3.3 Support water efficiency
Governance		4.3 Foster competition policy, judicial capacity, public procurement				4.1 Improvement in governance practices in the corporate sector 4.2 Implementation of governance structures in public utilities			

- The OECD PFI considers 12 policy dimensions in an integrated manner, drawing on global good practices including: 1) investment policy; 2) investment promotion and facilitation; 3) trade policy; 4) competition policy; 5) tax policy; 6) corporate governance; 7) policies for enabling responsible business conduct; 8) human resources development; 9) investment in infrastructure; 10) financing investment; 11) public governance; and 12) investment framework for green growth.⁴²
- The EBRD's six Transition Qualities are: 1) competitive; 2) well-governed; 3) inclusive; 4) integrated; 5) green; and 6) resilient.
- The EBRD's four strategic orientations in Egypt in the current strategy period are: 1) Support Egypt's Private Sector Competitiveness through Stronger Value Chains, Improved Access to Finance for SMEs and Increased Economic Opportunities for Women and Young People; 2) Improve Quality and Sustainability of Egypt's Public Utilities through Private Sector Participation and Commercialisation 3) Support Egypt's Green Economy Transition, and 4) Strengthen Governance and Level the Playing Field for all Businesses.

⁴² OECD (2015), Policy Framework for Investment 2015 Edition, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264208667-en>

Annex IV: Egypt's Investment Climate Stakeholders

At the time of this evaluation:

Type	Entity	Key Mandates and Services	Classification
Government-Ministries	Ministry of International Cooperation & Investment	The Ministry supervises and monitors the performance of all donor assistance programmes, and has a specialised SME unit that coordinates efforts in that regard. The Ministry supervises a one stop shop, the Bedaya Centre providing business development services to the private Sector including SMEs, and the Bedya Fund providing PE.	General Regulator & Service Provider
	Ministry of Trade, Industry, and Small Industries	The Ministry has several entities that serve the private sector including SMEs (e.g. trade points, commercial representation, ITC-training for PS. The Minister also supervises the Social Fund for Development, and the Bedaya Centre in GAFI). There are indications that the mandate over SMEs will be given to a new separate Ministry.	General Regulator & Service Provider on Industry Related Matters
	Ministry of Social Solidarity	Although there is no direct mandate under the Ministry that corresponds with or touches upon the fund's performance, the current Minister Ghada Waly, is active in the Cabinet and supportive to the work of EAEF.	General Regulator & Service Provider on NGOs & MFI Related Matters
Government-Organizations/Funds	Social Fund for Development (SFD)	SFD is an apex organisation, receiving its funding from the different development partners (donor agencies, and IFIs). It provides BDS, direct lending to small business (from EGP 30,000 to 5 m), indirect small lending through commercial and governmental banks, indirect micro-finance through NGOs, banks, and MFIs. Financing through donor grants community and labour intensive projects. A venture capital fund (US\$ 15 m), financed through the World Bank, was established to provide funding to funds and direct investments in SMEs, upon certain criteria.	Thematic Stakeholder Focusing on Startups & SME Investment Promotion
	Egyptian Financial Supervisory Authority (EFSA)	Supervisory body covering all non-banking financial institutions including MFIs, VCCs, and PE.	Thematic Regulator
	The General Authority for Investment and Free Zones (GAFI)	They are mandated with the promotion of investment, the OSS, and they directly run the Bedaya Centre.	Service Provider & Free Zone Regulator. Has Investment Promotion Mandate/Accountability
	Bedya Fund	GAFI Bedaya Fund managed by external fund manager Cairo Financial Holdings. It targets: 2-15% of funds in seed stage / greenfield projects. SMEs with issued capital or NAV between EGP 2-50 million and sales not exceeding EGP 120 million, with competent management. 40% of the investments in greater Cairo, and 60% across the rest of Egypt	Investment Player Under a Governmental Umbrella
	Ayady Fund	A private equity fund established through the government, and run privately. Its mandate is to invest in new and existing projects in various sectors, with a focus on governorates. It is an EGP500 million fund.	Investment Player Under a Quasi-Governmental Umbrella
	Information Technology Industry Development Agency (ITIDA)	The ITIDA serves public and private bodies, industry players and associations, universities, and individuals to help grow the Egyptian IT industry. The ITIDA currently run a support programme for MSME IT companies "Grow IT" and are in the process of running another programme focusing on assisting IT companies to be finance ready.	Thematic (Sectorial) Stakeholder

Type	Entity	Key Mandates and Services	Classification
Donors, IFIs, and Donor's Programs	European Bank for Reconstruction and Development	The Bank has been investing in Egypt since the end of 2012 and has committed to 15 projects, for a total investment of approximately €565 m [US\$ 713 m]. A loan of €126 m [US\$ 159 m] for the Egyptian National Railways was signed in May 2014 to finance six new trains under a pioneering “supply and maintenance” structure, where the supplier of the trains remains responsible for their maintenance over a minimum period.	International Player Providing Both Grants, Loans & Investment
	African Development Bank	The African Development Bank, on 19th December 2016, signed a loan of US\$ 500 million to finance the Egypt Economic Governance and Energy Support Program Phase II. The loan, which was approved by the Bank's Executive Board aims to improve the regulatory environment for investors through simplified licensing and transparent industrial land allocation processes.	International Player Providing Both Grants, Loans & Investment
	EASE Project - The World Bank & OECD	The objective of the Equal Access and Simplified Environment for Investment (EASE) project in Egypt is to improve the regulatory environment for investors through simplified licensing and transparent industrial land allocation processes. There are three components to the project. The first is facilitating accessible and transparent investor services (GAFI). The second is supporting industrial sector transformational reforms (IDA). The project aims to support IDA in focusing on its strategic roles of regulation and transforming its approach to implement risk based regulation principles. Finally, the third component is building capacity to manage regulatory reforms (ERRADA). The project aims to strengthen the capacity of the GoE regulatory reform programme ERRADA.	Initiative for Improving the Regulatory & Procedural Environment for Doing Business
	IFC	The IFC is committed to supporting the Egyptian private sector with nearly US\$ 2 bn from 2015 until 2019. This comes as part of Egypt's US\$ 8 bn portfolio at the bank, and will also contribute to financing small businesses.	Loan & Investment
	SEED Programme-USAID	A US\$ 24 m entrepreneurship programme, which started in December 2015. This project focuses on improving the ability of service providers to help small firms access business development services and in turn, will connect small firms to these services, including organisations that may have funding for entrepreneurs.	Business Climate Improvement Initiative
	WISE Programme-USAID	A US\$ 23m employment programme, through the Workforce Improvement and Skills Enhancement (WISE) project, USAID will improve technical secondary education to meet the needs of the job market, benefiting vocational school students and teachers as well as the private sector.	Skill Set Enhancement Initiative
	UNIDO	The amount donated US\$ 750 000, the project promotes sustainable and inclusive business opportunities for the rural poor through agribusiness, waste management and entrepreneurship development, ultimately aiming at increased employability of the local population, with special regard to youths.	Grants to Improve Business Climate
	Arab Women Fund-DFID	A £50 m regional fund for women. The Arab Women's Enterprise Fund (AWEF) will improve economic systems access to markets for poor women, increasing their income and well-being in targeted countries in the Middle East and North Africa (MENA) region.	Employability Initiative
Venture Capital Companies (operating in Egypt)	Idevelopers	Idevelopers is a venture capital firm that helps innovative start-ups to grow. It is a subsidiary of EFG-Hermes Private Equity. The firm manages the Technology Development fund – a US\$ 50 m fund focused on early stage technology companies. To date, Idevelopers have invested over US\$ 25 m in 17 companies operating inside and outside Egypt	Investment Companies – Enhance Access to Finance of Start-ups by Pooling Resources & Investing in Non-Bankable Start-ups & Projects
	Vodafone Ventures Egypt	Vodafone Ventures is the strategic corporate venture capital arm of Vodafone Group. Vodafone Egypt launched Vodafone Ventures investment fund, which aims at developing small companies. With a capital	Investment Companies – Enhance Access to Finance of Start-ups by

Type	Entity	Key Mandates and Services	Classification
		of EGP 20 m, Vodafone Ventures invest in small ICT companies to help expand the scope of their business	Pooling Resources & Investing in Non-Bankable Start-ups & Projects
	Sawari Ventures	Sawari Ventures invest in technology-driven companies focusing on early and growth-stage investing. SV invested US\$ 250 K - US\$ 1 m initially and expect to invest US\$2 m to US\$5 m over the life of a company.	Investment Companies – Enhance Access to Finance of Start-ups by Pooling Resources & Investing in Non-Bankable Start-ups & Projects
Private Equity Funds/ Companies	EFG-Hermes Investment Funds	EFG Hermes, the leading investment bank in the Arab world, draws on 30 years of experience to serve as the preeminent investment bank in the region, providing a wide spectrum of financial services including investment banking, asset management, securities brokerage, research and private equity.	Investment Companies
	Sphinx Private Equity Management	Sphinx Private Equity Management (Sphinx) is a leading Cairo based private equity management company with over US\$ 250 m in funds under management and a proven track record of investing in medium-sized companies. Sphinx was established in 2004 by Citadel Capital, the leading private equity firm in the Middle East and Africa with Marianne Ghali for the purpose of managing mid cap buyout funds in Egypt.	Investment Companies
	Qalaa Holdings	Qalaa Holdings is the leading investment company in Africa and the Middle East. Qalaa Holdings' roots go back to its founding in 2004 as Citadel Capital, an Egyptian private equity firm with EGP 2 m in paid-in capital. Just eight years later, in 2012, the company was the leading private equity firm in the Middle East and Africa with 19 opportunity-specific funds controlling platform companies with investments of US\$ 9.5 bn. Investments spanned 15 countries and 15 industries including energy distribution, solid waste management, agrifoods, cement, refining, & transportation.	Investment Companies
	Beltone Financial	Beltone Private Equity and Sigefi Private Equity, part of the French Siparex Group, is launching a US\$ 150 m capital fund to invest in companies in Egypt initially and later in the Middle East region. The fund will invest capital and management expertise for medium sized private companies with a significant potential for growth.	Investment Companies
	CI Capital	CI Capital is the premier investment bank in Egypt with market-leading investment banking, securities brokerage, asset management and research franchises.	Investment Companies
	Abraaj Capital	Abraaj Capital has raised an estimated US\$ 1.5 bn since 2002. The firm acquires controlling or significant interests with board representation in stable, mature, well-managed businesses in the Middle East, North Africa and South Asia and creates value through operational and financial improvements, management incentives and the use of leverage.	Investment Companies
	Swicorp	Swicorp is a private equity group that provides intellectual and financial capital to domestic and international businesses active in the Middle East and North Africa. The firm invests in a wide range of transaction types including buyout, balanced, public to private and venture growth transactions in industries ranging from energy and petrochemicals to the consumer-related sectors.	Investment Companies
Businessman Associations	Egyptian Businessmen Association (EBA)	A non-governmental, not-for-profit organisation that seeks to unify the efforts of private Egyptian interests in contributing to the productivity and efficient national economic and social development of Egypt.	Geography (city) specific lobbying block
	Egyptian Junior Business Association (EJB)	Egyptian Junior Business Association (EJB) was founded in 1999 by a group of young business executives & entrepreneurs and was registered one year later to count a network of 600 prominent members between 25 to 45 years old representing various business sectors.	Geography (city) specific lobbying block

Type	Entity	Key Mandates and Services	Classification
	Alexandria Businessmen Association (ABA)	A non-governmental, not-for-profit organisation based in Alexandria, Egypt, aiming at Economic Development and improving the business climate through research, advocacy and raising the efficiency of human resources.	Geography (city) specific lobbying block
	British Egyptian Business Association (BEBA)	A non-governmental, not-for-profit organisation serving the interests of the British/Egyptian business community. BEBA was established in 1996 and has since grown to over 700 members. Similar entities exist for Italian/Egyptian relations and French/Egyptian relations as well as a confederation of all European/Egyptian relations.	Bilateral relations promoting association
	American Chamber of commerce	The chamber aims to: <ul style="list-style-type: none"> • promote the development of commerce and investment between the United States and Egypt. • be a direct liaison with the Chamber of Commerce of the United States and other chambers of commerce and business organisations, and to express the views of the local American business community to public and private interests in the United States. • provide a forum in which American business executives in Egypt and Egyptian business executives with American interests may identify, discuss and pursue common interests regarding their activities. 	Bilateral relations promoting association
Federation of Egyptian Industries	Chambers of Industry	20 chambers covering industries such as food, furniture, pharmaceuticals, petroleum and mining, printing, IT, leather, cinema, healthcare, engineering industries, textiles, readymade garments, building material, media, real estate, and handicrafts.	Lobbying bodies and industry development champions
Investor Associations	Investor Associations	These are businessman groupings at an industrial zone level. Their aim is to organise the work of that industrial zone as well as provide a platform for companies operating within it to share knowledge and experience and collaborate as a lobbying block on issues pertaining to their collective interest.	Lobbying bodies and zone development champions
Committees & Councils	Ministerial Committee for Doing Business	In 2016 the government set a fixed mechanism to ensure good interaction with reporting and monitoring development through the establishment of a Ministerial Committee for Doing Business by Prime Minister Decree in February 2016. The Committee is headed by the Minister of Investment and the following ministries are members: <ul style="list-style-type: none"> • Minister of Electricity and Renewable Energy • Minister of Finance • Minister of Local Development • Minister of Justice Minister of housing • Minister of planning and follow-up and administrative reform • Minister of Trade and Industry • Central Bank of Egypt • Egyptian Financial Supervisory authority • Egyptian credit Bureau I-Score <p>The committee is analysing the contents of the report and discussing ways to improve Egypt's ranking in</p>	Change Agent & Primary Stakeholder

Type	Entity	Key Mandates and Services	Classification
		<p>every indicator of the report. The Committee meets twice a month and submits monthly reports to the Cabinet. Since the formation of the committee a reform agenda has been drafted which includes suggested reform measures to be implemented in the short, medium and long term.</p>	
	<p>Supreme Council for Investment</p>	<p>Formed by Presidential Decree No. 478 in 2016 with the following objectives:</p> <ul style="list-style-type: none"> - improving the investment climate, boosting the capacity of the national economy to attract investment. - reviewing the state investment policies. - identifying activities and projects as priorities in terms of the various specialised sectors and geographical areas. - reviewing Egypt's rank in international reports on business and competitiveness. - follow-up of mechanisms for settling investment disputes. - setting up a framework for investment legislative and administrative reform and removing all obstacles facing investors. - achieving sustainable development within the framework of the state economic development plan. <p>Council members:</p> <ul style="list-style-type: none"> - President Abdel Fattah al-Sisi (chairman) - Prime Minister - Governor of the Central Bank - Defence Minister - Minister of Military Production - Minister of Finance - Minister of Investment - Interior Minister - Minister of Justice - Minister of Trade and Industry - President of the General Intelligence Service - President of the Administrative Control Authority - Chief Executive of the General Authority for Investment and Free Zones - President of the Federation of Egyptian Industries - President of the Federation of investors associations <p>The council sessions are held once every two months and whenever urgent.</p>	<p>Change Agent & Primary Stakeholder</p>

Annex V: LTT Portfolio in Egypt

Project Title	Objective	Status	Transition Quality
Public Procurement Law amendments	Advise the Government with the amendments of the Law on Public Procurement.	Under implementation	Competitive, Integrated and Well governed
MSME Support Programme and the Social Fund for Development (SFD)	Development of a policy function inside the SFD that would tackle issues relating to the creation of a legal and regulatory framework conducive to the development of the MSMEs.	Under implementation	Competitive
Telecom/ICT sector development	Support the Ministry for Information Communication Technology with the implementation of the national broadband network plan.	Exploratory	Competitive, Inclusive, Integrated and Resilient
Commercial law judicial capacity building	Enhance the capacity of Egyptian judges to deal with commercial law cases.	Under implementation	Well governed
Review and enhancement of the corporate governance practices of Advanced Energy Systems	Support Advanced Energy Systems in strengthening its corporate governance practices and in implementing the corporate governance action plan.	Under implementation	Well governed

Source: Legal Transition Programme 2017 Report and 2018 Operational Plan (SGS18-055). February 2018.

Annex VII: Sectoral Investment Challenges as identified in Egypt's Country Diagnostics

Egypt country diagnostics identified sector challenges. They are considered obstacles to unlocking the potential of the private sector. The challenges identified were:

Energy:

1. Structural challenges: These include lack of full access by the private sector to hydrocarbon import and transmission infrastructure; low tariffs that do not reflect real and opportunity costs; legal restrictions; absence of an independent regulator; and inadequate enforcement of environmental, health and safety standards.
2. Weak contract sanctity in upstream oil and gas
3. The need for a stable regulatory and contractual framework for renewables

Infrastructure:

1. Tariffs across both transport and municipal infrastructure are currently low
2. Lack of funding sustainability for public services
3. The uptake of PPPs in the sector is low⁴³
4. The quality of public service provision remains poor and inefficient
5. Challenges in the water sector: Sustained population increases coupled with unsustainably high water consumption growth

Financial Institutions:

1. The framework regarding securities restricts access to finance
2. Bankruptcy procedures are outdated, lengthy and bureaucratic
3. Regulatory obstacles to the development of non-bank financing constrain access to finance to SMEs in particular

Industry, Commerce, Agribusiness:

1. Industrial licensing procedures are overly complex and burdensome
2. Tariff and non-tariff barriers to trade are high and have recently risen
3. The enforcement capabilities of the Egyptian Competition Authority (ECA) and the judicial system in competition cases are limited
4. The legislative framework impedes the effective operation of farming cooperatives
5. Skills mismatches and labour market information deficiencies are a constraint, particularly in the manufacturing sector
6. Resource efficiency is low. Fuel subsidies and regulations relating to energy efficiency are patchy and poorly implemented

In the course of the present study, and based on the interviews conducted, EvD finds that aspects of the Egyptian context in which the EBRD operates have an effect on the overall

⁴³ Interviewees note that there is a historic distrust in PPPs since the Mubarak era, as lucrative PPP contracts were granted to a selected group of individuals. The lack of decentralised decision making power is also considered a challenge. Lastly, strong central planning is considered a major obstacle for infrastructure upgrades throughout the country.

investment climate and on its activities. The following have been identified during this study as more specific obstacles and resonate and add to the large literature explored above:

1. Changes to the taxation and investment legislation have taken place over the past three years. The latter are considered unclear, which makes new investment difficult given the uncertainty. One of the most important concerns in the corporate lending environment is that the lending rates are very high. For this reason, there is more equity than debt. The interest reserve levels are linked to the shortage of liquidity of currency.
2. Insolvency law. There is a need to facilitate, and not penalise, the exit of businesses – and make this exit as easy as the entry. For example, under the current bankruptcy laws, a CEO may be sent to jail if the business fails. It is not simple to end a business even if it has no debt. This reinforces the previous point on taking on debt, which is perceived as taking on much more risk.
3. Informality has a negative impact on formal businesses. There is little incentive to register companies, especially due to the previous point on bankruptcy.
4. Security is an issue affecting EBRD operations in Egypt, namely pledges over assets. The regulation is not straightforward and the procedures are lengthy, even in the industrial or free economic zones. For this reason, a lot of assets are not registered. Commercial banks do not have this problem however, as they can use the power of attorney instrument. There has recently been a legal modification in respect to collateral, but its effects remain to be seen.
5. In terms of SME support, an important pillar of EBRD activities, doubts exist over the efficacy of the actual processing of SME loans. Questions arise on the ability of private banks to on-lend the funds, as only a few institutions are considered efficient in this regard. It is an issue of availability of funds versus implementation. This is an important consideration as access to finance is difficult for non blue-chip companies.
6. Support for start-ups is challenging. Foreign investors are concerned about repatriation, the safety of dispute resolutions and the protection of their investments. The region is risk averse, with start-ups being one of the riskiest assets. Even local investors require guarantees – there is a need to ensure company rights. Some examples include the absence of regulations or their enforcement for tag-along or drag-along rights, convertibles are not available in common law, and weak patent and IP protection. This leads to a lack of funding in this sector. Despite some government initiatives such as the Ministry of Communication and Information Technology's (MCIT) Support to MSMEs in ICT and the Ministry of Trade and Industry's science development fund, there is no "patron of new business".
7. Infrastructure and utilities issues are severe obstacles to the improvement of the business environment. For example, problems with the national grid – regulations, tariff and guarantees – affect everyone, both citizens and businesses.
8. The Egyptian government is centralised and highly bureaucratic. There are over a hundred ministries and navigating the red tape can be complex and lengthy. As commented by an EBRD colleague "*there are many ministries and there is often confusing subordination of various institutions*". Access to information is limited as there is very little is available in the public domain. A culture of respect for seniority exists, and there often the involved parties need to occupy high ranking positions if they are to be able to engage and move things forward.
9. Policy dialogue can be challenging. There is a high turnover both on the Egyptian side and the EBRD side. Recurring changes in staff for the same role undermines establishing relations.

Public Private Dialogue is a key factor for improving the investment climate. Yet this is not well developed in SEMED; there is thus room to manoeuvre in this area. Egypt does not have powerful platforms. An investment council was formed recently, but the EBRD is not part of it. Joining the platform would be an opportunity for the EBRD to achieve the status as an honest broker between businesses and the government.

10. Egypt has a deep-embedded distrust of big investors. This is particularly true domestically because of the perceived connection with the previous Mubarak regime, which supported an oligarchic model of governance. Current governance is thus reluctant to closely engage with big domestic investors, which hinders the establishment of an effective PPD mechanism.

Annex VII: Egypt Extended Timeline

2010	2011	2012	2013	2014	2015	2016	2017
Egypt expresses its interest in becoming a Recipient Country	EBRD T2T Initiative Event in Cairo	Egypt requested potential country status to EBRD.	EBRD appoints Philip ter Woort as Country Director to the Egypt RO.	EBRD Board of Directors extended Egypt's Potential Recipient Country status for one year.	EBRD Board of Governors grants Egypt Recipient Country Status (Res. 186).	Presentation of Country Strategy Concept	EBRD appoints Janet Heckman as new MD for SEMED and simultaneously MD for Egypt based in Cairo
The G8 (under the Deauville Partnership) announced backing to countries witnessing dramatic political change & requested the EBRD's support	EBRD's shareholders approved a €1 billion special fund to launch investments in 4 SEMED countries using its own capital.	EBRD Board of Governors granted Egypt potential country status for two years (Res. 155)	Army overthrows President Morsi amid mass demonstrations	EBRD opens first RO in Cairo.	EBRD launches WiB program in Egypt	EBRD Board Consultation Visit to Egypt	EBRD appoints Catarina Bjorlin-Hansen as deputy Head of Egypt.
	Board of Directors approved commencement of first phase of activities in Egypt (TC & similar activities).	EBRD SEMED Investment Special Fund established & €1 billion net income allocation approved by Governors	EBRD Continuation of SBS operations in Egypt, Morocco, Tunisia and Jordan	Former army chief Abdul Fattah al-Sisi wins presidential election.		Central Bank of Egypt's decision to float the pound against the dollar	EBRD Board of Directors approve Egypt's Country Strategy
	Hildegard Gacek appointed MD for SEMED			EBRD SSF Continuation of SBS activities in Egypt, Morocco, Tunisia and Jordan		President El Sisi outlines Egypt's sustainable development strategy, "Egypt's Vision 2030."	EBRD launches Private Sector Diagnostics Report in Cairo
	President Mubarak steps down and hands power to the army council. (Egyptian Revolution of 2011)	Muslim Brotherhood candidate Mohammed Morsi narrowly wins presidential election.				Egyptian government cuts fuel subsidies	EBRD opens second (SBS only) office in Alexandria
						The Government establishes a Ministerial Committee for Doing Business	
						The Government establishes a Supreme Investment Council	