

Egypt country diagnostic: Private investment challenges and opportunities

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Country diagnostics are a European Bank for Reconstruction and Development (EBRD) tool for identifying the main obstacles to entrepreneurship and private-sector development in the economies where it operates. They also help to shape the Bank's priorities and project selection in formulating new country strategies. Each diagnostic informs the EBRD's policy engagement with the authorities in that country.

Each diagnostic assesses national progress and challenges in developing a sustainable market economy.

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The diagnostics draw on a range of methodologies and best practices for assessing how big certain obstacles are. Extensive use is made of the Bank's in-house expertise and surveys, such as the Business Environment and Enterprise Performance Survey (BEEPS) and the Life in Transition Survey (LiTS), as well as other cross-country surveys and reports from institutions such as the World Bank, the World Economic Forum and the Organisation for Economic Co-operation and Development (OECD). For some larger countries, the diagnostics also draw on specially commissioned studies of selected issues that are critical to private-sector development.

The EBRD's Country Economics, Strategy and Policy (CESP) team lead the diagnostics, drawing substantially on the expertise of sectoral, governance and political experts in the Policy Strategy and Delivery (PSD) Department and consulting widely with experts across the Bank in preparing the final product.

The diagnostics are shared with the EBRD Board during the country strategy process and published during the public consultation period.

The views expressed in the diagnostic papers are those of the authors only and not of the EBRD.

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Executive summary

Thanks to successful macroeconomic reforms, Egypt has made significant development progress in recent years, with gross domestic product (GDP) growth of more than 5 per cent annually. In 2016, after half a decade of moderate growth, partly against a backdrop of regional uprising and political upheaval, the country embarked on an ambitious reform agenda, supported by an International Monetary Fund (IMF) programme. Massive government investment, robust domestic consumption and greater export competitiveness boosted the country's economic performance. The government implemented policies to reduce and reprioritise subsidies and contain the wage bill, while increasing expenditure for new social safety nets.

Still, the private sector's contribution to growth remains below potential and the next round of reforms will have to improve the investment climate to unlock this (see Figure 1). Business regulations and inefficiencies in a number of public services remain a burden on companies in many areas (licensing and procedures), the regulatory framework for state-owned enterprises (SOEs) should aim to promote more competitive, commercial behaviour and to ensure a level legal playing field. The country's competition authorities would also benefit from a strengthening of their role and capacity. The banking sector is reasonably large and stable, but reforms should aim to deepen and diversify the financial sector more broadly to improve capital markets, access to finance for small and medium-sized enterprises (SMEs) and financial inclusion for young people and women. Lastly, promoting export orientation, better market integration into value chains (also for imports) and making Egypt more attractive to foreign direct investment (FDI) could fuel technological knock-on effects and upgrades, boosting competitiveness.

The demographic challenges of a growing young population – as in many emerging markets – coupled with the economic inclusion of women and people in remote, rural areas will be pivotal to long-term equitable growth. The educational system has improved significantly thanks to fundamental reform and investment, but educational outcomes continue to lag. It will be important to pursue these with a renewed focus on skills mismatches and a stronger role for the private sector in setting curricula to get the right mix of skills for the country's growth ambitions. In addition, reforms to social safety nets should be complemented by a more inclusive overall approach to growth that focuses on economic opportunities, so that people in remote and rural regions are not left behind.

Egypt has implemented substantial reforms to promote a green economy transition, but climate change reinforces the need to do more, faster, both in terms of mitigation and adaptation. The country issued the region's first ever green bond in 2020. In the energy sector, sweeping regulatory reforms have enabled the growth of renewable energy sources with strong private-sector participation. This could be a model for other sectors in need of an upgrade, such as waste collection and treatment, water resources and treatment, and water-use efficiency. Regulatory reform of some of the biggest emission drivers (transport, buildings and industrial production) could create the right incentives for investment and upgrades to more emissions-efficient technologies, yielding a double dividend of economic growth and productivity growth and lower greenhouse gas (GHG) emissions.

Lastly, digital tools should become the biggest cross-cutting catalyst for acceleration and progress across the reform agenda. To this end, it will be important to enhance competition in the telecoms sector to promote infrastructural expansion and upgrades (notably, 5G and broadband), for example, by moving towards spectrum auctions and moderating the dominance of the state-owned telecom company. In parallel, the government could take the lead on promoting the rollout and use of digital technologies, both directly through e-services and indirectly by supporting enterprises and households, including through digital skills development.

1. Introduction

1.1. Macroeconomic context: recent structural reforms have greatly improved the economy's resilience

Thanks to successful macroeconomic reforms, Egypt has made significant economic progress in recent years, with GDP growth of more than 5 per cent annually. The economy has been bolstered by two IMF-supported programmes since 2016. In 2020, after more than a decade of moderate growth, partly against a backdrop of regional uprising and political upheaval, the country became one of just a few worldwide to post positive growth despite the Covid-19 pandemic. Traditionally, growth in Egypt has been driven by private consumption, with modest contributions from private and public investment. However, massive public investment since 2017 has made investment a primary economic driver. Domestic consumption and better export competitiveness have also supported its performance. On the supply side, services have become the largest driver of growth (accounting for 54.6 per cent of value added), followed by industry (16.1 per cent) and agriculture (11.3 per cent). Construction has grown vigorously thanks to public and private investment (housing, tourism and retail), while tourism growth has been strong, though more volatile.

Macroeconomic policies under the IMF-supported programmes have led to significant consolidation and improvements in public finances and helped to stabilise the economy. In fiscal year (FY) 2018/19, the government was able to achieve a primary surplus for the first time in more than a decade. The fiscal deficit remains high and stable, at around 8 per cent of GDP, partly thanks to more balanced expenditure. The government has implemented policies to reduce and reprioritise subsidies and contain the public wage bill while increasing expenditure on new social safety nets. Tax revenues remained below potential levels, at 14.1 per cent of GDP, on average, in FY2016/17 to FY2018/19. The IMF estimates that the government could achieve a tax intake of 16.8-18.2 per cent of GDP with continued reforms to broaden the tax base and improve collection.¹ Significant government investment over the past decade has been a major driver of growth, but has also been behind the rising fiscal deficit. Debt levels have increased from around 60 per cent in FY 2010/11 to 90.6 per cent in FY2020/21. While the latest IMF/World Bank debt sustainability analysis deems these levels to be sustainable,² such debt carries a certain amount of vulnerability to external shocks. The authorities are committed to mitigating these risks by moving towards a larger share of external concessional finance and working to extend the maturity profile of the public debt.

Egypt's current-account deficit has widened during the pandemic, but is expected to recover. In the past, Egypt's deficit had been mitigated by oil and gas exports and tourism receipts, both of which suffered during the pandemic. Non-oil imports have always been a key reason for the country's negative balance and are likely to remain so. Export diversification more broadly is fairly limited. This is partly down to trade barriers, which pose an obstacle to enterprise and weaken competitiveness, but also the traditional focus of many firms on the large domestic market (rather than looking abroad).

Monetary policy and the banking sector have both proved relatively stable (including the US dollar exchange rate), thanks to reforms in recent years. The Egyptian banking system is quite large, and banks entered the Covid-19 crisis with adequate liquidity and capital buffers. The exchange rate has been fully liberalised for a few years now (with limited interventions in 2020 to smooth pandemic volatility). The real effective exchange rate (REER) peaked in April 2020, but has since come down again. International reserves increased to US\$ 40.9 billion in December 2021, covering more than seven months of imports. To support the economy, the Central Bank of Egypt (CBE) has cut the policy rate three times since March 2020, close to historical lows. However, inflation has remained at less than 5 per cent, below the target level of 7 per cent +/- 2 per cent (a band of 5-9 per cent).

The outlook for the Egyptian economy is positive, although global volatility carries risks and continued structural reforms will be essential to realise the country's growth potential. Short-term risks lie in the volatility of the post-pandemic recovery globally, the possibility of external shocks (particularly to public debt) and the recovery of key sectors (oil and natural gas, tourism). In the longer run, it will be essential to continue pursuing structural reform, ensuring the implementation and enforcement of recent regulation and shifting the growth model to one driven by the private sector.

Egypt also faces several systemic challenges, notably, its demographic trajectory and risks from climate change. First, Egypt's population has doubled to more than 100 million in about four decades. The burgeoning young population has the potential to be a source of growth – but creating enough employment will be difficult. This challenge is common to many emerging economies, but it will be important for Egypt to

¹ See IMF (2017).

² See IMF (2021).

leverage the full job-creation potential of its private sector. Second, climate change (coupled with demographic change) will put increasing pressure on all resources in terms of food production, waste management and, in particular, water use. Putting the economy on a path to the more efficient and sustainable use of resources while strengthening climate resilience will also be essential if Egypt is to achieve inclusive and sustainable growth.

1.2. Egypt's reform agenda: ambitious plans for economic, social and environmental progress

Egypt has set out its development strategy in its Vision 2030 initiative, aimed at promoting better lives for its citizens from an economic, social and environmental perspective. In its Vision 2030,³ Egypt aims to become one of the world's top 30 countries in terms of economic size, market competitiveness, quality of life, human development and anti-corruption efforts. It sets out key targets and performance indicators for each element, as well as key sectoral interventions and large-scale projects.

The country has also approved numerous strategies on specific topics and challenges in recent years. These include the:

- [National Anti-Corruption Strategy, Phase 2](#) (2019–22) which, building on progress made in phase 1 from 2014 to 2018, pursues goals such as strong public services and administration, transparency and law enforcement
- [Digital Egypt Strategy](#) (2030), which has three key pillars – digital transformation, digital skills and jobs, and digital innovation – in the core areas of digital infrastructure and legislative framework
- [SCZone Development Strategy](#) (2020–25), which aims to attract more investors to the Suez Canal Economic Zone (SCZone) between 2020 and 2025, to better communicate its goals for the logistics sector, to attract investment, to review its corporate structure and financial operating model and to fast-track select flagship projects
- [Integrated Sustainable Energy Strategy](#) (ISES) to 2035, which ensures continuous, diversified energy security and establishes the conditions necessary to enable the increased development of renewables through engagement with all sectors
- [Water Resource Development and Management Strategy](#) (2050), which rests on four main pillars: water resources, consumption, improving water quality and the integrated management of water resources.

These strategies reflect the government's commitment to addressing key obstacles to structural policy and governance reform, paving the way for continued strong growth. Translating these into actual reforms – and, more importantly, translating legal reforms into change on the ground – will be challenging.

1.3. Political economy: there have been some major achievements, but challenges lie ahead

Egypt has had some major achievements since the last EBRD country strategy. Over the past few years and in tandem with economic reforms, the Egyptian authorities have undertaken a sustained public communications campaign to communicate the need for the reforms, some of which have translated into significant inflationary pressure on certain sectors of society. Although credible independent surveys of public opinion are difficult to conduct, Egyptian citizens have provided tens of billions of Egyptian pounds to fund some of these projects in recent years, signalling some support for the government's investment planning.

The government is transforming the social contract that has prevailed in Egypt for at least half a century by embarking on the country's most ambitious reform programme in decades. The objectives are to reduce economic dependency on the state, overhaul the public subsidy system so that it reaches deserving sections of society and improve fiscal sustainability. Moreover, there are nascent programmes to modernise the civil service and move towards digitalisation, also for data processing and payments, and to improve transparency.

However, economic reform has not been accompanied by political reform. Executive power remains highly concentrated in the presidency. Limited steps have been taken to reform state institutions. Aspects of the

³ See Arab Republic of Egypt (2016).

rule of law remain a concern, affecting the business climate, as highlighted by the World Bank's Worldwide Governance Indicators, which show Egypt lagging its peers.

The period also saw a notable increase in the role of SOEs and non-civilian enterprises in the economy.⁴

The involvement of the government (including entities that are part of the Ministry of Defence) in the developmental drive of the past few years has, according to people interviewed for this report, resulted in the swift execution of mega-projects, improved discipline and a reduction in corruption in public tenders. However, government involvement in the economy overall has grown. Ministry of Finance reports show that there are a total of 297 SOEs controlled by different ministries and economic authorities, including non-civilian ones under special laws.⁵ As Egypt moves towards upper-middle-income country status, their presence may constrain the competitive forces needed for dynamic private-sector growth. Sector-wide competitiveness is particularly important in key industries such as energy, water and banking, where distortions could spill over into the rest of the economy because of their role in providing inputs to the whole private sector.

1.4. State of the private sector: Egypt's large domestic market would benefit from more openness and outward orientation

The private sector is the backbone of the Egyptian economy, but several key sectors are dominated by SOEs. The private-sector share of GDP increased from 61 per cent in FY2006/07 to 69 per cent in FY2018/19, and even more in most sectors. Even so, the public sector dominates the country's oil, gas and oil-refining sectors, as well as the financial intermediary, electricity and water sectors. All of these industries provide key corporate inputs, so the misallocation of resources and lack of competition risk spilling over into other sectors. The public sector (including SOEs) also accounts for about 22.0 per cent of total employment.⁶

Although large firms comprise just 1 per cent of Egyptian enterprises, they contribute significantly to the economy.⁷ They provide 5.9 per cent of total employment,⁸ account for a large share of formal employment (in parallel to the public sector) and include most of the country's successful flagship enterprises.

Informal and micro enterprises account for around 90 per cent of private firms, but numerous constraints keep them from contributing more robustly to economic growth. Micro-enterprises account for 58 per cent of the labour force, but as they tend to have limited capacity and operate informally, they are less likely to benefit from government programmes. Working conditions in micro-enterprises are poor and profit margins are narrow. Moreover, micro-, small and medium-sized enterprises (MSMEs) are disproportionately affected by the issues that private-sector firms typically face, such as a lack of access to finance and poorly qualified labour. They are also generally less likely to benefit from integration with and links to large firms because of their capacity constraints.⁹ Lastly, all of these obstacles tend to affect women-led SMEs disproportionately, further limiting sector potential. In August 2020, the authorities passed a long-awaited SME law that offers preferential treatment, tax exemptions and special support measures, but the benefits have yet to materialise on the ground.

The government has tried to promote the manufacturing sector, in particular, as a major driver of job creation, but with moderate success to date. To some extent, Egypt's large domestic market and access to regional markets underpins its competitive position, for example, in pharmaceuticals, petrochemicals and fertilisers, as well as in food production for domestic consumption. At the same time, efforts to incentivise the production of white goods and cars, despite supportive policies, have seen limited success. Egypt could draw lessons from other successful examples in the region (such as Morocco, which has become a dynamic automotive production hub) and complement its policies with measures focused on sectoral clusters (rather than economic zones). The next phase of structural reform envisages key measures to promote growth in manufacturing (as well as information and communications technology (ICT) services and agriculture).

The energy and transport sectors have grown strongly and energy, in particular, has seen a rise in private-sector participation. Egypt has one of the most extensive rail networks in the Middle East, as well as a good road network. Trains are a vital component of the country's transportation system, with 1.4 million passengers travelling by rail every day. However, continued underinvestment and a lack of reform and

⁴ Enterprises affiliated with the Ministry of Defence.

⁵ See Ministry of Finance (n.d.).

⁶ See Central Bank of Egypt (2021b).

⁷ See El-Said, Al-Said and Zaki (2014).

⁸ See Assaad et al. (2019).

⁹ See IMF (2019).

modernisation have led to a decline in service levels, cost efficiency and safety standards. As a result, a lot of transport has shifted to the road, though here, too, (domestic) logistics services have much room to improve their service delivery (losses, wastage and delays). In addition, the government is planning to promote e-mobility to realise lower vehicle emissions. Better regulatory transparency and fewer overlapping competencies could create greater scope for private-sector participation, including through public-private partnerships (PPPs). Egypt's energy market (gas, petrol, renewables) has made significant progress in recent years and is one of the fastest-moving segments of the economy. It will be supported by the government's Integrated Sustainable Energy Strategy to 2035. In light of growing demand, there may also be potential to establish the country as a regional production hub for solar plants and related materials.

Agriculture and its downstream processing activities are another key pillar of the economy, supporting food security and employment, but remain vulnerable to the adverse impacts of climate change. Still, agriculture's share of GDP has declined in recent years, with both labour and capital moving out, constraining productivity improvements. Because of the large share of small and medium-sized farmers, developing and strengthening producer associations is essential if the country is to organise key product value chains and promote upgrades and investment. Developing transportation and cold chains could also offer private investment opportunities, in addition to packaging and processing agricultural output into industrial goods.

2. Key opportunities for private-sector development

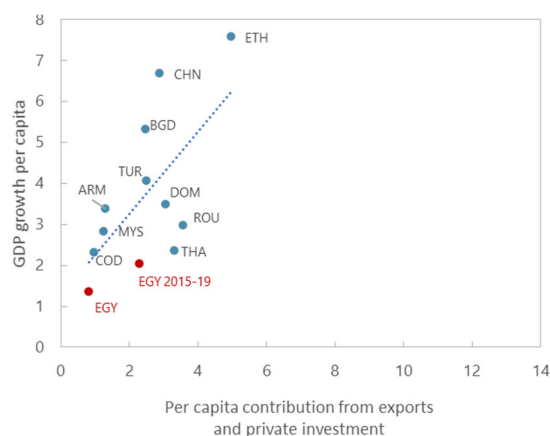
Egypt has experienced strong growth thanks to public-sector investment in recent years, but the private sector is likely to become the main engine of growth. The government's investment programme, covering almost all sectors of the economy (including mega-projects), has been an important driver of recent growth. However, while the contributions of private investment and exports to GDP have been increasing since 2015, their shares are below levels seen in other fast-growing economies (Figure 1). The government needs to encourage a greater role for the private sector to make growth more sustainable in the long run, leverage its potential to create jobs and ensure that growth will benefit all parts of society. The private sector would benefit from reforms to bring about (1) a more conducive and competitive business environment, including a level playing field with SOEs, (2) better and more inclusive access to finance through banks, fintech and capital markets and (3) deeper global and regional integration through the facilitation of trade and FDI. Digitalisation will be a key cross-cutting element that could greatly enhance and accelerate progress across these domains, potentially becoming one of the economy's most dynamic sectors itself.

2.1. Faster private-sector growth will require a more conducive business environment and level playing field to promote competitiveness

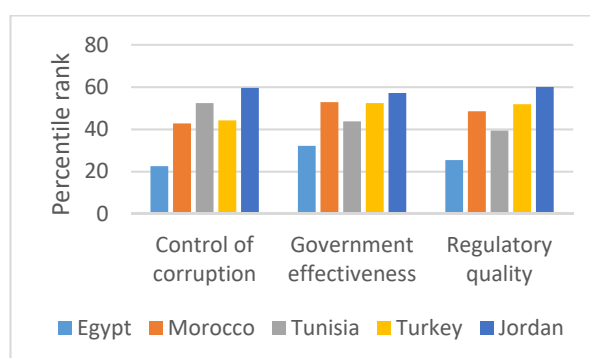
The quality of the business environment and regulatory framework in Egypt has improved significantly, but needs to become more company friendly to unlock private-sector growth. The administration has implemented fundamental reforms in recent years, introducing laws on investment, bankruptcy and companies to improve the business environment, for example, as well as a one-stop-shop initiative to facilitate trade and an industrial licensing law. However, public perception data suggest that the benefits have not yet materialised. Governance indicators (Figure 1) indicate that Egypt's performance is below the average of the southern and eastern Mediterranean (SEMED) region (and other peers, like Turkey) in areas such as regulatory quality, corruption control and government effectiveness. Businesses continue to face high corruption risk when dealing with the authorities; indeed, corruption is the third-largest hindrance to doing business after tax rates and political instability.¹⁰ Legislative inefficiencies and issues with enforcement by the public administration hamper the resolution of disputes and make it difficult to obtain licences. The government's commitment to further reforms, as set out in its Vision 2030 and implementation strategies, will be essential to making progress and creating the conditions for a thriving private sector.

Figure 1: Better governance could help the private sector become an engine of growth

Per capita growth vs. per capita contribution from exports and private investment, 2010-19



Worldwide Governance Indicators, 2020



Source: IMF data and IMF (2021); World Bank Worldwide Governance Indicators.

¹⁰ See World Bank (2020c).

The investment framework created by Egypt's 2017 investment law¹¹ introduces a number of best practices with regard to incentives for investors, equal treatment and corporate social responsibility, but some provisions are relatively complex. The administrative burden on private investors remains sizeable, mainly due to delays in implementing decrees. Streamlining procedures and increasing coordination between governmental institutions could significantly improve the overall business environment. The dispute resolution process under the new law could also benefit from simplification and greater clarity on the responsibilities of the Ministerial Committee for Investment Disputes Resolution (MCIDR) and the Grievance Committee, to ensure timely and cost-effective resolution. This, again, is essential to promoting investor confidence, especially among foreign investors (see Figure 1).

Transparency and digitalisation should go hand in hand to inspire investor confidence and facilitate domestic and foreign investment. Limited transparency, as reflected in the availability of data and disclosure of information to the public, also raises business obstacles. It makes it more difficult for companies to comply with rules and participate in procurement processes and for investors to assess risks and opportunities. In all of these areas, greater digitalisation efforts (with regard to procedures, government services, data disclosure, etc.) would help to achieve concrete results in terms of improving transparency and accountability. The authorities should also continue to implement e-services for a range of government functions and disclose information more widely and frequently, especially in key areas, with one-stop shops for procedures and public procurement.

Recent years have seen a rise in the role of the state in the economy, including through SOEs and the representation of the non-civilian entities. In an acutely challenging environment, the public sector's lead on key initiatives has been instrumental in bringing important investment projects to fruition, driving reforms and sometimes crowding in private-sector participation. Large-scale public investments have been successful in fuelling renewed growth, however, these should become a catalyst for private-sector growth, rather than a substitute for it (see Box 1). As Egypt moves towards upper-middle-income country status, the strong presence of SOEs may undermine the competitive forces needed for dynamic private-sector growth. For example, SOEs still benefit from preferential treatment and access to finance, likely distorting key markets that provide inputs to the whole economy (such as energy and banking). Free market forces and competition are generally better suited to fine-tuning the allocation of resources (labour, capital) to those sectors with the greatest potential and productivity, rather than government intervention. Lastly, competition from abroad (through trade openness) and better enforcement domestically (thanks to stronger competition authorities) could help the private sector to become more dynamic and a stronger driver of growth.

Box 1: Investments in mega-projects are fuelling growth, but greater transparency and competitive procurement would make them more effective

The government has launched numerous large-scale public investment projects to improve infrastructure and create hubs and catalysts for accelerated economic development. These include new cities, new economic zones, key infrastructure (the [National Social Housing Project](#) and the [National Programme for Technological Incubators](#), for example) and transport projects, as well as regional projects (such as the [National Project for Developing Upper Egypt Governorates](#) and the [Northwest Coast Development Project](#)). Together, these projects amount to billions of pounds (EGP) of investment and set important benchmarks. They provide the foundations for new approaches and technologies and serve as a testing ground for broader rollout in the future. However, to achieve maximum benefit and help transform the private sector so it can play a greater role in the economy, the authorities must continue to strengthen public disclosure and the transparency of procurement processes. They must also encourage the private sector to boost its role by participating in such investments (through more PPPs, for example).

Egypt's new administrative capital is situated on the Cairo-Ain Sokhna route about 45 km east of Cairo. Launched in 2015, the new city is expected to become home to 6.5 million inhabitants over 714 km², in an attempt to relieve traffic congestion in Cairo and enable more effective urban planning and modern infrastructure. Investments in the first phase were estimated at EGP 300 billion (US\$ 19.1 billion) as of January 2020. The move of government functions (and residents) was initially planned for mid-2020, but delayed to the end of 2021 due to the Covid-19 pandemic. The project also involves strong transport connectivity (including a new monorail line from Cairo), as well as plans for greater use of sustainable technologies and renewable energy. This move is expected to spur demand for other amenities and services, creating ample investment opportunities for SMEs in the trade and services sectors.
(Continued on page 12)

¹¹ See Arab Republic of Egypt (2017c).

The SCZone stands out as one of the government's most ambitious mega projects, acting as a “sandbox” for regulatory reform more broadly. The SCZone is a massive special economic zone, home to almost 3 million people in more than 461 km² along the Suez Canal – a major trade route and part of the maritime new Silk Road. It is one of three components of the Suez Canal Area Development Project aimed at capitalising on the economic opportunities afforded by the canal. The other two are the New Suez Canal Expansion Project (a 72 km parallel waterway for two-way vessel traffic) and the East Port Said Development Project (port expansion and road tunnels connecting the Sinai Peninsula to the Egyptian mainland). The SCZone boasts 250 operational establishments, 14 industrial developers and 3 main port operators, providing 100,000 direct job opportunities. Total investment in developing the zone, including infrastructure, amounted to US\$ 20 billion as of December 2020. The SCZone will also serve as an experiment for an attractive, investor-friendly business environment and a potential benchmark for future nationwide development efforts. It has significant regulatory autonomy, enabling the SCZone Authority to offer investors (including SMEs) a one-stop-shop for simplified registration and licensing systems, streamlined approvals and accelerated on-site customs inspection procedures.

Transparent and competitive procurement procedures could help to maximise the impact of mega-projects. Large-scale government expenditure can be an important catalyst of domestic growth. In Egypt, much progress has been made (on greater public disclosure of Covid-19 expenditure, for example), while key procurement reforms have set the legal basis for more competitive tendering. However, the new Public Procurement Law (passed in 2018), which applies to all supply, service and construction contracts involving a public entity, does not apply to state actors, potentially hampering private-sector access to parts of the market. SMEs, in particular, with their generally lower capacity, still struggle to obtain information about opportunities and to participate in procurement processes. Extending the scope of e-procurement and competitive tenders to a wider range of government projects, with specialised support to encourage the participation of SMEs, could catalyse private-sector participation and help make enterprises the primary engine of growth.

SOEs maintain an important role in most sectors of the Egyptian economy. State actors take different forms (SOEs, economic authorities, enterprises affiliated to the Ministry of Defence) and work under various legislative and ownership frameworks. This often makes them hard to identify, but they are present in almost all sectors, operating in 23 of the 24 industry groups in the Global Industry Classification Standards (GICS).¹² Moreover, retired senior military officers often go on to occupy senior positions in non-military-affiliated public-sector companies, extending the state's presence in non-civilian enterprises in the economy. The dominant role of state actors is more pronounced in some sectors, such as network industries (electricity, gas, transport, aviation, water and wastewater). In some cases, SOEs can help to address market failure, manage natural monopolies or ensure the provision of essential services in strategic sectors. State actors are also not subject to the 2018 Public Procurement Law, which otherwise applies to all supply, service and construction contracts involving a public entity.

The role of SOEs in Egypt is larger and less transparent than in most of its peer countries, however, and they would benefit from stronger corporate governance and privatisation.¹³ Pervasive SOEs and heavy-handed state interventions generally (1) suppress normal market competition and innovation, as partnerships are often built on direct (not competitive) selection, and (2) close certain sectors to new entrants, as non-competitive methods drive down prices and distort timeframes. In addition, the delivery of seemingly good-quality, low-budget, on-schedule infrastructure projects without competitive tendering often hides underlying costs and significant dues to private-sector contractors, as well as expensive time-cost trade-offs to ensure timely delivery. Egypt implemented major reforms under the IMF-supported programmes to strengthen SOE disclosure, including the publication of an annual report. However, stronger (corporate) governance structures that encourage SOEs to act commercially are important to promote a level playing field for competing or downstream private-sector enterprises. Expanding the scope of competitive procurement (without any preferences for SOEs) could also enhance competitive dynamics and open up opportunities for companies that have so far been excluded from benefiting from public investment expenditure.

¹² See MSCI (n.d.).

¹³ For example, in Turkey (another country with a strong role of SOEs), the authorities publish a comprehensive annual report (including financial information), taking into account the OECD principles of good SOE governance.

Perceptions of the growing and privileged role of state economic actors and concerns about an uneven playing field often deter domestic and foreign investment. For example, while the contributions of private investment and exports to GDP have been increasing since 2015, their shares are below the levels seen in other fast-growing economies (Figure 1). The role of state actors in the economy, the complex and non-transparent framework in which they operate and the absence of a comprehensive policy on state ownership and financial information on state actors fuel the private sector's perception of an uneven playing field and unfair access. This often hampers investors' ability to conduct proper feasibility studies. In addition, conflicts of interest between the state as a regulator and as an SOE operator may further skew the corporate arena. Only larger and/or well-connected enterprises can navigate such a landscape, while smaller or younger enterprises or new foreign entrants may struggle, even when they may have competitive advantages. Lastly, many state actors remain under the direct supervision of line ministries, which are responsible for overseeing both state and private actors, resulting in conflicts of interest and potential negative effects on private-sector competitors.

Reforms to moderate state involvement and the role of SOEs in the economy should focus on three areas, including the governance framework and commercialisation of SOEs. First, there is a need to develop a transparent state ownership policy and improve disclosure to ensure transparency. Second, it is important to implement in full the principle of competitive neutrality to ensure that state actors operate under the same conditions as private-sector enterprises (including tax exemptions, access to finance, preferential treatment in government procurement processes, supervision by the competition authority, etc.). Lastly, it is crucial to improve the corporate governance and operations of SOEs and move them towards greater commercialisation, including restructuring for greater operational efficiency and cost recovery.

Egypt's competition framework is fragmented, split between the Egyptian Competition Authority (ECA), the Economic Court and sectoral regulators. The authorities adopted competition legislation in 2005, amending it in 2008, 2014 and 2019. Investigatory powers lie with the ECA, which can bring violations to the Economic Court. The law stipulates a variety of fines, but does not grant the ECA power to impose them directly; these are determined by the Economic Court. Moreover, the ECA has been affiliated with various line ministries since its establishment, raising concerns about its internal governance and its independence (the appointment of board members by the government, for instance). Another key shortcoming is that Egypt only has a post-merger notification regime, so it lags most of its peers (such as Morocco, Tunisia and the United Arab Emirates), which have a pre-merger system. Also, in some sectors, the role of the regulator overlaps with that of the ECA – the telecoms, water, electricity, gas and insurance sectors, for example. Moreover, competition law states that public utilities run directly by the state are exempt from the legislation.

Extending the mandate of the ECA and strengthening its independence could greatly enhance competition authorities. The ECA should have a prominent role in advocating for competition principles to the public and to businesses and in the application of other government policies, especially those that may adversely affect competition and market structures. The ECA has embarked on a fully fledged reform programme to build and strengthen the capacity of its employees and to introduce modern guidelines and techniques. In parallel, proposed amendments to the competition law would create an impartial board – composed of the ECA chair and two senior technical staff, judges and academics – that would report to the President rather than the Prime Minister. The ECA would have more budgetary autonomy and would gain the power currently held by the judiciary to sanction anticompetitive practices by imposing fines. It would also increase transparency through enhanced publishing obligations. It will be essential to follow through on these reforms to pave the way for more efficient competition authorities. In parallel, legal reforms to ensure stronger oversight of the ECA over all entities (including SOEs) would help to level the playing field.

2.2. Egypt's financial markets will have to develop further to offer a wider range of financing instruments and to make finance more inclusive

Egypt's banking sector accounts for the largest part of the overall financial sector, but is constrained by allocation challenges (in ownership and exposure), while overall credit to the economy leaves room for improvement. The banking sector comprises 38 banks (including four state-owned banks) and accounts for close to 90 per cent of total financial-system assets. Its financial soundness indicators have improved in recent years and remained stable throughout the pandemic, with a capital adequacy ratio of 19.0 per cent as of June 2021 (20.1 per cent in June 2020). The non-performing loan ratio has been moderating (to 3.5 per cent as of June 2021 from 3.9 per cent in June 2020) and provisioning has been adequate. The Central Bank of Egypt's crisis support measures have helped alleviate immediate financial pressures on individuals and businesses. However, the strong role of state-owned banks gives cause for concern. Attractive yields on sovereign lending (driven by strong government investment and, more recently, Covid-19 crisis support) has not bolstered credit to the private sector; around 40 per cent of bank assets are invested in government bonds and loans. At only 28.2 per cent of GDP (as of June 2021), bank lending to the private sector is among the lowest in the region and less than half that of countries such as Turkey (75.1 per cent in 2020).

Capital markets and non-banking markets are developing gradually thanks to reforms, but the benefits are not materialising quickly enough to address companies' financing challenges. Egypt's domestic debt markets are characterised by short maturities, with a six-year weighted average, and dominated by government securities. The size of the corporate bond market is small, both in a regional context and compared with the size of the economy. The EGX hosted the country's first-ever corporate sukuk issuance in April 2020, which was 2.5 times oversubscribed, signalling investor interest in a wider range of products. Initial public offering (IPO) activity is low, with just eight new listings since 2017. The much-touted SOE privatisation programme announced by the government in 2018, which could have boosted activity, has been delayed several times. The EGX recently introduced a range of new products and services with easier issuing requirements, including real-estate investment trusts (REITS), short-term debt instruments (STDIs), exchange-traded funds (ETFs) and a new segment for SMEs (called NILEX), but uptake remains modest. Other products, such as leasing and financing, are likewise underdeveloped. There is room for capital-market activity to expand and diversify. Further promotion is required to increase awareness about the available product range and boost uptake, however.

These market limitations translate into limited access to finance (financial inclusion) for MSMEs, women and youth, compounded by modest awareness of the benefits of financial services and digital financial solutions. While MSMEs account for 99 per cent of enterprises in Egypt, they account for a small share of overall financial-sector loans. Women-led businesses face disproportionate barriers to accessing finance and often cite collateral, including land, as one of the main obstacles, as only a small proportion of Egyptian women are landowners. Data on youth financial inclusion are scarce, but Findex shows that only 12 per cent of youth have access to an account at a financial institution. The Central Bank of Egypt is making efforts to channel more credit to SMEs, women and youth, including SME lending targets and specific incentive programmes for banks. The authorities are preparing a new financial inclusion strategy – marking it as a key priority for the next few years.

Expanding and diversifying formal corporate access to finance will require the continued promotion of various instruments (including capital markets) and a reduced role for the state. First, it is crucial to continue expanding the activities and products of the EGX to diversify the range of instruments available to Egyptian firms – especially the SME segment. These will need to be flanked by other support to enable SMEs to capitalise on the ensuing potential. The CBE's past and ongoing reforms in this regard have been successful, but it will take longer for their full benefits to materialise (especially in light of the pandemic). Second, attractive yields on public debt in recent years have probably led to some crowding out of the private sector, a trend the authorities should try to reverse in order to free up credit space for enterprises.

Digital methods of payment and other mobile operations could be a key enabler for poverty reduction and inclusive growth. Egypt needs to digitalise payments to encourage the popularity of services such as savings accounts, credit and insurance. Mobile banking and fintech solutions would benefit women and those living in remote areas, in particular, doing away with the need for long commutes. Financial inclusion should also be fostered to bring the informal sector into the formal economy. The CBE's 2019 Fintech and Innovation Strategy set ambitious goals for the promotion of financial innovation, which were advanced by the introduction of a new banking law in 2020 that allowed the licensing of fintech firms. Lastly, efforts to boost financial inclusion are critical to overcoming the adverse effects of the Covid-19 pandemic and to progressing the goal of increased access to finance. There is some evidence of a rise in digital banking

activity since the beginning of 2020, but reaching the remaining unbanked population and businesses remains a challenge.

The majority of businesses in Egypt are MSMEs but, as in most countries, their value added lags that of large enterprises. Ninety-one per cent of Egypt's SMEs are micro enterprises, of which 80 per cent are informal. MSMEs tend to have limited capacity and often operate semi-formally or informally. This limits their access to formal credit and support (including from government) and their ability to improve management and achieve better profit margins, while working conditions are poor.

The SME Law, approved in 2020, aims to address some of these issues, including through tax and customs incentives, but robust implementation will be key to reaping the potential benefits. Under the new law, MSMEs will be given preferential tax rates of 0.5 to 1.0 per cent, depending on their revenue volumes. Firms will be entitled to exemptions from stamp duty and fees for company registration, land contracts and credit agreements for five years from the date of registration and will not be liable for capital gains tax. The law also provides support for the marketing of goods and services, while securing land and credit should be easier, as the process of formally registering businesses for tax purposes facilitates risk assessment. Dedicated financing may also have helped to improve access to finance.¹⁴

Policy recommendations to promote MSMEs are numerous, including better data collection to identify their needs, stronger support platforms and expanded support services. There is a need to improve data collection and monitoring, as well as to create a databank specifically for MSMEs, to improve fact-based decision-making. MSMEs need better access to finance through tailored institutions, as commercial banks are not best placed to cater for them. MSMEs also need a dedicated company to market, promote and sell their products and services, while incubators and accelerators should be supported to ensure that MSMEs grow and expand. There is also a need to facilitate procedures and requirements, which are currently lengthy and exhaustive. In addition, a focus should be placed on plans and potential, rather than on past budgets and performance. Moreover, financial institutions should consider supporting start-ups and newcomers, in addition to established MSMEs.

2.3. Egypt has significant potential for deeper integration into global and regional value chains, as well as to attract more FDI

Egypt has successfully forged a number of strategic trade partnerships over the past two decades, but net gains in promoting exports and global value chain integration have been limited. To some extent, Egypt's large domestic market (which also makes it an attractive FDI destination) is not conducive to export orientation. However, export competitiveness is also being undermined by limited product complexity and trade barriers that lock Egyptian exporters out of international markets, for example, tariff and non-tariff barriers and logistical impediments. The country has considerable potential to be a regional trade and logistics hub, with easy access to major markets, but this will require further reforms to regulatory frameworks and the efficient implementation of reforms on the ground.

Egypt's regional trade with neighbours remains far below potential and product diversification remains modest. Despite its standing as the continent's third-largest market, Egypt only accounts for 7 per cent of Africa's intracontinental export flows. The top two, South Africa and Nigeria, contribute 35 per cent and 16 per cent, respectively. In addition, Egypt ranked 73rd out of 146 countries in the Economic Complexity Index in 2019, while Turkey was 40th and South Africa was 57th.¹⁵ The country's exports remain concentrated in raw materials and intermediate goods, ensuring strong forward linkages. Its weaker backward linkages can be explained by the preponderance of local, rather than imported intermediary goods for the production of exports, but also its limited export complexity and narrow industrial base.

Sizeable government investments in transport and logistics in recent years are expected to boost service quality, but this has to be accompanied by customs and regulatory reforms. Egypt's overall rank in the 2019 Economic Complexity Index suggests that its infrastructure and logistics – while above those of some regional peers – are not sufficient to achieve its trade aspirations, unlike other export-dependent emerging markets, such as Turkey and South Africa. Extensive red tape in customs procedures is also a major bottleneck that costs firms time and money.

Egypt has since embarked on several large-scale projects to improve its transport and logistics services
□ **all of which are much needed to improve connectivity.** Investments include upgrading the country's

¹⁴ In 2020, the government announced the financing of intermediated SME lending worth EGP 200 million (US\$ 12.7 million), supported by the Saudi Fund for Development (SFD).

¹⁵ See OEC (2019).

major seaports, creating new logistics centres and dry ports, upscaling rail and road networks and improving domestic and regional connectivity. Swift and effective implementation of streamlined and digitalised customs services would have a positive impact on performance, as would promoting competition to improve service delivery and prices. Parallel efforts to streamline and digitalise many of the handling processes are crucial to avoid offsetting future gains from upgrading the physical infrastructure

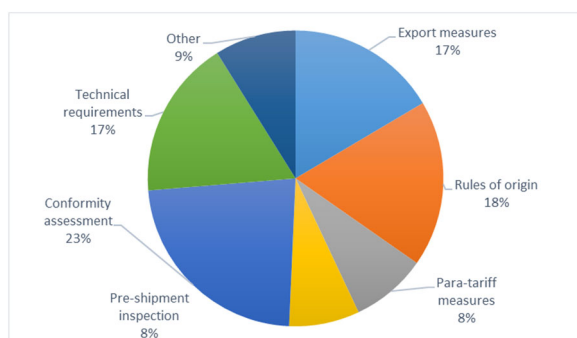
On the policy side, liberalisation gains were reversed after 2017, when the Egyptian government reverted to protectionist practices to curb trade deficits and alleviate pressure on reserves. At a time when global protectionism is on the rise (even more so in the post-Covid-19 world), this continues to create potential issues for local producers that rely on imported inputs, limiting firms' ability to integrate into global value chains. In addition, burdensome non-tariff barriers (lengthy processing times, cumbersome procedures and hefty costs) continue to weigh on trade, including exports. Anecdotal evidence from the private sector suggests that import procedures are one of the main hurdles facing producers and exporting industries with a need for imported inputs, in particular.

In Egypt, producers face a host of challenges as they attempt to access international markets and often cite technical barriers as their biggest concern. Non-tariff measures are often a complex, less visible barrier that is harder to overcome and frequently successful at limiting market access for small producers. The International Trade Centre's NTM (non-tariff measures) Survey for Egypt shows that Egyptian exporters are constrained by domestic challenges and struggle to meet international requirements (Figure 2).¹⁶ The Egyptian authorities should strive to include the removal of domestic barriers (including tariffs, inspections, procedures, etc.) in their reform agenda to facilitate exports and promote export orientation. Recent reforms, such as a new customs law and the launch of advance cargo information (ACI) for trade, will help to address some of these challenges.

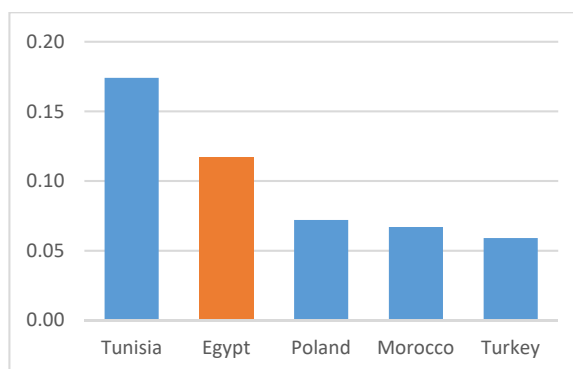
The technical requirements and standards of destination countries are another burden that calls for capacity building among Egyptian enterprises. These challenges are a significant source of concern, accounting for 40.4 per cent of all concerns raised by the producers surveyed by the ITC.¹⁷ Countries around the world expect imports to meet their domestic quality standards (on labelling, sanitary and phytosanitary (SPS) measures, etc.), but enterprises in emerging economies often struggle to meet them – partly due to a lack of capacity and testing/certification facilities. In Egypt, the chemicals (including fertilisers) and engineering sectors face the highest technical barriers to trade.¹⁸ Agri-businesses also report strict technical requirements and conformity assessment procedures as their greatest concerns.¹⁹ This gap highlights the need to prioritise capacity development in this area, be it by improving local food-safety requirements, expanding testing laboratories and certification bodies, or encouraging adherence by small producers. Exporting to markets with lower standards (in the African neighbourhood, for instance) could also be an intermediate step for local enterprises wanting to upgrade and integrate into international value chains.

Figure 2: Non-tariff measures a concern to Egyptian producers and FDI remains constrained

Non-tariff measures – exporter concerns



FDI Restrictiveness Index 2020 (0=open, 1=closed)



Source: ITC (2020); OECD (n.d.).

¹⁶ See ITC (2016).

¹⁷ Ibid.

¹⁸ See Youssef and Zaki (2019).

¹⁹ See ITC (2016).

The Egyptian government should help companies to improve the marketability of their exports and widen their export markets. Improving marketability and overcoming technical barriers means building capacity to ensure adherence and to test for safety and health standards. This is on top of improving the capacity of local producers, particularly the food-processing sector, when it comes to safe and properly labelled packaging and increasing shipment efficiency by upgrading cold-chain logistics. Broadening the country's export markets will require re-examining its export offering compared with emerging regional value chains (such as the automotive industry) and redirecting investment to complimentary industries where Egypt has a competitive advantage.

The African Continental Free Trade Agreement (AfCFTA) is a potential opportunity to increase regional integration and to open up new export markets for Egyptian producers. Egypt is well placed to influence the conversation as the third-largest economy and fourth-largest consumer market in Africa, particularly as its market remains largely untapped for its African counterparts. The agreement is a chance to capitalise on the trade implications of Covid-19 and the consequent push for greater regional (rather than global) integration and the localisation of supply chains.

The government should continue to invest in improving transport connectivity with global and regional value chains, including in Africa. Intra-African trade, particularly as value chains move further towards horizontal fragmentation (of tasks among partners at the same stage of the production stream), increasingly requires upgraded logistical networks and trade-related services. Low transport connectivity, poor financial integration, fragile digital infrastructure and the limited digitalisation of trade services are among the top challenges facing companies trading across Africa.

In terms of financial openness, the liberalisation of Egypt's exchange-rate regime and recent growth have led to a rise in FDI inflows, but the country is not yet fully capitalising on its enormous potential. Net FDI increased to 3 per cent of GDP in the three years to FY2018/19 and remained strong in FY 2019/20,²⁰ while net portfolio investment, historically negative, turned around into a strong 4.3 per cent of GDP. FDI remains concentrated in the oil sector, followed by services and the pharmaceutical sector, but remains modest in labour-intensive sectors. The OECD's FDI Restrictiveness Index (Figure 2) suggests significant barriers facing investors.²¹ It will, therefore, be important for Egypt to maintain a path of economic stabilisation and predictable, credible policy reform to maintain investor confidence and to ensure that past reform efforts pay off in the coming years.

2.4. Access to better jobs and opportunities for young people, women and in remote areas would make growth more inclusive

Inclusion is a top priority for Egypt, as high youth unemployment, regional disparities and poverty in remote areas are pressing issues. Egypt has one of the fastest-growing populations in the world (a growth rate of more than 2.0 per cent on average), with an estimated 850,000 new entrants coming into the labour market every year. If productively employed, this growing young population could yield a "demographic dividend" and boost the economy, but this presents a major challenge for policymakers in terms of public services provision and job creation.^{22, 23} Young people are also more constrained in other regards. For example, Findex data suggest that only 12 per cent of youth have access to an account at a financial institution.²⁴ In addition, disparities arise from the geographical distribution of economic activity: about 50 per cent of GDP in FY2017/18 was generated in Greater Cairo and Alexandria.²⁵ At the same time, average wages were lower in Upper Egypt and poverty rates were higher (8 per cent in Port Said compared with 66.7 per cent in Assiut, for instance).²⁶

Egypt's economy has not been able to deliver the number of skilled jobs required to absorb the large numbers of youth entering the labour market – and the pandemic has exacerbated the situation. The structural challenges are reflected in high youth unemployment (26.5 per cent, and 53.4 per cent among women) and more than a quarter of young people not being in education, employment or training (NEET)

²⁰ See UNCTAD (2021).

²¹ See OECD (n.d.).

²² See World Bank (2019b).

²³ See World Bank (2019c).

²⁴ See World Bank (2018b).

²⁵ See Ministry of Planning and Economic Development (n.d.).

²⁶ See UNDP (2021).

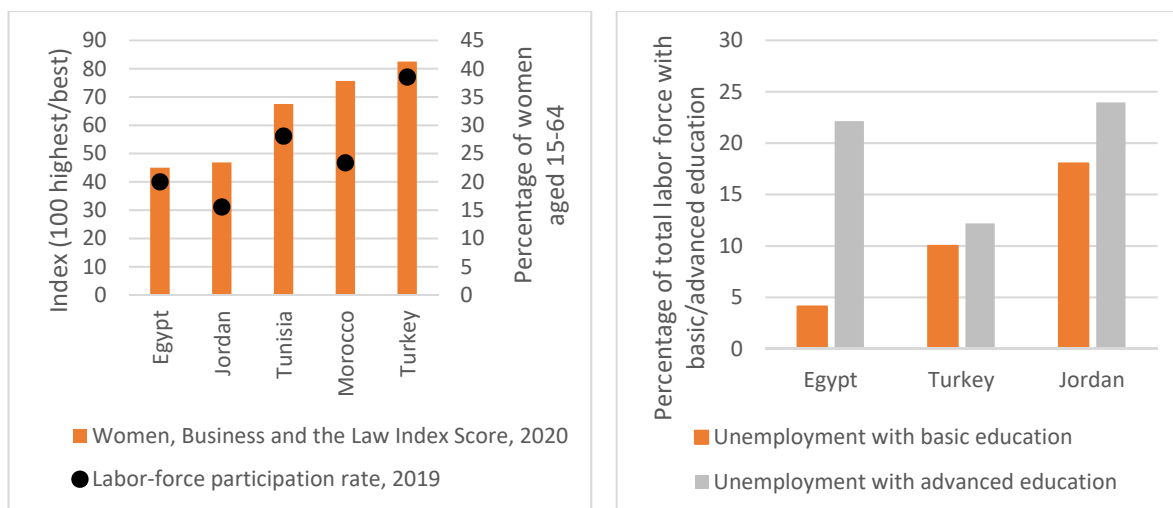
(27.1 per cent). This is higher than the regional average in SEMED.^{27, 28} The low overall labour-force participation rate (47.9 per cent in 2019) is more pronounced among young people, with only 36.3 of men and just 11.9 per cent of women between the ages of 15 and 24 participating in the labour force. Moreover, the economic consequences of the Covid-19 pandemic – from financial losses and the permanent return of Egyptian diaspora to business bankruptcies, sectorial downshifts and increased unemployment – are exacerbating the challenges for young people and women, already disadvantaged by significant gaps in access to economic opportunities.

Despite efforts to bridge the gender gap, the role of women and gender equality are other key areas of economic inclusion requiring continued reform. The 2020 Global Gender Gap Index, which measures disparities between men and women across countries, ranks Egypt 134th out of 153 countries.²⁹ Thanks to reforms, gender gaps in education have narrowed in recent years (enrolment rates in primary and secondary education are similar for boys and girls), but female labour-force participation remains low, at 20.0 per cent (2019) compared with 75.2 per cent for men. In addition, a large share of women are either working part time or in vulnerable employment; women tend to be highly represented in sectors such as agriculture and services, while their participation is limited in growing sectors such as tourism and science, technology, engineering and mathematics (STEM). This is largely down to social norms and values, long working hours, low wages, the need to meet marital and other care responsibilities and transportation difficulties, but also persistent legislative restrictions (for example, on access to certain types of job).³⁰ By and large, access to assets (such as land and inheritances), finance and higher education also remains more challenging for women than for men, limiting their income opportunities through employment or entrepreneurship.³¹ Indeed, Egypt ranks 179th out of 190 countries in the World Bank’s Women, Business and the Law Index, ahead only of West Bank and Gaza in the economies where the EBRD operates.³²

Since 2018, Egypt has made tremendous efforts to include people with disabilities, particularly on the educational and employability fronts. However, people with disabilities are still often excluded from the labour market due to a lack of skills, particularly ICT, soft and entrepreneurial skills.

Regional disparities hinder economic inclusion. Egyptians in rural areas have less access to public services, such as healthcare, education and sanitation infrastructure, than those in urban areas. In addition, the disproportionately urban-centric distribution of economic activity means that almost 40 per cent of private-sector employment is located in Cairo, Giza and Alexandria – further marginalising rural communities. National reform initiatives over the past few years have sought to address such social and human development disparities, targeting those living in extreme poverty, in particular.

Figure 3: Multiple challenges to youth and gender inclusion, even vs. neighbouring countries



Source: World Bank (2020a; n.d.c), last accessed 22 September 2021.

²⁷ Youth unemployment remains high in the SEMED region, at 26.5 per cent in Egypt, 35.8 per cent in Tunisia, 37.3 per cent in Jordan and 22.3 per cent in Morocco in 2019, for instance. Inactivity is high and evident in high NEET rates, for example, 27.1 per cent in Egypt, 25.2 per cent in Tunisia, 21.0 per cent in Algeria.

²⁸ See World Bank (n.d.a).

²⁹ See World Economic Forum (2020).

³⁰ See World Bank (2018a).

³¹ Ibid.

³² See World Bank (2021a).

STEM education has become a major area of interest in Egypt, but it is not yet properly mainstreamed in the wider education system, especially in higher education. The main factors of inequality affecting access to higher education, including STEM sectors, are academic achievement, family wealth, gender and geographic location.

Comprehensive and fundamental reforms in recent years have led to significant improvements in the educational system, particularly in the field of vocational education. Egypt climbed 23 places up the United Nations Development Programme (UNDP) Global Knowledge Index rankings for the technical and vocational education and training (TVET) sector in 2020, to 80th from 103rd.³³ Net and gross enrolment rates in pre-university education have increased over the past decade, gender gaps have disappeared and regional gaps have narrowed. This has translated into lower dropout rates and higher transition rates to secondary education, as well as to the improved performance of Egyptian students in standardised tests.³⁴ The Ministry of Education and Technical Education has established new schools and colleges with a TVET orientation, catering to nearly 2 million students, while more than 500,000 students have enrolled in other (public and private) vocational training centres (VTCs).³⁵ Plans to establish a TVET Teachers Training Academy are underway and, in 2018, the government passed a law establishing a number of technological universities and the Supreme Council for Technological Education. So far, 27 technological schools have been set up in partnership with the private sector (compared with three schools in 2018). Recently, the Ministry of Education and Technical Education adopted “Technical Education 2.0”, a new strategy aimed at transforming the quality, relevance, teaching, image and physical buildings of schools in the technical education sector.

Even so, mismatched labour-force skills and economic needs, particularly in the private sector, are key obstacles to faster growth. Despite the aforementioned progress, Egyptian students have low harmonised test scores, on average (356, with 300 the minimum pass mark), and the education system is generally seen as not providing quality results. Almost half of all Egyptian working youth are in occupations that do not match their education.^{36, 37} Unemployment in Egypt is highest among those with tertiary education levels (22.1 per cent), followed by those with intermediate education (10.4 per cent). Higher education, therefore, is not generating sufficient returns on educational investment for young people. Several factors are behind this, including (1) the lack of a reliable and efficient labour-market information system, (2) the limited role of the private sector in formulating and implementing education and training strategies (and few opportunities for work-based learning) and (3) a lack of resources to manage education providers due to the country’s limited fiscal room for manoeuvre.

It is important to make further efforts to ensure the economic inclusion of young people, women, rural inhabitants and people with disabilities. Promoting economic diversification beyond agriculture in rural areas, such as Upper Egypt, for example, and continuing investment in access to healthcare and education services could address regional disparities. Promoting the role of women in all aspects of the economy, but especially with regard to alleviating constraints on access to finance and assets (land, etc.) could go a long way to enhancing their job prospects and strengthening female entrepreneurship. Lastly, the government’s commitment to improving the situation of people with disabilities (education, jobs, healthcare and social safety nets) should also help to ensure that the benefits of growth reach all parts of society.

Policy priorities for continued reforms to the educational system include investment and institutional reform, as well as improving the efficiency and set-up of the TVET system. First, the government should continue – and possibly accelerate – its successful reform programme for primary, secondary and tertiary education, strengthening higher education, in particular, in those subjects required for a dynamic, digital, innovative economy. Second, it is essential to develop a greater role for the private sector in the TVET system. The lack of a formal role for private-sector employers (beyond their occasional involvement in boards or committees) is a key reason why curricula and teaching are not aligned with the labour market and employers’ needs. Third, passing an education bylaw that incorporates formal apprenticeship standards³⁸ (already under consideration) could help to standardise and improve standards in practical education.

³³ See UNDP (2020).

³⁴ See UNDP (2021). Comparing the results of the International Energy Agency’s International Mathematics and Science Study (TIMSS) competition for 2019 with those of 2015 suggests significant progress over that period. The average score in mathematics increased to 413 from 392 and to 389 from 371 in science. See IEA (2019a).

³⁵ See Egypt Today (2020).

³⁶ See ILO (2015).

³⁷ This applies to both technical training and soft skills.

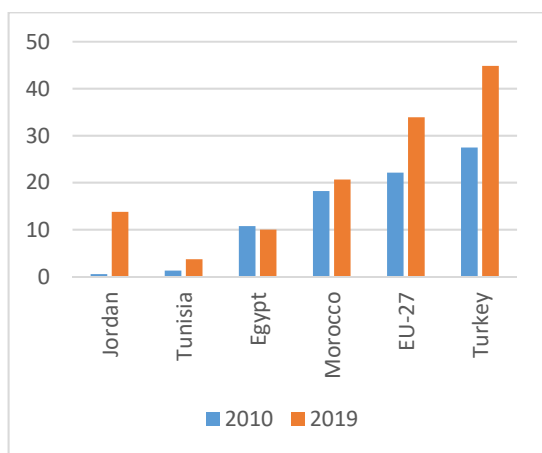
³⁸ Apprenticeships are a cost-efficient skills development tool that can help to transition young people into the labour market through quality on-the-job training in collaboration with the private sector and designated employers. This approach helps both young people and employers by equipping the labour force with the technical skills required to meet market needs.

2.5. Investments and policies to promote green growth, green technologies and climate resilience could become an important engine of growth while mitigating climate risks to the economy

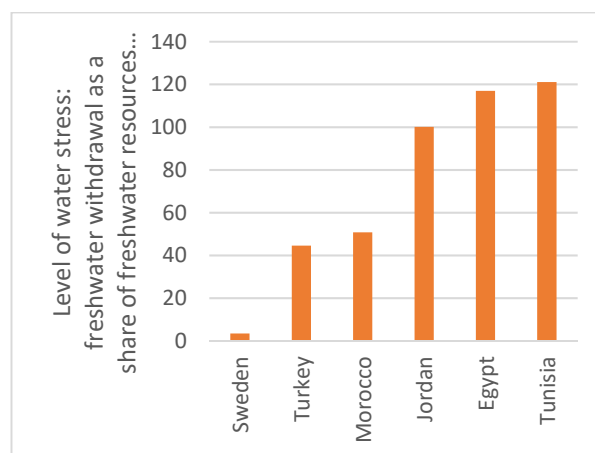
Egypt's green economy transition will require continued investment in sustainable energy, waste-management measures and climate adaptation, especially in the agriculture and water sectors. GHG emissions are a pressing problem in the transport, industrial and buildings sectors, as well as in the energy-producing sector.³⁹ Egypt does not set objectives for GHG emission reductions in its nationally determined contribution (NDC), but the increased use of renewable energy is seen as key in this regard.⁴⁰ Egypt's energy and carbon intensity ratio are twice the world average, but on a par with the rest of the EBRD regions.⁴¹ Consequently, it is essential that the country invest in moving to a low-carbon path to avoid being locked into inefficient technologies in future. In parallel, as climate change and population growth put pressure on scarce water resources, alternative sources and more efficient water use will be essential to ensure this does not become an obstacle to growth.

Figure 4: Egypt faces various challenges when it comes to sustainability

Share of electricity production from renewables (2010 and 2019)



Level of water stress: freshwater withdrawal as a proportion of available freshwater resources (2017)



Source: BP (2021); Ember (2019); World Bank (n.d.c).

Egypt issued its first green bond in September 2020, signalling its commitment to continued public-sector green investment. The country sold US\$ 750 million in green bonds, the first sovereign offering of the climate-friendly debt instrument in the Middle East and North Africa (MENA). Proceeds from the debt sale will finance the development of Egypt's US\$ 1.9 billion portfolio of green projects, with 19 per cent going to clean transportation, 16 per cent to renewable energy, 26 per cent to water projects and 39 per cent to pollution reduction and control. The success of this maiden green issuance set the stage for Egypt's first green corporate bond to be issued in June 2021 by Commercial International Bank (CIB), the country's leading private commercial bank.

The administration has implemented EU sweeping reforms to the energy sector in recent years, making investments more attractive and creating considerable scope for further investment. Electricity demand is expected to double by 2030, driven by rapid population growth and an expanding economy, potentially resulting in a strong increase in CO₂ emissions. The government has pushed through robust reforms aimed at opening up the energy market, including the Electricity Law of 2015, the Natural Gas Law of 2017 and executive regulations for the downstream gas market in 2018. As the cost of renewable electricity production has dropped and traditional energy subsidies have been removed, households and industry have become more receptive to alternative energy sources. With attractive feed-in tariff terms in place for renewable projects and financing from domestic and foreign financiers (including for small and medium-

³⁹ See IEA (n.d.b) and Climate Watch (n.d.).

⁴⁰ Per Egypt's NDC, submitted to the United Nations Framework Convention on Climate Change (UNFCCC) in June 2017. See Arab Republic of Egypt (2017a).

⁴¹ See IEA (n.d.b).

sized investments), the country has seen an increase in private licences and power purchase agreements (PPAs) (including 2,000 MW each for wind and large-scale solar capacity and 300 MW of rooftop solar units, at up to 500 KW each). The Ministry of Electricity and Renewable Energy (MoEE) and the New and Renewable Energy Authority launched a flagship solar energy project in Benban in 2015 and its development is ongoing, with the support of international financing partners.

The transport and buildings sectors are major drivers of Egypt's CO₂ emissions. Transport, for example, accounts for 24 per cent of the country's CO₂ emissions from fuel combustion, while road transport constitutes 95 per cent of all transport emissions.⁴² It is imperative, therefore, that Egypt increase rail's share of passenger and freight transport and incentivise car conversion to natural gas through a national programme of finance and incentives. However, for now, the country has relatively weak vehicle emissions standards; the EBRD rates their quality behind those of countries such as Morocco and Turkey (though they are on par with Jordan and Tunisia).

Urban transport, in particular, is suffering from an ageing fleet that is prone to frequent breakdowns and low-quality emissions. An estimated 64,000 minibuses are more than 20 years old, while almost 70 per cent of all vehicles registered in the country are older than 15 years. There is also significant energy-efficiency potential in Egypt's buildings. The technical energy efficiency potential of the buildings sector is estimated at 30 per cent for residential buildings and as much as 60 per cent in commercial buildings.⁴³ The MoEE had formulated a plan to improve energy efficiency and remove all electricity subsidies by FY2020/21,⁴⁴ but this has been delayed to FY2024/25. Continuing down this path is essential, however, to incentivise consumers (households and enterprises) to make more efficient use of energy and to make energy-efficiency investments. Plans to expand e-mobility to lower vehicle emissions could also accelerate the transition.

Egypt is becoming increasingly water scarce, driven by population growth and climate change. Egypt's population is expected to reach 150 million by 2050, with forecast water needs of 150 billion m³ per year. Yet, the country's total available water is less than half that, at 62 billion m³ per year. World Bank data for 2017 suggest that Egypt is one of the 15 most water-stressed countries in the world.⁴⁵ Data on sectoral water usage show the agriculture sector dominating, accounting for around 85 per cent of total water demand, despite having just an 11.9 per cent share of GDP in 2015. At the same time, significant losses are being incurred due to leaking infrastructure and a lack of water-sector efficiency.

Addressing the projected gap in water resources would require water infrastructure investments, regulatory reform and technical assistance in the agricultural sector. First, a key priority should be investments in alternative water sources (in particular, desalination plants) and infrastructure for improved water efficiency for municipal, industrial and agriculture water use. Desalination has been on the government's agenda for several years, with a number of plants now completed and more under construction (the 2020 plan envisages investments of US\$ 2.8 billion). While there is clear interest in involving private-sector actors, the government could step up its outsourcing of projects through concessions to accelerate implementation and limit the impact on government debt. Similar logic could be applied to industrial wastewater treatment facilities, where much potential for expansion remains. Second, regulatory reforms for water tariffs and metering could incentivise responsible consumption. The agricultural sector (as the biggest single consumer) would require specific support. Raising awareness among farmers about water issues and scarcity, training them on water usage and irrigation methods, and promoting new irrigation methods (which would, in turn, require better access to finance) would help optimise the water footprint.

2.6. Digital transformation could become a key catalyst of faster growth in Egypt

Limited connectivity and weak infrastructure are interrelated challenges for both consumers and businesses. In January 2021, Egypt's internet penetration rate (the share of the population with access to and using fixed-line/broadband internet) was lower than that of many of its regional peers (at 57.3 per cent, compared with 74.4 per cent in Morocco, 66.8 per cent in Tunisia and 66.7 per cent in Jordan). Despite recent improvements, this suggests infrastructural limitations on access (especially in rural areas), as the cost is modest and competitive compared with its peers (at US\$ 36 in 2020 (purchasing price

⁴² See IEA (n.d.b) and Climate Watch (n.d.).

⁴³ See Arab Republic of Egypt (2017b).

⁴⁴ See Oxford Institute for Energy Studies (2018).

⁴⁵ Level of water stress: freshwater withdrawal as a proportion of available freshwater sources. See World Bank (n.d.c), 2017 data.

parity-adjusted) for 5 GB of internet usage, compared with US\$ 62 in Ghana and US\$ 93 in Jordan (though above Turkey's US\$ 18). Mobile network coverage is strong in urban areas, though 5G is not yet available.

Expanding infrastructure requires national network development and encouragement for private-sector telecommunications companies to improve connectivity in remote areas. Private operators face a multitude of challenges with regard to infrastructure spending, including low revenue per customer from fixed broadband and mobile data services. Operators could also benefit from improved access to fibre optic lines and establishing effective spectrum auction mechanisms to make market access more competitive. This could also help to moderate the relatively strong market role of the state-run operator, which is directly under the oversight of the Ministry of Communications and Information Technology.

The government has taken major steps in regulatory terms, with recent laws on cybercrime, intellectual property, consumer protection and data protection, but effective implementation will be key. Establishing an independent data protection authority, for example, is essential to ensuring market-wide adherence and fostering confidence in emerging digital services in the Egyptian market. Likewise, addressing operational issues, such as number portability and the operational effectiveness of quality control institutions, will be crucial if Egypt is to improve conditions for the private sector.

Limited access to data poses a challenge for businesses, impeding informed decision-making and adopting data-driven technologies. Open Data Watch ranks Egypt 153rd out of 187 countries in terms of data openness.⁴⁶ A regulatory environment that enables open data, freedom of information and advanced data collection and dissemination methods could prompt businesses to participate more in the digital economy and enable data-driven innovation.

The Egyptian government is engaged in the rapid digitalisation of government services and sustaining momentum will be key to accelerating transformation in other sectors of the economy. In recent years, the government has developed and launched several e-services, with a total of 155 services now operational after the first phase of its digitalisation plan. The [Digital Egypt](#) platform, where users can access a bundle of government services, has been launched on a trial basis and work continues to transform the postal service and the internal operations of government bodies. A similar pace is needed when it comes to digitalising investor-related services.

Digital payment services are gaining traction, but work is needed to encourage wide-scale adoption. E-wallet interoperability and the range of goods and services available for purchase using mobile payments are areas that need further improvement. This is particularly relevant in the context of limited access to traditional banking services for a large segment of the population. This is in contrast to the country's high mobile connection rate, at 92.7 per cent of the population in January 2021.⁴⁷

Businesses face a significant challenge in the weak digital skills of large segments of the workforce and consumer population. Substantive investment is needed to train workers and business owners in basic computer literacy and other digital and soft skills needed in the digital age. There is also a need for policies to support the digital transformation of small businesses, where costs can be prohibitive and a preference for traditional business practices can be more deeply rooted. Digital illiteracy, modest levels of education and language barriers can limit consumer capacity to engage in digital commerce. Both national and local upskilling programmes are needed to tackle these barriers.

⁴⁶ See Open Data Watch (2020).

⁴⁷ See DataReportal (2021).

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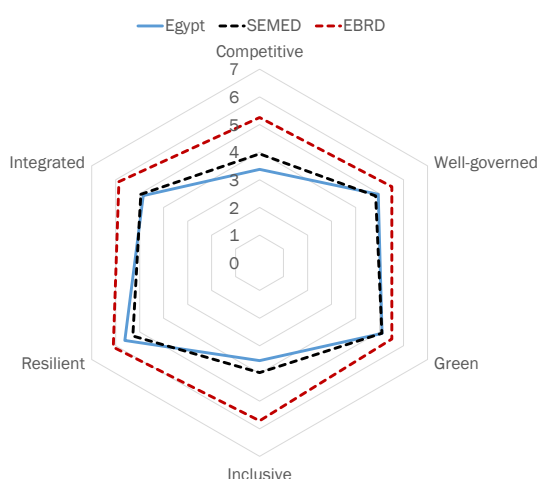
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Annex 1: Qualities of a sustainable market economy

The EBRD's assessment of transition qualities (ATQ) scores is based on a distance-to-frontier approach, with the best-performing countries used as benchmark. The resulting scores are rescaled from 1 to 10, where 1 represents little or no progress and 10 represents the frontier. The Bank considers the following six qualities of an economy: competitive, well governed, green, inclusive, resilient and integrated. In the 2021 ATQ, Egypt ranked 34th out of the 38 economies in which the EBRD operates and 4th in SEMED, with an average score of 4.33. It scored highest on the "resilient" (5.35) and "well-governed" (5.25) qualities, while its lowest scores were for the "competitive" (3.41) and "inclusive" (3.56) qualities, where there were significant gaps to the overall EBRD averages.

Figure A.1. Assessment of transition qualities (2021)



Note: The level of development within each of the qualities is measured from 1 to 10, with 1 meaning little or no progress and 10 representing the frontier.

Source: EBRD calculations.

Competitive (ATQ = 3.41)

On competitiveness, in the 2021 ATQ, Egypt ranked 36th out of the 38 economies in which the EBRD invests.

- It ranked 93rd out of 141 countries in the World Economic Forum (WEF) Global Competitiveness Report 2019, improving its position slightly from 2018.⁴⁸
- The WEF ranked Egypt 89th out of 141 countries for the ease of finding skilled employees and 99th for workforce skills.⁴⁹
- It ranks 20th (out of 38 economies) for labour productivity in the EBRD regions.
- It ranked 96th out of 131 economies in the Global Innovation Index 2020⁵⁰ and 34th out of 38 economies in the EBRD's Knowledge Economy Index 2019.⁵¹

Market structures and institutions for competition

- Egypt has one of the highest levels of applied tariff rates (weighted average) on goods of all of the economies in which the Bank invests. This suggests limited openness to international markets. The applied tariff rate increased from around 5.5 per cent in 2015 to 19.5 per cent in 2019 for primary products, while they decreased slightly for manufactured products, from around 8.4 per cent in 2015 to around 6.07 in 2019, according to World Bank World Development Indicators (WDI).⁵²

⁴⁸ See WEF (2019).

⁴⁹ Ibid.

⁵⁰ See Cornell University, INSEAD and WIPO (2020).

⁵¹ See EBRD (2019).

⁵² See World Bank (n.d.c).

- When it comes to subsidies to the private sector, public corporations and other sectors, Egypt is the worst performer in the EBRD regions. It shelled out subsidies of around 6 per cent of GDP in 2015,⁵³ well above most of its EBRD peers, and the level is rising. This suggests a tendency of the state to intervene in the economy, which may have a negative impact on the country's competitiveness.
- The quality of the business environment and regulatory framework in Egypt appears to be below the average of the SEMED region and well below the average of the EBRD regions.⁵⁴ The country does well on starting a business (better than its regional peers), but areas with room for improvement include trading across borders, paying taxes, enforcing contracts, registering properties and insolvency resolution mechanisms.⁵⁵ In terms of the quality of competition law, its institutions and enforcement, Egypt's performance likewise lags that of its regional peers, while the EBRD's adjusted SME index score for 2019 also leaves room for improvement.
- Services are an important pillar of the Egyptian economy (accounting for 55.3 per cent of GDP in 2015-16) and employment. The service sector is dominated by tourism, however, and the share of advanced business services (such as financial, insurance, communications and IT) as a proportion of total service exports is well below the average of the SEMED region and wider EBRD regions (7.8 per cent in 2018 versus 16 per cent and 14 per cent, respectively).⁵⁶

Capacity to generate value added and to innovate

- With a rather diversified economy, Egypt's score for economic complexity, according to the Observatory of Economic Complexity (OEC) (at -0.03), shows the country performing below the SEMED average (of 0.01), and there is still a gap to the average performance of the EBRD regions (0.34).⁵⁷ Egypt's basket of export products includes goods of both low and high complexity (minerals and chemicals, respectively, for example), making it reasonably integrated into global value chains – though it lags somewhat when it comes to the country's aspirations for future growth. Still, the quality of its trade and transport infrastructure is above that of its peers.
- Egypt scores below the regional average in terms of education and skills of the current and future workforce,⁵⁸ something that is also reflected in the “inclusive” ATQ. The quality and adequacy of workforce skills to meet private-sector needs and enhance competitiveness are a major challenge.
- The availability of credit to the private sector appears particularly limited, according to the World Bank World Development Indicators.⁵⁹ It amounted to around 25 per cent of GDP in 2018 (compared with around 68 per cent in Tunisia, 78 per cent in Jordan and 85 per cent in Morocco). Access to finance and the financial sector's ability to meet private-sector needs also appear to be major challenges in Egypt.

⁵³ See IMF (n.d.a).

⁵⁴ See World Bank (2019a).

⁵⁵ Ibid. In the light of the World Bank's recent evaluation of its Doing Business rankings, the EBRD conducted an internal assessment to investigate the impact on its ATQ. The 2021 ATQs (and this diagnostic report) were compiled prior to the announcement, but do not appear to be affected by data irregularities.

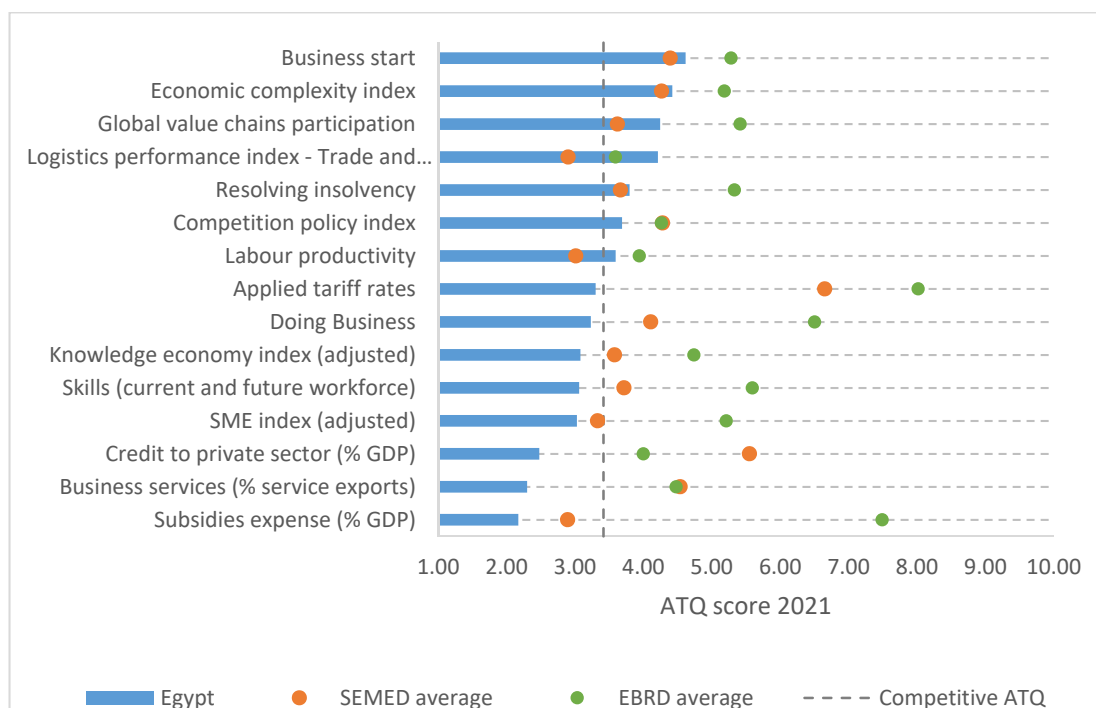
⁵⁶ See IMF (n.d.c).

⁵⁷ See OEC (2019).

⁵⁸ See World Bank (n.d.c).

⁵⁹ Ibid.

Figure A.2. “Competitive” ATQ overview, 2021



Source: EBRD (2021).

Note: See <https://2021.tr-ebird.com/structural-reform/> for a list of indicators, data sources and methodological notes.

Well governed (ATQ = 5.25)

In the WEF Global Competitiveness Report 2019, Egypt ranked:⁶⁰

- 34th on the protection of property rights and 89th on the protection of intellectual property
- 34th out of 137 countries on judicial independence
- 75th on the burden of government regulation, 91st on transparency of government policymaking
- 100th on e-participation
- 28th on shareholder governance
- 66th on the efficiency of the legal framework in settling disputes.

Transparency International ranked Egypt 117th out 180 countries in its 2020 Corruption Perceptions Index.⁶¹

National governance

Quality of public governance

The administration has implemented fundamental reforms in recent years, but public perception data suggest that the benefits have not yet materialised, as Egypt still ranks low on the government effectiveness index.⁶² The overall quality of national governance remains low, despite minor improvements in some indicators of the quality of regulation and private property protection. Perceptions of government effectiveness on capacity and commitment to improving service delivery and implementing best-practice business-friendly regulations and policies are still below business expectations.

⁶⁰ See WEF (2019).

⁶¹ See Transparency International (2020).

⁶² See World Bank (n.d.d).

Corruption in public and private institutions is still seen as a significant obstacle. Greater efforts to digitalise government services would bring about concrete results in terms of improving transparency and accountability. Long-term change as result of the introduction an Anti-Bribery Law Governmental Accounting Law, National Anti-Corruption Strategy and others measures will require efficient enforcement processes.

Integrity and control of corruption

Businesses are still facing a high degree of corruption risk when dealing with the administration; it is the third most problematic factor in doing business after political instability and inflation.⁶³ Businesses also continue to be affected by the inefficiency of the country's legal framework when it comes to resolving disputes and obtaining licences. The dispute resolution mechanism is perceived as slow and complicated,⁶⁴ adding to the inefficiency of the tax administration and the complexity of tax-regime enforcement.⁶⁵

Access to information remains limited due to wider political economy issues. Despite recent improvements, many businesses and entrepreneurs continue to cite challenges associated with accessing public information, inefficient bureaucracy, administrative complexity and low-quality public services. Media freedom has not seen an improvement, according to Reporters without Borders, with Egypt ranked 166th out of 180 countries in the World Press Freedom Index.⁶⁶

The rule of law

Egypt still lags its regional peers, such as Tunisia, Jordan and Morocco, on contract enforcement and on the independence of the judicial system.⁶⁷ Judges in Egypt generally have a good reputation and widespread public trust, but the burdensome bureaucracy of the court system and political instability are impeding improvements in the independence and efficiency of the judicial regime.

Corporate level governance

In 2016, the Egyptian Institute Of Directors (EIoD) carried out a review of the governance of SOEs and introduced international best practices for SOEs, such as annual reporting. Based on this review, the EIoD up gradated the previous code of corporate governance,⁶⁸ consolidating it into one single code of best practices in the fields of governance, transparency and management.

However, there are persistent issues with compliance, as few listed state-owned companies provide detailed and clear statements in their annual reports. The disclosures of Egypt's listed companies remain unsatisfactory, particularly when it comes to non-financial disclosures.⁶⁹

⁶³ See WEF (2019).

⁶⁴ See US Department of State (2020).

⁶⁵ See OECD (2014), p.33.

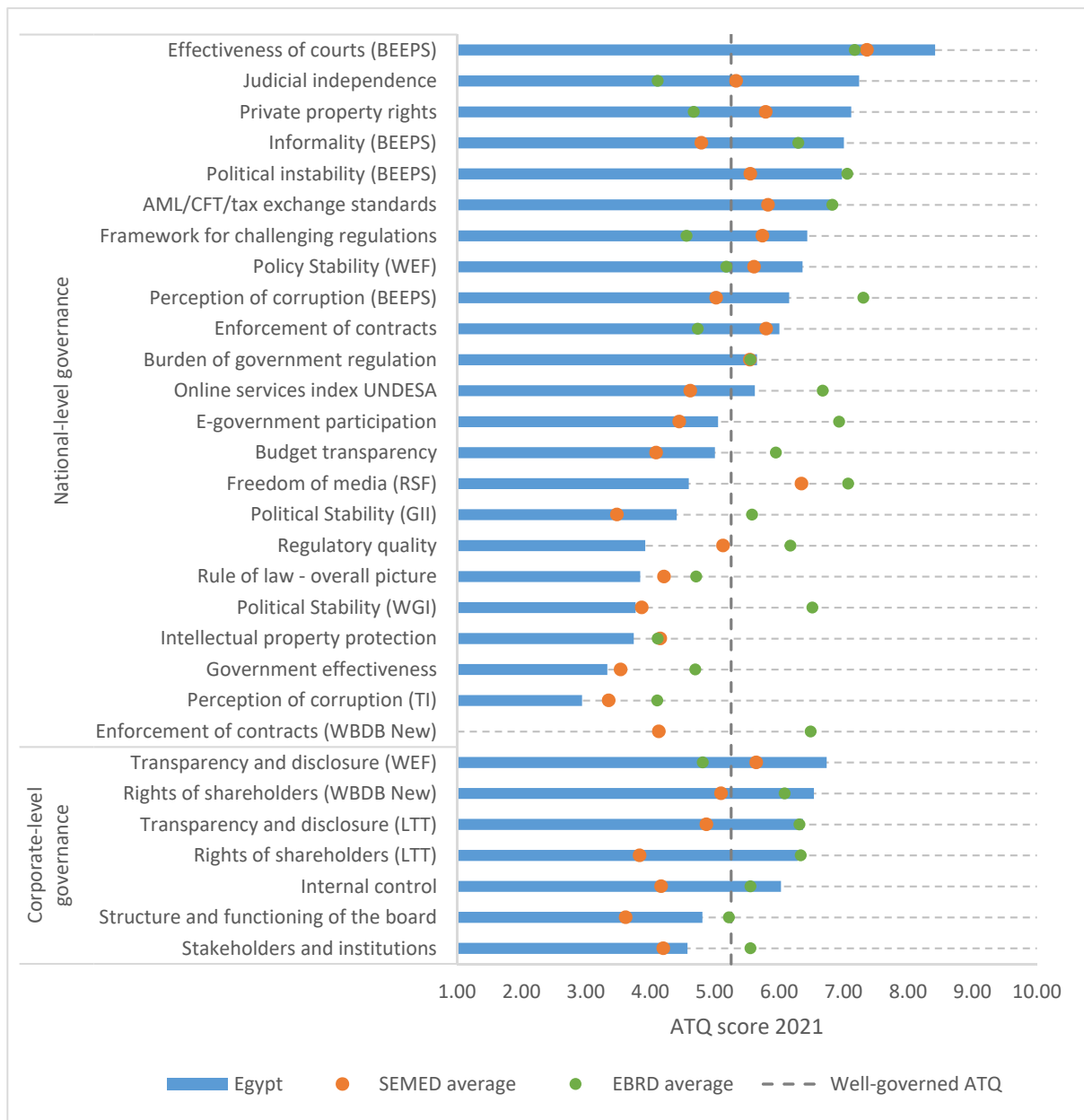
⁶⁶ See Reporters Without Borders (2021).

⁶⁷ See World Bank (n.d.d).

⁶⁸ See ECGI (2016).

⁶⁹ See OECD (2009, rev. 2010), p.6.

Figure A.3. “Well-governed” ATQ overview, 2021



Source: EBRD (2021).

Note: See <https://2021.tr-ebrd.com/structural-reform/> for a list of indicators, data sources and methodological notes.

Egypt relies mostly on natural gas for its electricity generation (77 per cent), with 13 per cent coming from oil, 7 per cent from hydro and 3 per cent from wind and solar as of 2019. The electricity generation sector is responsible for almost half of the country's CO₂ emissions.⁷⁰

The IEA expects Egyptian electricity demand to double by 2030, driven by rapid population growth and an expanding economy, potentially resulting in a strong increase in CO₂ emissions.⁷¹

Egypt's energy and carbon intensity per unit of GDP are twice the world average, though average for the EBRD regions.⁷²

Egypt's agricultural sector is responsible for 79 per cent of water withdrawal.⁷³

Carbon intensity: Egypt's CO₂/GDP ratio (kg of CO₂ per 2015 US\$) in 2020 was 0.6 (compared with the EBRD average of 0.7, the OECD average of 0.2 and the world average of 0.4).⁷⁴

Energy intensity: Total energy supply per unit of GDP in Egypt in 2019 was 10.0 (GJ per thousand 2015 US\$), compared with a world average of 7.2, and an OECD average of 4.3).⁷⁵

Egypt's green economy transition will need to focus on investing in sustainable energy, waste management measures and climate adaptation. Egypt does not have set objectives for GHG emission reductions in its first NDC, but rather gives examples of mitigation and adaptation actions, as well an assessment of the country's vulnerability to climate change for each sector. Its GHG intensity is relatively high, due to the transport, buildings, electricity and industrial sectors' reliance on fossil-fuel sources.

Management of Egypt's significant fossil-fuel resources will be crucial. The country's proven hydrocarbon reserves stood at 3.3 billion barrels of oil and 77.2 trillion cubic feet of natural gas at the end of 2018. Unabated combustion of fossil-fuel reserves would result in significant CO₂ emissions.⁷⁶ Egypt is currently stepping up its efforts to deploy innovative technology to increase its renewable energy share (in the context of a green recovery), using its industrial, technological and human capabilities to help implement a solid-waste management system and to convert waste into smart energy solutions. Major renewable energy projects are being developed and the government's Integrated Sustainable Energy Strategy (ISES) to 2035 sets renewable energy targets of 20 per cent of the electricity mix by 2022 and 42 per cent by 2035.⁷⁷

There is significant energy efficiency potential in buildings. The technical energy efficiency potential of the buildings sector is estimated at 30 per cent for residential buildings and up to 60 per cent for commercial buildings.⁷⁸ Thirty-six per cent of the energy consumed in commercial buildings is for lighting, while up to 40 per cent is for cooling.⁷⁹ The MoEE has formulated a plan to improve energy efficiency, including non-price initiatives such LED bulbs. The government announced in February 2018 that it was planning to remove all electricity subsidies by FY2020/21,⁸⁰ but this deadline was later extended to FY2024/25.

Egypt is one the three most water-stressed countries in the EBRD regions, with dwindling groundwater reserves and a heavy dependence on rain-fed agriculture.⁸¹ Egypt has several legislative frameworks and laws governing the water sector, primarily [Law 12 of 1984 on Irrigation and Drainage](#) and [Law 48 of 1982 on the Protection of the Nile and Waterways from Pollution](#). In addition, there are climate impacts on Egypt's urban settings. Heat stress could increase mortality and reduce labour productivity, while extreme events could increase disease and reduce drinking water quality.⁸²

The waste sector is in enormous need of financing for sustainable investment and services. Driven by population growth and changing consumption patterns, waste generation is projected to increase at a rate

⁷⁰ See IEA (2019b), IRENA (2018a), IEA (n.d.e) and World Bank (2021b).

⁷¹ See IRENA (2018b).

⁷² See IEA (2020).

⁷³ See World Bank (n.d.f).

⁷⁴ See IEA (n.d.a; n.d.c).

⁷⁵ See IEA (n.d.a; n.d.d).

⁷⁶ See Carbon Tracker Initiative (2017).

⁷⁷ See IRENA (2018a).

⁷⁸ See Arab Republic of Egypt (2017b).

⁷⁹ Ibid.

⁸⁰ See Oxford Institute for Energy Studies (2018).

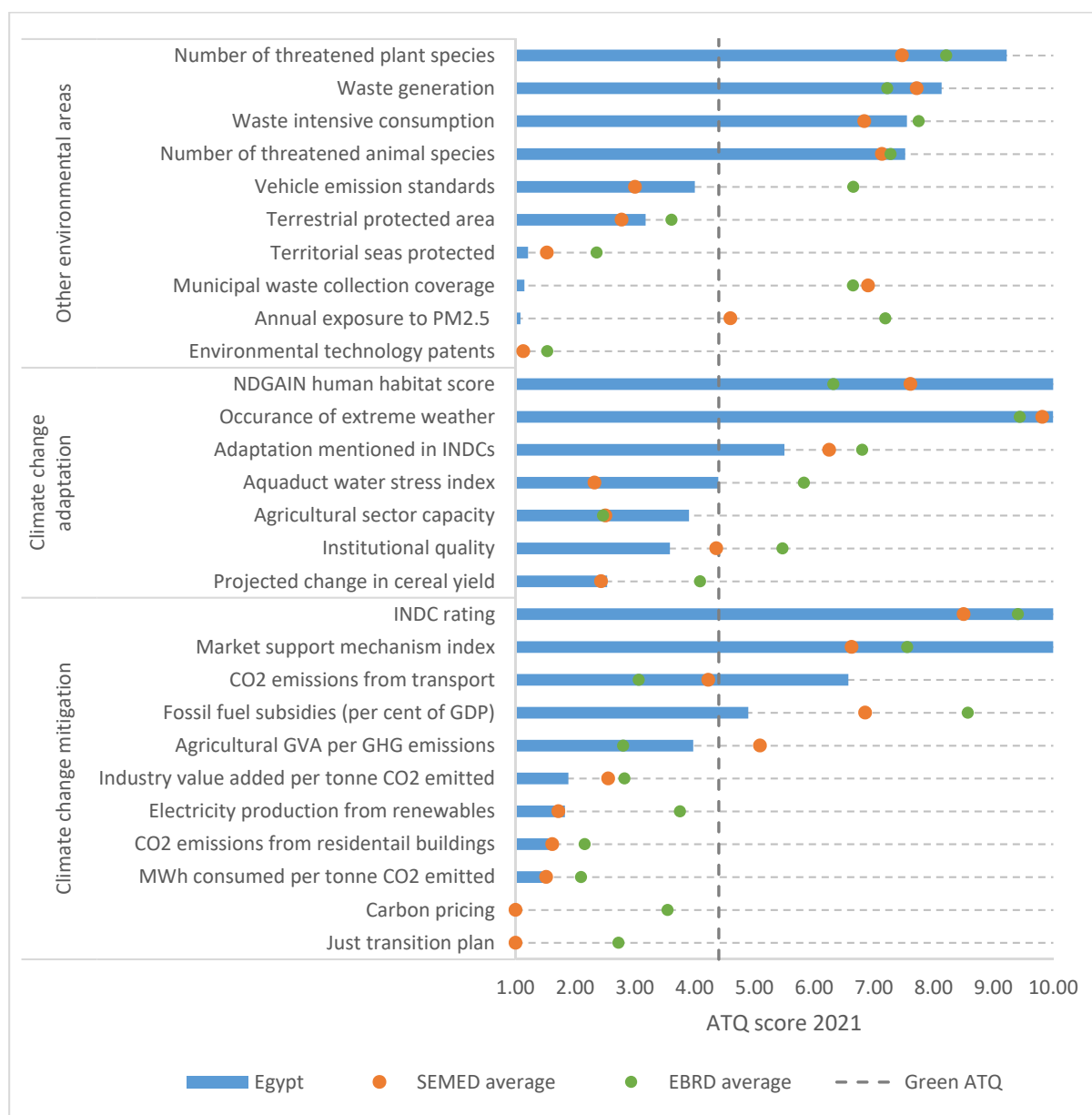
⁸¹ See World Bank (n.d.b).

⁸² See USAID (2018) and World Bank (2020b).

of 3.4 per cent per year.⁸³ Only around 60 per cent of the waste produced is actually collected and less than 20 per cent is properly disposed of or recycled. A significant portion of the waste is dumped in canals, rivers, streets and open areas without any preventative measures.⁸⁴ The legal framework on waste management would benefit from updating and strengthening.

Cairo is one of the most air-polluted cities in the world.⁸⁵ On average, Cairo residents breathe in air suffused with 14.2 times the safe level of PM₁₀.⁸⁶ According to the World Health Organization (WHO), there were on average 114 deaths per 100 000 people from household and ambient air pollution in Egypt.⁸⁷ In June 2018, the Ministry of Environment set an objective to halve Egypt’s air pollution by 2023, in line with its Egypt Vision 2030.⁸⁸

Figure A.4. “Green” ATQ overview, 2021



Source: EBRD (2021).

Note: See <https://2021.tr-ebrd.com/structural-reform/> for a list of indicators, data sources and methodological notes.

⁸³ Ibid.

⁸⁴ See FAO (n.d.) and GIZ (n.d.).

⁸⁵ See WHO (2016).

⁸⁶ See <https://apps.who.int/gho/data/node.country.country-EGY>

⁸⁷ See World Bank (n.d.e).

⁸⁸ See Egypt Today (2018).

Egypt had a median age of 24.6 years as of 2020, making it the third-youngest country in the SEMED region.⁸⁹

There was a difference of 11.4 percentage points between the youth (15-24) and adult (25+) unemployment rates as of 2020. This stems from a relatively high youth jobless rate of 17.3 per cent and a relatively low unemployment rate of 5.9 per cent for adults.⁹⁰

The quality of Egypt's administrative, health and education systems is poor. The country receives the lowest score for perceived quality of education of all the economies where the EBRD invests.⁹¹

In the World Bank's Women, Business and the Law Index, which analyses the regulations and laws affecting women's economic inclusion, Egypt ranked only 180th out of 190 economies in 2021.⁹²

Egypt has the second-lowest score of all EBRD investee economies when it comes to the "inclusive" transition quality in 2021. The country has barely improved its overall inclusivity score since 2020 and nestles among the lowest-ranking EBRD economies with regard to gender and youth inclusion.⁹³

Gender inclusion

Women and the law: In the World Bank's Women, Business and the Law Index 2021, Egypt posts the second-lowest score in the EBRD regions, only faring better than the West Bank and Gaza.⁹⁴ Egypt performs particularly poorly on gender equality when it comes to laws affecting parenthood, mobility and assets.

Female workforce participation: Female labour-force participation remains particularly low, at 20 per cent as of 2019, compared with 75.2 per cent for men, largely due to social norms and values, care responsibilities, poor transportation and workplace discrimination. In a global comparison, female representation among STEM graduates in Egypt is high, but this does not translate into employment or managerial roles. Women also remain underrepresented in sectors such as transport and tourism.⁹⁵

Women's financial inclusion: The OECD Social Institutions and Gender Index (SIGI) in 2019 suggests that Egypt has room to improve its legal frameworks on inheritance, divorce, right to work and civil rights, as well as customary, religious or traditional practices that further hold back women.⁹⁶ Twenty-seven per cent of Egyptian women have a bank account (up from 9 per cent in 2014), but far fewer actually save (3.1 per cent) or borrow money (4.6 per cent) – all numbers are below regional averages.⁹⁷

Youth inclusion

Young people's access to employment and finance: Egypt scores lowest in the EBRD regions on the youth inclusion ATQ. The country has a very young population, but has limited access to finance for young people and a persistently high youth unemployment rate of 17.3 per cent (43.5 per cent among young females) (as of 2020).⁹⁸

Education: The quality of education in Egypt has significant room for improvement, as recent reforms still have to translate into better results. Of all the economies in which the EBRD operates, Egypt performs worst on harmonised test scores (356), where a score of 625 is advanced achievement and 300 is minimum achievement.⁹⁹ Furthermore, Egypt receives the lowest score for perceived quality of education among all EBRD countries of operation.

⁸⁹ See United Nations Population Division (2019).

⁹⁰ See ILO (2020).

⁹¹ See WEF (2017).

⁹² See World Bank (2021a).

⁹³ See EBRD (2021).

⁹⁴ See World Bank (2021a).

⁹⁵ See ILO (2020), ILO (n.d.a) and ILO (n.d.b).

⁹⁶ See OECD (2019).

⁹⁷ See World Bank (2018b).

⁹⁸ See ILO (2020), ILO (n.d.c) and ILO (n.d.d).

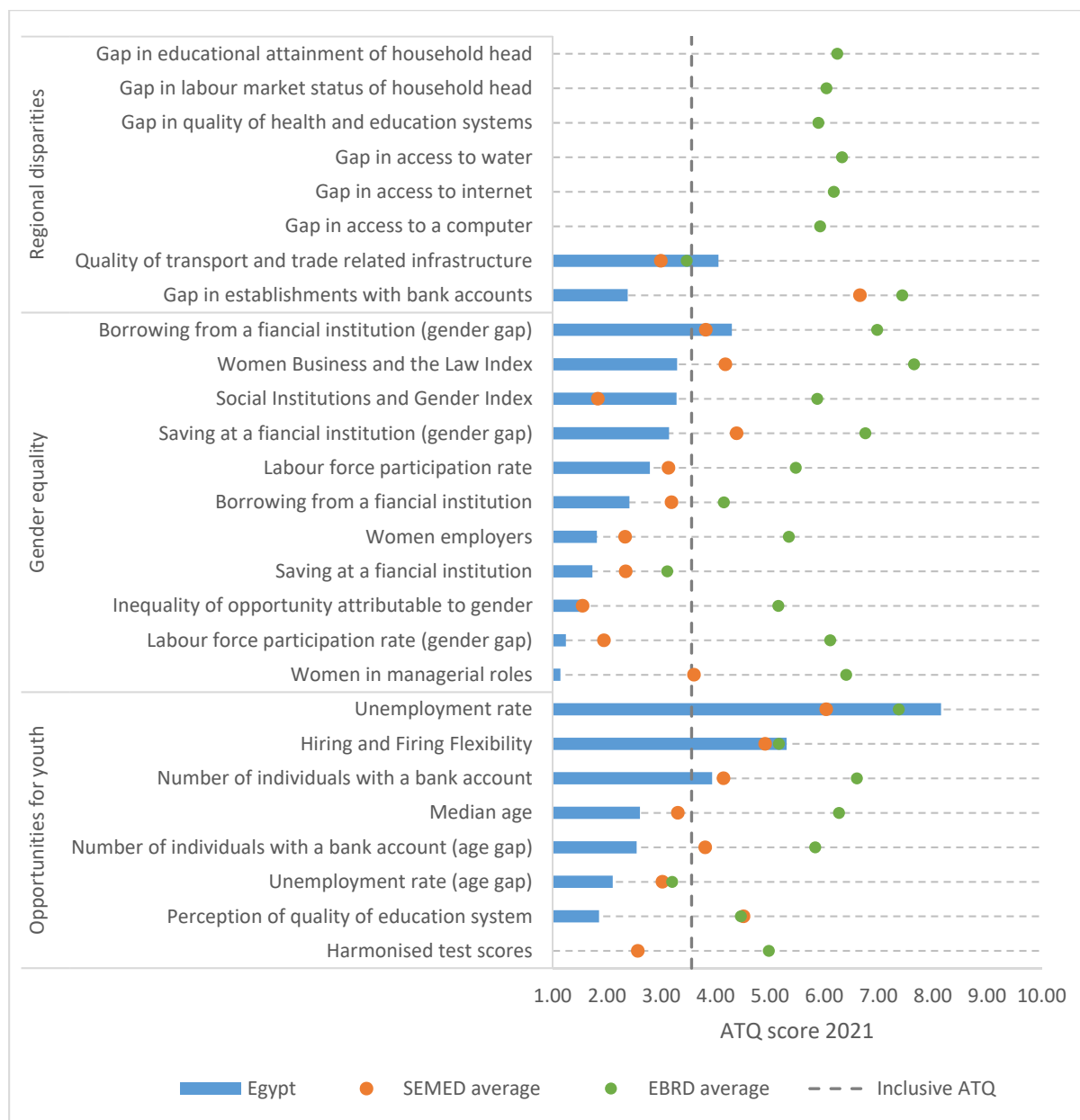
⁹⁹ See World Bank (2020a).

Regional inclusion

Transport: Egypt scores 2.8 in the World Bank’s Logistics Performance Index, a measure of the quality of trade- and transport-related infrastructure such as ports, railroads, roads and information technology (where the score 1 is the worst and 5 is the best). Egypt performs slightly better than the wider regional average, with a score of only 2.5.¹⁰⁰

Access to services and financial inclusion: Anecdotal evidence suggests that Egypt’s rural populations in the south have less access to services, such as healthcare, than those living in the country’s northern urban areas. There is a lack of financial inclusion, translating into a 38 percentage-point gap between businesses with a bank in account in the north and south of the country.¹⁰¹

Figure A.5. “Inclusive” ATQ overview, 2021



Source: EBRD (2021).

Note: See <https://2021.tr-ebrd.com/structural-reform/> for a list of indicators, data sources and methodological notes.

¹⁰⁰ See World Bank (2018c).

¹⁰¹ See EBRD (2021).

Financial resilience

Egypt's loan-to-deposit ratio and credit to the private sector rank below those of its peers and the EBRD average

- The country lags its peers and the EBRD average on returns on assets and credit to the private sector.
- On energy resilience, it tends to rank above its regional peers, but remains below EBRD average levels.

Egypt's financial sector is dominated by banking, which is showing stability and positive growth trends. The country's banks are generally well capitalised and profitable, although their exposure to the sovereign is high and the overall credit-to-GDP ratio is low. Banks' profitability, as measured by return on assets (ROA), remains strong, underpinning the sector's ability to generate capital internally. The sector-wide capital adequacy ratio (CAR) is adequate and was trending upwards before the Covid-19 crisis; it registered 20.1 per cent in 2020 compared with 17.7 per cent in 2019, though this was buoyed by the favourable risk treatment of sovereign bonds.¹⁰²

The Egyptian banking sector is characterised by a strong state presence, however, and a range of smaller, privately owned banks that are competing to grow their market share and operations. There were 38 banks in Egypt as of end 2019, with assets of around US\$ 368 billion (around 100 per cent of GDP).¹⁰³ The system is highly concentrated, with the top five banks controlling about 75 per cent of sector assets as of 2018. The two large state-owned banks control around 50 per cent of sectoral assets. In addition, foreign ownership is significant, at around 25 per cent in 2019.¹⁰⁴

Asset quality has been resilient, with moderate dollarisation levels. NPLs have stabilised around 4 per cent of GLP (3.9 per cent in 2020, 4.2 per cent in 2019) with robust provisioning levels of close to 100 per cent (97.2 per cent in 2020, 97.6 per cent in 2019). The sector has also become less dollarised, with foreign-currency loans as a share of total loans dropping to around 30 per cent in 2019 from around 40 per cent in 2016.¹⁰⁵

Credit penetration is low. Credit to the private sector as a share of GDP is below that of regional peers (at only 28.2 per cent in 2021) and has not seen any significant growth in recent years.¹⁰⁶ This is largely down to low credit demand and the crowding out of the private sector by public borrowers. This may change as private-sector growth accelerates and is supported by new sectoral initiatives from the CBE. Lending is also very concentrated in sovereign exposure, given the attractive yields of government securities in recent years, limiting access to finance for the private sector and engendering balance-sheet risk.

Relative to the banking sector, Egypt's non-bank financial institutions and capital markets remain underdeveloped in their reach to the private sector and carry significant potential for growth. Policies to support these alternative types of financing may complement the CBE's efforts to increase financial intermediation to the private sector, including SMEs. For larger companies and institutional investors, the corporate bond market does not yet constitute a sustainably accessible means of financing or liquidity.

Energy resilience

The energy sector in Egypt has made significant progress on boosting its resilience in recent years, but implementation challenges remain and are hampering greater progress. Structural reforms have supported market opening ([Electricity Law of 2015](#), [Natural Gas Law in 2017](#)) and growing private-sector participation in renewables. This includes the continued dominance of a former integrated state monopoly and the control it exerts over independent supply and the transmission infrastructure, as well as subsidised tariffs, which undermine market signals. In parallel and thanks to reforms favouring renewable energy sources, the costs of renewables have fallen dramatically in recent years, with grid parity and record low prices already witnessed in the region.

These difficulties could be resolved by unbundling the former integrated state monopoly, completing tariff reform and strengthening the capabilities and mandate of the sector regulator. In some cases, there may

¹⁰² See Central Bank of Egypt (2020).

¹⁰³ See Central Bank of Egypt (2021a).

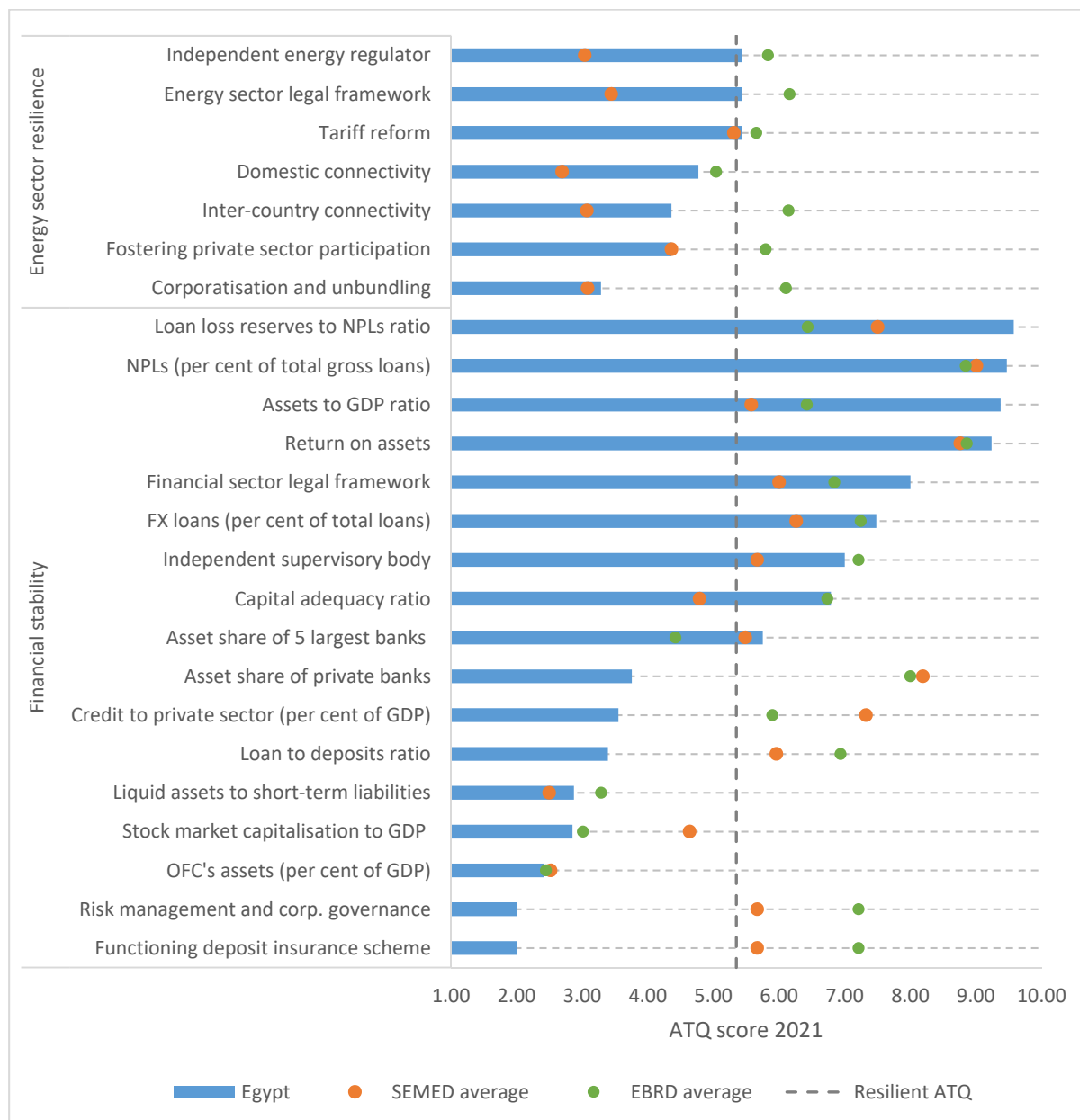
¹⁰⁴ Ibid.

¹⁰⁵ See Central Bank of Egypt (2020).

¹⁰⁶ See Central Bank of Egypt (2021a).

be a need for changes in primary legislation to remove any pending conflicts of interest – for example, the Egyptian Natural Gas Holding Company’s (EGAS) right to issue import permits and control over gas import infrastructure. Others will be addressable through secondary legislation or regulatory decisions – unbundling and network code revisions, for example. This would further boost the competitiveness of renewable energy, which has experienced strong growth in recent years.

Figure A.6. “Resilience” ATQ overview, 2021



Source: EBRD (2021).

Note: See <https://2021.tr-ebd.com/structural-reform/> for a list of indicators, data sources and methodological notes.

Trade as a share of GDP:¹⁰⁷ 39.62 per cent, compared with a selected OECD comparator country¹⁰⁸ average of 71.8 per cent.

FDI inflows as a share of GDP: 2.73 per cent, compared with comparator countries' average of 2.6 per cent.

Portfolio inflows as a share of GDP: 2.37 per cent, compared with comparator countries' average of 2.4 per cent.

Quality of infrastructure: ranked 93rd out of 141 countries (WEF GCR, 2019)

Logistics performance index: ranked 67th out of 160 countries (WB, LPI database, 2018)

Egypt ranked 31st among the 38 EBRD investee economies and third in the SEMED region on the “integrated” quality in the Bank’s 2021 ATQ. The country achieved slightly higher scores for its internal integration than for its trade and investment openness.

External integration

Trade environment: Exports and imports of goods and services as a share of GDP in Egypt had plummeted from 2008, but began to rise again in 2016. Egypt belongs to few regional trade agreements, but also imposes a relatively small number of non-tariff measures.

Investment environment: Egypt’s openness to FDI flows (2.7 per cent of GDP) has fluctuated considerably and is currently below the regional (4.64 per cent of GDP) and EBRD investee economy averages (5.4 per cent of GDP).¹⁰⁹ It is party to 83 bilateral investment treaties, with investment provisions accordingly in force (EBRD average: 65).

Non-FDI environment: Egypt’s capital-account openness is below regional, EBRD and comparator averages.¹¹⁰ However, portfolio inflows as a share of GDP are the fourth highest of all of the economies in which the EBRD operates.¹¹¹

Internal integration

Domestic transport: Egypt ranks 14th among the EBRD investee economies when it comes to road connectivity, with intercity travel times typically 41 per cent longer than the frontier.¹¹² However, the country scores above regional and EBRD averages where non-road transport infrastructure is concerned. Domestic logistical performance is low. The proportion of products lost to breakage or spoilage during shipping is the second-highest among the economies in which the EBRD invests.

Cross-border integration: Egypt’s international performance is better than the EBRD average, yet the cost of trading across borders is higher than the regional and EBRD averages.

Energy and ICT: The quality of electricity supply in Egypt is slightly better than the EBRD average and the time required to obtain a permanent electricity connection is among the shortest out of all EBRD countries. However, electric power transmission and distribution losses are higher than the EBRD average. Only around 47 per cent of the population uses the internet (compared with 68.3, on average, in the economies where the EBRD invests and 88.6 per cent, on average, in the comparator countries) and fixed broadband subscriptions are low.

¹⁰⁷ Five-year average.

¹⁰⁸ The set of comparator countries includes Canada, the Czech Republic, France, Germany, Japan, Sweden, the United Kingdom and the United States of America.

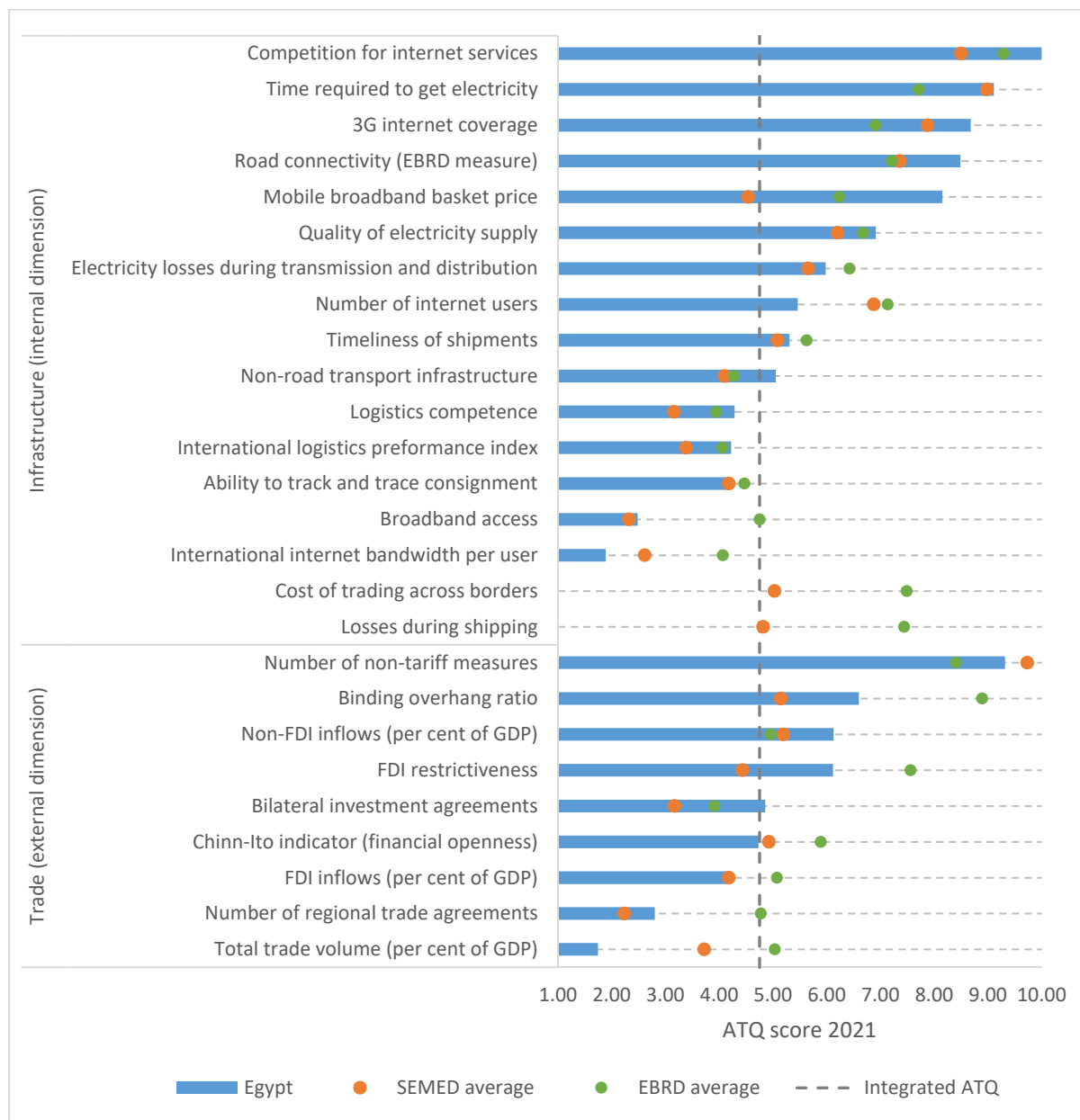
¹⁰⁹ See IMF (n.d.b).

¹¹⁰ Ibid.

¹¹¹ See Chinn and Ito (2021).

¹¹² An as-the-crow-flies distance driven at a speed of 110 km/h.

Figure A.7. “Integrated” ATQ overview, 2021



Source: EBRD (2021).

Note: See <https://2021.tr-ebd.com/structural-reform/> for a list of indicators, data sources and methodological notes.

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