EGYPT

COUNTRY ASSESSMENT

As approved by the Board of Directors at its meeting of 31 October 2012
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EXECUTIVE SUMMARY

Egypt is a founding Member of the EBRD and has requested to become a recipient country of the EBRD. The report of the Board of Directors to the Board of Governors on the geographical extension of the Bank’s operations to the member countries of the Southern and Eastern Mediterranean (SEMED) (BDS11-187(F)) and the related Resolutions Nos. 137, 138 and 139 of the Board of Governors, envision a three-phased approach to the geographical extension of the Bank’s operations to the member countries of SEMED.

Consistent with this approach, on 11 October 2011, the Board of Directors approved the commencement of the first phase of activities in Egypt (technical cooperation and other similar activities).

In the second phase, the entry into force of the amended Article 18 of the Agreement Establishing the EBRD (the “Agreement”) allows the Bank to start special operations in a member country which is not a recipient country, subject to the Board of Governors granting, for a limited period of time and under such terms as may be advisable, potential recipient country status to such member country. The amendment of Article 18 of the Agreement, as approved by the Board of Governors pursuant to Resolution No. 138, came into force on 22 August 2012.

Egypt requested to be granted potential recipient country status on 2 October 2012. Consistent with the provisions of Article 18, a decision to grant potential recipient country status can only be made if the member is able to meet the political and economic conditions of Article 1 of the Agreement. To inform the decision by the Board of Directors on whether Egypt meets the economic and political requirements, Management has prepared a report entitled “Egypt: Country Assessment and Operational Priorities” (attached). The report provides a political and economic assessment, including an analysis of Egypt’s transition challenges.

Based on the attached report and the staff assessment, it is Management’s view that Egypt meets the political and economic conditions of Article 1 of the Agreement. The assessment shows that:

- Egypt is committed to the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank, although the country is in the early stages of its post-revolutionary transformation and the application of these principles has been uneven. Significant challenges lie ahead to implement the economic and the political reform agenda.; and

- Egypt is a country where the Bank can carry out its purpose and functions as set out in Article 1 and 2 of the Agreement, namely “to foster transition towards open market-oriented economies and to promote private and entrepreneurial initiative”.

The report also outlines the Bank’s proposed operational response to the transition challenges faced by Egypt, drawing on initial field visits and consultations. The following operational themes have been identified to guide the Bank’s activities:
• financing and improving conditions for investments in the private sector, with particular emphasis on SMEs, to support transition and job creation;

• enhancing the agribusiness value chain to improve food security, strengthen the distribution chain, and develop a sector that accounts for a high share of employment;

• modernising the financial sector so that it can contribute more fully to economic growth by strengthening its capacity and diversifying the range of financial products offered, including risk capital;

• increasing the role of cleaner fuels and renewable energy and improving energy efficiency so as to support energy security and enhance economic competitiveness;

• supporting reform and commercialisation of the transport, fuels and power sectors, focusing on the mobilisation of private sector infrastructure investment; and

• upgrading and expanding municipal infrastructure, based on decentralisation, commercialisation, and private or non-sovereign solutions to provide the population with wider access to better quality urban services.

These proposed operational priorities are in line with the Egyptian authorities’ own development objectives and consistent with the overall directions set in the context of the Deauville Partnership. The government has expressed its conviction in the crucial importance of the private sector in speeding up the development process, and the pressing need to improve the business climate and proceed with macro-economic reform policies to foster private investment. The Bank will engage in policy dialogue, in coordination with other IFIs, to support capacity building, institutional design, and the enhancement of the business environment in support of private sector development. In addition, the promotion of inclusive growth will be given prominence in the Bank’s engagement in Egypt, which will include tackling high youth unemployment, the low female participation in the labour market, and the rural urban divides. The pace and direction of the Bank's operational engagement will reflect the continuing economic and political reform environment in Egypt.

The EBRD has and will continue to cooperate with other IFIs¹, the EU and bilateral partners, so that its operational priorities take full account of the activities of others active in Egypt. By capitalising on the Deauville Partnership IFI platform, the EBRD will aim to create synergies, avoid duplication, and capitalise on the Bank’s specific competencies, comparative advantage and transition mandate.

The EBRD has already been making considerable progress in the necessary preparatory work for operations in Egypt to start as swiftly as possible. The Bank has established a functioning office and is in the process of building a dedicated organisation and staff. With generous financial support from donors and from the Bank’s net income, we have initiated technical cooperation projects and project preparation activities. The Bank is confident that it can contribute its experience to bringing about economic transition in Egypt, while at the same time realising that it has a lot to learn and will have to adapt. The recent Transition-to-Transition conference which was organised with the help of the authorities presented an opportunity to exchange views on needs and possibilities. All of this will allow for a rapid start of investments once all institutional requirements are met.

¹ Notably the EIB and other Deauville IFI Partners (AfDB, IFC, IsDB, AFESD, AMF, World Bank, OFID and IMF).
Country Assessment and Operational Priorities

Egypt, a founding Member of the EBRD, has requested to become a country of operations of the EBRD. Consistent with the respective resolutions and amendments to the Agreement Establishing the Bank (AEB), the Bank is expected to follow a three-phase process in helping Egypt become a recipient country for EBRD operations:

(i) In the first phase, the Board of Directors were requested to approve the use of cooperation Funds in Egypt. This was done in October 2011.

(ii) In the second phase, resources from the EBRD SEMED Investment Special Fund – the “SEMED ISF” – will be made available to finance investment projects in Egypt and other SEMED countries. The Board of Governors at the 2012 Annual Meeting allocated EUR1 billion from the Bank’s Net Income for potential drawdown by the Board of Directors to the SEMED ISF. Utilisation of these funds will only be possible after the entry into force of the amendment to Article 18 and upon granting by the Board of Governors of “potential recipient country” status to Egypt.

(iii) In the third phase, upon the entry into force of the amendment to Article 1 of the AEB, the Board of Directors and the Board of Governors would consider the granting of “recipient country” status to Egypt and therefore allowing the use of ordinary capital resources for operations.

This paper prepares for the utilisation of the SEMED ISF in Egypt under the second phase. In order for the Board of Governors to grant “potential recipient country” status to Egypt and approve use of SEMED ISF funds in the country, the Board of Directors will need to determine that Egypt meets the political and economic conditions of Article 1. This Country Assessment provides an analysis that aims to inform this judgement. In addition to providing a political and economic assessment, it also provides updated operational priorities for the Bank, drawing on the Bank’s growing field experience.

1. Assessment of developments with regard to the political aspects of Article 1 AEB

The uprising in 2011 has led to a fundamental change in the country's governing system and power structure. The country's first ever free presidential election and the smooth transfer of power from the Supreme Council of the Armed Forces to the President demonstrate that Egypt is progressing towards a democratic political system, though significant challenges remain. The President combines all executive and legislative powers, a situation that will continue until a new Parliament is elected in early 2013. Legislative and political reforms are needed to secure political, civil, and human rights.

The Constituent Assembly is expected to finalise drafting Egypt's new Constitution in October 2012. The Constitution will state the nature of the country's new governing system and will spell out the checks and balances between different powers. A public referendum on the Constitution will take place in Q4 2012, to be followed by parliamentary election in Q1 2013.
Representative and Accountable Government

Free, fair and competitive elections

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

The public referendum and the parliamentary and presidential elections were considered by independent observers to be free and fair. However, there were reported minor irregularities, several local and international civil society organisations (CSOs) were not permitted to observe the elections, some candidates’ representatives had limited access to polling stations and there were reports of limited episodes of violence. These conclusions were supported by a number of international observers including the European Commission, the Parliamentary Assembly of the Council of Europe, the Office of the European Commission President, and the Foreign Affairs Council of the EU. The election of President Mohamed Morsi represents the first time Egyptians freely and directly choose their head of state.

Representative government that is accountable to the legislature and electorate

The Supreme Council of the Armed Forces (SCAF), that had ruled Egypt from February 2011 until the handover of power to President Morsi in July 2012, appointed two governments, answerable to the Council. The Parliament elected in December 2011/January 2012 did not result in the formation of a Government due to legal uncertainties on whether this would be consistent with the Constitutional Declaration of March 2011. It was also not clear whether the Parliament was entitled to hold a vote of no confidence on the Government. This resulted in limited supervisory powers of the legislature over the Government.

Throughout its ruling period, the SCAF was not answerable to any elected body. In July 2012, President Morsi appointed his first Government which featured representatives of different political forces as well as technocratic professionals. The absence of a Parliament, until the finalisation of the country’s new Constitution and the new parliamentary election in early 2013, mean that though this is the country’s first ever Government appointed by a freely elected President, it is accountable only to the President.

Effective power to govern of elected officials

During its ruling period, the SCAF had sweeping powers of law-making over government and in internal policing. In June 2012, the SCAF introduced an amendment to the March 2011 Constitutional Declaration which retained for the military wide powers that were reserved for the President in the 1971 Constitution, especially over national security and the budget. In June 2012, Egypt’s Supreme Constitutional Court invalidated a third of the parliamentary seats, which led to an executive decision by the SCAF to dissolve the Parliament. The Parliamentary Assembly of the Council of Europe, amongst several other international observers, expressed deep concern regarding the dissolution of Parliament and the constitutional changes enacted by the SCAF and emphasised that these developments raise questions regarding the future of the democratic transition in the country.

In August 2012, President Morsi annulled the June 2012 Constitutional Declaration and ordered the retirement of the two most senior members of the SCAF. Prior to that, the
President affected wide changes within the leadership of the military and intelligence services. All of these changes were undertaken smoothly.

*Freedom to form political parties and existence of organised opposition*

In March 2011, the Egyptian authorities removed most of the legal barriers that restricted political groups from establishing political parties that can legitimately contest elections. The subsequent open participation of various groups representing different ideologies in the political process and national dialogue marked a significant development in the country’s political transition. In 2011 and 2012, over ten new political parties were registered, with the objective of contesting the parliamentary election that is expected to take place in Q1 2013.

*Civil Society, Media and Participation*

*Scale and independence of civil society*

Egypt has a large and vibrant civil society, although significant challenges remain in reforming the legislative framework for CSOs. The vast majority of Egyptian civil society organisations focus on education, the provision of economic assistance, gender concerns, the environment, and municipal welfare. Egyptian law gives wide discretionary powers to the Government in approving the registration and monitoring of operations of CSOs. According to the existing laws, applications can be rejected on the basis of threatening national security or national order. According to legal specialists, specific laws authorise the Government to interfere in the internal affairs of associations and CSOs, as well as dissolve them. The country’s Penal Code prohibits the operations of “unregistered associations”. The law also prohibits any CSO from receiving foreign funding without explicit governmental approval, whether from foreign authorities or individuals, including their representatives in Egypt.

In December 2011, Egyptian authorities raided the offices of ten local and international CSOs, seized their documents and computers, prevented them from operating in the country, and banned a number of their officers from leaving the country. The authorities levelled allegations against these CSOs that included operating without correct licences, receiving illegal foreign funding and carrying out political training programmes. The Central Bank ordered all banks to provide details of the financial transactions of these CSOs and some of their officials to the Government. The May 2012 European Neighbourhood Policy Country Progress Report stated that the situation for foreign funded CSOs in Egypt has become precarious.

In August 2012, Egypt’s Minister of Justice invited independent human and civil rights organisations to discuss potential legislative changes. The group presented their own proposed NGO law which was signed by 56 advocacy groups.

*Independent pluralistic media that operates without censorship*

Egypt has a vibrant media scene. The number of independent media outlets, especially newspapers and satellite TV stations has increased significantly since the Egyptian uprising in January 2011. Media engage in open and direct criticisms of the President, Government, the military, the Parliament, and economic and financial bodies. However, there have been repeated restrictions on Egyptian and international journalists. Several Egyptian journalists and bloggers were called for questioning by military prosecutors in 2011. The police raided the offices of two international and local news channel and seized some of their equipment.
Local and international CSOs cited an increase in the harassment of journalists as well as cases of detentions.

In 2011 and 2012, before the handover to the elected President, a number of activists were arrested on charges of “spreading false information”. The Penal Code continues to have the offence of “insulting public officials”. In August 2012, a prominent newspaper editor was charged with “insulting the President”. In the same month, the Ministry of Investment withdrew the broadcasting licence of a popular TV channel; accusations of “spreading rumours” were made against it. Egypt does not have a freedom of information law.

Multiple channels of civic and political participation

Since the 2011 uprising, there has been a significant improvement in general political participation, openness in discussing political issues, and wide interactions on political, economic, and social reforms. The new Citizens’ Political Rights Law allowed voting on the basis of national identity cards, a significant step in widening political participation and ensuring transparency. Egypt witnessed an exponential increase in the number of demonstrations, protests, and strikes which have prompted negotiations between different interest groups and the government.

Rule of Law and Access to Justice

Separation of powers and effective checks and balances

Following the 2011 uprising, Egypt has moved in the direction of representative democracy with checks and balances amongst the legislature, executive, and judiciary. The holding of free and fair parliamentary elections led to the temporary existence of a representative Parliament that was expected to hold supervisory powers over the Government. The holding of a free and fair presidential election and the inauguration of a new President marked a major step in installing a system with separation of powers.

The Amendments to the Constitutional Declaration, issued by the SCAF in June 2012 concentrated the executive and legislative powers in the SCAF. The August 2012 Presidential Decree to annul the June 2012 Constitutional Declaration was considered the effective transfer of power from the military to the elected civilian authority. However, according to that Decree, a concentration of powers persists as the President holds all legislative and executive powers, a situation that is expected to last until the finalisation of the country’s new Constitution and the election of a new Parliament.

Supremacy of the law

Egypt has an advanced legal system. Since the parliamentary election in December 2011/January 2012, almost all key political players have based their political platforms on the supremacy of the law.

In May 2012, the State Emergency Law expired and the executive did not request the parliament to extend it. The Law has been in effect since 1967 except for 18 months before the assassination of President Anwar Sadat in 1981. In August 2012, the Justice Minister put forward a proposal for a new Emergency Law, which is expected to be discussed with political stakeholders and CSOs.
In June, the Justice Minister in the last Government mandated by the SCAF, issued a decree allowing military police to arrest civilians in different cases, including those related to national security. The decision was later annulled by the High Administrative Court.

In the period from the Egyptian uprising until the handover of power from the SCAF to the elected President, over 11,000 individuals, the vast majority of them civilians, were tried before military courts rather than civilian criminal ones. Several international CSOs, including the International Bar Association’s Human Rights Institute, maintain that Egyptian military courts do not meet international due process standards. Also, local and international CSOs raised questions about the trials of the policemen accused of killing demonstrators, many of whom were acquitted because the courts deemed that the cases lacked evidence. The May 2012 European Neighbourhood Policy Country Progress Report as well as reports from local and international CSOs noted the expansive mandate of Egypt’s military Courts.

In July 2012, President Morsi formed the Personal Freedom Protection Committee, including representatives from CSOs, to review all cases of civilians sentenced by military courts; close to 600 prisoners were released after the Committee published its first report. In July 2012, the President also established a fact-finding commission to investigate crimes and abuses committed against protestors from 25 January 2011 to 30 June 2012 (the last day before the official date of the handover of power from the SCAF to the President). In May 2012, the Parliament limited the right of the President to refer civilians to military courts, yet retained in the Code of Military Justice a discretion for the military to try civilians.

**Government and citizens equally subject to the law**

The political developments in Egypt since the 2011 uprising yielded a significant improvement in administrative transparency, fighting and persecuting corruption, and openness about discussing and debating government policies. There have been a large number of corruption cases which led to convictions.

There have also been serious discussions in the media about the economic activities of the military and some political groups in the country. The proposed constitutional articles released by the Drafting Committee of the Constituent Assembly mandate the Parliament’s Committee of Defence and National Security to review the military budget, and to bring the military’s economic assets under civilian overview. The proposed articles also set an equal number of civilians to military professionals in the National Defence Council which will be headed by the President.

The Constituent Assembly drafting the new Constitution has made significant progress on its mandate. The Assembly included five committees: Basic Components; Systems of Government; Rights and Liberties and Public Duties; Supervisory Agencies; and Proposals, Dialogue, and Communication. The Supervisory Agencies Committee advanced a proposal to guarantee that certain institutions should be entirely independent from any executive control. These include the Central Bank, the Central Auditing Agency, the National Council for Human Rights and Citizenship, the National Media Council, the National Commission on Fighting Corruption, and the Higher Election Commission.

The proposed constitutional articles of the new Constitution also put the laws governing military courts in the same chapter governing the Judiciary Authority, and limit their jurisdiction only to cases related to the armed forces and to its members. A new clause is expected to allow appeals against military courts’ decisions, at a special district to be created.
within the Court of Cessation. Another clause will give military judges the same guarantees given to civilian judges.

The proposed articles also retain for the Supreme Constitutional Court its supervisory mandate over the laws governing the presidential, parliamentary, and council elections. Its verdicts will be obligatory on all authorities.

*Independence of the judiciary*

Since Egypt’s 2011 uprising, the judiciary supervised the parliamentary and presidential elections and ruled on the constitutionality of the independent seats in the parliament, which resulted in the dissolution of the entire legislative chamber. The Constitutional Declaration of March 2011 stated that judges cannot be fired or dismissed except by the judiciary itself.

In August 2012, the Justice Minister transferred the authority of conducting investigations in the judiciary from the ministry to the Higher Judicial Council, a move that strengthens the judiciary’s independence. However, it remains to be seen how the new Constitution will treat supervision of the Judiciary, a point of intense debate between the judiciary and key political parties in the country.

The 2011 European Neighbourhood Policy Country Progress Report noted that efforts had been made to improve the administration of the justice system, especially in the training of judges and in the automation of a number of administrative processes.

*Civil and Political Rights*

*Freedom of speech, information, religion and conscience, movement, association and assembly*

The political developments that led to the 2011 uprising yielded significant improvements in the overall political context and discourse. There is a vibrant and robust culture of popular protest against executive and legislative powers. There has also been a significant openness in political debate and the ability of opposition movements to organise and undertake demonstrations. Political parties, activist groups, and different stakeholders engage in free debates on the key political, economic, and social challenges facing the country. Religious institutions, universities, and professional associations and syndicates increasingly assert their independence and voice opposition to the executive. At least 100 new professional associations, student groups, and trade unions were established in the past year and a half.

Although there has been a significant increase in sit ins and protests that were allowed to proceed and end without intervention, existing laws continue to criminalise demonstrations without obtaining permits from the Interior Ministry. And according to the May 2012 European Neighbourhood Policy Country Progress Report, in different cases the police and military police used excessive force against protestors.

The proposed constitutional articles in the new Constitution enshrine freedom of expression as a fundamental right; however, certain proposed articles could pose significant limitations on freedom of speech and expression. And though there have been proposals made by advocacy groups to the Constituent Assembly, and especially to the Proposals, Dialogues, and Social Communications Committee, a number of CSOs have also expressed concern that the current debate on key constitutional articles has not been sufficiently inclusive. In September 2012, the Shura Council formed the country’s new Higher Councils on Journalism
and Human Rights. Several CSOs expressed strong concerns that the members of these
councils were appointed by a chamber formed by an election with less than 10 per cent
turnout. Also various independent journalist-groupings had strong reservations on what they
consider to be politically motivated selections for the composition of their Higher Council.

Sectarian tensions in Egypt have occurred repeatedly in 2011 and early 2012. There have
been cases of criminal violence against Egyptian Christians in which the state resorted to
“conciliatory meetings” between village leaders to soothe tensions, in lieu of criminal
prosecutions.

*Political inclusiveness*

Women’s political participation is not improving. Though women played an active and
conspicuous role in organising and leading the January 2011 uprising, the Egyptian
authorities eliminated a quota of 64 seats that had been assigned to women in the parliament
and instead required political parties to nominate at least one female candidate on their lists
for the parliamentary election that took place in December 2011/January 2012. Egypt comes
123rd out of 135 countries in the World Economic Forum’s Global Gender Gap Report for
2011, and ranked 113th out of 173 countries in the UN Development Programme’s Equality
Index. There have been high profile cases that local and international human rights groups
documented of attacks perpetrated by police and military police on female protestors,
including undertaking virginity tests on a number of them. The results of a mission conducted
in 2011 by the Office of the UN High Commissioner for Human Rights stated that sexual
violence in police custody is a concern. The EU May 2012 Report on the Implementation of
the European Neighbourhood Policy in Egypt commented that the country lacks the legal
environment to protect women from violence.

*Freedom from harassment, intimidation and torture*

Local and international CSOs, estimate that over 900 people were killed and over 6000
injured mostly by police and security forces during and after the 2011 uprising. The interim
governments before the handover from the military to the President advanced initiatives for a
reform of the Interior Ministry that included the dissolution of the State Security
Investigations Bureau. However local and international rights monitors reported allegations
of continuing torture and ill treatment by the police and military police. The Public
Prosecutor launched investigations into some of these allegations. Local and international
CSOs also reported attacks on demonstrators by armed men in plain clothes that protestors
believed to be linked to the police. Local and international CSOs also noted that the police
have repeatedly fired tear gas and used rubber bullets against demonstrations resulting in
hundreds of injuries. The May 2012 European Neighbourhood Policy Country Progress
Report stated that the military’s conduct during the transition period has fallen short of
respect for human rights and that police resorted to excessive use of force.

2. **Operational environment**

2.1 **Macroeconomic context**

Following a period of robust growth averaging 5.1 per cent in 2001-2010, the Egyptian
economy contracted after the revolution by 0.8 per cent in 2011 on a calendar year basis.
Heightened uncertainty and deterioration in the security situation led to sharp declines in investment and tourism receipts. The popular protests and strikes resulted in near stagnation in some sectors, disrupting economic activity. Nevertheless, a more pronounced economic downturn was avoided by buoyant private consumption, which remained strong throughout the turmoil, growing by 5.1 per cent y-o-y in 2011, at a time when fixed investments and exports fell dramatically. Private consumption was partly sustained by strong remittance flows, which reached around US$ 10 billion in the first half of 2012 (about 8.3 per cent of H1 2012 GDP), aided by the strong economic performance of the Gulf countries. The significant capital outflows and plummeting of tourist receipts in 2011 led to a precarious external position, with reserves reaching critically low levels.

The economy continues to face significant headwinds, brought about by political uncertainty along with deteriorating fiscal and external positions. Macroeconomic fundamentals have notably deteriorated during the lengthy transition period, exhausting almost all available policy space. Real GDP growth reached 2.2 per cent at the end of the 2011-12 fiscal year (which runs from July to June), down from an average growth rate of 5 per cent in the past decade. The recent economic performance falls well below the estimated growth rate of 6-7 per cent required for Egypt to keep the unemployment rate unchanged. While tourism, mining, manufacturing, and construction have somewhat recovered throughout the fiscal year, this is mostly due to favourable base effects associated with a near-stagnation of economic activity following the revolution, and they still remain significantly below levels seen in 2010. Gross capital formation remained almost flat in FY 2011/12 after a sharp contraction the previous year, and investors continue to adopt a wait-and-see approach. In addition, net exports continue to exert a substantial drag on growth. Consequently, unemployment has increased, from 8.9 per cent at end-2010 to 12.6 per cent by end-June 2012.

Weak economic activity and higher government spending on social benefits and subsidies have increased pressures on the fiscal front. The general government fiscal deficit widened from 10 per cent of GDP in FY2010/2011 to 11 per cent in FY2011/2012, surpassing the government’s target of 8.6 per cent of GDP (Chart 1). In addition to slower revenue collection, expenditures increased by 16.8 per cent year-on-year, due to hikes in wages, social benefits and fuel subsidies, and other emergency spending, while borrowing costs continued rising (interest payments amounted to 22 per cent of total expenditure). In particular, rising fuel subsidies due to higher oil price placed a particularly heavy burden on the budget, especially during the last quarter of the fiscal year. The government’s intention to cut fuel subsidies was made clear when it passed the budget for the current fiscal year (July 2012-June 2013), as the allocation for this purpose was trimmed to E£70 billion (USD11.6 billion), compared with E£95.5 billion in the 2011/12 budget.

While external debt has not increased significantly, the government has instead resorted to borrowing heavily and at a high cost from domestic banks, increasing the sector’s exposure to sovereign credit risk and crowding out private credit. The banking sector remained, however, stable, with the deposit base growing modestly and dollarisation broadly unaffected. However, bank lending to the real economy has come to a halt and is almost negative in real terms. While NPLs remain high, they have been adequately provisioned for, and the system remains liquid.

The balance of payments worsened from a surplus of 1 per cent in 2010 to a deficit of 4 per cent in 2011, due to a sharp decline in revenue from tourism and FDI and portfolio outflows. Since then, FDI has declined slightly in FY2011/12, while portfolio outflows continued. The
current account deficit widened, reaching 3.2 per cent of GDP in FY2011/12 compared with 2.3 per cent of GDP last year (Chart 1). A further deterioration was cushioned by strong remittance inflows. The goods and services trade deficit continues to widen driven largely by higher oil prices, faltering exports, and a reduction in tourism revenues. Meanwhile, official foreign reserves (including gold) fell sharply, from around USD36 billion in December 2010 to USD15.1 billion in August 2012, a historical low of three months of import coverage (Chart 2). After 15 months of consecutive erosion, international reserves have somewhat increased since May thanks to the disbursement of financial support from Saudi Arabia, Qatar, and other donors.

Egypt continues to negotiate with various multinational and bilateral players to secure funding. Egypt’s financing needs for the next two years are estimated at USD11 billion, according to the Finance Minister. Egypt has formally requested a USD4.8 billion loan from the IMF on August 22, 2012, to financially support the government’s economic reform program, ease the country’s deteriorating external and fiscal positions, and boost investor confidence. The underlying government program is likely to include major food and fuel subsidy reform. Saudi Arabia has provided USD500 million for budget support in June and a further USD1 billion deposit with the central bank, and Qatar has released the second USD500 million tranche in October of a USD2 billion pledge earlier. In addition, Egypt has secured a number of bilateral and multilateral support packages throughout the year. These include a USD1 billion loan from the Islamic Trade Finance Corporation (ITFC) as part of a USD2.5 billion package with the Islamic Development Bank, a USD500 million loan from the African Development Bank, USD650 million aid package from the EU conditional on the IMF programme, and a USD1 billion credit line from Turkey in September.

The key immediate challenge for Egypt is to restore macroeconomic stability and achieve job creating growth. To this end, subsidies will need to be better targeted to ensure fiscal sustainability and rationalizing expenditures while protecting the most vulnerable groups. Continued economic and political uncertainties pose risks to the outlook. A slower resumption of foreign capital and FDI inflows into the country would cause further deterioration in the fiscal and external accounts. The economy also continues to be vulnerable to commodity price fluctuations due to the high levels of subsidisation across many sectors, especially for fuel. Growth is forecasted at 3.2 per cent for 2012.

*Figures for the current account and balance of payments are on a fiscal year basis (July-June)
2.2 Structural reform context

The recent paper “Egypt’s Request for Country of Operations Status: Technical Assessment” (SGS11-272 (Addendum 2) (Final)) contained a detailed assessment of the remaining transition challenges in Egypt. The assessment has been updated in the summer of 2012 and will be published soon. The text which follows highlights some of the main findings of the updated assessment.

Over the past two decades, Egypt adopted a series of structural reforms to liberalize the economy through privatization of state-owned enterprises, financial sector reforms, tariff reductions, capital account liberalization, improvements in the business environment (e.g. enhancing conditions for start-ups and creating a competition agency), and fiscal-structural reform (e.g. income and corporate tax reforms and modernization of tax administration). The reforms brought about successful external liberalisation, removing most direct barriers to foreign investment, and achieving low tariff and non-tariff trade barriers relative to most transition economies. As a result, Egypt experienced a period of accelerated growth during the second half of the past decade. However, despite the relatively strong growth performance, social outcomes were unsatisfactory as unemployment remained high - particularly among the youth,- double-digit inflation eroded household incomes, and privatization was perceived to have benefited only a few.

In essence, Egypt’s reform efforts under the previous regime lacked effective state institutions and failed to remove key market distortions. The state’s role as regulator, guarantor of competition, and enforcer of contracts has tended to be weak. In many sectors, regulatory functions are not fully separated from state operations. In fact, lack of regulatory independence is an issue in most regulated industries, including the telecommunications, natural resources, power, railways, road, and urban transport sectors. The Egyptian Competition Authority—is not fully independent and the extent of its enforcement authority and mechanisms is unclear. In addition, Egypt’s judicial capacity remains weak and state involvement in many aspects of business remains heavy.

Overall, there is a lack of a level playing field for private business. Individual industries, especially in mining and some areas of the manufacturing sector (textiles, cement, and steel) are dominated by a few oligopolistic or monopolistic groups closely connected to the former regime. These are protected by implicit subsidies such as underpriced energy inputs provided by state-owned companies or negative real interest rates on loans provided by state-owned banks. Fuel subsidies, in particular, distort incentives across many sectors, promote energy intensive production, and remain a drag to the government budget.

Another key impediment to private sector development is limited access to finance, which affects primarily MSMEs that would be able to grow faster and generate more jobs. While MSMEs account for over 90 per cent of active enterprises in Egypt and contribute to over 75 per cent of total employment, loans to SMEs account for only 6 per cent of total banking loans. Among the contributing factors to limited access to finance are weak financial infrastructure, weak contract enforcements, and regulatory tolerance toward large exposures and connected lending.

A major challenge facing Egypt is also the large regional disparities in terms of income, poverty, infrastructure, access to finance, educational attainment and labour market performance. Cairo alone produces more than half of Egypt’s GDP. The World Bank estimates that Upper Egypt, with only 40 per cent of the population of Egypt, accounts for 60
per cent of its poverty and 80 per cent of its severe poverty. The rural-urban gap has been widening. Dependence on low-value agriculture and disparities in the investment climate contribute to the regional divide. Social safety nets are disproportionately distributed across regions. While more than 6 per cent of GDP is spent on fuel subsidies, Cairo alone has 58 per cent of the country’s private cars and, therefore, captures a disproportionate share of the benefits, according to the Egyptian Information and Decision Support Center. The lagging governorates of Siwa, Assuit, and Menya, in contrast, have 16 per cent of the population but only 3 per cent of Egypt’s cars between them.

The main structural reform priorities reflect the need to further promote a private sector-led and inclusive growth model while ensuring fairness, transparency and above all the creation of jobs. This is a complex task that calls for change at many levels, but at its core must be reducing the role of the state in the economy, tackling some of the oligopolistic economic structures prevalent in Egypt, creating a level playing field for private businesses, especially smaller ones, and promoting structural reforms that strengthen regulation of markets in a transparent manner while eliminating market distortions and unnecessary obstacles to private sector development. This should include strengthening the power of the Competition Authority. In the financial sector, improving access to finance, in particular for small and medium sized enterprises, through improving risk assessment and management technology at the banking level, will play an important role in fostering growth and reducing unemployment. In addition, enhancing financial infrastructure in terms of credit information and creditor rights, and addressing the historical connections between large banks and large industrial groups would be required.

The current socio-political transition, which is underpinned by a widespread public recognition of the need for a change, provides a unique opportunity to embark on growth enhancing structural reforms. Moving in tandem on macroeconomic stabilization along with complementary structural reforms would yield more inclusive growth and unleash the private sector potential. Private sector investment and growth will in turn help alleviate some of the social pressures, especially unemployment among the young and in Upper Egypt.

2.3  Business environment

Egypt ranked 110th in the 2012 World Bank Doing Business survey, out of a total of 183 economies covered, below its SEMED peers and the regional average for the Middle East. While Egypt scored well on the ease of opening a business, due to an improvement in setting up a one-stop-shop process, the business environment nevertheless remains hampered by institutional weaknesses. For instance, dealing with construction permits takes about 7 months, and enforcing a contract through the courts takes almost 3 years on average. The difficulties associated with enforcing contracts and resolving insolvencies are major reasons for the low score. Judicial procedures tend to be lengthy, costly and subject to political pressure. Bureaucracy is a major issue for foreign companies with substantive delays for all types of transactions.

In the World Economic Forum’s Global Competitiveness Index for 2012-13, Egypt dropped 13 positions to rank 107th out of 144 countries surveyed. The persistent deterioration in Egypt’s competitiveness ranking reflects increased uncertainty regarding the future direction of economic policy as well as higher public awareness of the countries’ structural weaknesses, resulting mainly in poorer assessments of different aspects of public and private institutions and, to a lesser degree, also deteriorating goods and labour markets efficiency.
According to Transparency International’s 2011 Corruption Perception Index, Egypt ranked 112th out of 183 countries – below its SEMED peers, but above Kazakhstan (120th) and Russia (143rd). Corruption is cited as a major obstacle to doing business by local entrepreneurs.

### 2.4 Social context

The strong growth rates achieved by Egypt in the decade prior to the revolution are not judged to have benefited the wider population. The lack of economic opportunities and political inclusion, along with high structural unemployment and persistent poverty, were at the core of the revolution that toppled the ruling regime in Egypt in early 2011.

While Egypt has witnessed a noticeable improvement in a number of social indicators over the past two decades, it still lags behind its peers in human development. Infant mortality and malnutrition have been halved, while life expectancy rose from 64 to 71 years during the same period, according to the World Bank. However, this progress has taken place unevenly, and some segments of the population have been left out. In Egypt, the World Bank estimates that some 22 per cent of the population still lives below the national poverty line, but rural poverty rates run twice as high at around 44 per cent. While many of Egypt’s poor have become reliant on government provided subsidies for basic goods and energy, less than 25 per cent of subsidies actually benefit the poor.

Adult illiteracy constitutes a serious challenge. Nearly 27 per cent of Egypt's population are illiterate, according to a recent government report published by the Council of Ministers' Information and Decision Support Centre. In addition, the female illiteracy rate is even worse, some 20 per cent higher than among males, particularly in the 15 to 35 age group. Egypt’s Human Development Report (2010) characterizes the phenomenon of illiteracy as largely rural, with 70 per cent of total illiterates and 76 per cent of illiterate youth residing in rural areas.

Unemployment in Egypt remains a major social concern, and has risen in the past year in part due to weak economic activity following the revolution. Wide variations in gender unemployment rates exist in Egypt: for a total unemployment rate of 12.6 per cent, the rate for males is 9.3 per cent, whereas for females, it is more than double at 23.8 per cent. Similar trends are reflected in the female versus male labour participation rates, which stood at 23.5 compared 74.1 per cent (Chart 1). Both the lack of sufficient employment opportunities and considerable skill mismatches have contributed to the structural nature of unemployment.

In addition, increased economic opportunity remains hampered by institutional deficiencies, which have prevented the creation of transparent rules to allow for equal access to both business entry and opportunity. Years of robust growth in the previous decade did not lead to equally-shared opportunities, and, as a result, both the political and economic systems were perceived to have been biased in favour of the privileged elite, who also benefited from the partial privatization reforms during the last decade. Reforms to the institutional framework are needed to level the playing field, especially for SMEs which are the major source of employment in Egypt, will help alleviate some social tension.
2.5 Legal context

Since the late 1980s, Egypt’s commercial legal system has witnessed major reforms. The most prominent example is the Code of Commerce which was enacted in 1999. Along with the Civil Code, the Code of Commerce represents the principal source of commercial legislation in the country. In the context of the operational priorities defined by the EBRD, the legal framework has already been reformed in the last few years, but there remain important challenges.

Over the last decade, the authorities have shown an increasing interest in pursuing partnerships with the private sector to fund infrastructure projects. A Public Private Partnership (PPP) programme was commenced in 2006 and a new PPP Law enacted in 2010, establishing a sound regime for private participation in large infrastructure projects. Nevertheless, because the new law was only recently adopted, its effects in practice remain to be tested.

Specialised economic circuits were introduced into the court system in 2008 to handle certain disputes of a commercial nature. However, the lack of judicial training on commercial law matters remains a key challenge to effective contract enforcement. Compounding the problem are case backlogs and litigation proceedings that are known to be extremely lengthy. Consequently, arbitration is widely used for the settlement of commercial disputes in Egypt. It is regulated under the Arbitration Law of 1994 which mainly draws on the UNCITRAL Model Law.

Corporate governance provisions can be found under the Companies Law of 1981, the Capital Markets Law of 1992, and the Egyptian Stock Exchange Listing Rules. A corporate governance code, whose application is purely voluntary for companies, was enacted in 2005 and is under continuous modifications to bring it in line with international standards. Its effectiveness would be greatly increased if its application were required for listed companies under the ‘comply-or-explain’ approach. Areas where legal reform would also be welcomed are minority shareholders’ rights, concentration of ownership, and director liability.
SME development will require a significant change to the legal regime for secured transactions, which at present still limit the type of collateral that borrowers can offer. The IFC had a reform project on-going prior to the revolution but all has been brought to a standstill since. Housing finance would also require important changes into the land registration system (it appears that most real estate property is not registered at all), as well as on the enforcement, which can only be achieved through a heavily supervised, lengthy and costly court procedure.

Finally, the overall investment climate cannot be conducive without a modern insolvency regime, which promotes both fair reorganisation of viable businesses and swift liquidation of failed ones. Yet, the current insolvency regime still approaches insolvency under a punitive approach.

The EBRD Legal Transition Team is currently preparing a detailed assessment of Egypt’s commercial laws that is expected to be completed by the end of 2012.

2.6 Energy efficiency and climate change context

Egypt has amongst the highest energy and carbon intensity levels by reference to its GDP in the region (surpassed only by Jordan). In 2009, Egypt had an energy intensity of 0.20 toe/‘000 USD ppp which is significantly higher than the OECD average of 0.16 toe/‘000 USD ppp. The carbon intensity of the Egyptian economy (0.48 kgCo2/‘000 USD ppp) is also among the highest in the SEMED region, although electricity consumption and CO2 emissions per capita are relatively low. Continued industrial development, population growth and economic growth is likely to lead to an increase in this in the future, unless the ambitious government plans in this area are fully implemented. Egypt ranks among the 11 countries in the world showing the fastest growing GHG emissions.

One of the reasons for the high energy and carbon intensity of the Egyptian economy are high energy subsidies, which also represent a substantial drain on Egypt’s budget. If energy subsidies are calculated on the basis of full economic cost the resulting number will be as high as E£140 billion – equivalent to 11.9 per cent of GDP. More than half of energy subsidies are attributable to petroleum products (including natural gas), while one-third is accounted for by electricity. Energy subsidies amount to about 70 per cent of all subsidies and approximately 20 per cent of the country’s budget. In addition to the high budgetary cost associated with energy subsidies, artificially low energy prices lead to excessive energy consumption that has in turn resulted in Egypt’s switch from an oil exporting to an oil importing country, while also limiting the country’s ability to export natural gas. The switch has made the economic cost of energy more tangible.

It is important to note that subsidized energy prices distort technological choices within and outside the energy sector, impose negative effects on the local and global environment due to over-consumption of energy products, and jeopardize the on-going efforts to liberalize the energy sector and to attract private sector investment. Energy price subsidies benefit disproportionately the rich part of society, encouraging them to continue wasteful consumption of fuels and electricity. On the other hand, a rapid removal of subsidies without countervailing measures risks negative social impacts, and the removal should be accompanied by increasing energy efficiency to ensure that energy bill growth is restricted even when unit prices are rising. Energy price reform should also include using a portion of fiscal savings for targeted support to protect poor and vulnerable consumer groups from energy poverty.
The country has amongst the best wind resources in the world, especially along the Red Sea coast. Egypt has an installed capacity of 550MW of wind power, and plans to have 20% of its electricity generation from renewable energy sources by the year 2020. The country also has one of the highest levels of solar concentration since it is situated in the “Sun Belt” region. A pilot solar power project has been developed by the Egyptian government in “El Kuraimat”. In this respect, it is worth mentioning that Egypt is a participant in the “Union for the Mediterranean” initiative, one of its projects being the “Mediterranean Solar plan”.

Water Issues and Coastal Erosion have been an aggravating issue during the past decade or more, and continuing climate change is also projected to intensify pressure on water resources, with potentially significant impacts on agriculture, tourism and human health. Massive and poorly targeted water pricing subsidies, particularly in agriculture, encourage wasteful use of water, which becomes scarce for municipal and industrial uses. Inefficient water use in irrigation is a particular concern, given Egypt’s large agricultural sector which is highly dependent on irrigation. With the increasing population in Egypt, water scarcity is becoming rapidly increasing concern. The water allocation to Egypt from the Nile Basin has remained unchanged since 1959, standing at 55 Km3. Egypt is trying to find different ways to make efficient use of its water resources, and is co-operating with other countries in the Nile Basin for mutual agreements with regards to water management and agricultural projects. This is of course crucial due to its direct effect on agriculture, the tourism industry, access to drinking water and human health.

Moreover, global warming is also a particular concern for Egypt, since it threatens coasts that are facing erosion due to high sea levels. Sea level changes and coastal erosion may also affect coastal regions and industries such as ports and fisheries. Recent studies show that the Nile Delta is at risk due to rising water levels as well as some parts of the north coast region.

Egypt is a country with a significant number of potential projects that fall under the UNFCCC’s Clean Development Mechanism (CDM). Clean Development Mechanism (CDM) financing is well established in Egypt. Though there are only 12 CDM projects registered with UNFCCC, this is the highest number among the countries of the Middle East and North Africa. There are another 89 projects or programmes in Egypt at various stages of review and approval. The EU’s Emissions Trading System (ETS) is considered the major buyer of carbon credits worldwide. However the use of the CDM to support projects in the future may be limited since the EU ETS will not accept any Certified Emission Reductions (CERs) from projects in Egypt registered after 2012 except under special arrangements. Egypt could still be able to sell CERs from projects registered after 2012 in other trading schemes still under development (e.g. Australia, New Zealand, Mexico or China), but the potential revenue from these schemes remains unclear.

3. Strategic Orientations

3.1 Transition Challenges

There are significant transition gaps across virtually all sectors of the economy, with particularly large challenges in agriculture, general industry, energy, water and wastewater, waste management, urban transport, railways, MSME finance and non-bank financial services, namely:
The manufacturing, services and property sectors face some key transition challenges, including improvements in corporate governance standards and business practices. Weak contract enforcement and high firm closure costs discourage participation in the formal economy. Mid-sized and smaller companies find it difficult to get funding from the banking sector. In addition, an important challenge in increasing the productivity and efficiency of the sector is to formalise and improve management, reduce energy intensity, and promote higher levels of R&D. In some subsectors, notably textile, telecommunications, and petrochemicals, there is scope to restructure and privatise state-owned companies. In other sectors, such as cement and steel, competition is hampered by oligopolistic structures. In the property sector the immediate challenges relate to the liquidity shortages created by the crisis in most segments. The state still owns a large part of the hotel segment, which limits competition in the sector. Over the medium term a significant challenge in the property sector is the deepening of secondary markets, such as through private equity real estate funds, and the further development of supporting institutions.

The agribusiness sector has large transition gaps, including low yields, a high level of input subsidisation, difficult access to finance and limited specialised storage and logistic systems. Inefficient irrigation, small scale land plots and the lack of training have contributed to low yields and a weak distribution network restricts the growth potential of productive farms. There is a lack of modern farming practices, including irrigation practices and the proper use of pesticides. In addition, the sector’s competitiveness has been diminished by subsidies and export bans, and its efficiency can be further promoted by further reducing the ownership role of the state. It is estimated that around 50 per cent of the production process is wasted throughout the various stages of processing, logistics, and retail distribution. The agribusiness sector also lacks streamlined regulation to ease the process of owning and leasing agricultural land and in combination with a lack of alternative sources of collateral such as warehouse receipts, access to finance from banks is severely constrained.

The financial sector is relatively well developed, but reforms are needed to enhance access to credit for a broader segment of the economy. Improving access to finance for MSMEs is one of the key reform challenges in the financial sector. Poorly developed credit bureaus and weak contract enforcement are among the key obstacles to the further development of MSME finance. The insurance, mortgage and leasing markets are underdeveloped compared to the existing EBRD COOs. In addition, an unfinished privatisation agenda in the bank and non-bank financial sectors has left a number of institutions under state control.

Large transition gaps exist in the energy sector, especially in terms of increasing the role of cleaner sources of energy and improving energy efficiency. A key challenge in this perspective, as well as from the perspective of energy efficiency, remains the fuel and energy subsidy system continues to be a major drain on the government budget crowding out other public expenditure needs, results in unnecessary environmental degradation and distorts incentives for energy use. The energy sector remains to be unbundled and fully commercialised. Although the authorities intend to introduce PPP schemes and expand private sector involvement, the state retains a significant influence. In addition, there is little economic incentive for conservation and a lack of investment in cleaner conventional and alternative fuels for transport and domestic use or develop alternative electricity sources such as wind and solar to alleviate pressure on domestic natural gas production for power.
The transport and power sectors face several significant and interrelated transition challenges. These large infrastructure sectors are dominated by state-owned enterprises with significant involvement and control by the central state authorities, reducing opportunities for private sector participation. Improvements in the provision of public services remain hampered by the inefficiency of public sector entities as well as extensive regulation and absence of market-based mechanisms for the pricing and delivery of services. These structural failings have resulted in inadequate infrastructure that is falling behind growing demand.

Key challenges exist in upgrading and decentralising the municipal infrastructure sector. Municipal services in Egypt all face urgent demands for investment to provide better access and improved quality. Urban traffic management and inadequate solid waste management (SWM) are the top priorities among urban environmental issues. Non-sovereign financing is not widespread, but developing decentralised financing solutions can encourage improved cost recovery and commercial discipline. However, further tariff reforms will be needed to improve the sustainability of municipal services going forward. Egypt’s largest cities suffer from severe congestion and air pollution problems and large investment gaps exist in mass transit systems and bus operations.

In addition, Egypt faces some challenges that cut across all sectors:

- Lack of regulatory independence is an issue in most regulated industries, including the telecommunications, natural resources, power, railways, road, and urban transport sectors. The Competition Authority is not fully independent and the extent of its enforcement authority and mechanisms is unclear. Mining and some areas of the manufacturing sector (textiles, cement, and steel) are dominated by a few large groups.

- Fuel subsidies distort both corporate and household energy consumption. Tariff reform and reform of input pricing is necessary in all the sub-sectors of energy and infrastructure, in telecommunications, and agriculture.

- The large presence of the public sector in the economy poses a challenge both to private sector development and to the reduction of market distortions. Although the privatisation agenda remains incomplete, it is generally acknowledged that privatisation will require a number of prior steps (further outlined below). In addition, any such privatisations would need to be country-led and subject to clear and transparent procedures, in line with international best practice, supported by appropriate institutional structures. This would require creating confidence in the privatisation process, by both potential investors as well as the Egyptian public.

- Addressing economic inclusion will be a key challenge, including high youth unemployment, low female participation in the officially registered labour force and regional income disparities.

3.2 The Bank's Priorities for 2012-2013

Section 3.1 above sets out transition challenges for Egypt. These challenges must be seen in the context of the fragile macroeconomic environment, acute social stress and against the background of a perceived lack of fairness of some of the earlier liberalising reforms.

The key challenge for Egypt is therefore to promote inclusive private sector-led growth. The key to addressing this requires lowering barriers to entry, creating a level playing field and
advancing the privatisation agenda where appropriate and broadly supported and subject to transparency and governance safeguards. In order to develop a vibrant private sector it will be important to reduce the high and inefficient subsidies in the corporate and energy sectors which distort incentives and lead to a misallocation of resources. There is a need to facilitate access to finance, especially for SMEs. To address large investment needs and meet public service expectations despite fiscal constraints the authorities are seeking to foster sub-sovereign solutions and private sector participation in the infrastructure and municipal sectors. Egypt has a large potential for energy efficiency and renewable energy investments.

In response to the transition challenges highlighted in Section 3.1 above, the following operational themes have been identified to guide the Bank’s activities in Egypt:

- financing and improving conditions for investments in the private sector with particular emphasis on SMEs, to support transition and job creation;
- enhancing the agribusiness value chain to improve food security, strengthen the distribution chain, and develop a sector that accounts for a high share of employment;
- modernising the financial sector so that it can contribute more fully to economic growth by strengthening its capacity and diversifying the range of financial products offered, including risk capital;
- increasing the role of cleaner fuels and renewable energy, including solar energy, and improving energy efficiency so as to support energy security and enhance economic competitiveness;
- supporting reform and commercialisation of the transport, fuels and power sectors, focussing on the mobilisation of private sector infrastructure investment; and
- upgrading and expanding municipal infrastructure, based on decentralisation, commercialisation, and private or non-sovereign solutions to provide the population with wider access to better quality urban services.

Within this overall set of priorities, the EBRD has begun identifying possible opportunities for assistance. The priorities will not only guide project selection for “second phase” funding through the SEMED Investment Special Fund but also for pipeline development with a view to the Bank’s longer term engagement. The “Operational responses” in the following sections therefore cover a wider range of activities than can be expected to be completed over the SEMED ISF horizon. Under all operational themes, however, there are a number of concrete project leads which teams are developing in close consultation with the authorities.

The pace of the Bank’s business and ability to deliver projects will depend on the overall business environment. The Bank is committed to develop a pipeline of projects that focusses heavily on the private sector. Nevertheless the general context of uncertainty may affect the pace of the Bank’s operational engagement. The Bank will seek to engage in policy dialogue with the authorities, in coordination with other IFIs, to support capacity building, institution building, and improvements in the business environment. Further consolidation of democratic institutions and the continuation of structural reform would result in improvement in the business environment and would enhance the conditions for investors and the Bank’s ability to deliver business.
3.2.1 Cross Cutting issues

There are a number of cross cutting issues which will be given strong emphasis in implementing the proposed operational priorities. The Bank will apply its usual high standards in due diligence, integrity and transparency in all of its operations. Such standards are especially important while the country rebuilds its institutions, which is reflected in the prominence CSOs as well as the authorities have placed on these issues.

The Bank also aims to engage in policy dialogue with the authorities to assist in the overall improvement in the business environment. Given past experience and the sensitivities involved, privatisation – though important as part of such an effort – will require a number of prior steps that the EBRD will be happy to support. According to the authorities these steps include (i) conducting an in-depth assessment of past privatisations schemes highlighting what has worked and what has not; (ii) agreeing criteria for prioritising companies to be privatised; (iii) developing restructuring and reform programs for firms to be privatised; and (iv) considering alternative means of private sector participations. Further privatisation in key sectors requires a clear, competitive, and transparent process to maximize public support and reduce market inefficiencies, and the Bank could play a role in assisting in the design and implementation of such a process.

Access to finance, especially for SMEs, remains an impediment to private sector development and the Bank’s experience in this aspect can be put to use to enhance the framework by which banks lend to SMEs, both on the supply and demand sides. SMEs could benefit from the programme of the Bank’s Small Business Support group (SBS) which assists in document preparation, planning and applying for finance from local banks. The Bank could also assist in policy dialogue in tariff reform to increase efficiency and to restructure the energy sector to promote greater private sector participation.

In addition, the promotion of inclusive growth will be given prominence in the Bank’s engagement in Egypt. As mentioned above, the country’s main challenges are high youth unemployment, low female participation in the labour market, rural urban divides, a considerable pay gap in the private sector and access to finance by female entrepreneurs. Initiatives are already underway at the Bank to better understand the issues which adversely affect women’s economic participation in the SEMED region, including Egypt, through dialogue with academics, representatives of the business community and partner IFIs working in the region, (including at a recent conference held at EBRD2). Specific opportunities and operational implications will be clarified once the Bank has gained more country specific knowledge and has finalised its new Gender strategy. In addressing gender inequalities consideration will be given to a) understanding the differentiated needs and priorities of men and women in the provision of infrastructure and municipal services, b) promoting equal opportunities in the work place and c) working with financial institutions to increase access to finance for women borrowers.

In its project appraisal the Bank will pay particular attention to environmental issues in line with its Environmental and Social Policy and Performance Requirements, which include the European Principles for the Environment, and will assist Egypt in the process of alignment with international standards. The Bank will support investment which result in sustainable improvements and that avoid environmental degradation.

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2 Organised with Women for Women International
3.3 Transition Challenges and Bank Operational Response

3.3.1 Financing and improving conditions for investments in the private sector

Transition challenges

- Enhancing the availability of finance for mid-sized and smaller corporates in order to improve corporate governance standards and business practices;
- Increasing productivity and efficiency of the sector, including by formalising and improving management, introducing modern telecommunication systems, reducing energy intensity and promoting higher levels of research and development;
- Improving the business environment by implementing modern competition policy, improving contract enforcement and bankruptcy procedures and reducing bureaucracy;
- Restructuring state-owned companies, particularly in the textile, telecommunications and petrochemicals sectors; and
- Developing quality real estate infrastructure (including in the tourism segment), supporting secondary real estate markets and enhancing the institutional framework for the property sector.

Operational response

Bank engagement in the private sector will depend on improvements in the business environment for private sector investment and the clients’ commitment to transparency, integrity and governance standards. The Bank would consider opportunities in several areas, including:

- The financing needs of medium and smaller sized MSMEs would be addressed primarily through the Bank’s proposed programmes for financial institutions.
- There is however a range of financing gaps that can be filled by direct Bank financing
  - for mid-sized companies with sales in the range EUR1 to EUR10 million, both equity and debt instruments, primarily through the Local Enterprise Facility, with supporting technical assistance and potential risk sharing;
  - for larger mid-sized corporates, typically also family-owned businesses that are ready to develop to the next level in terms of corporate governance and structure. Such companies have shown an interest in Bank financing because they recognise the benefits of having amongst their lenders an institution with the Bank’s reputation that can help them internationalise their sources of finance and realise their ambitions (including potentially pre-IPO equity financing).
- In selected cases there will be a role for the Bank in financing larger companies where the Bank can provide credit enhancement, for example through taking longer maturities or providing political risk guarantees.
- The Bank will also consider direct and indirect investments in ICT infrastructure and service companies as well as into high-tech and innovative companies, in addition to engaging in dialogue with the technology and venture capital communities, to support the development of innovation systems, competition, and the knowledge economy in general.
• The Bank will consider supporting the development and renewal of real estate infrastructure, both in the capital and the regional cities. The Bank may support sector specific private equity real estate funds, as well as property companies and real estate developers that would help create greater liquidity in real estate markets. The Bank will conduct policy dialogue to develop supporting institutions.

• Further assisting MSMEs through the Business Advisory Services and Enterprise Growth Programme, to help clients improve their performance, competitiveness, productivity and managerial effectiveness. This support should enable MSMEs to better access finance through banks and/or EBRD funding. This would include conducting policy dialogue with the relevant financial authorities to assist in designing regulatory and business frameworks conducive to facilitating the flow of credit to SMEs.

• The Bank will pay particular attention to supporting job creation, regional development and increased opportunities for women. The Bank will work with clients to develop HR practices that encourage increased female employment and promote equal opportunities in the work place.

3.3.2 Enhancing the agribusiness value chain

Transition challenges

• Modernising farming practices;
• Consolidating a sector that remains fragmented at all levels in order to take advantage of economies of scale and facilitate modernisation;
• Upgrading processing, logistics and retail distribution in order to reduce the large amount of wastage in the value chain;
• Streamlining regulation to ease the process of owning and leasing agricultural land;
• Ensuring the sector is competitive without subsidies and export bans, as these inevitably decline;
• Further reducing the role of the state in the sector in order to promote efficiency and limit reliance on subsidies.

Operational response

The Bank’s ability to engage in the agribusiness sector will depend on ensuring the competitiveness of operations in the absence of protection and efficiency improvements. The Bank would consider opportunities in several areas with private sector companies, including:

• Supporting investments along the food chain (large-scale primary agriculture, storage and logistics, processed products, and retail) to strengthen linkages and improve standards;
• Supporting the consolidation of suppliers in the agricultural and processing sectors;
• Investing in agricultural infrastructure (e.g. commodity warehouses) including supplier and distribution logistics (e.g. cold storage);
• Supporting investments in upgrading hygiene standards and product quality, through for example improved packaging, targeting both domestic- and exports-oriented companies;
3.3.3 Modernising the financial sector

Transition challenges

- Broadening financial access for MSMEs and individuals;
- Deepening financial intermediation by addressing impediments to providing credit to the private sector;
- Reducing state control of banking by further supporting the privatisation process, once feasible;
- Developing local currency and capital markets; and
- Increasing the number of quality institutional private equity funds, broadening the product offering and restore international and regional investors’ confidence in the asset class given the crisis and the Arab spring.

Operational response

The deterioration in the economic environment has led to significant capital flight and has increased the exposure of banks to the sovereign through an increased holding of treasury bills by banks. Although banks have remained fundamentally sound, this has heightened uncertainties in the environment and has crowded out lending to the private sector. As institutions are strengthened and planning horizons are lengthened, the Bank would consider opportunities in several areas, including:

- Providing medium-term finance and guarantees to local banks for on-lending to underserved clients (mostly micro and SME, certain categories of private persons) via targeted programmes (energy efficiency, agribusiness, regionally focused, inclusion or gender targeted programmes, etc.);
- Developing trade finance with a specific focus on serving MSME clients, energy efficiency and broader regional integration;
- Undertaking equity investments in “MSME champion banks” or (subject to policy dialogue) in microfinance institutions;
- Supporting a more diverse product range in mortgage financing, insurance and leasing;
- Developing local currency products to broaden the outreach of the Bank, as part of the Bank’s Capital Markets Initiative;
- Investments may be accompanied by TC (targeted both to the banks and the sub-borrowers) and grants in some cases (for sub-borrower investments or risk sharing purposes) and complemented with policy dialogue focused on the business and regulatory environment to foster access to finance especially for SMEs;
- The Bank will work with FIs to develop products and services that specifically meet the needs of women entrepreneurs and / or address current barriers to their accessing credit.
- Engaging in an active dialogue with locally-based and regional equity funds with an investment focus on Egypt that currently do or will seek capital. Such funds are likely to be generalist and focused on SMEs with a growth investment strategy.
3.3.4 Increasing the role of cleaner fuels and renewable energy and improving energy efficiency

Transition Challenges

- The key transition challenge is the high level of subsidies, both explicit and implicit, leading to fiscal strains, environmental degradation and poor energy security;
- On the demand side the principal transition challenges for Egypt therefore are to reduce its energy and carbon intensity through implementation of energy efficiency in all sectors (for which it is necessary to progressively abolish fuel and energy subsidies);
- On the supply side the main challenge is to establish market-based mechanisms to meet its demanding targets for fuel security from domestic production or increased import capabilities, to shift the fuel mix to cleaner and alternative fuels to foster renewable energy penetration in an efficient and cost-effective manner;
- These challenges are inextricably linked to the urgent need for reforming and commercialising of transport and power infrastructure in order to attract investment from private sector companies.

Operational Response

The Bank’s operational response in this sector will be closely linked to regulatory reform and in particular reform of the energy subsidies system. The Bank would consider opportunities with private sector companies in several areas, including:

- Financing intermediated energy efficiency lending and leasing of energy efficient and renewable energy technologies;
- Supporting energy efficiency investments in manufacturing and agribusiness companies to reduce energy and water consumption, promote use of waste and renewable energy, and improve air quality;
- Investing in production, distribution and maintenance process of quality energy efficient and renewable energy technologies (including solar) to create a reliable and affordable supply chain for those technologies;
- Promoting energy efficiency and use of renewable energy in built environment with a specific focus on energy and water supply efficiency, street lighting and on “Green mortgage” products;
- Promote fuel conservation and the use of alternative fuels such as bio-fuels and compressed natural gas;
- Financing the development and penetration of sustainable energy through investments in renewable energy, supply-side efficiency, demand side management and enabling infrastructure such as networks. A priority for the Bank's engagement will be to support the private development of competitive renewable generation linked to a transition to a market-based regulatory framework;
- Investments will be complemented by policy dialogue and TC projects to support regulatory reform.
3.3.5 Supporting reform and commercialisation of the transport, fuels and power sectors

Transition Challenges

- The principal transition challenges for the power sector include ownership unbundling of the transmission company, greater private participation in generation, progressive price liberalisation and the introduction of wholesale and eventually retail competition in electricity supply;
- Another challenge will be to secure the continued investment needed to provide a secure, sustainable and cost effective supply of power, against the difficult backdrop of the need to reduce subsidies and increase prices;
- In the fuel sector, focusing on projects that improve the commercialization of the state oil and gas and petrochemicals complexes, decrease carbonization through energy efficiency and product quality enhancements and increase the participation of the private sector; The key transition challenge in the transport sector will be to commercialise state-owned transport infrastructure providers and service operators. The private sector suffers from limited participation of transport infrastructure and services, with PPP structures desired but not yet widely used, and funding limitations in place that require lending in local currency only;
- Promotion of a more sustainable transport network including all modes of transport to achieve a phased rebalancing of the dominance of road transport (encouraged by extensive fuel subsidies) within the sector;
- There is scope for improvements in transport regulation and market-based mechanisms for the pricing and delivery of services and the separation of commercial and regulatory functions.

Operational Response

The Bank’s ability to deliver projects in the power and transport sectors will depend on progress with regulatory reform, such as progressive price liberalisation, unbundling, increased private participation and greater commercialisation. The Bank’s response in this area will focus primarily on promoting increased private sector participation. The Bank’s role will be complementary to that of other IFIs in that its focus will be on supporting the private sector. This will not exclude that in very specific and well justified circumstances the Bank may consider supplementing the financing of other IFIs by participating in sovereign operations. The Bank would consider opportunities in several areas, including:

- Supporting projects which advance and validate the reform agenda, for example through support for private sector participation in fuel production, processing and distribution and power generation, both large scale IPPs or BOTs and small to medium scale distributed generation projects, or supporting network investments such as in smart metering that increase efficiency and promote the commercialisation of the transmission, distribution and supply businesses.
- Recognising the essential role of a stable, secure and high quality fuel and energy supply in facilitating economic growth supporting critical infrastructure investments that promote this goal.
• Investments will be complemented by policy dialogue and TC projects to support regulatory reform, for example in facilitating distributed generation, developing market rules or supporting the commercialisation of unbundled companies.

• In the transport sector, the Bank’s priorities in Egypt will focus on promoting private sector participation in infrastructure development, including where possible in developing PPP funding or other concession-based financing, as well as direct support to private sector operations that currently have limited access to long term debt and equity to finance business expansion;

• Bank investments will support sector reform, restructuring and non-sovereign financing solutions to selected state-owned entities in the transport sector;

• Encouraging non-sovereign lending to selected state-owned entities in the context of seeking to encourage sector reform and commercialisation transport activities;

• Supporting development and growth of private sector operators, such as logistics companies, port terminal operators, or private freight forwarders, who currently have limited access to long term debt and equity to finance business expansion;

• Promotion of private sector participation in infrastructure development, including where possible in developing PPP funding or other concession-based financing.

• In terms of policy dialogue, EBRD will support the policy dialogue efforts of other IFIs such as the World Bank, IFC, IsDB and EIB to promote development of PPPs in the transport sector based on best international practice. In addition, the Bank will, on a selective basis, identify opportunities for jointly developing and implementing projects with other IFIs.

3.3.6 Upgrading and expanding municipal infrastructure

Transition Challenges

• Developing non-sovereign financing which is neither widespread in Egypt nor pursued to date by any other IFI;

• Seeking to foster greater decentralisation of municipal services and encouraging greater private sector participation in these services;

• Promoting project structures to encourage improved cost recovery and commercial discipline;

• Investing in mass public transport systems, including urban rail and bus operations in Greater Cairo and Alexandria (including through private sector investments), to respond to severe congestion and air pollution problems;

• Supporting investments in water supply and wastewater collection and treatment facilities;

• Establishing modern integrated waste management facilities to improve the level of recycling and processing of both municipal and other waste;

• Introducing public service contracts in accordance with international standards; and

• Supporting PPP structures for facilities management across municipal infrastructure and services, including potentially in new sectors, such as hospital infrastructure, if possible.
Operational Response

In the regulated sectors the Bank’s ability to develop projects will depend on improvements in regulatory frameworks and transparency. Reforms in the regulated sectors will constitute an enabling environment for the Bank to invest. The Bank will focus its activities on promoting greater private sector participation in the municipal sectors. The Bank would only consider participating in sovereign loans when it complements the activities of other IFIs and critical financing gaps exist. The Bank would consider opportunities in several areas, including:

- On a non-sovereign basis, supporting financially viable public sector entities committed to restructuring and commercialisation;
- Encouraging and supporting private sector investment, where appropriate;
- Supporting the Government’s PPP programme in municipal and environmental infrastructure by conducting an active policy dialogue combined with technical cooperation to assist in the preparation and implementation of PPP tenders in accordance with best international practice as well as providing finance to private partners;
- Lead a sustained policy dialogue to agree on significant structural changes (such as the introduction and enforcement of Public Service Contracts “PSC’s”) needed to develop and operate key municipal infrastructure projects.

3.4 Environmental and Social Implications of Proposed Activities

Egypt’s environment & the impact on development

Egypt is facing numerous environmental challenges, many of which compromise efforts to promote economic and social development. Such challenges include issues associated with water quality and availability, desertification, urban growth, air pollution, and the environmental effects of tourism. Egypt sources the majority of its water from the Nile which is significantly impacted by industrial and agricultural wastes and municipal wastewater. The size and rapid growth of Egypt’s population have caused additional stresses on the environment and the urbanisation of agricultural areas infringes on the already limited agricultural land in the Nile Delta and Valley. The Egyptian people have called on the authorities to provide a stimulus to economic development and to address high unemployment, particularly among the young. These issues will need to be reviewed in the context of individual project appraisal and in line with EBRD’s Environmental and Social Policy and Performance Requirements, the European Principles for Environment, and will assist Egypt in the process of alignment with international standards and compliance with the Millennium Development Goals while addressing the needs of the people.

Developing SMEs and creating jobs

EBRD lending to SME’s will increase the availability of capital and result in sustainable development through increased access to finance resulting in the creation of employment opportunities. Support will be given to financial institutions to increase their lending and support to women entrepreneurs who want to start and grow SMEs, using technical assistance funds where appropriate. The Bank shall work with the SME sector to provide employment opportunities and promote good practice in working conditions. Technical assistance may also be used to promote equal opportunities in the workplace for both men and women.
Enhancing the agribusiness value chain and developing climate change resilience

Egypt is vulnerable to climatic change and the projected impacts over the coming decades. The Southern Mediterranean sub-region is expected to experience decreases in summer and especially winter precipitation. It is expected that drought will impact the agriculture sectors contribution to GDP and domestic food security. EBRD’s projects in the agribusiness sector will require companies to explore climate change resilience opportunities and to promote efficient use of water and energy. The Bank’s projects will seek to provide employment opportunities and raise labour standards by, for example, eliminating the dependence on cheap labour in the supply chain. EBRD technical assistance funds may be deployed in raising E&S standards and promoting of equal opportunities in the work place across the agribusiness sector and throughout the value chain.

Modernising the financial sector and supporting SD capacity building

EBRD’s support to the strengthening of Egypt’s financial sector via Financial Intermediaries will include a programme of environmental and social capacity building and training on sustainable development. EBRD’s FI training programme is well established and can be readily implemented in Egypt. The Bank will as part of its Environmental and Social training programme for FIs, as well as the implementation of our FI Performance Requirements including exclusion and referral lists, emphasize the need to support investments which result in sustainable improvements and avoid environmental degradation. Building on the Bank’s experience in Turkey, technical assistance may be used to work with Financial Institutions to identify how they can address women’s lack of collateral when accessing credit.

Increasing the role of cleaner fuels and renewable energy and improving energy efficiency

Power and energy projects supporting Egypt’s sustainable energy strategy will improve energy efficiency and increase the market share of renewable energy projects. CDM projects in Egypt are well developed and opportunities for carbon finance will be identified. Rural electrification and safe and affordable access to power will be an important consideration in the development of projects in this sector. Proposed pilot work in Central Asia on household energy use and climate vulnerability, which will include a gender perspective, may provide lessons for how the Bank can help its clients to provide responsive energy services in Egypt.

Supporting infrastructure reform and municipal services

In the growing urban-industrial centres, local municipal infrastructure struggles to keep the balance between environmental protection, safe waste disposal and provision of clean water and the Bank’s financing in the sector will aim to provide the population with wider access to better quality urban services. The development of transport and municipal infrastructure may involve land acquisition or economic displacement for local populations but can deliver significant improvements in quality of life and support economic development. In developing municipal services efforts will be made to understand the differentiated priorities and needs of men and women so as to effectively address them and ensure that both can equally share in the benefits of the proposed investments and so have an opportunity to improve their respective employment opportunities and socio-economic status.
3.5 Status of the Bank's Engagement via Cooperation Funds

There are presently 22 donor-funded TC assignments in process in Egypt, including 14 regional SEMED assignments that represent EUR17.5 million of approved funding. These include the regional SBS programme, the Direct Company Assistance, the Food Security, and the Local Enterprise Facility. The TC assignments also include 8 country-specific assignments representing EUR1.2 million of approved funding, including a Transport Sector Review, an Assessment of Sub-Sovereign Financing Framework, a Sustainable Energy Initiative study, an Environmental and Social Assessment, and a Country Law Assessment.

In November 2011, a 2 year Agreement was signed with the EU to fund the launch of the Small Business Support Team (SBS) in Egypt through the Neighbourhood Investment Facility (NIF). This SBS supports economic transition by achieving enterprise change in viable MSMEs and contributing to the development of sustainable infrastructures of local business advisory services. This is achieved through two complementary programmes, Enterprise Growth Programme (EGP) and Business Advisory Services (BAS).

As part of the 'Direct Company Assistance' programme that focuses on project preparation in SEMED two projects have so far been started in Egypt, which could possibly lead to investments. Three more projects are expected to start by Q1 2013. In addition, where applicable, the Bank will focus on the development of backward linkages with local suppliers, retailers and distributors of the EBRD’s current and potential clients in Egypt. These TC projects would take the form of seminars and on-the-field training with the objective to help local suppliers, retailers and/or distributors in the region improve the quality and yield of production.

On the policy dialogue front, the Bank has signed a two-year work-programme on Food Security as part of the expansion of the EBRD-FAO framework agreement to SEMED. On 13 September the EBRD President and FAO Director-General gave opening remarks at a high level workshop which took place in Istanbul. It brought together around one hundred food exporters and importers from nine countries, as well as high level representatives from the Ministries of Agriculture, including the Egyptian Minister of Agriculture and Land Reclamation, Dr. Salah Mohamed Abdel Moemen Khalil. The team is currently considering various follow up actions and policy dialogue initiatives as a response to the Ministry’s interest in inter alia public private working group platforms and Grain Warehouse Receipts.

In the sustainable energy sector a market demand study has been carried out. Based on its findings, initial TC activities have been identified. To support both project preparation and policy dialogue, the following TCs has been considered in the power & energy sector:

- A resource audit facility will be put in place to offer energy audits and water use audits to private sector clients, principally in the Natural Resources, Agribusiness and Manufacturing and Services sectors.
- Consultancy to support regulatory reform in facilitating distributed generation and private merchant renewable energy plants, through implementation of "wheeling" arrangements and transmission access pricing.

The Bank’s priorities for TC in the municipal sector include project preparation work, including feasibility studies for specific projects such as investments in the Cairo Transport Authority. A thorough analysis of the current framework for financing municipal projects and
of the reforms necessary to make sub-sovereign financing approaches bankable was launched early 2012. The consultants’ final report is close to being finalised.

The use of Technical Cooperation funds in the transport sector focuses primarily on a review of the private sector operators and related potential investment opportunities which may be suitable for the Bank financing, as well as identification of niche or complementary priorities for sovereign engagement linked to sector and institutional reform and sustainable transport initiatives.

4. Access to domestic and international capital: private and public sources of finance

4.1 Access to capital

The financial sector in Egypt was hard hit by the deterioration in the economic situation of the country after the revolution, but has nevertheless remained resilient. Major reform is still needed to enhance access to credit by small and medium sized enterprises (SMEs). In addition, banks have significantly increased their purchase of treasury bills in the past year to make up for the flight of foreign capital, which in turn raised their exposure to the sovereign and crowded out lending to other sectors. Moody’s has downgraded five of Egypt’s biggest banks amid concerns over their large holdings of sovereign debt and the transitional government's ability to support banking system. The Egyptian stock exchange has total market capitalisation similar to that of Turkey (about 40 per cent), but is less liquid and quite concentrated. The insurance, mortgage, and leasing markets remain underdeveloped compared to the existing EBRD COOs.

Most Egyptian banks are relatively liquid, rely mostly on local currency deposits for funding and, in principle, have room to extend loans as well as to lengthen maturities. However, the ratio of loans to assets is relatively low, at 39 per cent, and securities and investments in treasury bills account for a significant part of bank assets. Most loans are short term, with little medium term lending. The constraints on longer term lending are not only related to the availability of funding but also the types of projects being financed and the creditworthiness of potential borrowers.

The economy’s access to credit by the banking system continues to be constrained by structural impediments in the sector, and credit to the private sector makes up only around 35 per cent of GDP. While growth in bank loans to the private sector has been picking up, the loans to deposits ratio remains low at 52 per cent. Nonperforming loans (NPLs), which stood at 22 per cent of total loans in 2004, have fallen considerably to around 11 per cent by end-December 2011, but they still remain high. Banking penetration is low compared to regional peers. It is estimated that only 10 per cent of Egyptians have a bank account. As of June 2011, there were 3,573 branches, for a banking density of 4.2 banking units per 100,000 inhabitants (compared with 15 in Romania or 44 in France).

Improving access to finance for MSMEs is one of the key reform challenges in the financial sector. Loans to SMEs account for only 6 per cent of total banking loans. Poorly developed credit bureaus and weak contract enforcement are among the key obstacles to the further development of MSME finance. Constraints to lending to MSMEs appear more related to the institutional capacity and risk appetite of the private banking sector, as well as low
bankability and low financial literacy of MSMEs, rather than liquidity. In addition, banks are highly selective in their lending practices, and mid-sized and smaller companies find it difficult to get funding from the banking sector, whereas the financing needs of larger corporates are generally adequately met.

4.2 MDB finance and collaboration with other IFIs and donors

Several international financial institutions (IFIs) and major regional and bilateral organisations continue to be active in Egypt. As repeatedly emphasised by EBRD Governors, it will be important to avoid duplication and competition and to ensure that any potential activity of the EBRD brings specific value-added based on its specific mandate and competencies. Field missions by EBRD staff over the past months offered numerous opportunities to meet with other IFIs and bilateral donors in Egypt. The EBRD’s focus will remain the private sector. Although Table 2 indicates that Egypt receives quite substantial amounts of foreign assistance from other multilateral and bilateral agencies, limited funds are directed to the private sector and to SMEs directly and the EBRD would help target an important niche. Very little support is currently provided to the areas the EBRD is planning to target, such as promoting private enterprise (especially SMEs), enhancing agribusiness value chains, modernising the financial sector and further commercialisation of the energy and infrastructure sectors.

EBRD’s coordination with other IFIs has been strengthened under the aegis of the Deauville Partnership, which was announced in May 2011 by G8 leaders. The Partnership includes a “Coordination Platform” dedicated to (i) facilitating information sharing and mutual understanding, (ii) coordinating monitoring and reporting on the implementation of the Deauville Partnership, and (iii) identifying opportunities for collaboration on financing, technical assistance, and policy and analytical work. The Deauville Partnership has launched several important initiatives, including a Private Sector Development Initiative, led by the IFIs, aimed at fostering a competitive private sector, including developing local capital markets, addressing skills mismatches, and providing technical assistance for public-private partnerships.

- Under the umbrella of the Private Sector Development Initiative, the EBRD and the AMF are co-leading a joint initiative to comprehensively develop local currency and local capital markets. Several IFI missions to the countries have already taken place and more are planned for H2 2012, which will be used as a key assessment mechanism. Based on the assessments, recommendations will be developed together with country authorities and private sector participants. The aim is to complete the initial needs assessment and issue recommendations for most countries by late 2012, after which options for technical assistance will be considered.

- With support from the newly created Transition Fund, the EBRD will work with the Egyptian authorities and Deauville partners to develop technical cooperation projects in a

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3 Countries in the Partnership currently include the five Partnership countries (Egypt, Tunisia, Jordan, Egypt, and Libya), the G-8, Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, and Turkey. The International Financial Institutions include the African Development Bank, the Arab Fund for Economic and Social Development, the Arab Monetary Fund, the European Bank for Reconstruction and Development, the European Investment Bank, the Islamic Development Bank, the International Finance Corporation, the International Monetary Fund, the OPEC Fund for International Development, and the World Bank. The Organization for Economic Co-operation and Development is also a Partnership member.
range of areas covering all three pillars of the Deauville Partnership (Finance, Trade, and Governance). The Bank will prioritise projects fostering private sector development and facilitating investment programmes of EBRD and other IFIs.

- In order to improve the policy environment for SMEs IFIs are also jointly preparing an assessment of the conditions for SMEs to generate jobs and growth, which will guide concrete actions for SME development. The US asked EBRD to host a Deauville Partnership conference on SMEs in SEMED on 1 November. The expected high-level attendance reflects the political importance of this topic for G8 capitals, not to mention the recipient countries themselves. Each of the 4 SEMED countries (+ Libya) will present their “action plans” for SME development, drafted together with the OECD, and ranging from access to finance to administrative burden to public procurement.

Coordination is also being strengthened under several EU initiatives in the region. The EU-Egypt Task Force, due to meet for the first time on 13-14 November, is meant to act as a catalyst for collective EU support towards Egypt and could become a key framework for fostering a range of vital relations and partnerships between EU institutions, EU member states and Egypt covering financial, trade, developmental and political areas. Furthermore, the European Commission is active in several areas identified in the Strategy. There is therefore real potential for positive synergies between EBRD and EU institutions.

In addition to these broad-based efforts, the EBRD is also heavily coordinating its activities in the region with the EIB, AFD and KfW in the framework of the EU Neighbourhood Investment Facility. The Bank is participating in a donor coordination initiative which involves all multilateral and bilateral agencies, which have their offices in the country. The EBRD signed Memoranda of Understanding with several MDBs as well as, of course, making amendments to the one with the EIB. Overall the MoUs confirm the complementarity of EBRD and the other institutions and the shared intention to use their skills and experience to advance their respective mandates.

The EBRD will bring its particular expertise in private sector financing, which is seen as a key priority by the government and the other IFIs. The EBRD’s activities will build on its business model. This business model includes mandate, institutional and operational attributes such as, inter alia, its transition focus, respect for additionality, capacity to evaluate, structure, mitigate and take debt and equity risks, experience in supporting local (less experienced) and smaller businesses, ability to support different ownership models, and ability to intervene directly at company level to promote high quality standards in areas such as governance.
Table 2: Summary of the activities of IFIs in Egypt

<table>
<thead>
<tr>
<th></th>
<th>Portfolio</th>
<th>ABV</th>
<th>Forecasts</th>
<th>Main sectors of activity</th>
<th>Private sector operations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>World Bank (IBRD)</strong></td>
<td>USD4.05 bn for 18 projects</td>
<td>Annual average of around USD1 bn since FY09 (with a sharp increase in FY10 to USD2.2 bn)</td>
<td>Expect to finance USD0.5-1 bn of investment projects on a yearly basis</td>
<td>Infrastructure (e.g., power, transport, irrigation), and social protection</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>MIGA</strong></td>
<td>N/A</td>
<td>N/A</td>
<td>USD100 m-USD200 m p.a. for next three years</td>
<td>Energy sector, infrastructure and manufacturing investments</td>
<td>MIGA supports private investors only</td>
</tr>
<tr>
<td><strong>IFC</strong></td>
<td>USD1,153 m in 32 companies</td>
<td>FY12 commitments stood at USD506 m including USD125 m in mobilization in 7 projects</td>
<td>Cumulative investments of around USD600-800 m (incl. mobilization) over the next 3 years</td>
<td>Around half of IFC investments are in equity, either directly in large companies (chemicals, refining, and banking) or through equity funds</td>
<td>Portfolio increased by 47% between FY10-present. 18 projects committed between FY10-FY12</td>
</tr>
<tr>
<td><strong>AfDB</strong></td>
<td>USD2.20 bn comprising 8 sovereign loans, 2 non-sovereign loans and 14 grant financed operations</td>
<td>Approvals in 2011 have been for grants only worth UA 5.42m</td>
<td>Volume has been constrained owing to the drastic reduction in the Bank’s lending capacity after the sovereign downgrades</td>
<td>Power supply (70% of the active portfolio)</td>
<td>11% of the active portfolio</td>
</tr>
<tr>
<td><strong>EIB</strong></td>
<td>EUR5.6 bn since the onset of EIB operations in Egypt in 1979, of which EUR3.3 bn since the launch of FEMIP in 2002</td>
<td>Average annual business volume of some EUR320 m over the last five years. EIB volume reached a high of EUR900 m in 2010</td>
<td>In 2012, the EIB expects to approve around EUR600 m (mainly lending but also equity operations).</td>
<td>Private (including equity investment) and Public sectors. By industry: infrastructure (power, water, transport, renewable energy, environment), corporate and SME</td>
<td>Over the last 3 years (2009-2011), EIB committed EUR404 m operations (lending and equity) in the private sector.</td>
</tr>
<tr>
<td>Portfolio</td>
<td>ABV</td>
<td>Forecasts</td>
<td>Main sectors of activity</td>
<td>Private sector operations</td>
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<tr>
<td>IsDB</td>
<td>USD4 bn</td>
<td>USD500 m on average, with a peak at 810 million in 2010, and USD1.375 bn including business and insurance in 2011. USD1 bn framework agreement over 3 years signed in July 2012 for Supply Commodities and Petroleum imports</td>
<td>Energy, transportation, education, MSME, trade, agriculture, water and health</td>
<td>60 %</td>
<td></td>
</tr>
<tr>
<td>Arab Fund for Economic and Social Development</td>
<td>USD3.7 bn</td>
<td>USD324 m in 2010 USD1.2 bn over 2011-2013</td>
<td>Power, industry and mining sectors</td>
<td>No recent project</td>
<td></td>
</tr>
<tr>
<td>OPEC Fund (OFID)</td>
<td>USD 543 m.</td>
<td>Average disbursement per annum of USD106 m over the period 2010-2011. USD 65 m under consideration in 2012.</td>
<td>Energy, Social, Agriculture, Health, Education, Trade Finance</td>
<td>1.6%</td>
<td></td>
</tr>
<tr>
<td>KFW/ DEG</td>
<td>EUR1.2 bn</td>
<td>EUR390 m in 2010, compared with an average annual business volume of EUR170 m</td>
<td>Water (water resources management and water supply and sanitation), Environment energy sectors (with a focus on renewable energy), environmental compliance (for industries) and solid waste management, Cross cutting education, and MSME support</td>
<td>The current DEG portfolio amounts to EUR50 m with annual commitments of around EUR20 m.</td>
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</tr>
<tr>
<td>Portfolio</td>
<td>ABV</td>
<td>Forecasts</td>
<td>Main sectors of activity</td>
<td>Private sector operations</td>
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<tr>
<td>AFD</td>
<td>EUR400 m</td>
<td>EUR400 m in 2010</td>
<td>Portfolio should reach EUR650 m over 2011-2013</td>
<td>10-15% via Proparco</td>
<td></td>
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</tbody>
</table>
## Annex 1: Selected Economic Indicators

### Egypt*

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Output and expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>6.8</td>
<td>7.1</td>
<td>7.2</td>
<td>4.6</td>
<td>5.1</td>
<td>1.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Private consumption</td>
<td>...</td>
<td>...</td>
<td>5.7</td>
<td>4.9</td>
<td>5.5</td>
<td>4.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Public consumption</td>
<td>...</td>
<td>...</td>
<td>2.1</td>
<td>5.5</td>
<td>4.2</td>
<td>4.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>...</td>
<td>...</td>
<td>14.8</td>
<td>-11.0</td>
<td>9.3</td>
<td>-5.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>...</td>
<td>...</td>
<td>28.8</td>
<td>-12.8</td>
<td>-1.8</td>
<td>-1.1</td>
<td>-3.1</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>...</td>
<td>...</td>
<td>26.3</td>
<td>-17.7</td>
<td>0.7</td>
<td>3.2</td>
<td>11.7</td>
</tr>
</tbody>
</table>
| Industrial gross output | 9.8  | 15.9 | -5.5 | 10.0 | 9.6  | -4.5 | ...
| **Labour Market**       |      |      |      |      |      |      |      |
| Gross average earnings (annual average) | 10.6 | 10.0 | 30.6 | 10.0 | 21.3 | 18.9 | ...
| Real LCU wage growth    | 2.8  | 0.5  | 10.3 | -1.3 | 9.7  | 8.0  | ...
| **Prices**              |      |      |      |      |      |      |      |
| Consumer prices (annual average) | 7.6  | 9.4  | 18.3 | 11.5 | 10.5 | 10.1 | 8.0  |
| Consumer prices (end-year) | 12.4 | 6.9  | 18.4 | 12.6 | 10.4 | 9.5  | 9.4  |
| **Fiscal Indicators**   |      |      |      |      |      |      |      |
| Central government balance | -8.7 | -7.8 | -7.2 | -8.2 | -10.0 | -11.0 | /
| Central government revenues | 26.0 | 25.6 | 29.5 | 28.5 | 23.3 | 20.3 | 23.7 |
| Central government expenditure | 35.8 | 31.5 | 33.1 | 35.5 | 31.8 | 29.9 | 31.8 |
| Central government debt   | 76.3 | 79.4 | 67.0 | 67.1 | 67.0 | 70.5 | ...
| **Monetary and financial sectors** |      |      |      |      |      |      |      |
| Broad money (M2, end-year) | 15.1 | 19.1 | 10.5 | 9.5  | 12.4 | 6.7  | ...
| Credit to the private sector (end-year) | 6.1  | 7.9  | 13.1 | 7.7  | 7.0  | 1.6  | ...
| Non-performing loans ratio | ...  | ...  | 14.8 | 13.4 | 13.6 | 10.9 | ...
| **Interest and exchange rates** |      |      |      |      |      |      |      |
| Local currency deposit rate (savings, weighted avg) | ...  | 6.9  | 8.2  | 6.7  | 7.2  | 7.8  | ...
| Foreign currency deposit rate | 5.0  | 4.5  | 1.2  | 0.2  | 0.2  | 0.4  | ...
| Lending Rate (weighted avg) | 12.6 | 12.2 | 12.5 | 11.0 | 10.7 | 11.8 | ...
| Interbank Rate (weighted average) | ...  | 8.8  | 11.7 | 8.3  | 8.4  | 11.3 | ...
| Policy Rate (Discount Rate, end-fiscal year) | 9.0  | 9.0  | 9.0  | 8.9  | 8.3  | 8.3  | ...
| Exchange rate (end-year) | 5.76 | 5.72 | 5.52 | 5.52 | 5.52 | 5.84 | ...
| Exchange rate (annual average) | 5.74 | 5.64 | 5.44 | 5.54 | 5.62 | 5.93 | ...
| **External sector**      |      |      |      |      |      |      |      |
| Current account         | 1.7  | 1.9  | 0.6  | -2.5 | -1.6 | -2.3 | -3.2 |
| Trade balance           | -11.8 | -12.9 | -14.9 | -14.1 | -11.8 | -12.9 | /
| Merchandise exports     | 18.2 | 17.6 | 18.7 | 14.1 | 11.7 | 12.2 | 11.0 |
| Merchandise imports     | -30.1 | -30.5 | -33.6 | -28.2 | -23.5 | -24.0 | -23.9 |
| Foreign direct investment | 6.0  | 8.9  | 8.4  | 4.5  | 3.3  | 1.0  | 0.8  |
| Gross reserves (end-year) | 22.7 | 22.9 | 22.0 | 17.5 | 17.2 | 12.0 | 6.3  |
| External debt stock     | 29.2 | 22.8 | 20.1 | 16.9 | 15.9 | 15.2 | 13.5 |
| Public external debt    | 19.3 | 14.9 | 12.9 | 13.8 | 12.4 | 11.8 | 10.0 |
| Private external debt   | 9.9  | 7.9  | 7.2  | 7.1  | 3.1  | 3.4  | 3.5  |
| Gross reserves, excluding gold (end- fiscal year) | 6.2  | 6.2  | 5.6  | 5.7  | 6.3  | 4.3  | 3.1  |

* Figures for national accounts, fiscal indicators, and the external sector are for the fiscal year (June-July)
Annex 2: Small Business Support

The Small Business Support Team (SBS) supports economic transition by achieving enterprise change in potentially viable micro, small and medium enterprises (MSMEs) and contributing to the development of sustainable infrastructures of local business advisory services. This is achieved through two complementary programmes: the Enterprise Growth Programme (EGP) and Business Advisory Services (BAS). EGP focuses on substantial managerial and structural changes and supports the introduction of international best practice to SMEs by engaging experienced international executives and industry experts as advisers. BAS enables MSMEs to access a diverse range of consulting services by facilitating projects with local consultants on a cost-sharing basis.

In November 2011 a two-year Agreement was signed with the EU to fund the launch of SBS operations in Egypt, Morocco and Tunisia through the Neighbourhood Investment Facility (NIF).

MSME Environment in Egypt

MSMEs account for over 90 per cent of active enterprises in Egypt and contribute to over 80 per cent of GDP and 75 per cent of total employment. Regional discrepancies between the Upper, Middle and Lower Egypt remain significant; the gap is even more severe between urban and rural areas. Even though the number of MSMEs has grown over the past ten years, the sector is still highly vulnerable. The majority of MSMEs are relatively small companies; many are family-owned and family-managed.

MSME Challenges

A major challenge for MSMEs appears to be access to finance and this is due to conservative/administrative policies and lack of dedicated MSME products available on the banking side and financial illiteracy on the MSME side. The sector is characterized by a high level of informality creating unfair competition, lower productivity and even more limited access to finance. Underdeveloped value chain is more pronounced in the agribusiness sector and is a major area of concern for export-oriented MSMEs, the State and other stakeholders. Lack of information and access to data is another barrier. Bureaucracy and corruption are also cited among problems that businesses face in Egypt.

MSMEs face a number of internal challenges constraining growth. Excessive centralisation of management and lack of corporate governance is a common pattern at family-owned businesses. Limited management competencies and practices that lack strategic vision are another hurdle. Egyptian enterprises often face other problems related to the lack of skilled labour, outdated HR practices, poor financial management, low productivity, lack of innovation and technology transfer, limited openness to using management consultancy.

Infrastructure of MSME Support

State Policy and Governmental Support: Support organisations in Egypt include a number of governmental agencies with regional outreach. The Social Fund for Development (SDF) supports MSMEs to access finance and services in collaboration with the ministries and SME agencies. The Ministry of Trade and Industry has focused on upgrading the manufacturing
sector through the Industrial Modernization Programme (IMP) to improve Egyptian private sector standards and boost exports. The General Authority for Investment and Free Zones (GAFI) focuses on the management of industrial zones. The Egyptian Banking Institute leads efforts to promote MSME access to finance by building the capacity of banks in creating specialized financial instruments. The Government is planning to form an SME council to coordinate efforts on comprehensive development of the sector.

**Donor support:** Egypt has a number of ongoing donor initiatives supporting MSMEs on access to finance, policy reform, business enabling environment and business advisory services across the country. Those programmes deliver different forms of financial and non-financial support to make enterprises bankable (CIDA, USAID), agriculture development (EU, GIZ, Agence française de Développement). Other donors and IFIs involved in private sector development include KfW, IFC and African Development Bank. The presence of many donors in the country creates even more opportunities for cooperation.

**Private sector support:** The private sector is also supporting SMEs as demonstrated by a number of associations and federations that are active in the field; however there is lack of integration and coordination amongst the various players.

**Egyptian consultancy market**

The management consultancy market in Egypt faces high transition gaps and is characterised by a number of consultancy companies mainly located in Cairo and Alexandria. The range of consultancy services available in the market looks adequate from the outset, however, quality and growth have been largely dependent on the availability of funded business development services programmes. Consultants still require support in creating the demand and educating MSMEs on the value of consultancy services. The Management Consultant Association has made some efforts to raise standards but did not receive the anticipated support to achieve its core objective of introducing a certification programme locally. Most consultants are keen to be further trained in core consultancy skills and specialised areas and would welcome support in improving local consultants’ standards through sustainable programmes. There are strong technical skills and know-how available locally which if exploited properly could create a good base for local consultants.

**Small Business Support Operational Response**

SBS is commencing operations in Egypt with a focus on visibility activities to raise awareness about the potential benefits of accessing well designed advisory services. The Team has identified priority sectors such as agribusiness, engineering, textiles and apparel, ICT and furniture manufacturing. Operations started from the main industrial clusters in and around the capital city Cairo and other large cities (Alexandria and in the Delta) and will extend coverage to less-developed areas in the south. SBS recognizes the barrier to economic growth represented by the high level of youth unemployment, particularly in the rural areas of Egypt. The Team aims for its programmes to help address these and other cross cutting issues, such as participation of women in business, environment, energy and water efficiency, once a good operational level is reached.
The main areas of focus include:

- Increasing efficiency and productivity of enterprises
- Improving management practices of managers
- Promoting corporate governance and transparency, especially to family-owned businesses
- Improving the quality of advisory services
- Developing the consultancy market especially in the rural regions
- Strengthening the existing infrastructure and contributing to the institutionalization of the business advisory market.
- Supporting larger agribusiness companies under the joint EGP-Agribusiness direct industry assistance
- Promoting energy efficiency interventions
- Contributing to the policy dialogue between the Bank and local stakeholders

**Banking linkages and project preparation**

- SBS is working closely with ICA sectors especially Agribusiness, M&S, ICT and PE
- Project preparation for the agribusiness team through the joint EGP-Agribusiness programme
- Coordination with Private Equity to support their potential “Equity Funds” partners by supporting enterprises in which they have stake.
- Coordination with the FI team by referring MSMEs to partner banks, and raising awareness among MSMEs on the new financing products and instruments which FI has supported.

**Business Advisory Services**

BAS projects will support MSMEs in areas that respond to the challenges identified, focusing on:

- Strategy development and performance management techniques
- Market analysis, planning and strategy
- Organizational development and HR management
- Introduction of IFRS/Budgeting/Financial planning systems
- Introduction of costing systems
- Management information systems
- Operational planning/Quality management/Certification
- Supply chain management
- Product development
Enterprise Growth Programme

EGP will be implemented with the aim of demonstrating the SBS approach and methodology in assisting high potential SMEs to their next level of growth. Special focus will be given to the priority sectors: agribusiness, textile and apparel, ICT, engineering and feeder industries (packaging, technical components). Larger agribusiness companies will benefit from the EGP-Agribusiness joint framework to improve value chain inefficiencies and prepare them to receive financing.

Market/Sector Development Activities

SBS will conduct market and sector development activities to support the achievement of the overall goals.

- Visibility and dissemination in cooperation with major representative bodies of Egyptian enterprises; such as the Investors Associations of each industrial park, Chambers of the Federation of Egyptian Industries (FEI), Egyptian Junior Business Association (EJB), Alexandria Business Association (ABA) and other relevant NGO’s
- Training of local consultants on advanced consultancy skills and support their preparation to achieve an internationally recognized accreditation.
- Support to and development of existing local institutions and programs engaged in serving MSMEs, by providing advice on introducing innovative business development services.

Coordination

- Working in line with the governmental strategies through close coordination with the Ministry of Trade and Industry, the Social Fund for Development (SFD), General Authority for Investment, and the Ministry of Finance.
- Coordination with the active IFIs and donors
Annex 3: Gender Profile Egypt

Gender inequality and Human Development

According to the UNDP’s 2011 Human Development Index (HDI), Egypt is ranked 113rd out of 187 placing it amongst the countries with medium human development. The HDI is a composite measure for assessing long-term progress in three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living.

Education

According to UNESCO 2006 data, adult literacy rates are 57.8 per cent for women and 74.6 per cent for men. Youth literacy rates are 81.8 per cent for women and 87.9 per cent for men. Primary school enrolment is high both for girls (92 per cent) and boys (95 per cent), and secondary school enrolment shows a similar tendency with 64 per cent of girls and 66 per cent of boys being enrolled (UNESCO 2009). 34 per cent of males and 31 per cent of females are enrolled in tertiary education in 2010.

While Egypt has made significant gains in closing gender gaps in primary, secondary and tertiary education, gaps in education are still wide by rural and urban population. For example, as the below table shows, the ratio of illiterate women in rural Egypt is twice as much as the ratio of that of urban population.

<table>
<thead>
<tr>
<th>Educational Attainment by Location and Gender</th>
<th>Urban (%)</th>
<th>Rural (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illiterate</td>
<td>Male 11</td>
<td>Female 23</td>
</tr>
<tr>
<td>Elementary School</td>
<td>Male 10</td>
<td>Female 8</td>
</tr>
<tr>
<td>General High School</td>
<td>Male 7</td>
<td>Female 7</td>
</tr>
<tr>
<td>University and Above</td>
<td>Male 20</td>
<td>Female 17</td>
</tr>
</tbody>
</table>

Source: R. Assaid, ‘Egyptian Labour Market Revisited (2009)’

Labour participation and the gender pay gap

According to the Central Agency for Public Mobilisation and Statistics of Egypt (CAPMAS), in 2010 women’s labour force participation rate was 23.1 per cent as compared to 75.1 per cent for men. Low employment rates of young people (i.e. people between 15 and 24 years of age), and especially those of young women is a particular challenge for the country. According to the UN Population Division, in 2009 the unemployment rate among young women was nearly three times that of young men in Egypt: 48 per cent and 17 per cent, respectively.

According to World Bank statistics for 2008, occupational segregation is quite significant in Egypt and it is unlikely to have changed since. While 46 per cent of employed women work in agricultural production, only 28 per cent of employed men worked in the same sector. Industrial sector provides employment for 6 per cent of employed women and 27 per cent of employed men. Service sector provides employment for the majority of both men and women.
who participate in the labour market, as 49 per cent of employed women and 44 per cent of employed men work in this sector.

Horizontal job segregation appears to be a significant factor in determining high gender pay gaps in Egypt, where a large percentage of women have public sector jobs, which typically pay less than private sector jobs. According to the CAPMAS, Egyptian women earn nearly 30 per cent less than men in the private sector, compared to only 4.3 per cent in the public sector (the aggregate gender pay gap in Egypt is 37.7 per cent.) This is mainly due to longer work hours in the private sector (which detract women who have additional childcare or household responsibilities), a lack of relevant education (women still tend to focus more on humanities and social sciences whereas many businesses seek employees with technical backgrounds) and a fear of the costs of potential maternity leaves by the private sector companies.

Women are entitled to 90 days paid maternity leave in Egypt. The labour laws of Egypt oblige the employer to establish a nursery for children if the number of working mothers employed is, or exceeds, one hundred.

Entrepreneurship, access to finance

Women have the same legal rights to access bank loans and enter into financial contracts as men do. However, there are significant disparities along gender lines in relation to the numbers of the numbers of adults who have an account at a formal financial institution, save, borrow money or manage risk in Egypt. For example, according to the World Bank’s Global Financial Inclusion database (surveying approximately 1,000 people using randomly selected, nationally representative samples); in 2011 12.81 per cent of male adults and 6.52 per cent of females owned an account at a formal financial institution.

According to the 2010 World Bank report ‘Egyptian Women Workers and Entrepreneurs, Maximizing Opportunities in the Economic Sphere’, women face higher hurdles in accessing to finance. Relatively few women approach commercial banks for credit in Egypt. Those that approach banks are confronted with higher rejection rates than men face with the lack of collateral being named as one of the major reasons for rejection. Women are more active in the informal credit market than men and are more likely to borrow funds from family and friends.

According to the 2009 Business Environment and Enterprise Performance Survey (BEEPS), 34 per cent of 1,530 firms surveyed in Egypt had women among the owners; women constituted 16.1 per cent of permanent full time workers and as low as 4.3 per cent of non-production workers were females.

The Women’s Economic Opportunities Index (WEO) of the Economist Intelligence Unit ranks Egypt 80th out of 128 countries. When countries are grouped according to income level, however, Egypt ranks 14th amongst the lower middle income countries.

Inheritance and property rights

Egypt’s legal system is built on the French civil code and Islamic law (Sharia law). The personal status law, applicable to Muslims, who comprise the majority of the population, governs areas of personal life such as marriage, divorce and inheritance and is influenced by Sharia law. Egypt’s law does not restrict women’s access to ownership of land and other
property. However, in some areas such as the southern parts of Egypt rural women customarily do not own land and it is not considered socially acceptable to do so, while in other regions, such as the Nile Delta, this is not the case. According to the World Bank’s Women, Business and the Law database, in marriage any joint property is managed by the original owner. Furthermore, joint titling for married couples is not the default presumption for marital property. Thus where property is acquired during the course of a marriage, there is no legal presumption of joint ownership between the husband and the wife.

Women are entitled to inherit from their husband, father, mother and/or children and in some cases from other family members. The World Bank’s Women, Business and the Law database also reports that there are inequalities with respect to inheritance between daughters and sons, as well as between widowed women and men in favour of men. Of note is that norms and customs often prevent women from managing the assets that they own and/or inherit. These may be put under the guardianship of a brother, husband, or son. As it is rare that women own land or other properties, their ability to use property to secure and improve their economic well-being and, most importantly, to use it as collateral to access credit is limited.

*Participation in politics and decision making*

Women in Egypt obtained the right to vote and stand for election in 1956 and since then several measures were taken to ensure their participation in politics. In 2009, a quota reserved 64 of the 518 seats in the People’s Assembly for women and in 2011 there were 65 women parliamentarians. However, women are still underrepresented in politics. In 2007, the long-standing ban on female judges was lifted.

Egypt ratified the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) in 1981, but maintains reservations to some articles. In 2008 the reservation to CEDAW article 9 was withdrawn, so now women can also pass on their nationality.