OECD Economics Department Working Papers

Improving Egypt’s business climate to revive private sector growth

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ABSTRACT/RÉSUMÉ

Improving Egypt's business climate to revive private sector growth in Egypt

Weak productivity in Egypt is rooted in deep-seated structural causes that impede market competition and prevent a more efficient resource allocation. This implies a number of challenges for economic policy to meet the objectives for long-term sustainable growth as set out in the National Structural Reform Programme, but the government is determined to tackle the issues, and is committed to increase the role of the private sector. Market mechanisms such as business entry and exit, and growth of the most efficient firms, appear to be weaker than in many similar emerging markets. Recent reforms have started to tackle heavy regulatory burdens and barriers that hinder market entry and encourage informality and should be pursued, while the judiciary system still requires improvement. Competition from abroad, and the attraction of foreign direct investment are hampered by trade barriers, implying that Egypt does not fully benefit from global value-chains and spillovers of technology and knowledge that would help lift productivity. The way state-owned companies are operating across a several sectors prevents private businesses from competing on a level playing field, although the government has recently started to take steps to level the playing field for all firms. Moreover, many businesses still face difficulties in accessing finance, as banks overwhelmingly prefer to lend to the government. Enhancing access to finance and improving digitalisation would contribute to a more competitive environment, lifting business sector growth.

This Working Paper relates to the 2024 Economic Survey of Egypt https://www.oecd.org/economy/egypt-economic-snapshot/

Key words: Business climate, investment, private sector development, productivity, resource allocation, regulatory reform, informal economy, trade barriers, foreign investment, tax incentives, judiciary efficiency, anti-corruption measures, competition, corporate governance, state-owned enterprises, network sectors, privatisation, level playing field, access to finance, SMEs, digital diffusion, Egypt.

JEL codes: D24 E26 F13 F21 G21 G34 G38 H11 H25 K21 K23 K35 K42 L11 L14 L25 L26 L33 L40 L50 O19 O33 O53

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Améliorer le climat des affaires pour relancer la croissance du secteur privé

La faible productivité en Égypte trouve ses racines dans des causes structurelles profondes qui entravent la concurrence sur le marché et empêchent une allocation des ressources plus efficace. Cela implique un certain nombre de défis pour la politique économique afin de répondre aux objectifs de croissance durable à long terme tels qu'énoncés dans le Programme national de réformes structurelles, mais le gouvernement s'est montré déterminé à aborder les problèmes et à accroître le rôle du secteur privé. L'entrée et la sortie des entreprises, ainsi que la croissance des entreprises les plus efficaces, semblent être plus faibles que dans de nombreux pays similaires. Des réformes récentes ont commencé à s'attaquer aux barrières réglementaires qui entravent l'entrée sur le marché et encouragent l'informalité. Elles devraient être poursuivies, alors que le système judiciaire nécessite toujours des améliorations. La concurrence étrangère et les investissements directs étrangers sont entravées par des barrières commerciales. L'Égypte ne bénéficie alors pas pleinement des chaînes de valeur mondiales et des retombées technologiques et des connaissances qui aideraient à accroître la productivité. La façon dont les entreprises publiques opèrent dans un de nombreux secteurs empêche les entreprises privées de concurrencer sur un pied d'égalité, bien que le gouvernement ait récemment commencé à prendre des mesures pour stimuler une concurrence plus équitable. De plus, de nombreuses entreprises continuent de rencontrer des difficultés d'accès au financement, les banques préférant largement prêter à l'État. Améliorer l'accès au financement et la numérisation contribuerait à créer un environnement plus compétitif, favorisant la croissance du secteur privé.

Ce document de travail concerne l'Étude économique de l'Égypte de 2024 https://www.oecd.org/economy/egypte-economic-snapshot/

Mots clés : Climat des affaires, investissement, développement du secteur privé, productivité, allocation des ressources, réforme réglementaire, économie informelle, dynamisme du marché, barrières commerciales et douanières, investissements étrangers, incitations fiscales, efficacité judiciaire, mesures contre la corruption, concurrence, gouvernance, entreprises publiques, privatisation, accès au financement, PMEs, diffusion numérique, Égypte.

Codes JEL : D24 E26 F13 F21 G21 G34 G38 H11 H25 K21 K23 K35 K42 L11 L14 L25 L26 L33 L40 L50 O19 O33 O53

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Improving Egypt's business climate to revive private sector growth

By Ania Thiemann[1]

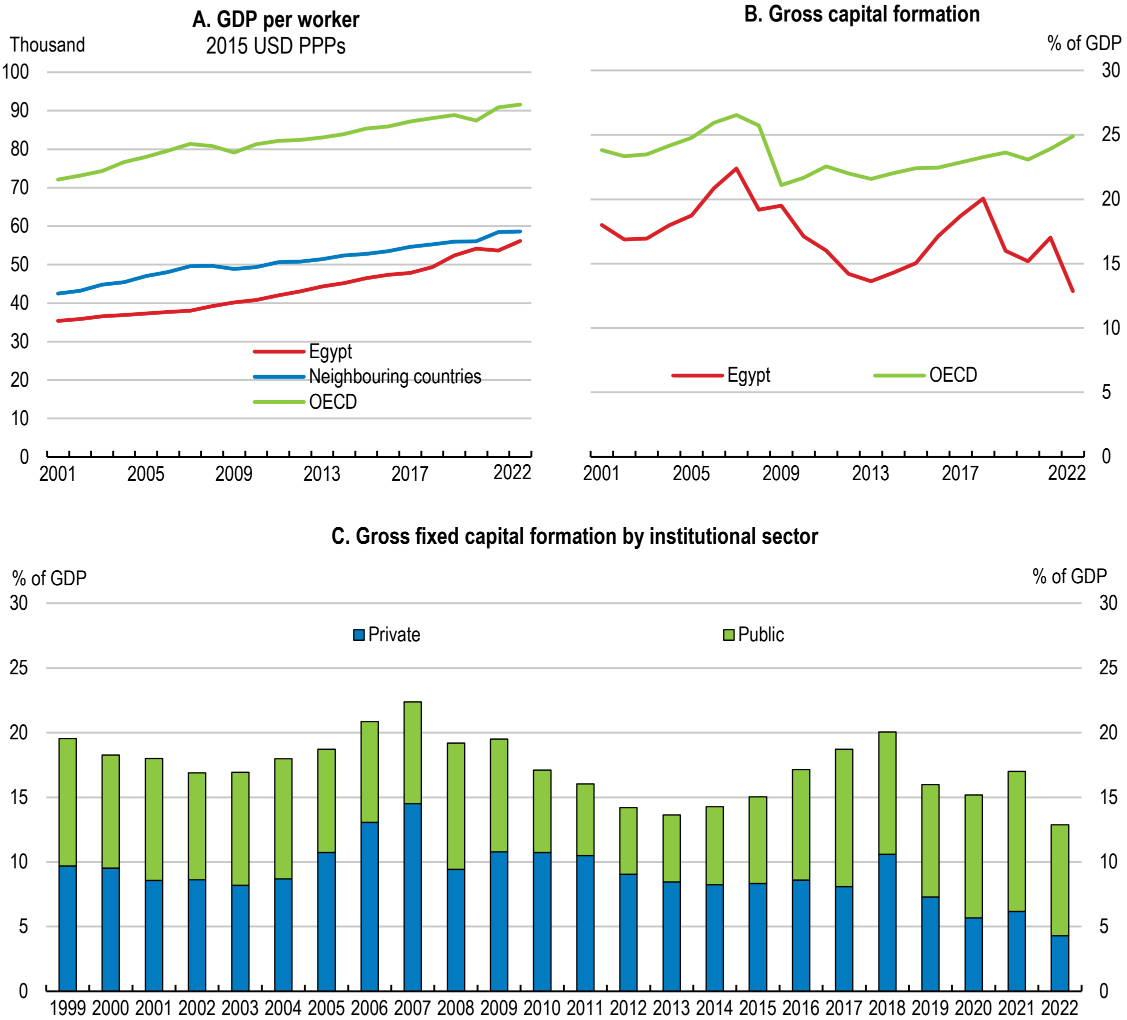
Productivity is the principal source of long-run growth. It provides the basis for better material living standards and improvements in well-being. Productivity is also the main driving force for economic convergence towards better performing economies (OECD, 2015d). In Egypt, labour productivity is still significantly below the OECD average (Figure 1,Panel A), with low overall investment (Panel B) and a declining share of private investment in the total (Panel C). Low investment in innovation and R&D also contributes to low productivity growth (OECD, 2015d). Egypt spends less than 1% of GDP on R&D Figure 2). Moreover, total factor productivity (TFP) declined in most sectors between 2013 and 2018, against the backdrop of a deteriorating investment climate and the presence of regulatory barriers (Zaki, 2022).

Slow productivity growth in Egypt is rooted in deep-seated structural causes that impede market competition and prevent a more efficient resource allocation. To ensure sustainable economic growth, as set out in the National Structural Reform Programme, policy reforms are required that can boost market competition and raise productivity to lift Egypt to a higher economic growth path. This is also needed to provide more and better-quality jobs to Egypt's fast-growing and young population, to help tackle endemic youth unemployment (OECD, 2024, Chapter 4). The ongoing IMF Extended Fund Facility programme underlines the role of structural reform in general, including divestment, to shore up the Egyptian economy.

Against this background, this working paper explores ways to promote a more competitive business environment, shedding light on factors that are known to stimulate market competition and to facilitate the entry and expansion of new firms. First, it presents some stylised facts about productivity growth and competition. Then it turns to conditions needed to unleash private sector growth, starting with a conducive regulatory framework, an efficient judiciary and measures to fight corruption, as well as an enhanced competition law enforcement framework, and improved trade and investment policies. The next section then discusses how to reduce the state's presence in the economy through the divestment of state-owned enterprises (SOEs) and a levelling of the playing field. The last two sections discuss access to finance and digitisation, which are key growth enablers.

[1] Ania Thiemann works in the Competition Division of the Directorate of Financial and Business Affairs (DAF) of the OECD. The author would like to thank Reham ElDesoki, external consultant, for meaningful contributions to the working paper. The author also thanks Tim Bulman, Yosuke Jin, Vincent Koen and Isabell Koske (Economics Department); Bert Brys, Alessandra Celani and Pierce O'Reilly (Centre for Tax Policy and Administration); Molly Lesher, Hanny Pawelec, Ali Alsamawi, Ilaria Goretti and Francesco Manaresi (Directorate for Science, Technology and Innovation); Alin Horj (Global Relations and Co-operation Directorate); and Antonio Capobianco and Lynn Robertson (Competition Division, DAF) for their valuable comments and feedback on the paper. Special thanks to Natia Mosiashvili for valuable statistical and research assistance, and Jean-Rémi Bertrand and Sisse Nielsen for editorial assistance (Economics Department).

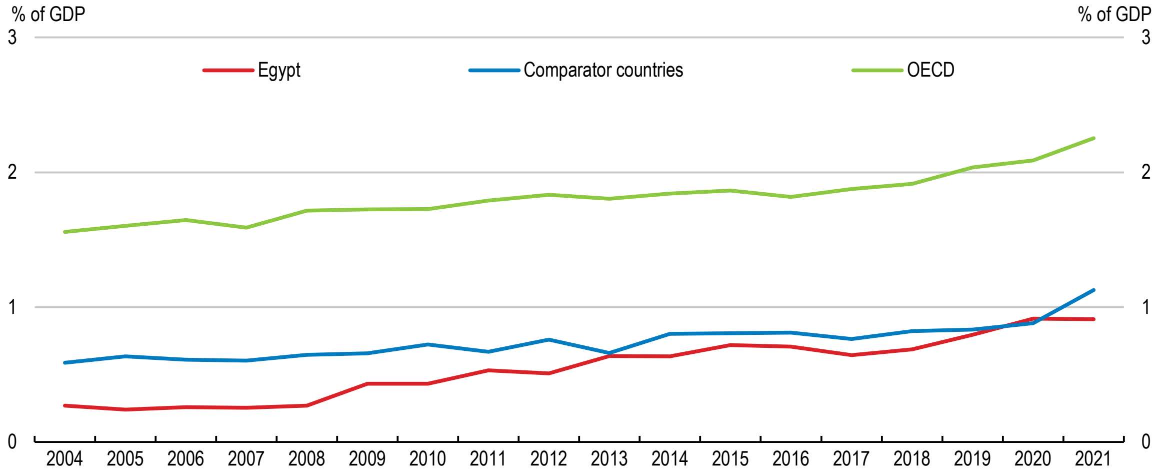
Figure 1. Low output per worker is related to low investment



Note: Data for Egypt in all three panels refer to fiscal years (from July of indicated year to June of the following year). In this report, the following definitions are used: comparator countries refer to Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, Greece, India, Indonesia, Malaysia, Mexico, Morocco, South Africa, Thailand, Tunisia, Türkiye and Viet Nam. Neighbouring countries refer Algeria, Israel, Jordan, Lebanon, Morocco, Tunisia and Türkiye. These country aggregates are employed if data are available for at least 80% of the countries. Panel C: data for public investment include state-owned enterprises.
Source: IMF, World Economic Outlook database October 2023; OECD, National Accounts database; Ministry of Planning and Economic Development; and OECD calculation.

Figure 2. Spending on research and development is low

Spending on research and development as a share of GDP, calendar years



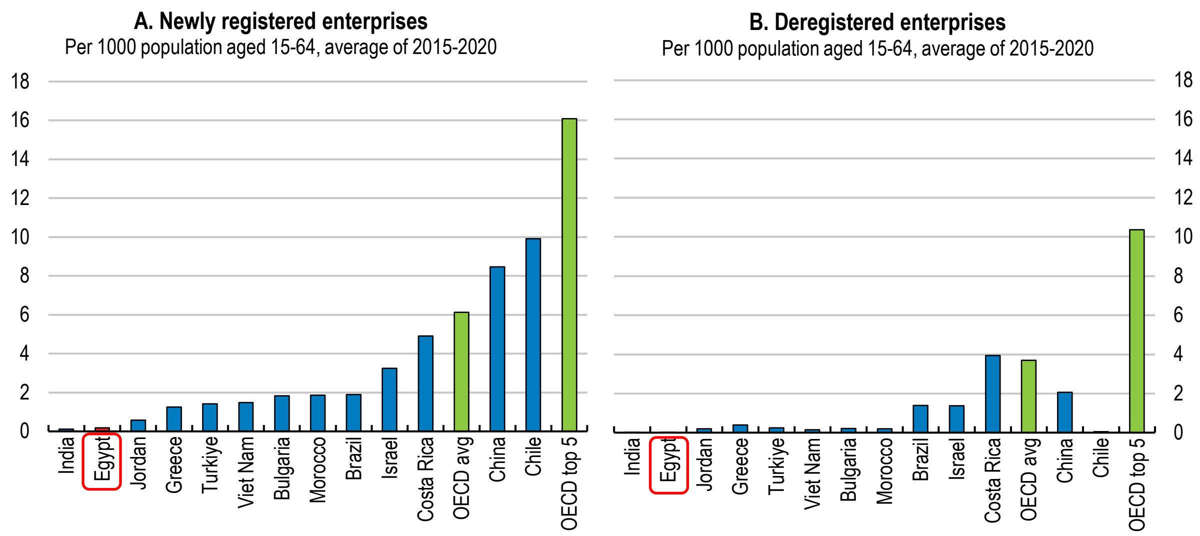
Note: Country groups refer to simple averages of its members. For the definition of comparator countries refer to the note in Figure 11
Source: World Bank, World Development Indicators.

Weak productivity growth is related to a challenging business climate

Competition supports the process of economic convergence. Competitive pressure spurs firms to constantly improve to attract customers, through product innovation, better quality and higher efficiency. OECD research shows that diffusion of frontier technologies, thus productivity growth, is slow where competitive pressures are weak, be it at the macro, sector or firm level (Nicoletti and Scarpetta, 2003, Andrews, Criscuolo and Gal, 2016). Hence, competition is vital for market selection mechanisms to work and for efficient resource allocation (Andrews, Cingano and Conconi, 2014).

Business dynamism ensures that productive firms enter the market and grow, while unproductive firms exit and their owners can make a fresh start, which keeps up the competitive pressure (OECD, 2015d; Berlingieri et al., 2020). Egypt exhibits weak business dynamism: both start-up and exit rates are below regional and global averages relative to population size (AUC, 2022). The number of limited liability company starts related to the adult population is one of the lowest among Egypt's peers, and significantly behind OECD economies with a dynamic business sector, and likewise for exits (Figure 3, Panels A and B). A low business churn rate, i.e., the rate at which companies are formed and exit, is typically associated with limiting factors that restrain business activity, such as regulatory restrictions (Thum-Thysen and Canton, 2017). The authorities are working to facilitate procedures related to the start-up of firms. For instance, a new legal type of firm, the one-person company, was launched in 2018, and the government supports initiatives offering funding to startups, including through Egypt Ventures, a government-backed venture capital firm (StartupBlink, 2023). Encouragingly, the number of newly incorporated companies is on the rise, from around 22 000 in 2018/19 before the pandemic, to 31 165 in 2021/22 and 32 447 in 2022/23. Low exit rates may reflect obstacles to the orderly exit of failing firms, such as inefficient insolvency regimes (Adalet McGowan and Andrews, 2016). The lack of competition and of fluid entry and exit reduces the pressure for firms to innovate or adopt better management processes. The OECD is currently conducting a Review of Business Dynamics that investigates firm entry, expansion and exit in Egypt, with results to be published in 2024.

Figure 3. Business dynamism is low in Egypt



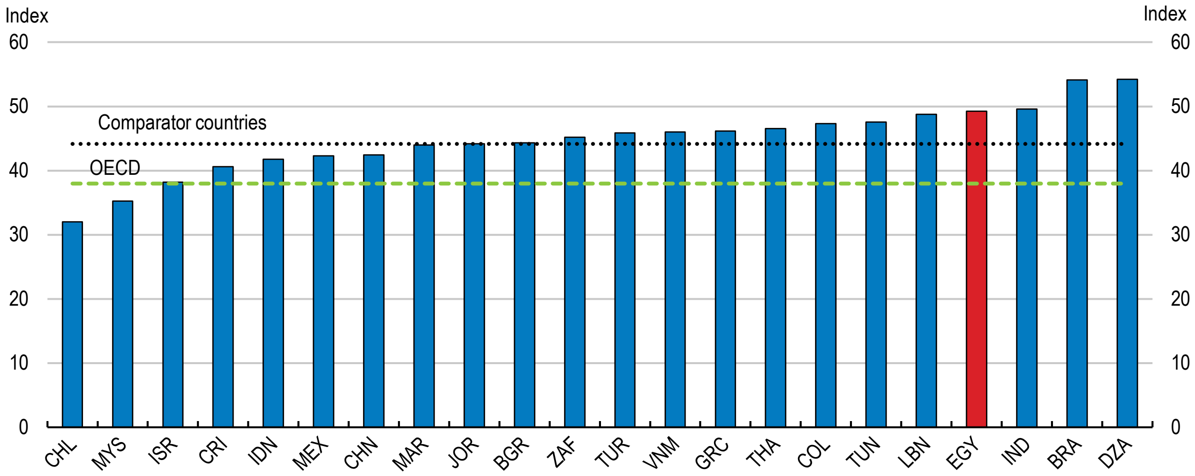
Note: Enterprises here refer to limited liability companies. Panel A, data for Egypt cover 2015-22, data for Indonesia cover 2015-16. Panel B, data for Jordan cover 2018-20, data for Brazil, Costa Rica, Israel, Türkiye 2019-20, and for Indonesia - 2020. Averages chosen to smooth the impact of the pandemic in 2020 on business dynamism.
Source: World Bank, Entrepreneurship database.

International indicators point to inefficiencies in product markets owing to Egypt's regulatory environment (Figure 4). Complex regulatory procedures, a lack of trade openness, and high state control and involvement in product markets, compared to the OECD, impede business operations. Recent reforms are likely to have led to some improvement in Egypt's position. In particular the 22 measures to support Egypt's business and investment climate announced in May 2023 are welcome (Table A.1 in the annex). Even so, enabling Egypt's private businesses to play a greater role in driving overall growth will require continuing with the reform of regulatory settings and the institutional framework within which Egypt's firms operate.

Wide-reaching state involvement in the economy is crowding out the private sector (IMF, 2021). Including military-owned establishments, there are more than 700 SOEs in Egypt with combined assets of around 50% of GDP, some of which are joint-venture firms between the state and private-sector partners, often with complex ownership structures, involving ministries and/or other public sector firms, or other public stakeholders, which add to the complex landscape of state-involvement in the economy. In total, 33 state entities own and operate firms (18 ministries, 9 governorates, the Central Bank of Egypt, The General Authority for Financial Supervision, the Radio and Television Union, the Unified Purchasing Authority, the Upper Egypt Development Authority, and the Suez Canal General Authority), according to the State Ownership Policy Document follow-up report. SOEs are prevalent not only in the utility and public services typically provided by the state, but also operate in most other sectors (Ramirez Rigo et al., 2021). They have historically been endowed with tax benefits and better access to land and resources, thereby enjoying a competitive advantage. The authorities recognise the market-distorting impact of the SOEs, and the National Structural Reform Programme (NSRP) sets out measures to address the issue of state-ownership through a reboot of the country's privatisation programme, and measures to provide for a level playing field.

Figure 4. Egypt's business environment is restrictive

Business environment in product markets
Scale from 0 (not burdensome at all) to 100 (extremely burdensome), higher score corresponds to a poorer outcome



Note: Business environment in product markets is an overarching indicator covering domestic market competition and trade openness, namely, distortive effects of taxes and subsidies on competition, extent of market dominance, competition in services, prevalence of non-tariff barriers, trade tariffs, complexity of tariffs, and border clearance efficiency.
Source: World Economic Forum (2019), Global Competitiveness Index 4.0.

OECD research quantifying the impact of structural reform finds that reforms in product market regulation (measured by an improvement in the OECD product market regulation (PMR) indicator over two years) lead to higher growth in per capita income (Égert and Gal, 2017). Such effects are found to be much stronger among emerging economies: stringent product market regulations have a three-times larger negative impact on TFP in countries with per-capita income lower than about USD 8 000 (in PPP terms). A similar pattern can be observed for doing-business indicators, the time for insolvency procedures and the time for starting a business. Policies that improve business and product market regulations can have substantial economic benefits in Egypt over the longer term, as indicated by quantitative estimates of the impact that some of the structural reforms undertaken by Egypt could have over time (Box 1.4, OECD, 2024, Chapter 1). Moreover, as confirmed by other studies, the benefits from structural reforms are particularly large when they are associated with institutional reform, aligning countries with principles of good governance, respect for property rights and measures to fight corruption (Égert, 2017).

Unleashing market forces to promote private sector expansion

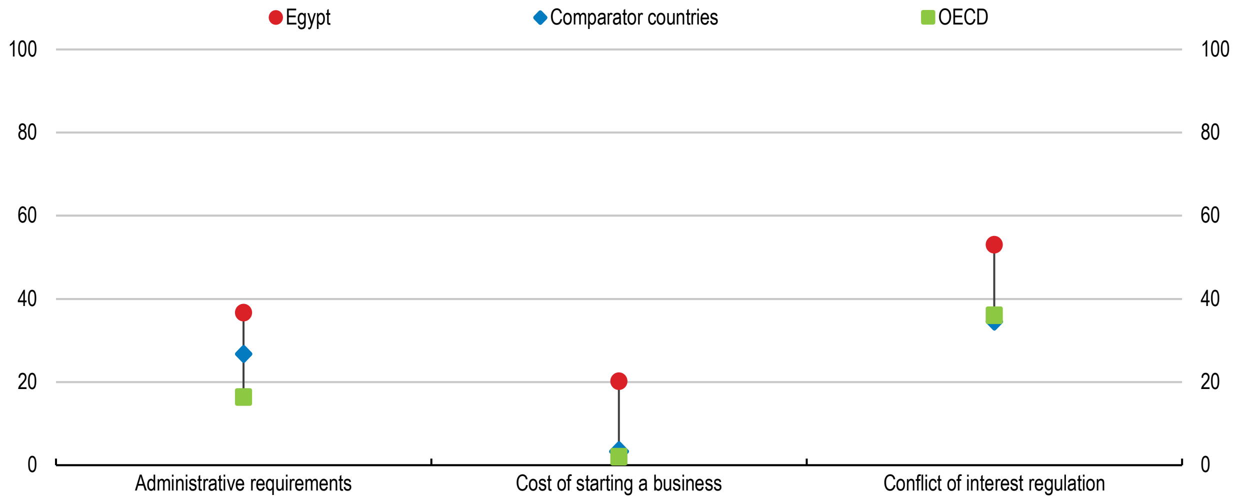
To reap the full benefits of its policy reform programme (OECD, 2024, Chapter 1), building on the progress made in 2023, Egypt's regulatory framework should be improved further, with a stronger competition law enforcement regime, enhanced institutional quality and lower corruption. Opening up for trade, attracting more foreign direct investment (FDI) and integrating global supply chains would also expand growth and development opportunities for Egypt's firms (OECD, 2020b). These priorities are reflected in the government's reform efforts, such as the NSRP, and in several reform initiatives under the Ministry of Trade and Industry. These include the National Strategy for Industrial Development (FY2022/23-2026/27), which targets priority industrial sectors in which Egypt has a manufacturing base, opportunities and competitive advantages, to move up the value chain. They also include the adoption of a National Single Window to facilitate customs procedures (*Nafeza*). The authorities' efforts to attract more FDI through targeted measures have been followed by an increase in net FDI inflows from USD 5.1 billion in 2021 to USD 11.4 billion in 2022, mainly driven by rising cross-border merger-and-acquisition activity (UNCTAD, 2023), making Egypt the second-highest recipient of FDI among Arab states, behind the United Arab Emirates.

Improving market competition through regulatory reform

The operating environment in Egypt for both domestic and foreign firms is restrictive (Figure 5), although ongoing reforms to ease business regulations in Egypt are likely to lead to improved operating conditions, provided they are fully implemented. This should also enhance Egypt's position in international comparisons. While licences and permits are useful regulatory tools to ensure adequate levels of service quality, counter market failures or allocate scarce resources, complex and excessive licencing procedures raise barriers to the entry of new firms, leading to potentially anti-competitive effects. Incumbent firms have strong incentives to lobby regulators to use licensing arrangements to protect themselves from new entrants. Permits can also increase costs and multiply barriers for businesses owing to the burden involved in compliance. Product market regulations, like any kind of regulation, may drift away from their original purpose and hamper the good functioning of markets. They can influence the productivity of existing firms by reducing their incentives to grow, innovate and adopt modern technologies (Arnold and Grundke, 2021). In addition, regulations and administrative burdens may create opportunities for corruption, especially if they involve multiple agencies delivering authorisations.

Figure 5. Barriers to entrepreneurship are high

Scale from 0 (not burdensome at all) to 100 (extremely burdensome), higher score corresponds to a poorer outcome, 2019



Source: World Economic Forum (2019), Global Competitiveness Index 4.0.

A high regulatory burden and the cost of compliance can also encourage informality. Kelmanson *et al*. (2019) find that poor regulatory quality, along with shortcomings in government efficiency and human capital are among the drivers of informality in emerging Europe. Workers and firms with little human and physical capital, and very low productivity, may choose to remain informal, as the regulatory and tax burden imposed by the requirements for entering the formal labour market is untenable for them (Loayza, 2018). In Egypt, the informal sector accounts for around one-third of GDP (Medina and Schneider, 2018), one of the largest shares in the MENA region, and slightly above the 29% global average for emerging markets (IMF, 2022). Under the OECD Egypt Country Programme, a study is being conducted to explore avenues to reduce informality, and the Egyptian authorities are already working to encourage firms to formalise: Law 152/2020 for the development of micro, small and medium enterprises (MSMEs) provides for a five-year exemption from stamp duty and other taxes and fees, as well as a full tax amnesty for all owed taxes, for firms that apply to regularise their status, in addition to other non-tax incentives. These efforts are complemented by the Financial Inclusion Strategy (2022-2025), approved by the Central Bank of Egypt. One of its objectives is to provide and facilitate MSMEs and start-ups' access to financial services and to encourage their integration into the formal sector, as well as the provision of non-financial services. A new law (149/2023) grants the

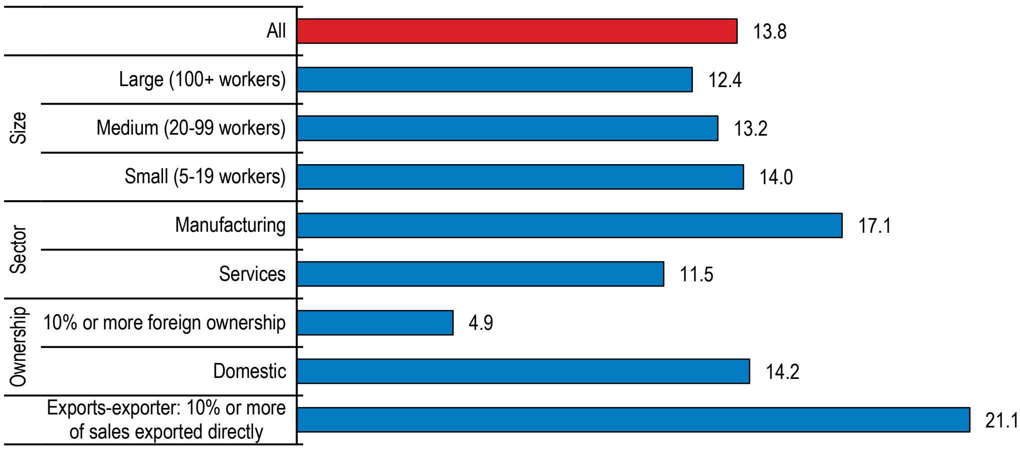
Industrial Development Authority (IDA) the possibility of delivering temporary three-year operating permits to unlicenced industrial firms, provided they commit to adhering to environmental requirements, civil procedures and related inspections. During the three-year period, the firm can regularise its statutes and employees.

Reducing regulatory complexity to support business expansion

The licensing burden imposed on firms is high (Figure 6). Moreover, the cost of administration entailed in compliance has a disproportionate effect on micro and small enterprises (MSEs), which have more limited resources and account for some 98% of firms in Egypt. The Micro, Small and Medium Enterprises Development Agency (MSMEDA) can issue a five-year temporary licence for MSE. However, experience with size-based regulation show that this tends to be ineffective, as it may discourage smaller firms from growing, or lead to perverse outcomes, such as failing to declare revenues or staff once the critical size has been attained (Dabla-Norris et al., 2018). Ultimately, reducing the administrative burden on all firms will also benefit small firms. Despite recent reforms, it still takes at least 12 days for a firm to be fully operational after registration in Egypt, against nine days on average in the OECD (World Bank, 2020a; GAFI, 2023). The actual time to register a company has been known to reach 30 days (OECD, 2019e, 2020b), although recent reforms, including the August 2023 opening of an e-platform by the General Authority for Investment (GAFI) to register new firms online, should cut the time for the firm to be listed in the company registry to as little as two days. The principle of "silence is consent" for business registration or licensing, which implies that licences are issued automatically if the competent licensing authority has not reacted by the end of the statutory response period, is not used in Egypt (around half of the OECD countries used this principle in 2018). The one exception is for new micro and small enterprises that apply to incorporate under MSMEDA. Since the entering into force of Law 152/2020 on MSMEs in April 2021, they receive a renewable one-year licence. After two years, if no further exchange of information with MSMEDA has taken place, the principle of "silence is consent" will apply and they receive a permanent licence. This practice greatly enhances the business environment and should be applied to most business incorporations that do not involve toxic or hazardous products.

Figure 6. Business licensing is a major constraint for domestic businesses and exporters

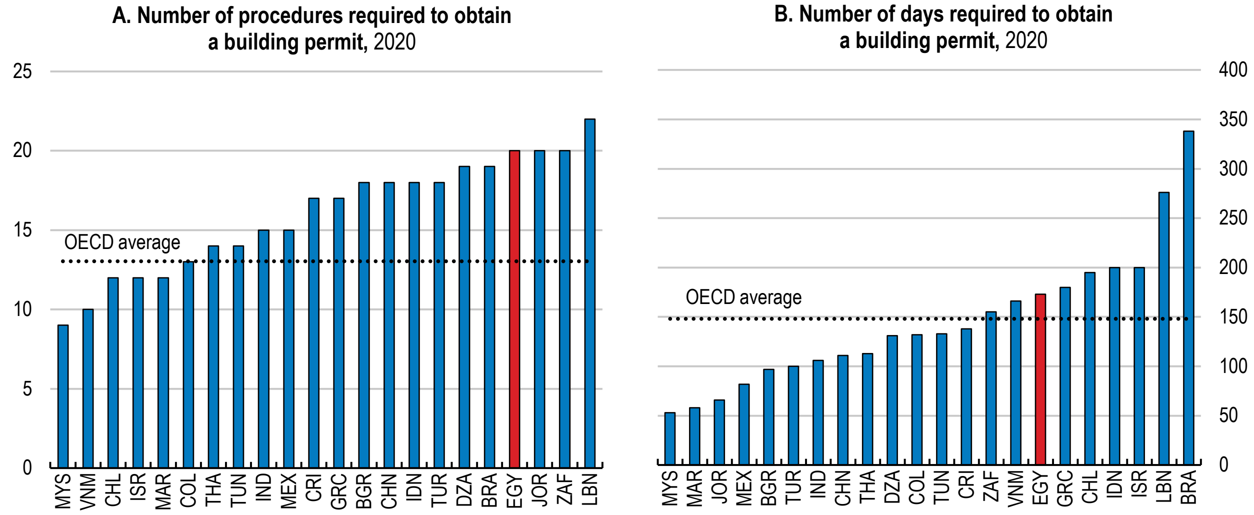
Percentages of firms in Egypt[1] identifying business licensing and permits as a major constraint, 2020



Note: 1. Share of respondent firms out of 3075 firms surveyed.
Source: World Bank, Enterprise Surveys.

The new e-platform registry will help speed up firm registration, and should strengthen the functioning of the Investor Service Centre, created within GAFI under the 2017 Investment Law to help with business incorporation. However, post-establishment administrative requirements, which are equally important, remain heavy and add significantly to the burden (OECD, 2020b). For instance, obtaining a construction permit takes longer and involves more steps than the regional and OECD averages (Figure 7, Panels A and B). The overall amount of paperwork is also high. Registering employees for social security, a compulsory step in opening a business, involves providing copies of the graduation certificate of both the employer and the employee, as well as their birth certificate, and the lease agreement for the firm's premises. The latter is also required for VAT registration, limiting opportunities for internet and data service firms that may not need physical premises. In the United Kingdom, only four procedures are required when establishing a firm, and all of them can be conducted online. In New Zealand, registering a business takes only half a day, and involves a single procedure which can be conducted online (World Bank, 2020b).

Figure 7. Obtaining permits is a lengthy and complex process



Source: World Bank, Doing Business Indicator.

Egypt's regulatory landscape is also rather complex. The industrial sector is governed by seven different laws, 15 legislative amendments, as well as presidential decrees. Three ministries are directly involved in granting industrial licences (Environment, Interior and Health), but depending on the economic activity, a number of different ministries may be involved in providing licences and permits for the industrial sector. Other permits, such as construction permits, may be granted at the governorate level, subject to the local development plan. For heavy industry (such as steel and cement), their establishment or expansion requires a decision by the Prime Minister after determining the needs of the sector: investors then have to bid for licences that are made available by the Industrial Development Authority, with the final cost, the timing of new licences, the total market available, and the decision times not always known to bidders. Despite Cabinet decrees to address these issues in 2020 and 2021, just one bid has been submitted since. Some of the high licensing costs may serve to abate carbon emissions as these industries tend to be heavy polluters, but increasing transparency about the procedure, timing and cost would help to even the playing field for investors.

Egypt has taken steps to simplify the industrial licensing system. The 2017 Industrial Permits Act was intended to make the Industrial Development Authority (IDA) under the Ministry of Trade and Industry a one-stop-shop for industrial operating licences, as the only entity interfacing with businesses. However, manufacturers still need to seek pre-establishment approvals from local authorities, for instance for health and safety, or environmental impact, involving the Civil Protection Authority and the Environmental Affairs Agency, among others. This is also the case for the annual renewal of operating licences, which can lead to delays, reportedly of up to six months, which hamper business expansion, and may lead businesses to divest or work in the informal sector (OECD, 2020b). Long delays and the multiple agencies involved may also provide opportunities for corruption. However, the IDA recently issued a number of regulations to facilitate land allocation – a major stumbling block for industrial projects – as well as the issuance of operating licences. Measures include a simplification of the documentation required for prior notification, and better co-ordination between agencies involved in the licencing process, through the creation of committees where the IDA will represent the investor before the General Administration of Civil Protection, or the Environmental Affairs Agency. These measures could reduce the time to acquire an industrial licence to seven days for low-risk projects, and 20 days for high-risk projects.

Building on this initiative, Egypt should take a step further and make the most of information technology to provide fully-fledged one-stop shops for licences, permits, and other procedural requirements to make service delivery more streamlined and user-focused, as per the OECD's *Recommendation on Regulatory Policy and Governance* (OECD Council, 2012). Fully implementing the Industrial Permits Act at the governorate level would help. The number of procedures involved in granting new and operational licences should be significantly reduced, and documentary requirements simplified. A recent measure now grants foreign investors a one-year residence permit during the incorporation period, allowing them to complete bank transactions, bank account opening and company incorporation procedures, but simplifying and digitising procedures would shorten the time needed for business incorporation.

Further, to minimise delays, Egypt should implement the "silence is consent" principle for the issuing of business registration licences for non-industrial licences, provided authorisations are carefully drafted to minimise the risk that this would lead to increased informality. Businesses could, for instance, be required to simply register their new business on a website, to be given the ID number required to proceed with other formalities, for instance to open the business bank account, and to facilitate spot checks. This would significantly reduce the burden and costs on both businesses and the administration, and interventions would only take place in case of a genuine need, such as for products or activities with a risk to health or the environment. The OECD Standard Cost Model provides details on how to reduce administrative costs and burdens, taking advantage of the experience in the United Kingdom, the Netherlands and Denmark (OECD, 2007). The model was successfully applied in Greece in 2014, identifying cost savings up to EUR 3.28 billion (OECD, 2014b).

Performing regulatory impact assessments

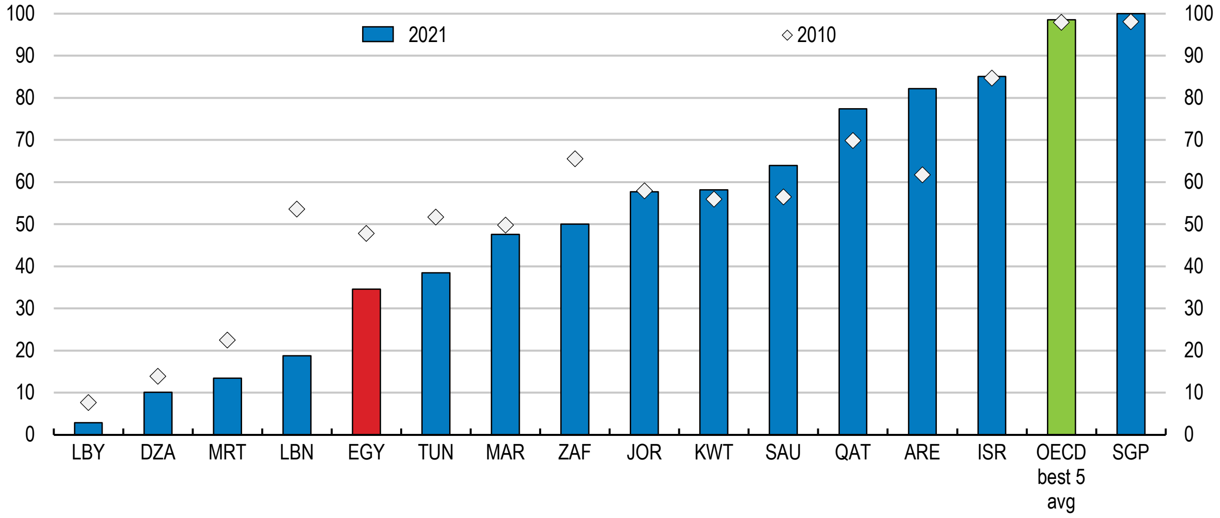
Regulatory quality in Egypt is perceived to be low, hampering private sector development (WGI, 2022) (Figure 8). Poorly drafted legislation creates legal ambiguity and insecurity which undermines investor confidence, and hampers the cost-effective delivery of policy objectives (OECD, 2019e; 2020b).

To support a leaner and more efficient regulatory framework, Egypt should systematically carry out regulatory impact assessments (RIA) of new draft legislation, before its enactment, in line with the 2012 *Council Recommendation on Regulatory Policy and Governance* (OECD Council, 2012). Such assessments should include the expected impact on the fiscal budget, the investment climate, the environment, gender balance and market competition (OECD, 2020c). Carrying out regulatory impact assessment also allows legislators to identify what means, other than regulation, may help achieve policy goals. This should be complemented with an ex-post assessment of existing regulations against clearly defined policy goals, to ensure that regulations remain up to date, are cost justified, cost effective and consistent, and deliver the intended policy objectives. The principle of proportionality of a regulation should be respected throughout the process, meaning that regulation should be proportional to the objective it seeks to solve (Box 1).

In 2019 Egypt re-launched ERRADA (Egyptian Regulatory Reform and Development Activity: Egypt's unit for regulatory review, first created in 2008) to support good regulatory practices, notably by assisting the government in improving regulatory quality and simplifying procedures. ERRADA's tools include the ability to carry out a light review of draft legislation, conducting "light RIA"; to meet stakeholders that will be affected by legislative changes; and to conduct workshops on best practices. This is an encouraging initiative, but to be effective, ERRADA would require a stronger mandate to perform RIA systematically on draft legislation, and this should include quantitative assessments. This in turn would require more resources being directed to the unit, including more staff with the technical capability to conduct quantitative impact assessments.

Figure 8. Despite reforms, regulatory quality has declined

Regulatory quality[1], ranks from 0-100 (100=best)[2]



Note: 1. Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. 2. Percentile rank among all countries (ranges from 0 (lowest) to 100 (highest) rank). Singapore is the best performer. The Worldwide Governance Indicators collect six aggregate indicators, based on over 30 underlying data sources reporting the perceptions of governance of a large number of survey respondents and expert assessments worldwide. For details on the underlying data sources, the aggregation method, and the interpretation of the indicators see Kaufmann, Kraay and Mastruzzi (2010), "The Worldwide Governance Indicators: A Summary of Methodology, Data and Analytical Issues", World Bank Policy Research Working Papers, No. 5430.
Source: World Bank, Worldwide Governance Indicators.

Box 1. The principle of proportionality in EU legislation

The "principle of proportionality" underpins the legislative process in the European Union. Under this principle, EU regulations: (i) must be suitable to achieve the desired end; (ii) must be necessary to achieve the desired end; and (iii) must not impose a burden on the individual that is excessive in relation to the objective sought to be achieved (proportionality in the narrow sense). In the case of a breach of the principle of proportionality, the measures may be challenged before the Court of Justice of the European Union.

Source: Treaty of the European Union, Article 5(4) (European Union, 2007).

Egypt would also benefit from an ex-post evaluation of its sector regulations (also known as Competition Assessment), i.e., a full review of all existing laws and regulations of a sector to scan for potential regulatory obstacles to competition, such as excessive standard requirements or legal barriers to entry (OECD, 2019b). This would be particularly beneficial for the three NSRP priority sectors, manufacturing, agriculture and the information technology and communication sector (ICT); or sectors with high employment or growth potential, for instance tourism; or sectors with a high regulatory burden, such as the network sectors (mainly utilities), discussed below (OECD, 2019b). In Australia, since the mid-1990s, the National Productivity Commission has systematically carried out an assessment of existing product market regulations in the economy, reviewing more than 1 800 laws. A first stock-taking after ten years of reviewing and eliminating regulatory restrictions found that observed productivity and price changes in a number of selected sectors boosted Australia's GDP by 2.5% (Productivity Commission, 2005).

In the past decade, several countries have undertaken such competition assessments with the support of the OECD, including Brazil, Greece, Iceland, Mexico, Portugal, Romania and most recently, Tunisia. In Greece, an OECD project identified benefits from lifting restrictions in four key sectors of the economy (tourism, food processing, retail trade and construction materials) amounting to more than 2.5% of GDP, while a review of tourism and construction in Iceland found benefits of around 1% of GDP from lifting sector regulatory restrictions (OECD, 2014c; OECD, 2020a). The Egyptian Competition Authority (ECA) has a mandate to review draft legislation for potential barriers to competition, but so far, its opinions are not binding. To improve the effectiveness of regulatory review, the ECA's opinions should become binding.

Improving legal certainty and trust with a more efficient judicial system

The regulatory framework and institutional capacity for overseeing a competitive business environment, and for conducting reform effectively, are crucial to promote market competition. An effective legal system can provide firms with greater certainty when doing business, and limit costs when disputes arise (OECD/WJP, 2019; OECD, 2021c). It can also help to reduce corruption risks. Prolonged times to resolve cases and lack of judicial efficiency are cited as important impediments to investment in Egypt (overall, Egypt ranked 93rd out of 141 countries in the latest World Economic Forum assessment; WEF, 2019). Inefficient courts also detract from the effectiveness of competition enforcement as well as the anti-corruption system. Egypt ranks 130th out of 139 worldwide for effective enforcement of civil justice, and likewise (130/139) for regulatory enforcement, with a rank of 138th out of 139 for the sub-indicator, conducting administrative proceedings without an unreasonable delay (WJP, 2021).

Egypt's courts remain under pressure from a high case load, despite the creation of the economic courts in 2008 (effective 2011). Around 9 million cases are settled annually in Egypt, but with an overall case load estimated at 12 million cases a year, this leaves a substantial backlog (Hesham, 2020). Enforcing contracts took on average 1 000 days in Egypt in 2019, of which 700 were spent on trial and judgement (Gold et al., 2019), almost four times the average in the European Union. The economic courts were created to relieve some of the pressure on Egypt's court system by treating all cases related to commercial and competition law. Their remit was expanded in 2019 to also include consumer protection, bankruptcy, microfinance, cybercrimes, as well as aviation and maritime law, and in 2022 to include trade law. However, paper-based procedures continue to create many inefficiencies. Furthermore, outside of Cairo, the courts lack IT equipment and the means to implement automation which would help speed up processing cases. While economic court judges have received specialised training, further training is required to match the expanded jurisdiction since 2019 (Gold et al., 2019). Increasing judicial efficiency to support Egypt's business environment will require more targeted investment in economic courts outside of Cairo, including through donor funding, in equipment, training and more administrative staff. As part of a USD 77 million Comprehensive Economic Governance agreement between the US and Egyptian governments, a project to support the development of the economic courts, including through digitalisation and better governance, was launched in June 2022.

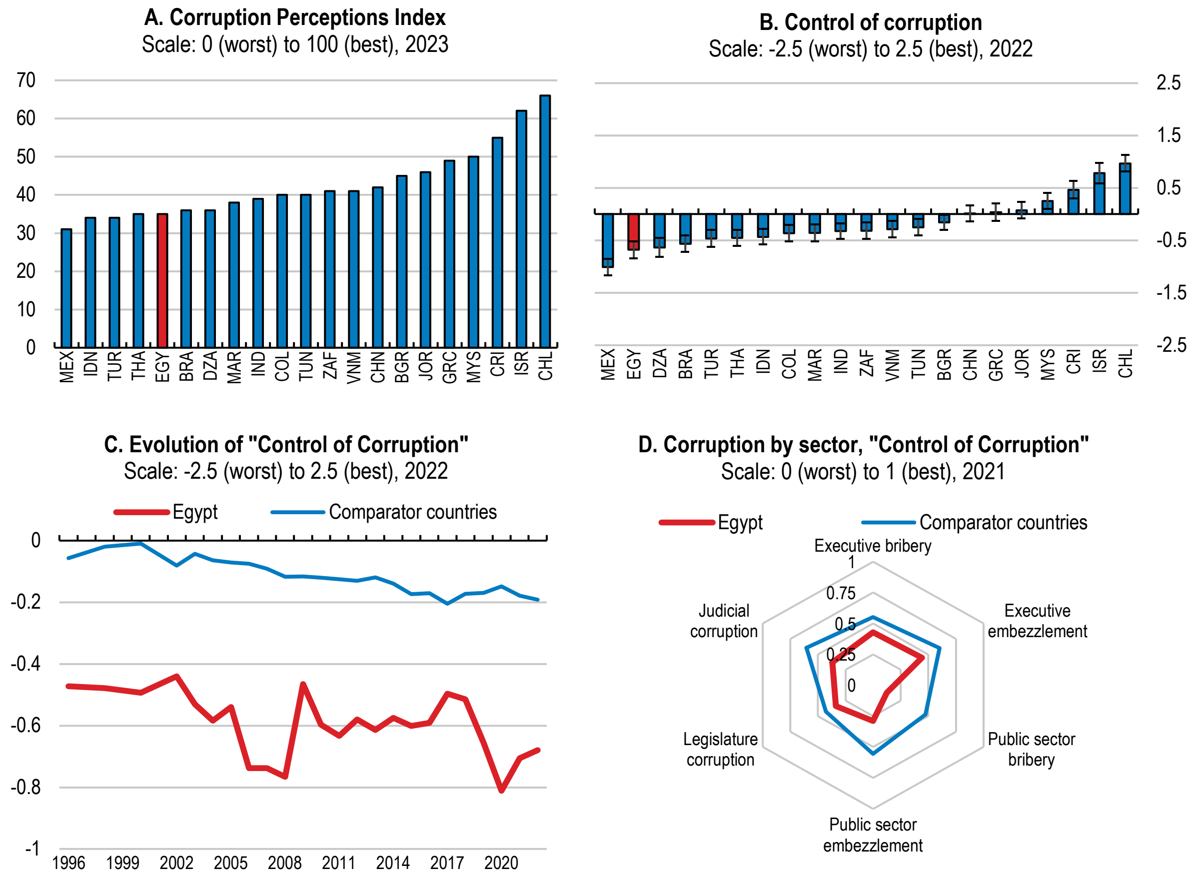
Alternative dispute resolutions can help resolve these problems. The revised 2017 Investment Law established alternative out-of-court forums for foreign and national investors for resolving commercial disputes, including mediation, with support from the Investment Dispute Resolution and Investment Contracts Dispute Resolution centres in GAFI, which also includes a Grievances Committee. In addition, Egypt has set up a Ministerial Committee on Investment Disputes Resolution and a Ministerial Committee on Investment Contracts Dispute Resolution. The 2018 Bankruptcy Law gives the economic courts the jurisdiction for overseeing both bankruptcy cases and alternative dispute resolution mechanisms such as restructuring. Requiring, or strongly encouraging, firms to attend an initial mediation session or other alternative dispute resolutions can promote out-of-court solutions, and would help make this an efficient system and reduce the case load. On average across EU countries, using mediation before deciding whether to go to court has been shown to reduce the overall time to resolve disputes by up to 60%, and to cut average costs per case – comprising the use of courts, mediators and lawyers – by up to 33% (De Palo et al., 2014).

Combating corruption to promote a better business climate

Alongside judicial efficiency, tackling corruption is an important component of building an enabling business environment. Bribery and corruption discourage investment and distort international and domestic competitive conditions. Corruption hampers economic efficiency and leads to an inequitable allocation of resources. Moreover, the exploitation of public office for personal gain undermines state institutions and public trust.

Perceptions of the control of corruption are worse than in many comparator countries and have tended to worsen over the past decade (Figure 9). Corruption is seen to be pervasive in Egypt according to several sources, encompassing both "petty corruption", such as facilitation payments, within the public sector, and "grand corruption" involving officials abusing public institutions. 35% of surveyed firms in 2020 identified corruption as a major constraint for doing business and 41% of firms expected to have to give a gift in order to obtain a construction licence (World Bank, 2020c).

Figure 9. Perceptions of corruption are high



Note: Control of corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Panel B shows the point estimate and the margin of error or confidence interval. Panel D shows sector-based subcomponents of the “Control of Corruption” indicator by the Varieties of Democracy Project. For the definition of comparator countries in Panels C and D refer to the note in Figure 1.
Source: Transparency International; World Bank, Worldwide Governance Indicators; Varieties of Democracy Project, V-Dem Dataset v12.

Tackling corruption is high on the political agenda in Egypt. *Vision 2030* has a strong focus on strengthening reform and good governance in the civil service to combat corruption and promote transparency and integrity. The Administrative Control Authority (ACA) was created in 1964 and has jurisdiction over state administrative bodies, SOEs, public associations and institutions, private companies undertaking public work, and organisations to which the state contributes in any form. The ACA reports to the President, who also appoints its head. However, the Law grants the ACA technical, financial and administrative independence, and the head of the ACA has the rank of minister and appoints the rest of the staff. Additional entities to fight and prevent corruption include a specialised national academy to build the capacity of ACA staff (OECD, 2020b). Other actors that have a role in supporting public integrity in Egypt include the Central Agency for Organisation and Administration (CAOA), the Accountability State Authority, and the National Institute for Governance and Sustainable Development within the Ministry of Planning and Economic Development.

On paper, Egypt has a strong legal framework to address corruption. It ratified the United Nations Convention against Corruption in 2005. The Egyptian penal code criminalises active and passive abuse of power including facilitating payments and bribes, and a Conflict-of-Interest Law targeting senior public officials was passed in 2013. However, Egypt is not party to the OECD *Convention on Bribery of Foreign Public Officials in International Business Transactions.* A National Strategy for Combatting Corruption has been in place since 2014, with two programmes implemented in 2014-18 and 2019-22, while the third phase, to run from 2023 to 2030, was launched in December 2022 by the ACA. Yet, despite robust laws and multiple administrative efforts, corruption and money laundering remain a concern. The OECD Financial Action Task Force identifies Egypt as being exposed to “domestic risks of money laundering, terrorist financing and proliferation”, in addition to risks related to transnational activities owing to its geographical position and long land borders, as well as the large size of the informal economy, which means that many transactions remain cash-based (FATF, 2021). The lack of progress with fighting money laundering and corruption is mainly because of poor implementation of the instruments in place, shortcomings in complaint mechanisms, such as assured anonymity, and a lack of protection of whistle-blowers, poor auditing, difficulties for the public to obtain information, and insufficient monitoring of anti-corruption policy (European Commission, 2017; FATF, 2021; Bertelsmann Stiftung, 2022).

The Money Laundering Combating Unit, under the Central Bank of Egypt (CBE), is in charge of the supervision and enforcement of anti-money laundering measures. New regulations from late December 2023 aim to tighten banks’ monitoring of cash flows, particularly transactions made in USD and credit card deposits. The CBE and the Federation of Egyptian Banks have introduced measures to incentivise individuals and small businesses to join the formal financial sector. To this end, the National Council for Payment (NCP) was established in February 2017 to limit cash usage, encourage the adoption of electronic payment methods, and integrate citizens and businesses into the banking system. The CBE issued new regulations in March 2023 to introduce tokenisation services and promote the use of electronic and contactless payment methods. This has resulted in a significant increase in mobile payment accounts (“mobile wallet”), with around 34 million users by June 2023, according to the State Information Service. In addition, the Central Agency for Organisation and Administration is developing a new Code of Conduct and Ethics for internal compliance in the public administration.

Reforms should prioritise strengthening private sector and civil society involvement in promoting integrity. Indeed, promoting integrity is not only the responsibility of the public sector, but also that of citizens, civil society organisations and the private sector, as they can harm or promote integrity with their actions (OECD, 2017). This entails engaging relevant stakeholders in developing, updating and implementing public integrity policies, raising awareness in society of the benefits of public integrity, and encouraging misconduct reporting, amongst others. Legislating to safeguard whistle-blowers is also crucial (OECD, 2020b). Additionally, fostering a culture of accountability, integrity, and transparency across both public and private sectors is crucial, notably through public awareness campaigns that emphasise how civil society and the private sector are key actors in supporting public integrity, and providing civic education programmes at all levels of education to cultivate skills and behaviours to uphold public integrity (OECD, 2020d).

Some progress has been made in this area. The government is carrying out initiatives to promote awareness, education and training in the field of anti-corruption, mainly through the ACA, to raise awareness and improve public knowledge of corruption. Measures include support for anti-corruption education; promoting ethics and integrity training; and adopting the Global Initiative for Anti-Corruption Education and Youth Empowerment. Moreover, governments can also encourage integrity within the private sector by ensuring public integrity standards are established and implemented in companies, in particular through their lobbying and political financing practices, as well as in the movement between the public and private sectors (OECD, 2020d). To strengthen public integrity systems and practices, Egypt could also adhere to the OECD Convention on Bribery, and the *OECD Recommendation on Public Integrity*, both of which are open to non-members.

Corruption in public procurement particularly harms private sector business dynamism notably by undermining investor confidence. A new Public Procurement Law was passed in 2018 to regulate public procurement processes. However, SOEs are exempt from its provisions, and the law still allows direct awards to "non-civil" entities (Tiemann et al., 2021). Since 2020, public entities must have a governance and compliance unit in charge of internal audits and monitoring of procurement, and the Ministry of Finance has announced its intention to start publishing all government procurement contracts above EGP 20 million on a monthly basis. Once it has been applied, the Ministry of Finance will also publish information on all bids made, the winning bid, and names of successful bidders. These are important steps to ensure that public procurement is competitive, non-discriminatory, and transparent (IMF, 2023). However, with the exception of the public health sector, there is no central government procurement authority. Each public entity carries out its own procurement which runs counter to recommended practice (OECD, 2015b), which is to centralise procurement to minimise opportunities for corruption and to enhance purchasing power.

OECD work on fighting bid-rigging in public procurement (OECD, 2023a) also underscores the benefits from centralising procurement. A survey of OECD member states found that central purchasing bodies obtain better prices for goods and services (100%), lower transaction costs (96%), improve capacity and expertise (81%), increase legal, technical, economic and contractual certainty (81%), and provide greater simplicity and usability (78%) (OECD, 2015e). Additionally, central purchasing bodies can play an important role in the implementation of secondary policy objectives, such as environmental considerations. The government is in the process of establishing an e-procurement platform. Doing so would also help minimise opportunities for bid-rigging. Under the OECD Egypt Country Programme, the OECD is engaged in a project on public procurement focusing on SOEs. Progress in this area requires fully implementing the new procurement law, removing the procurement exemptions for SOEs except in exceptional cases, which need to be clearly defined and published, as well as the direct-award option for non-civil entities. The authorities should also consider the benefits of moving towards more centralised procurement.

Strengthening the competition law and the competition authority

A good regulatory framework needs to be supplemented by an effective competition law and enforcement framework to enable market competition. Fair competition between firms allows for better outcomes in terms of innovation, prices and product quality while anticompetitive conduct by dominant firms can seriously inhibit incentives to innovate and diversify (Nickell, 1996; Aghion et al., 2005).

The Egyptian Competition Law was introduced in 2005, and the Egyptian Competition Authority (ECA) began functioning in 2006. The Competition Law covers both private and public operators, prohibits horizontal agreements, vertical constraints and abuses of dominant or monopolistic positions. The law does not apply to agreements made by the government to fix the price of designated "essential products", nor to public utilities managed by the state or any of its public juristic persons. The Competition Law has been amended four times, in 2008, 2014, 2019, and 2022, to allow for merger control. From early on, the ECA took fairly strong action against breaches of the Competition Law (OECD, 2011a and 2012b). The 2014 amendments reinforced the ECA's independence and powers to conduct investigations and strengthened its enforcement tools through enhanced settlement powers and a leniency programme. As a result, the number of ECA decisions against anticompetitive practices increased significantly from 2015, covering a wide range of markets, including insurance, pharmaceuticals, fertilisers, the health sector and poultry, and cases of abuse of dominance in telecommunications, electricity, media, health and sports (Arezki et al., 2019).

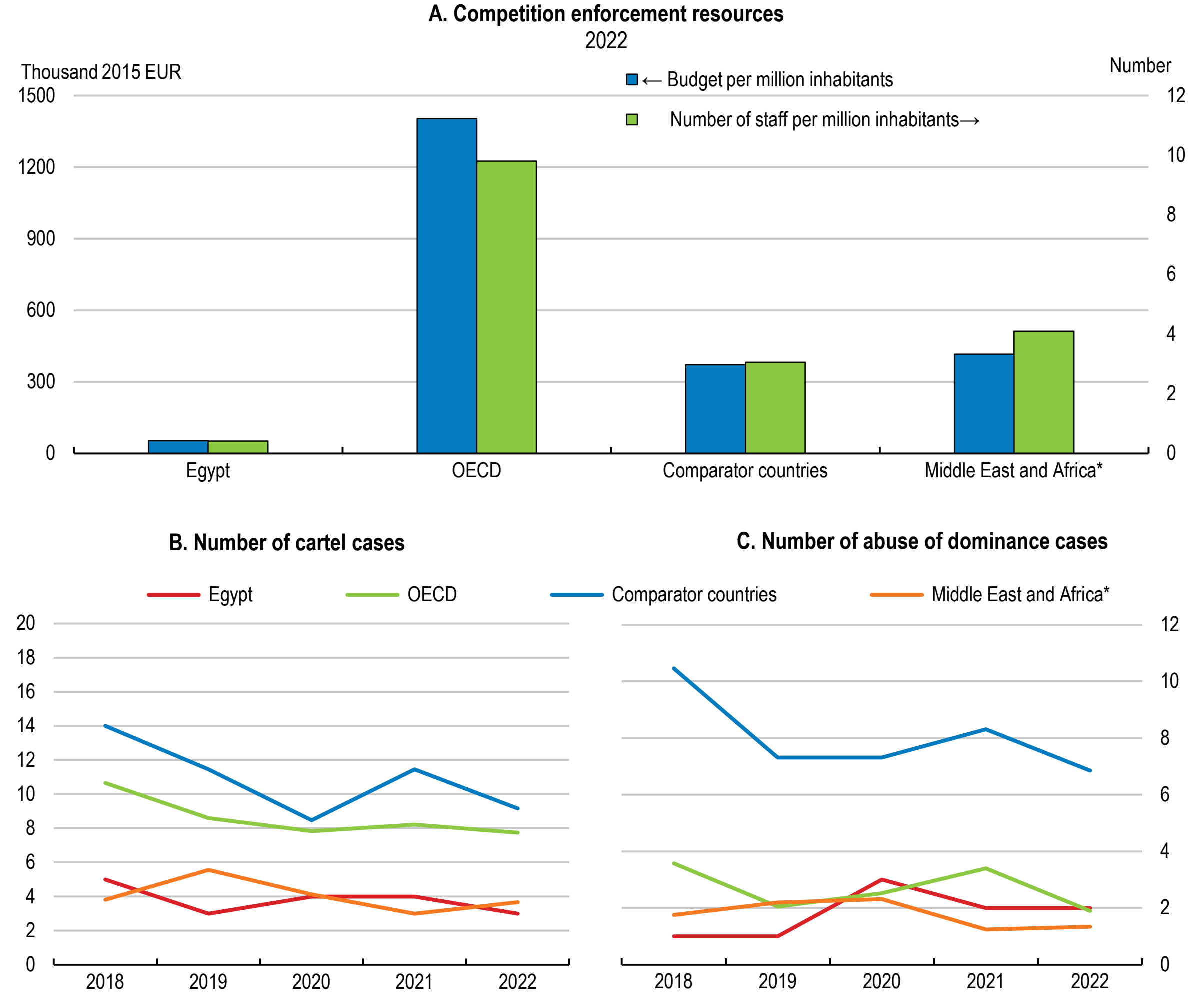
In 2017, the ECA carried out its largest bid-rigging case related to public tenders for governmental and university hospitals, which involved seven of the biggest suppliers in Egypt of medical equipment for heart and chest surgeries (Talaat and ElFar, 2017). Other large cases include a price-fixing cartel among 70 clay brick factories which was referred to court (Egyptian Competition Authority, 2018), and a case against the Qatari sports broadcaster, beIN, which was fined for abusive bundling of international football events (Nasser Al-Khulaifi / beIN Media). More recently, the ECA took on Uber to prevent a take-over of a regional ride-sharing firm. As a relatively young agency, the ECA's track record has improved in recent years, in particular with regard to strengthening the legal framework, enhancing international co-operation (which is increasingly crucial for effective competition enforcement to address violations by multinational firms), and improving its enforcement (UNESCWA, forthcoming).

Sufficient staff and budget for competition authorities are key for them to function effectively and independently (European Commission, 2014). Budget allocation is a critical point on which undue pressure could be exercised and where appropriate safeguards should be in place (OECD, 2016a). Egypt's enforcement record holds up well amongst its peers, but it has completed comparatively fewer cartel cases (Figure 10, panels B and C). Cartel investigations are resource intensive, and the ECA has fewer resources than most other competition authorities, even compared with the rest of the Middle East and Africa (Panel A), and despite its large population size. The state budget approved annually by Parliament includes ECA funding, but without a dedicated line of appropriation. Additional funding for the ECA can be provided in the form of grants or donations and, since the December 2022 amendment, a small fee for merger notifications. However, the executive regulations for the 2022 law have still not been published. To support its competition enforcement efforts, not least in light of the heavier burden implied by the work on competitive neutrality, the ECA could benefit from more staff and financial resources. This would also bolster its independence. Ideally, the agency should be funded from a combination of sources, to reduce the risk of dependence on a single source of funding (OECD, 2016a).

The ECA's mandate and ability to support the government's competitive neutrality policies (see below) could be further improved with stronger independence to support its enforcement powers and guard it from political interference. The ECA's governance structure may affect its independence, as the Board has ministerial representation, contrary to suggested good practice (OECD, 2016a). This is particularly important in view of the ECA's central role in the recently created Higher Committee for Competitive Neutrality, which has been set up under the Cabinet to help preserve a level playing field in markets where SOEs are operating, discussed below. The Committee, which involves several key ministries, is tasked with examining breaches of competitive neutrality. One of the Committee's first decisions involved an exclusivity contract carried out between a state authority and an undertaking affiliated with the military. The ECA's powers related to competitive neutrality include tackling discrimination on any basis, including state ownership. The ECA's Competitive Neutrality Strategy states that maintaining competitive neutrality includes encouraging a level playing field between all undertakings, regardless of ownership, nationality, or size.

As an enforcer, the ECA can document violations, issue cease and desist orders against anticompetitive practices and reach extra-judicial settlements with wrongdoers, but only the economic courts may impose fines for antitrust violations. The inability to sanction and to issue fines creates uncertainty on the final outcome of the ECA's decisions and may make deterrence less effective (OECD, 2016a; Arezki et al., 2019). Moreover, the economic courts which deal with anti-trust violations have a high case load and enforcement is slow, further eroding the deterrent effect, as discussed above. To increase judicial certainty, the ECA could be granted the powers to sanction anticompetitive conduct associated with the ability to issue administrative fines for breaches of competition law, which is common in many OECD jurisdictions, and only refer criminal matters, such as cartels, to be decided by a court. In the case of Egypt, such measures would help safeguard the independence of the ECA and increase deterrence.

Figure 10. Egypt's competition enforcement could improve further with more resources



Note: Data for Egypt was provided by Egypt Competition Authority and country aggregates were computed by OECD based on CompStats database. In Panel A, values were converted in 2015 EUR using exchange rates on 31 December 2015.In Panels B and C, the number of cases refer to absolute number of cases for Egypt and simple averages for country aggregates. Middle East and Africa* include Botswana, Egypt, Kenya, Mauritius, Tunisia, and Common Market for Eastern and Southern Africa (COMESA). For the definition of comparator countries refer to the note in Figure 1.
Source: Comp Stats, Egypt Annual Competition Reports to the OECD Competition Committee (2020 and 2021), ECA, OECD calculations.

Further amendments to the Competition Law are pending in parliament to grant the ECA more independence. These amendments would create a more independent Board. They also give the ECA more budgetary autonomy, and it would gain the power now held by the judiciary to sanction anticompetitive practices and increase transparency through enhanced publishing obligations. These amendments should be passed as soon as possible. An amendment to improve the ECA's independence should include granting it the status of "Autonomous Organisation" (Article 125 of the Egyptian Constitution) similar to other regulators such as the Financial Regulatory Authority or the Central Auditing Organisation. This entails being technically, financially and administratively independent; and the ECA would have to be consulted with respect to the bills and regulations that relate to its field of work.

Increasing competitive pressures through trade and foreign investment

Strengthening competitive pressures from abroad through trade and foreign direct investment raises competition (Arnold and Grundke, 2021) and increases firms' competitiveness (Sakakibara and Porter, 2001). With total trade at around 40% of GDP (OECD, 2024, Chapter 1), Egypt's economy is significantly less open to international trade than other emerging market economies of similar size. Trade liberalisation is associated with higher levels of investment and output (Boubakri, Cosset and Guedhami, 2005).

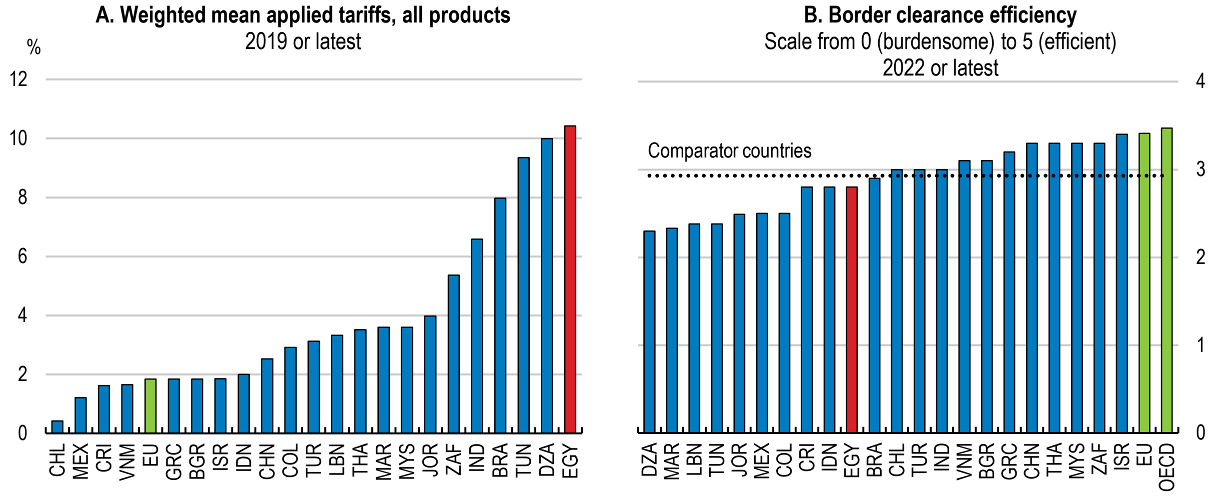
Competition in the domestic market can also be spurred by stimulating direct competition between foreign counterparts and Egyptian firms by attracting more inward investment. Access to superior service inputs, including through FDI, is crucial for advancing sectors like manufacturing, boosting economic growth, and creating more job opportunities. FDI can also help rebuild Egypt's capital stock and contribute to an expansion of exports, and increased participation in global value chains. Foreign firms bring innovation, introduce new products, improve processes, invest in R&D and tend to use more sophisticated technologies. Therefore, attracting FDI can enhance competitiveness and support the development of local enterprises through technology transfers, expertise and skills acquisition (OECD, 2020b, 2022b). To this end, and as part of its role in investment promotion, GAFI has set up an interactive online "investment map" to showcase different investment opportunities in Egypt to both local and foreign investors. It recently revised the investment-map development process to facilitate addition of more opportunities by different government agencies in various economic sectors. Information on the opportunities listed on the investment map includes property type and location, sector and market size, infrastructure availability and cost, incentives for the project, whether for local or export production, and associated costs, fees and permits for the project set-up.

Tariff and non-tariff barriers are high

In Egypt external competition is hampered by trade barriers. Average tariff levels weighted by trade are the highest amongst regional peers, and more than twice as high as in Morocco or Jordan (Figure 11, Panel A). Egypt's average trade weighted tariff was 10.5% in 2019 (most recent comparable data), but tariff rates are higher for agricultural products, and for imported alcoholic beverages (notably for the important tourism sector) where the maximum tariff is 3000%, and products that compete with Egyptian manufactured products such as textiles, where the tariff rate is 40-60%. The system is difficult to navigate: it contains 7 850 tariff lines (World Trade Organization, 2019) and rules change frequently (US Department of Commerce, 2022). The presence of import tariffs cushions many sectors from the forces of external competition. Opening up for trade, by lowering, simplifying and streamlining tariffs, would give a significant stimulus to competition. Moreover, increasing trade can help alleviate poverty over time through increasing the number and quality of jobs, stimulating economic growth and driving productivity increases. The poor also benefit from lower prices of imported goods when trade barriers come down (Bartley Johns et al., 2015; OECD, 2009b).

Competitive pressures are reduced when firms shelter behind non-tariff barriers. Egypt remains among the group of developing countries that have the highest frequency index, i.e., the share of products that are subject to non-tariff measures, and coverage ratio, i.e., share of imports that is subject to one or more non-tariff measures (Youssef and Zaki, 2019). Non-tariff measures include heavy registration and documentation rules, and the requirement to obtain an import licence. A long list of items such as household goods and beauty products must be pre-registered with the Egyptian General Organisation for Export and Import Control, under the Ministry of Trade and Industry, or they will be refused entry (US Department of Commerce, 2022). Technical barriers such as additional product requirements and local standards are widespread (Youssef and Zaki, 2019). While this is ostentatiously for quality assurance purposes, the effect is to limit competition, and simpler procedures, including mutual recognition of products that already fulfil national standards, would benefit trade. Such non-tariff barriers are essentially anticompetitive, and Egypt may forego opportunities to participate in global trade if the costs to meet additional market requirements are too high. Such costs can be related to product and production requirements, the conformity assessment and certification requirements, or to information requirements. These tend to be particularly prohibitive for small firms where the cost of simply gathering the necessary information can be disproportionately high. Well-designed and efficient processes, including use of relevant international standards, can help facilitate participation in trade by more and smaller firms, help ensure consumer trust, and help support good regulatory practices (OECD, 2023d). Previous studies also found that non-tariff barriers have a negative effect on trade in Egypt and the wider region (Ghali et al., 2013; Péridy and Ghoneim, 2013). OECD work to assess the impact of trade facilitation measures during COVID-19 demonstrate the importance of trade facilitation to support an effective supply chain (Sorescu and Bollig, 2022).

Figure 11. Import tariffs are high



Note: In Panel A, data for the countries presented refer to 2019 except for Thailand (2015), Tunisia (2016), Israel (2017), Mexico (2018), Jordan and Malaysia (2020). Weighted mean applied tariff is the average of effectively applied rates weighted by the product import shares corresponding to each partner country. When the effectively applied rate is unavailable, the most favoured nation rate is used instead.
Source: World Bank, World Development Indicators; World Economic Forum (2019), Global Competitiveness Index 4.0.

Efforts to automate administrative processes through the 2020 Customs Law are welcome and should be stepped up to reduce trading costs and delays. As international trade becomes more digitalised, customs procedures should be further streamlined to keep up with global progress (OECD, 2022d). In this respect, the creation of the National Single Window (*Nafeza*), which is meant to facilitate external trade and is becoming compulsory for any goods exported to Egypt, should support faster custom clearance, despite some teething problems, which are holding up the full roll-out of the programme. Border clearance has improved but remains comparatively slow (Figure 11, Panel B). To support faster import release, the General Organisation for Export and Import Control (GOEIC) is working on a new risk management system for inspection and testing of imported non-food industrial products, which should speed up processes by reducing the number of inspections to those selected by the risk matrix. However, Egypt should also simplify its tariff regime. Foreign traders whose products already meet domestic standards should not have to preregister their products with GOEIC. Import licences could be replaced by a simple registration with the customs authorities, as is the case in Europe, except for hazardous or security-related products. Removing pre-shipping clearing formalities, even if they comply with WTO rules, and abolishing pre-authorisation for products that meet domestic standards, would facilitate trade, and support a more competitive business climate. Digital trade facilitation measures can support such efforts (OECD, 2022d).

Trade liberalisation would support Egypt's growth strategy. Costa Rica, for instance, undertook a vast trade liberalisation programme in the 1980s as part of its development strategy. It cut import tariffs unilaterally, from an average of 46.3% in 1982 to 16.8% in 1989 and 1.43% by 2021. Costa Rica also entered a large number of preferential trade agreements, supporting the creation of a robust export platform. Trade liberalisation has hugely benefited the economy and led to a profound diversification of the export portfolio, along with the emergence of new export, business and employment opportunities, including high value-added industries such as medical equipment and business services. The broad diversification of exports is a source of resilience during negative economic shocks, as witnessed during the Covid-19 pandemic (OECD, 2011b, 2023c; WITS, 2023). Costa Rica's ambitious trade agenda has however demanded significant resources from the government plus technical expertise, which have been provided in part by international institutions and donors.

Other trade facilitation measures could involve the customs authorities liaising with all importers, exporters and manufacturers of essential goods, providing regular information on shipments of critical supplies and compiling concerns from the private sector to facilitate information flows, as implemented by New Zealand Customs (OECD, 2022d). New Zealand, in the mid-1980s, embarked on a thorough trade reform: over time, it unilaterally reduced tariffs (now at 2.2%), dismantled subsidies for its protected agriculture, and removed import licensing requirements, as part of a broader economic reform programme, boosting trade and inward investment (WTO, 2022). A twinning project, such as the two-year project between the Italian and Egyptian customs authorities from March 2021 to strengthen the administrative and operational capacities of the Egyptian Customs Authority, under the aegis of the European Union, is also a useful measure which could be replicated with other trading partners (EUItalia, 2021).

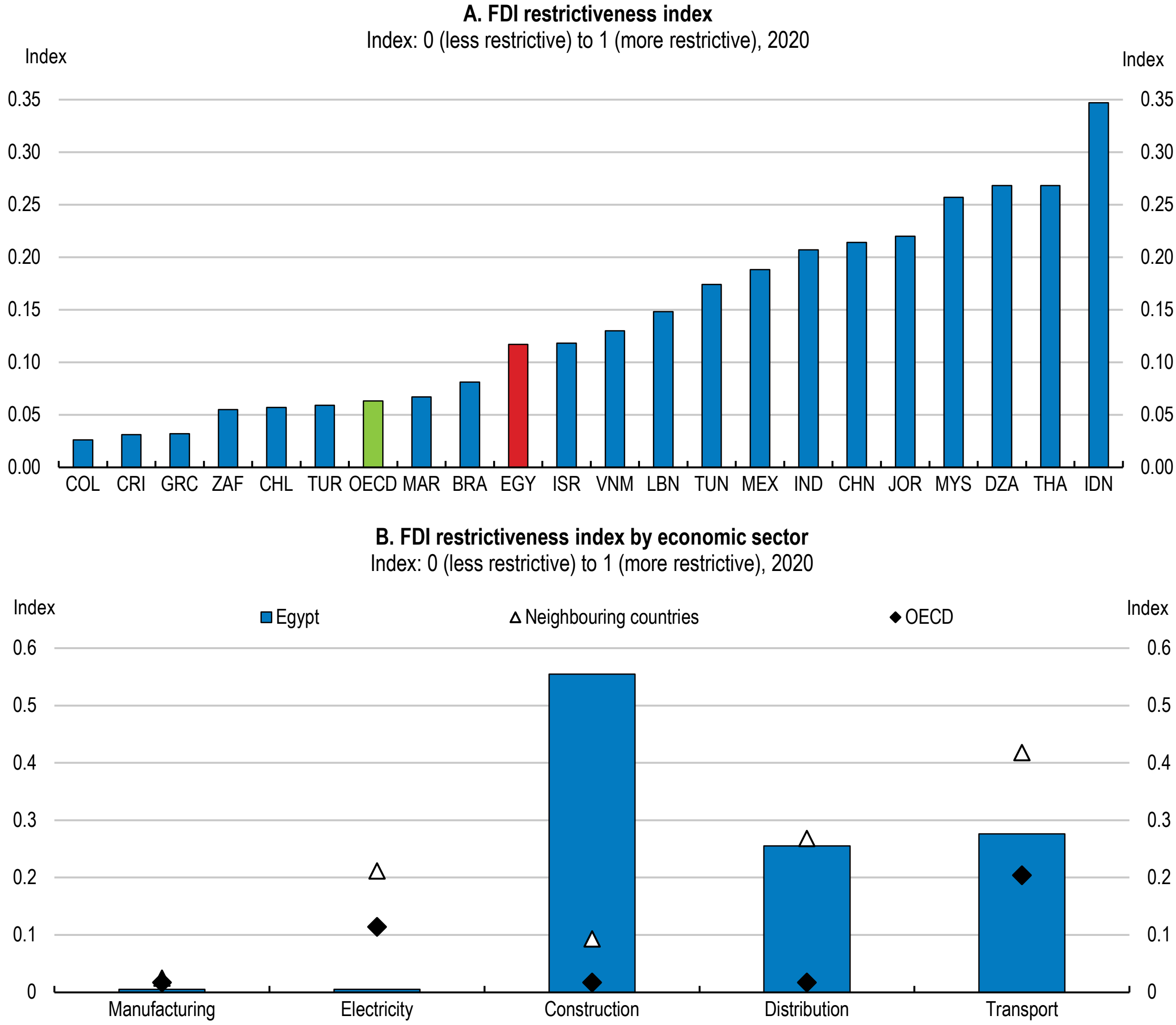
Barriers to foreign direct investment remain high

Regulatory obstacles to FDI are greater in Egypt than in most OECD and other emerging countries, hindering market competition. To create a conducive investment climate for foreign investors, Egypt has undertaken reforms, such as the 2017 Investment Law, which lifted most ownership restrictions for foreign nationals. However, certain sectors still require a joint venture with 51% Egyptian co-ownership. Additional recent legislative changes, including the new Companies Law, Bankruptcy Law, and Customs Law, further support investment activities for instance by allowing a smaller customs levy on firms that fall under the Investment Law.

Despite these reforms, Egypt has scope to further reduce barriers to FDI as reflected in the OECD FDI Restrictiveness Index (Figure 12), although Egypt performs better than some OECD member states. Sector-specific legislation maintains foreign equity restrictions and imposes limits on foreign-controlled firms' entry and operations. Restrictions exist on foreign ownership in activities such as civil aviation and tourism transportation (OECD, 2020b). Commercial agents must be Egyptian nationals. However, a May 2023 legal amendment allows foreign investors to be registered as importers for a 10-year period, even if they do not hold Egyptian citizenship, to help them import goods for their projects.

All foreign investments, including touristic activities, undergo security screening and require government approval on a case-by-case basis, leaving room for discretion and causing delays. A new decree aims to reduce the duration of security screenings to ten days, past which the security clearance is considered to be granted. This would be a positive step. Foreign ownership of agricultural land, as well as land in the attractive Sinai Peninsula and border regions is prohibited. Investment projects in Sinai require an Egyptian shareholding of at least 55%, but a 2022 decree exempts the sites of Sharm-el-Sheikh, Dahab and Aqaba from this provision. While a recent presidential decree grants the right to apply for Egyptian citizenship to investors that invest more than USD 300 000, or make a non-refundable deposit of a similar amount with the Treasury, it remains unclear whether this grants access to land purchase in restricted areas. Removing remaining barriers to foreign involvement, particularly for commercial agents, traders, and the tourism transport sector, could attract more inward investment and foster market competition.

Figure 12. There is scope to improve Egypt's FDI regime



Note: The FDI Regulatory Restrictiveness Index (FDI Index) measures statutory restrictions on foreign direct investment across 22 economic sectors and is bound between 0 (open) to 1 (closed). It gauges the restrictiveness of a country's FDI rules by looking at the four main types of restrictions on FDI: 1) foreign equity limitations; 2) discriminatory screening or approval mechanisms; 3) restrictions on the employment of foreigners as key personnel and 4) other operational restrictions, e.g., restrictions on branching and on capital repatriation or on land ownership by foreign-owned enterprises. The discriminatory nature of measures, i.e., when they apply to foreign investors only, is the central criterion for scoring a measure. The FDI Index is not a full measure of a country's investment climate. A range of other factors come into play, including how FDI rules are implemented. For the definition of neighbouring countries in Panel B refer to the note in Figure 1.
Source: OECD (2023), Foreign Direct Investment restrictiveness indicator.

Simplifying incentives to minimise the anti-competitive impact

Tax incentives, when well-designed, can effectively encourage investment in areas such as R&D, innovation and the green transition. However, poorly-designed incentives may limit efforts to mobilise tax revenues, or even reduce them, without generating new or significant "additional" investment, thereby creating windfall gains to investors that would have invested anyway, even in the absence of the tax incentive, or yielding investments of low quality, with limited spillovers on productivity and employment (OECD 2022c). To ensure a level playing field, as recommended by the OECD Council (2021), the authorities could improve the design of their tax incentives, notably by using cost-based rather than profit-based tax incentives (OECD, 2022c).

Egypt employs a wide range of tax incentives to attract foreign investors (although in principle incentives are available to all investors), including tax holidays, income tax exemptions, accelerated depreciation, reductions in customs duty, and stamp duty exemptions for new projects. So-called "special tax incentives" are granted based on criteria related to investment type and location, ranging from 50% to 30% of investment costs, such as for investments in green hydrogen; in labour-intensive projects (if the wage cost exceeds 30% of the operating costs); projects where exports account for at least 50% of the output; or investments in deprived areas. Egypt also implements various special ("free") zone regimes, again depending on location and the type of investment. These include Free zones, Investment zones, Technological zones, Industrial zones and, under a separate law, the Suez Canal Economic Zone (Box 4). The Council of Ministers can also grant a "Golden Licence" to targeted investors in accordance with a list of project types and criteria that was expanded in 2023 to include green and infrastructure projects (Box 2). By mid-February 2024, 26 such licences had been awarded according to GAFI, the General Authority for Investment.

Box 2. The Golden Licence

A so-called Single Approval, or "Golden Licence", was created in the 2017 Investment Law. It dispenses the investor from all further licensing procedures. Issued by the Council of Ministers, rather than the usual channels, it is supposed to be quick, comprehensive and directly enforceable. A holder of a Golden Licence may also be granted further tax incentives and reductions in fees and customs duties, as well as in-kind "special incentives", such as a special customs outlet for the project's imports or exports. The state also offers to bear the costs of connecting utilities, training personnel, and allocating plots of land, among other incentives.

The use of the Golden Licence system has been expanded, and investors are encouraged to apply through GAFI or directly through Cabinet. The list of criteria of eligibility to obtain the licence, including the type of project, the legal form of the firm and other attributes, has been expanded beyond the previous 'priority' areas. However, the Committee at GAFI that oversees the attribution of the Golden Licence acts on a case-by-case basis with full discretionary powers over the attribution of the licence, and it is not clear how the different criteria are weighed up. The process remains heavy: the applicant still has to submit a similar number of documents as for a normal business licence application. There have also been teething problems, with investors reporting that local authorities do not recognise the legality of the licence. The Golden Licence does not address the wider issue of over-regulation; it merely increases the speed at which successful applicants obtain their licences. Finally, the distinction between projects that receive the usual investment incentives, and those that obtain the Golden Licence, is not clear. Recent changes to the executive regulations of the 2017 Investment Law expanded the use of the Golden Licence to include most legal forms of companies, not just those established under the Investment Law, and to companies established before the Investment Law came into effect. However, while all firms are now in theory eligible, the size and nature of the projects on offer (such as green hydrogen plants) for the Golden Licence means that most such licences will be awarded to large firms.

GAFI assesses eligibility for the special tax incentives, while the Ministry of Trade and Industry can provide incentives for industrial projects, and the Council of Ministers can provide additional non-tax incentives on a case-by-case basis, such as free personnel training or separate customs facilities, a rebate on land costs and on infrastructure costs. So far these types of incentives have not yet been allocated as they involve post-project allocations from the state budget, requiring multi-authority co-operation. Moreover, granting post-establishment incentives involves paying out state financing that is not allocated in the budget, which creates a dilemma from a fiscal perspective, and may render the incentives difficult to implement *de facto*.

Inconsistent interpretation of incentives can distort competition in the market. Moreover, incentives that target specific locations or sectors may not yield the expected results (OECD, 2020b). In Egypt, the complex governance structure of both tax and non-tax investment incentives, with multiple overlapping authorities empowered to grant permissions, and several co-existing legal texts, further increases the risk that incentives do not fulfil their foremost objective of attracting more foreign investment. Consolidating tax incentives into a single law under the Ministry of Finance can increase their transparency and reduce potential overlap and duplication (OECD, 2022b). Such work is currently underway by the Ministry of Finance, to support a more stable tax legislation environment. This is encouraging. Tax incentives should furthermore be reviewed regularly to ensure they continue to be the right policy instrument to meet the investment objectives.

The granting of incentives should ideally be triggered by “outcome conditions” which are a more indirect way of linking tax relief to substance than minimum conditions: for instance, tax relief could be conditioned ex-post on the firm effectively creating a certain number of jobs, or reaching a certain value-added to output ratio; or investing a determined share of capital in R&D (OECD, 2020b, 2022c). An OECD project on tax-incentive reform in Egypt is ongoing and will include a discussion on the interaction between tax incentives and the global minimum tax (OECD, 2023b/CTP, forthcoming). The Ministry of Finance is working to standardise tax rates and exemptions, and aims to review them regularly. Two reports on tax policy and tax expenditure are also under preparation (OECD, 2024, Chapter 2). These should be published as soon as they are ready to increase transparency and certainty for businesses.

As in the case of investment incentives, several bodies appear to have overlapping roles with respect to investment policy. The 2017 Investment Law grants the Supreme Council of Investment, under the President of the Republic, the power to establish investment frameworks and policies, while GAFI oversees operational matters. The Council approves the investment policies and plans that determine the priority of targeted investment projects in alignment with the state's overall policy, economic and social development plan, and sets investment priorities. Between 2017 and 2019, the Ministry of Investment co-existed with the Council, but the Ministry was then absorbed by the Prime Minister’s office in December 2019, and the Prime Minister became the acting Minister for Investment (the 2017 Investment Law stipulates that there must be an investment minister; it would require a new law to remove this position). Formally, it thus appears that the Prime Minister is mandated with the formulation and execution of investment policy in co-ordination with the Cabinet of Ministers, while GAFI remains in charge of investment promotion. At the same time, the provision of investment incentives formally lies with GAFI, but the Ministry of Trade and Industry and the Supreme Council for Investment can also grant incentives, while the Ministry of Finance is tasked with their execution.

Separating the functions of investment promotion and operational matters from the overall formulation of investment policy strategy, and multiplying the bodies involved in investor relations, may lead to co-ordination difficulties that could hamper effective implementation of reforms and the maximisation of investment potential. It also makes the institutional landscape more opaque for investors. Egypt’s business environment would benefit from having a clearly communicated investment strategy with the investment portfolio gathered into a single entity, for instance, a fully-fledged Ministry of Investment, while GAFI should be solely in charge of investment promotion. Subsequently, reporting lines and the division of tasks and responsibilities between the Supreme Council for Investment and GAFI should be further clarified and enforced, beyond the provisions in the 2017 Investment Law, to enhance transparency and ease of use for investors. Decisions arising from other ministries that affect the process and cost of doing business should be cleared by a technical body, for instance a secretariat within the Supreme Investment Council, or in a future Ministry of Investment, to limit any negative impact on the wider business climate.

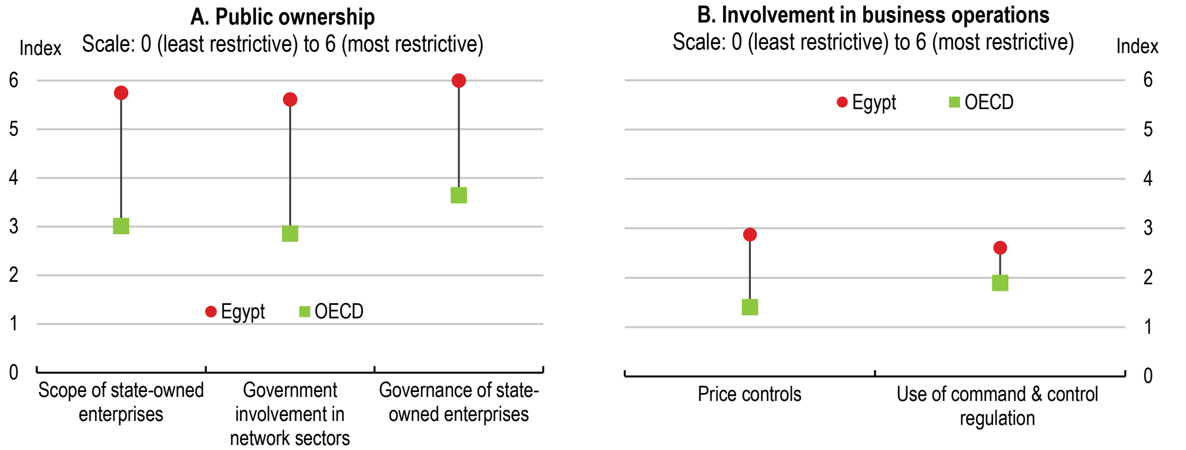
Reducing the state footprint to support competitive markets

The state may choose to have recourse to SOEs to help address market failures, ensure fast or quality public service delivery, and contribute to the broader economy, provided they operate efficiently, transparently and on a level playing field with private enterprises. However, state-ownership is often associated with weaker corporate performance, in particular for firms that are wholly owned by the state, with inefficient management and declining or even negative returns on assets (Musacchio, Lazzanini and Farias, 2014). Poorly governed SOEs can negatively affect wider economic growth, crowd out more productive private sector activity and strain public resources (Szarzec, Dombi and Matuszak, 2021). When inadequately regulated, they can also be abused for political patronage or self-enrichment, reducing the confidence of public and private investors (OECD, 2015c, 2018a).

Public ownership and state-involvement are factors that likely distort market competition in the Egyptian economy. According to the OECD-World Bank product market indicators (PMR), the governance of SOEs does not conform to best practices, while the state is highly dominant in the network sectors, such as electricity, water, energy, railways, insurance and aviation (Figure 13). The PMR indicators were collected in 2017, but according to the latest available data, the state maintains a dominant presence in the network sectors, which remain heavily regulated, and the state often plays a dual role as both owner and regulator, potentially leading to conflicts of interest. This affects competition and productivity both in those sectors and in the downstream sectors that rely on their inputs, for instance, manufacturing (Conway and Nicoletti, 2006). Indeed, a study carried out in India found that reforms to liberalise similar service sectors, such as the banking, telecommunications, insurance and transport sectors, all had significant positive effects on the productivity of manufacturing firms (Arnold et al., 2015). Reducing the weight of the state in the economy by carrying out privatisations, implementing a level playing field, and resolving conflicts of interest in network sectors, would support private sector expansion.

Figure 13. High government involvement in the economy distorts competition

OECD-World Bank Product Market Regulation Indicator, 2017 or latest [1]



Note: 1. Data for Egypt and OECD refer to 2017 and 2018 respectively.
Source: OECD, Product Market Regulation indicators.

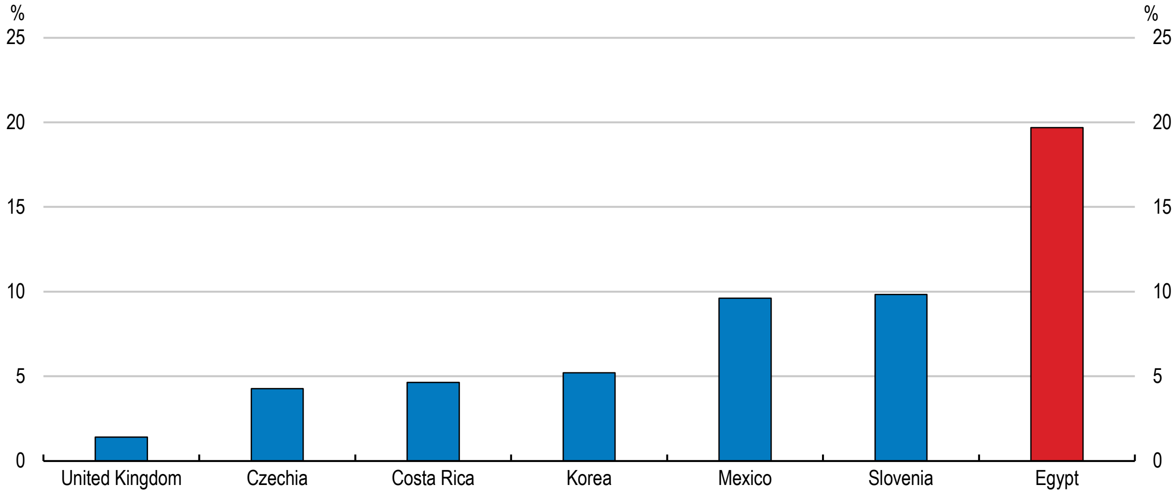
It is difficult to fully gauge the extent of the state's involvement in the Egyptian economy through state-owned and -operated firms. For instance, there is no publicly available information related to the number of the firms owned and operated by the military (which is known to own a significant number of firms (Box 3), so only SOEs more formally incorporated under other ministries are accounted for in official data. Even so, the number of SOEs is substantially higher than in the average OECD country, and in most of Egypt's neighbours (IMF, 2021). The government's involvement is also substantially broader in scope than in many other comparable emerging market economies (Ramirez Rigo et al., 2021), with SOEs operating across almost every sector of the economy, sometimes for legacy reasons (Box 3). In addition to wholly-owned SOEs, there are approximately 645 joint ventures and other partnerships involving the State (Table 1). Joint ventures are a major feature of the state-owned sector in Egypt. For instance, it is the most common corporate form in Egypt's oil and gas sector which requires at least 50% state-ownership (OECD, 2012a). A significant barrier to the effective oversight of Egypt's governmental ownership in joint ventures, and to assessing the quality of such oversight, is that there is no consolidated listing of joint ventures with state participation. The Cabinet Information and Decision Support Centre (IDSC) has undertaken work with the whole of government to create a unified database for all SOEs, which also includes companies with state minority shares. The Ministry of Finance has announced its intention to impose a requirement on SOEs to submit financial accounts on a biannual basis, with a view to ensure open access to these data, along with information on SOE subsidies. This is encouraging and would be an important step towards improving the governance of Egypt's SOEs.

Fuel distribution (retail and wholesale) is entirely owned and managed by the government and the military, with some private sub-distributors and some licences for foreign firms. Wataniya, a fuel wholesaler and retailer, owned by the army-controlled National Service Projects Organisation (NSPO), is expected to be part-privatised in 2024. An earlier sale stalled as the deal excluded a number of Wataniya's petrol stations, which were instead spun off into a new state-owned company. However, some of the petrol stations may now be released for sale. The government owns and operates the national water distribution network. Private operators can build and operate water plants and closed-circuit networks for specific projects only, such as private residential compounds. All roads and bridges are government owned and managed, although there are plans to lease and operate some parts of the road network to private operators. All ports are government-owned and managed, with some licensed operations in specific ports. To support competition in these sectors, Egypt should take steps to fully implement the *OECD Recommendation on Structural Separation in Regulated Industries* (OECD, 2016b). The authorities should establish clear functional separation between the roles of regulator and operator, known as the "arms-length" principle, to ensure regulatory independence, confidentiality and market integrity; and allow competitive tendering, wherever appropriate.

The public sector's output, at almost 20% of the non-financial corporate sector in 2021, is higher than in OECD countries with comparable data (Figure 14). SOEs governed by Law 203/1991 and Law 97/1983 (which do not include the firms owned by the military) represent 25% of capital investment and 6% of total employment (14% of public employment) (IMF, 2021). A subset of 88 state-owned companies generated revenues of EGP 87.4 billion in fiscal year 2021, around 1.6% of GDP, down from 2.4% the year before (data from Ministry of Public Business Sector and Central Bank of Egypt).

Figure 14. The public sector produces a large share of output

Production of the public non-financial, corporate sector, as a share of total output, 2021 or latest[1]



Note: 1. Only a few OECD member countries report output with a breakdown of the non-financial corporate sector (S11) in a comparable way to that of Egypt: Costa Rica, the Czech Republic, Mexico, Slovenia, South Korea and the United Kingdom. Data refer to fiscal year 2021/22 for Egypt, 2017 for Korea, 2020 for Czech Republic, and 2021 for Costa Rica, Mexico, Slovenia and United Kingdom.
Source: Ministry of Planning and Economic Development; OECD, National Accounts database and OECD calculations.

The profitability of Egypt's SOEs is weak, however: out of 278 non-bank SOEs that published data for FY 2018/19, 107 incurred losses (IMF, 2021) and some holding companies are posting losses recurrently according to the Ministry of Public Business Sector, especially in the textile, paper, plastics, and food sectors. Underperforming SOEs may generate fiscal risks (OECD, 2024, Chapter 2). In some cases, underperformance may be linked to quasi-fiscal activities conducted by SOEs, such as providing energy subsidies, or building social housing. Government guarantees to the SOE sector amounted to 18.4% of GDP at the end of fiscal year 2020 (IMF, 2021).

Box 3. A brief history of state ownership and privatisations in Egypt

The role and weight of state-owned enterprises (SOEs) has been a central question in Egyptian economic policy since the founding of the modern Egyptian state. In the 1950s and 1960s, Egypt pursued a socialist development model and protectionist import substitution policies. The overthrow of the monarchy in 1952 was followed by broad-ranging nationalisations. SOEs were seen as essential sources of industrial growth, job creation and self-sufficiency. By 1962, the state controlled all banking, insurance, utilities, maritime and air transport, most large-scale industry, as well as many service sectors. The strategy failed to deliver sustained growth: inefficient public-sector enterprises soon became a fiscal burden (Bromley and Bush, 1994). By the end of the 1970s, output from SOEs contributed 13% of GDP, and state firms accounted for 60% of value added in manufacturing, nearly double the average for developing countries (OECD, 2020b). The Ministry of Defence created the National Service Products Organisation (NSPO) to set up projects for government entities related to the military forces, to render the army self-sufficient in products and services and supply the local market with goods. The NSPO soon grew to become a business conglomerate, as a large food producer and big public contractor. By the end of the 1980s, NSPO and other military-owned factories were making subsidised bread and frozen vegetables, running mechanised slaughterhouses, chicken and fish farms, pasta and textile factories, and taking part in vast construction programmes through the Engineering Authority (Abul-Magd, 2014).

Privatisation efforts began in 1991, under the terms of structural adjustment agreements with the World Bank and IMF, under the auspices of the then Ministry of Public Sector which oversaw execution of the programme, under Law 203/1991, which included gathering most SOEs within sector Holding Companies supervised by the Ministry. Over the next two decades the government oversaw the full or partial privatisation of around 400 SOEs in a range of sectors, and cut SOE debt by nearly 75% (Raballand, 2015). However, privatisations were initially met with opposition, in particular from vested interests and labour organisations, notably reflecting a perception that they led to layoffs and benefited politically connected businesses (OECD, 2013). Sales of state-owned firms were halted after the Arab Spring in 2011, and some earlier sales were challenged in court (Adly, 2017). In recent years, a large-scale infrastructure upgrade programme has been rolled out under the auspices of companies owned by the military. At the same time, the commercial role of the state has expanded, with firms diversifying into new sectors. SOEs have become major food producers and public contractors, and increasingly participate in joint public-private ventures in “strategic” sectors (OECD, 2020b). Under the aegis of a new reform programme, the government is now planning partial divestments of a selection of enterprises (Box 4). Yet, based on the course of action announced in the State-Ownership Policy document, it seems that the state intends to retain a non-negligible share of firms, including in non-strategic sectors, such as manufacturing, construction and agriculture.

Source: OECD (2021a, 2019a, 2018b).

Table 1. The state's involvement in the private sector is wide-reaching

Firms affiliated with the state, FY2021/22[1]

Known state-owned firms, or with state involvement	Number	Legal regime	Employees	Net equity	
				(EGP billion)	(% of GDP)
Joint-venture firms (public-private) of which state-owned banks and insurance companies are the largest owners[2]	645	Law 195/1981	n.a.	n.a.	n.a.
SOEs under Law 203/1991, in the Ministry of Public Business Sector or elsewhere [3]	72+107	Law 203/1991	168 000	38 797+20 000	0.49+0.26
Special-purpose SOEs[4]	30	Law 97/1983	163 000	18 000	0.23
Total of known SOE sector	**854**		**331 000 +**	**76 797**	**1 %**

Note: 1. Does not include firms owned by the military, nor "Economic Authorities", which are state bodies and some of which engage in business operations, such as the Suez Canal Authority. 2. Formally, joint-venture firms are not considered to be state-owned firms: they are legally considered to be private firms with public ownership. The state, however, has a majority stake in some of these, often through a state-owned bank or insurance firm, which influences business conduct as the state is represented on the board of these firms. A forthcoming tabulation of state-ownership by the Cabinet Information and Decision Support Centre merges these firms with the wholly-owned SOEs. 3. There are also 107 SOEs operating within the scope of Law 203/1991 but outside the MPBS. Employment for those firms is not made public. Over time, some SOEs have been moved to ministries relevant for their activity, for instance, the Holding Company for Food Industries was moved to the Ministry of Trade and Industry in 2013. 4. State-owned companies subject to law 97/1983. These tend to be public companies established for a special purpose, such as the companies under the Suez Canal Authority or Arab Contractors (construction).
Source: Ministry of Public Business Sector; OECD research.

Ensuring good governance and competitive neutrality for a level playing field

SOE governance conditions their performance and their impact on growth (Szarzec, Dombi and Matuszak, 2021), economic efficiency and competitiveness (OECD, 2015c; OECD, 2021a). Principles for good governance include a clearly articulated rationale for public ownership, transparent ownership structures and accountability with clear reporting lines, and a level playing field for competition between state-owned and private businesses. Stronger corporate governance structures to encourage SOEs to act commercially are also important to promote a level playing field for downstream private sector firms. Hence the principle of competitive neutrality should be applied to all SOEs, as highlighted by the *OECD Council Recommendation on Competitive Neutrality*: all enterprises, public or private, domestic or foreign, should face the same set of rules, and the government's involvement in the marketplace, in fact or in law, should not confer an undue competitive advantage on any actual or potential market participant (OECD, 2015a; OECD Council, 2021). This is also the aim of the Higher Committee for Competitive Neutrality under the Cabinet (see above).

Egypt was the first country in the Middle East to issue a Corporate Governance Code, in 2006 (OECD, 2012a). However, in practice, governance has not consistently reflected the best practice spelled out in the OECD *Guidelines on Corporate Governance of State-Owned Enterprises* (OECD, 2015c; OECD, 2019c). Leaving aside so-called strategic reasons, there appears to be no formal policy which clearly sets out the rationale and objectives for public ownership, i.e., detailing publicly why the state is better placed to run firms than the private sector. Law 203/1991 was meant to clarify the government's ownership policy: it created portfolios of firms under sectorial holding companies and their affiliates and transferred the companies under the authority of the Ministry of Public Business Sector. However, firms have been moved and reporting lines diluted over time, and only firms under Law 203 have recently seen new governance rules being implemented (OECD, 2019c).

Ownership and management selection processes in Egypt's SOEs lack transparency (OECD, 2019c). This is particularly the case for military-owned firms that are outside the competence of the 2006 Corporate Governance Code. Opaqueness of public ownership undermines the activity of private firms, because it harms the confidence of business owners and investors. The dispersed nature of public ownership adds to the lack of transparency. Different ministries control portfolios of SOEs directly or through holding companies, which manage firms by sector. There is no co-ordinating entity to ensure each ministry follows the same procedures (OECD, 2019c; OECD, 2020b). Some ministries do not report which companies they control. Some firms in sectors including transport, electricity, telecommunications and petroleum, are controlled directly by their corresponding line ministry (Raballand, 2015). In some cases, presidential decrees have created holding companies with no apparent overseeing ministry, such as for Egypt's National Airline Holding Company (OECD, 2014a).

Public-private joint ventures face special governance challenges. The state's ownership objectives may diverge from the objectives of the private partners, including on issues such as risk appetite, disclosure and transparency, and commitments to social and environmental standards. Such firms may also be subject to complex and unclear reporting regimes, in part because their different classes of owners must comply with different regulatory constraints and reporting requirements depending on whether they are listed firms, government agencies, state-owned firms, privately held firms, other joint ventures, or even individuals. Arms-length relations between the regulator and the regulated are impossible to achieve if the government is on both sides of the table (OECD, 2012a; 2020b).

Better governance requires improving the oversight of Egypt's SOEs. Reasons for retaining ownership in sectors other than defence should be publicly divulged, beyond referring to strategic interest, and a path to exit should be outlined, in cases where retained state ownership is transitory. The forthcoming list of SOEs that is being compiled by the IDSC should include all SOEs, irrespective of their affiliation, and reporting lines should be clarified. As recommended by the OECD Council, centralising ownership or, at least, oversight of their management, would improve the ability to steer and monitor the performance of the SOEs. Unclear lines of responsibility may expose Egypt's SOEs to undue interference, and efficiency losses in corporate operations. Moreover, lack of oversight due to distant ownership by the state or its dispersion can weaken the incentives of SOEs and their staff to perform in the best interest of the enterprise and the general public who constitute its ultimate shareholders, and raise the likelihood of self-serving behaviour by corporate insiders (OECD Council, 2015).

Increasing financial transparency

Funding and budgeting rules should ensure that any compensation for public services rendered is not unduly favouring Egypt's SOEs and economic authorities, such as the Suez Canal Authority or the Egyptian General Petroleum Corporation. The latter is involved in 12 SOEs, 41 joint-venture companies and 87 Investment Law Companies, either directly as a shareholder, or through other affiliated companies, but it also issues licences for exploration. SOEs and economic authorities maintain complex financial links with the state budget, either in the form of explicit subsidies or through substantial cross-debt or arrears. Moreover, extra-budgetary public entities (i.e., SOEs outside Law 203) are undertaking off-budget capital spending, notably for Egypt's infrastructure development and mega-projects, estimated at 6.8% of GDP in 2018 against 2.4% of GDP of on-budget spending (Youssef et al., 2019).

Off-budget spending can distort the market by granting additional resources to the SOEs, in addition to undermining fiscal transparency. SOE reforms to impose account separation and increase transparency about off-budget payments could reduce fiscal risks by decreasing hidden subsidies and direct transfers, and at the same time strengthen competition and develop capital markets (OECD, 2015c; 2019c). Recently, the government has started publishing auditing documents for the firms under Law 203. All SOEs will be required to submit financial accounts to the Ministry of Finance on a biannual basis, and the Ministry of Finance has announced that it will ensure open access to these data, along with information on the subsidies to the SOEs with an annual report covering any tax breaks, exemptions and incentives. This is welcome and should be extended to all SOEs, regardless of affiliation, and the government should clarify the mandate for existing SOEs to limit quasi-fiscal operations where these take place, in line with good governance principles (OECD, 2015c).

Eliminating undue advantages that distort competition

Egyptian SOEs have traditionally benefited from tax advantages and other preferential treatments that contribute to skewing competition. They include exemptions from VAT, income tax, and real-estate tax, as well as exemptions from paying fees, services charges or fines. Beneficiaries include projects for land reclamation, food-processing firms, as well as buildings and hospitals owned by the military. Customs Law 207/2020 provides exemptions for import duties for goods brought in by the Ministry of Defense, the Ministry of Military Production and their affiliates. This may distort competition in markets where firms owned by these entities compete with the private sector (such as household goods). A new law (159/2023) was passed to revoke preferential treatment to SOEs, and to promote governance and transparency, mainly in the form of reports on tax benefits and exemptions to be published by the Ministry of Finance. While this is a welcome move, the law mentions possible caveats for defence and "national security" reasons, and until the executive regulations are passed, it is not possible to know whether the law will include all firms in the state sector, and all non-defence related activities. This aspect needs to be clarified, and the principle of competitive neutrality, which would imply that no preferential treatment is granted in any circumstances, should be fully adhered to. Pillar 3 of the OECD Egypt Country Programme focuses on issues related to governance and SOEs. Recommendations from this pillar will further serve to promote a level playing field for the private sector.

Accelerating the privatisation programme

The Egyptian government is undertaking a divestment programme as part of its wider structural reform programme (OECD, 2024, Chapter 1). The State-Ownership Policy document from December 2022 sets out the plan for reducing the state footprint and increasing the role of the private sector in the economy. It was updated in August 2023 (Box 4). The government should implement its announced divestment programme in full, and over time continue to sell firms that operate in sectors that are not related to national defence activities, such as agriculture, manufacturing – in particular household goods production, textiles and food processing – and services. However, the timeline of the implementation of the State-Ownership Policy has been extended several times, and there is little information available about the legal framework governing each asset class that will be sold.

If done right, privatisation can improve competition, efficiency and consumer welfare. Empirical studies of privatisations document an increase in profitability, efficiency, investment and output, after privatisation, subject to effective economic institutions (Guriev and Megginson, 2006; OECD, 2019a). In the first decade of the 2000s, many OECD governments sold their larger SOEs either on stock exchanges through public offerings or to strategic investors, often retaining a majority or a significant minority of shares. These partially state-owned enterprises benefited from performance and efficiency improvements through the disciplines of stock-market listing or private ownership. At the same time, mixed ownership allowed the state to maintain strategic participation in companies for which there remained a rationale for continued state ownership (OECD, 2018b; OECD, 2019a).

Box 4. Egypt's new State-Ownership Policy

In late December 2022, the Egyptian government published its new State-Ownership Policy, which includes a divestment programme to take place over a timeframe of three to five years. It was updated in August 2023. The document sets out the government's rationale for state-ownership in broad terms, in several cases outlining reasons to maintain or even increase the state's share, all for strategic reasons. Beyond national defence and natural monopoly, "strategic" activities include activities such as food provision (both agriculture and food processing), energy, housing, transport, publishing, education and health. The document outlines a divestment strategy, but several elements remain unclear, such as the final number of firms that will be divested; the full extent of the government's withdrawal; the legal framework that will govern the divestment for each asset class and the relationship with the private sector; and the ownership structure of current SOEs (some of which are in holding companies, some of which are owned by ministries or economic authorities, governorates, or state banks, and some by the military).

Three main forms of future state involvement have been outlined: i) remain in sector, maintaining or reducing public investments (potentially 71 firms); ii) remain in sector, maintaining or increasing public investments (potentially 22 firms); iii) exit sector within three years, (later extended to five years) (first 22 firms, then 32, and later revised to 35, but the number continues to evolve).

The government has set out several models for divestment:

1. Full privatisation or sale of a majority stake to a strategic investor or in the stock market (IPO).
2. Offering a minority stake up to 45% of the company to a strategic investor or in the stock market.
3. Capital increase offered to the private sector to dilute public sector ownership.
4. Self-financed improvement of the company without involving an investor, for an interim phase as preparation for partnership with the private sector.
5. Establish new companies (Special Purpose Vehicles, SPVs) to manage the execution of improvement or development projects.
6. Merge with sister companies.
7. Execute projects with the private sector that do not include a direct sale, e.g., revenue share agreements or management contracts.
8. Liquidation as a last resort if other options fail or are not possible.

The State-Ownership Policy states that the preferred method of divestment is for a partnership with a private sector partner, for instance in certain key infrastructure or strategic sectors with the aim of maintaining government control. Most will likely be sold to strategic investors. A number of companies need large financing for new projects involving technology transfer, with a preference for a capital increase from the private sector. For instance, Misr Aluminium Company required EGP 300 million in financing from a private investor with the appropriate technical expertise. For distressed firms in sectors deemed strategic by the state (such as import substitution or public hotels) with significant debt, the preference will be given to specialised international investors through a new company (an SPV) with new technical and/or financial capacities. Each will be evaluated on a case-by-case basis.

A Privatisation Committee headed by the Prime Minister has been set up in the Cabinet to oversee the privatisations. The Cabinet Information and Decision Support Centre (IDSC) is working with the Committee and government entities to create a unified database for all SOEs, to support the privatisation effort and to enhance governance. The database is not yet complete, and more information is needed for the Privatisation Committee to analyse the data and decide on the government's role in these companies. In the first phase of the revitalised privatisation programme, a list of 32 firms to be sold via an IPO or through strategic investors, was announced in February 2023. The date of execution of the first phase was moved from June 2023 to June 2024. The list was expanded in August 2023 to include three more companies, two of which were already partly privatised.

Privatisations are also taking place through the Sovereign Fund of Egypt, with the World Bank and the IFC acting as the government's strategic advisors. Between March 2022 and July 2023, minority stakes in 13 companies were offered for sale through the Sovereign Fund for a total value of USD 4.8 billion, which included a group of seven historic government-owned hotels, stakes in three companies (that feature on the list of the 35 companies from the SOP), and shares in six other listed companies. By late December 2023, only the sale of a hotel group had been completed.

Source: Ministry of Public Business Sector, State-ownership Policy Document; Information and Decision Support Centre; press reports.

The Egyptian government's privatisation programme appears to aim mostly for mixed ownership outcomes. The State-Ownership Policy document mentions IPOs or strategic sales as some of the preferred ways of divestment, typically with the government retaining a stake in the company. However, few details are publicly available on the selection of individual firms for sale, the choice of privatisation method, the road map, or the role of the state post-privatisation, including with respect to the separation of ownership and regulatory functions. Publishing this kind of information would also provide more certainty for potential investors. In addition, the government could draw up a priority list of non-strategic firms that would be put forward for sale first, including several firms in the manufacturing or services sectors, such as hotels, food processing, household goods, textiles and leather goods. Currently, a committee headed by the Prime Minister is in charge of overseeing the privatisation programme studying each company on a stand-alone basis to determine the valuation, number of shares to be offered, whether it will be an IPO on the stock exchange (EGX) or a sale to strategic investors and how much in terms of proceeds will be expected (Box 4). Egypt has signed an agreement with the World Bank, to provide advisory services for Egypt's privatisation programme. To ensure a successful outcome, the right framework conditions for a competitive market need to be in place first as discussed above, so that any current state-dominance does not merely transfer into a private dominance in the market. Furthermore, the privatisation process should follow best international practices as laid out in the OECD Policy Maker's Guide to Privatisation (Box 5).

Box 5. OECD Policy Maker's Guide to Privatisation

Getting privatisation "right" requires a well planned and executed transaction, backed by sound rationales, strong institutional and regulatory arrangements, good governance, and integrity in order to enhance investor confidence while gaining the support of stakeholders and the public. Drawing on the OECD Guidelines on Corporate Governance of State-Owned Enterprises and decades of national experience across OECD and partner economies, Policy Maker's Guide to Privatisation provides the following practical advice on key stages of the process from inception to post-privatisation.

Stage 1: Guiding principles to inform policy makers and the public

- Before embarking on a privatisation process, policy makers should clearly communicate the guiding principles and rationales underlying the transaction to the public.
- Privatisations require transparent and credible institutional frameworks that appropriately involve stakeholders. A professional and informed authority, operating at arms-length from policy making and regulatory duties, should steer the execution of the transaction.

Stage 2: Measures to be undertaken prior to divestment

- Appropriate competition and market regulation should be in place prior to the privatisation.
- Industry or company restructuring might be necessary to ensure readiness for the sale.
- The sales method depends on the asset, market conditions, relative maturity of the economy and the objectives determined at the start of the process.

Stage 3: Organisation of the privatisation process

- Advisors should be selected according to quality, competence, and experience. To avoid conflict of interest, the separation of advisory and sales mandates is critical.
- Company valuation should be based on fair market value. Should a government sell below market value, the reasons should be clearly identified, justified and transparent from the outset.
- Buyers should be selected based on prequalification criteria and due diligence should be conducted on their financial and technical capacity, future solvency, and corporate conduct and compliance track records. Bids should be handled transparently, while respecting confidentiality.

Stage 4: Steps to take post-privatisation

- The post-privatisation phase includes wrapping up the sale, handling proceeds and establishing good governance practices if the state remains a shareholder. Systematic ex-post evaluation and audit are critical to impartially evaluate the sale and to ensure the integrity of the process.

Source: OECD (2019a).

Setting out a road map for the divestment programme to improve efficiency

The order in which assets are privatised and the sequencing of a particular transaction is an important policy decision for the privatisation programme. Egypt already had a successful privatisation programme launched in 1991, as part of the Economic Reform and Structural Transformation Programme, which was implemented against a backdrop of a steep economic slowdown. Privatisation was one of the main pillars of the reforms, leading to a total of 382 SOEs being fully or partially privatised over 1991-2009. The total proceeds were around EGP 57 billion (approximately USD 9.5 billion at the time) (Badr El-Din, 2014). The pace of privatisations followed the pace of overall economic reform: between 1991 and 2004, around 15 SOEs were privatised a year; but between 2004 and 2006, around 25 firms a year were privatised, at a time of accelerated macroeconomic and structural reforms. However, the privatisation programme encountered a number of obstacles, including resistance to foreign ownership out of fear that a high proportion of foreign holdings in the stock market was merely speculative and could thus thwart the country's long-term development goals, as well as protests against the lay-offs of public sector workers (public sector employment was halved from just over 1 million to around half a million employees between 1985 and 2004) (Pfeifer, 2012).

As was the case in Egypt in 1991-2009, privatisation programmes usually begin with the sale of assets that operate in competitive sectors of the economy, where the market structure is already adapted to competition and where the company governance structure is already corporatised, requiring less preparation before a sale (OECD, 2019a). Another important factor is whether the asset will be fully or partially privatised. The state may decide to retain majority or partial ownership due to political or strategic imperatives, or where the SOE's sheer size can have systemic impacts (OECD, 2018a). If full privatisation is not possible, the SOE can be broken up into different parts and the parts not considered strategic can be sold; for example, the Swedish pharmacy monopoly was divided into different lots, with some left in state ownership, while others were auctioned off (OECD, 2019a).

As noted in the State-Ownership Policy, the Egyptian government tends to prefer partial sales. Based on its previous experience with privatisation, and given that an overarching guiding framework for the entire programme is yet to be developed, partial sales may indeed be necessary at the outset for a number of reasons: (1) more time is needed for an effective regulatory capacity to develop; (2) staging of the sales can gradually build momentum and gain credibility among investors and the public to facilitate subsequent sales; (3) transactional and market requirements set the pace of sequencing; and (4) the government sees the benefit of maximising proceeds. A selection of national experiences is highlighted in Box 6. Setting out a clear road map which lists the order in which the firms will be put up for sale, and the sequencing of those sales with a detailed timeline, would further enhance transparency and investor confidence. The SOP does not mention how the proceeds from the sales will be used, but they should serve to reduce Egypt's high public debt. The Egyptian authorities should clearly communicate the intended use of the proceeds from privatisations to the public. The divestment process should also be subject to auditing, with the auditing reports published on a regular basis.

Box 6. Selected national examples: sequencing of privatisations

Sequencing often takes the form of IPOs, followed by a number of subsequent share offerings. Sequencing is common especially where the privatisation of large or strategic SOEs occurs, but a host of factors can motivate the decision to sequence a privatisation process, to wit the following national examples:

- In the United Kingdom, reasons for maintaining a state ownership stake have included: i) benefiting from a potential improvement in performance; ii) ensuring continued involvement in a strategically important activity or for national security reasons; and iii) retaining a degree of influence, including linked to the public interest. Sequencing of privatisation has also depended on the wider political landscape and the appetite for the type of corporate assets potentially on offer.
- In France, the maintenance of the state's shares in a company after privatisation is most often based on social, political and strategic motivations. The decision usually involves inter-ministerial discussions.
- In Germany, sequencing of privatisation has occurred where particularly large SOEs were being divested. It is deemed that the stock market's capacity to absorb new equities is such that a gradual process is needed to obtain the best price for the state's shares.
- In the Netherlands, the government maintains its ownership in a company if it decides that a public interest needs to be safeguarded through public shareholdings.

Source: (OECD, 2018b).

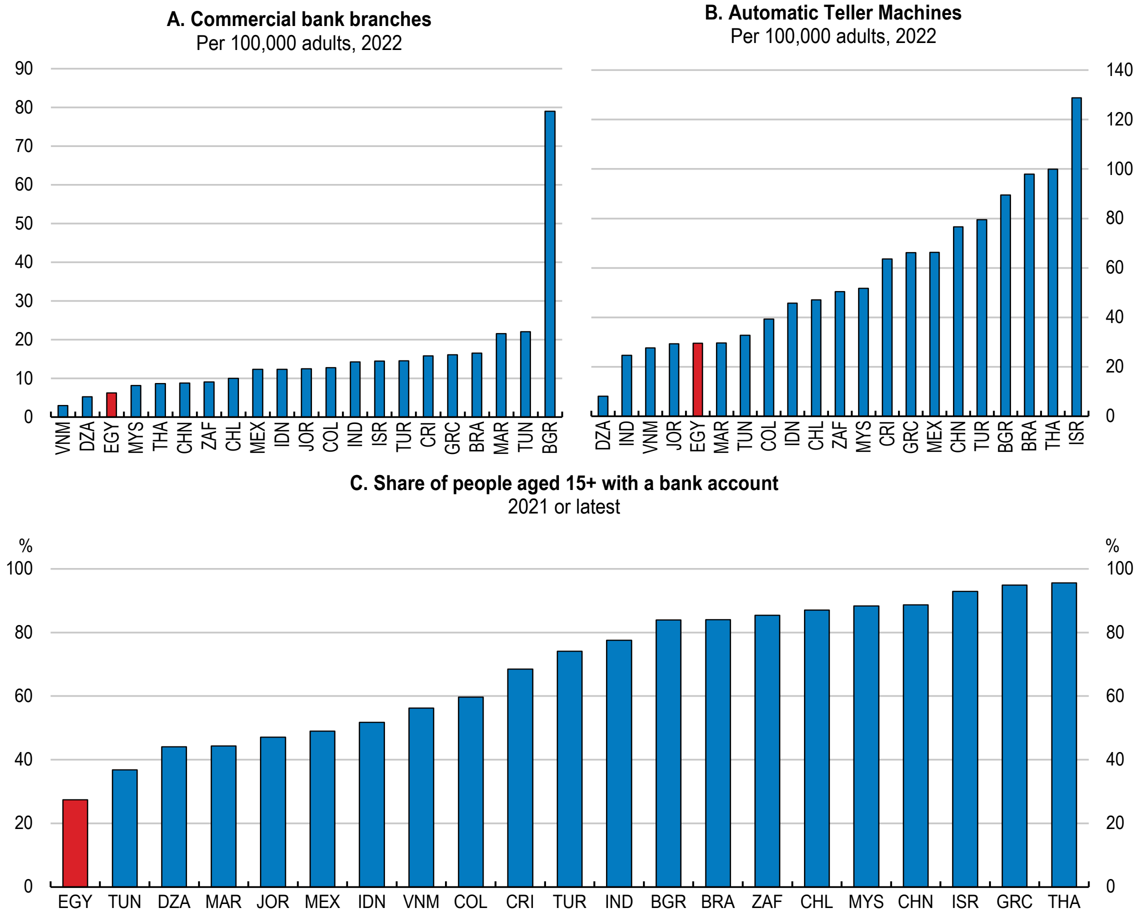
The State-Ownership Policy document highlights the desire of the authorities to float some firms on the stock exchange as initial public offerings (IPOs), but no such IPOs have as yet been proposed. Privatising all or parts of an SOE through an IPO has a number of attractions in terms of ready access to financing, increased visibility, and wider participation, whether local or foreign. The listing requirements would also contribute to increasing transparency surrounding the sale as well as the ongoing operations. However, in Egypt, the disclosure and governance requirements for an IPO may be an obstacle for some SOEs. Furthermore, the Egyptian stock exchange (EGX) is rather small and dominated by local and retail investors, which may limit the appetite and capacity for big-ticket sales. These are compounded by the remaining restrictions of ownership for non-nationals, and uncertainty surrounding exchange-rate policy and the ability of investors to repatriate dividends. Hence, selling companies through an IPO does not guarantee generation of maximum proceeds, contrary to privatisation through the sale to a strategic investor or consortium. Furthermore, against a backdrop of high domestic inflation and interest-rate increases, market uncertainty and volatility may lower investor appetite. As such, the authorities are likely to continue to favour strategic sales over public offerings in the near term.

Improving access to finance to better support investment

An efficient financial system that can deliver essential services is key to a country's economic development (Heil, 2017). A well-functioning financial market plays a critical role in channelling funds to their most productive uses, while so-called financing frictions induce sluggish investment and impede the implementation of productive projects (Demmou, Franco and Stefanescu, 2020).

Access to finance remains constrained in Egypt, especially with regard to traditional banking services. The number of commercial bank branches, automatic teller machines, and share of adult population with a formal bank account are all low compared with peers (Figure 15). Cash is still widely used, including for large-ticket purchases, which also creates opportunities for money laundering (FATF, 2021). However, when including savings accounts with Egypt Post, prepaid cards and Egypt's Mobile Wallet system (mobile payment), around 65% of the population was estimated to be financially included by end-December 2022 (CBE, 2022). In 2022, there were 38 banks with 4 591 branches, up from 2 800 in 2018. The sector is concentrated, with the five largest banks accounting for 70% of assets, according to data from the CBE. Financial inclusion is one of the updated *Egypt Vision 2030* priorities, to offer a diverse range of innovative financing tools and incorporate all segments of society into the financial system including the informal sector and individuals unwilling to engage with the traditional banking system. The CBE is also implementing a Financial Inclusion Strategy 2022-25 which involves improving financial literacy, increasing the financial capabilities of consumers and micro, small and medium-sized enterprises (MSMEs), and capacity building of bank staff, including from other banks and financial institutions, as well as "train-the-trainer" programmes.

Figure 15. Access to formal financial services is low



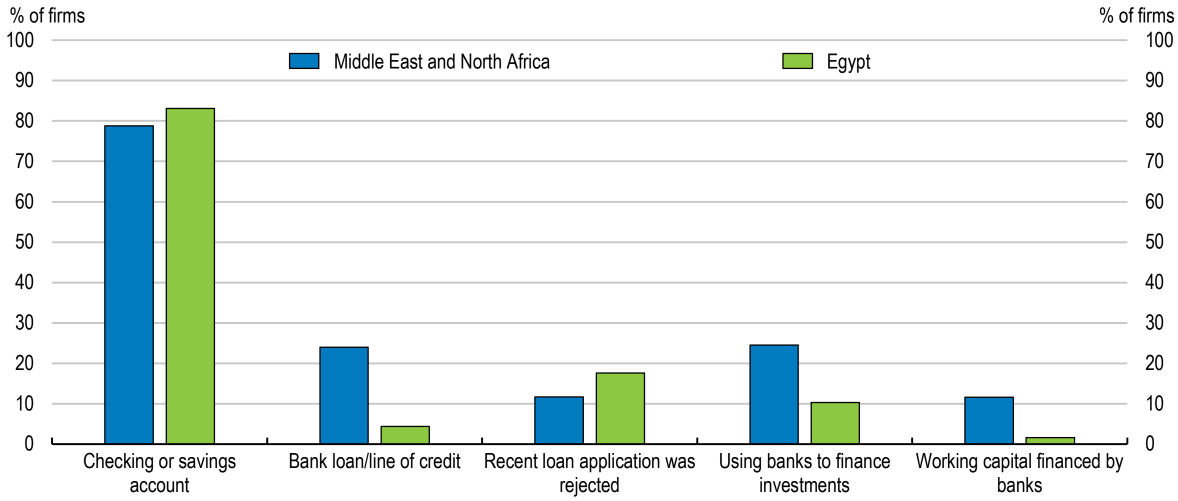
Note: In Panel C, data for Mexico and Viet Nam refer to 2022.
Source: IMF Financial Access Survey; and World Bank Global Findex 2021.

Egyptian businesses also appear underbanked, in particular smaller firms. Informal firms, which are unregistered, face exclusion from the formal financial system. Egyptian businesses overall encounter difficulties in obtaining bank loans (Figure 16). Discouragement plays a significant role as firms anticipate loan rejections, leading them to refrain from applying for bank loans (Betz, Ravasan and Weiss, 2019). Instead, they rely heavily on personal finance options, including consumer credit. The authorities are working to raise awareness of the advantages of joining the formal sector for instance when dealing with the banking system. Indeed, one of the main objectives of the aforementioned Financial Inclusion Strategy is to support companies' access to financial services and encourage the transition to the formal sector.

Although there is a well-developed microfinance industry catering to the needs of micro-enterprises (see below), there remains a funding gap for SMEs. This is concerning because SMEs, which represent 98% of Egypt's businesses, often represent the segment with the highest growth potential, and inadequate access to finance becomes a significant constraint on their expansion, hindering overall economic growth and job creation. Insufficient financial resources limit these firms' ability to invest in innovative projects to improve their productivity (OECD, 2022a).

Figure 16. Egyptian firms have little recourse to bank lending

Share of firms reporting to have used service, 2020[1]



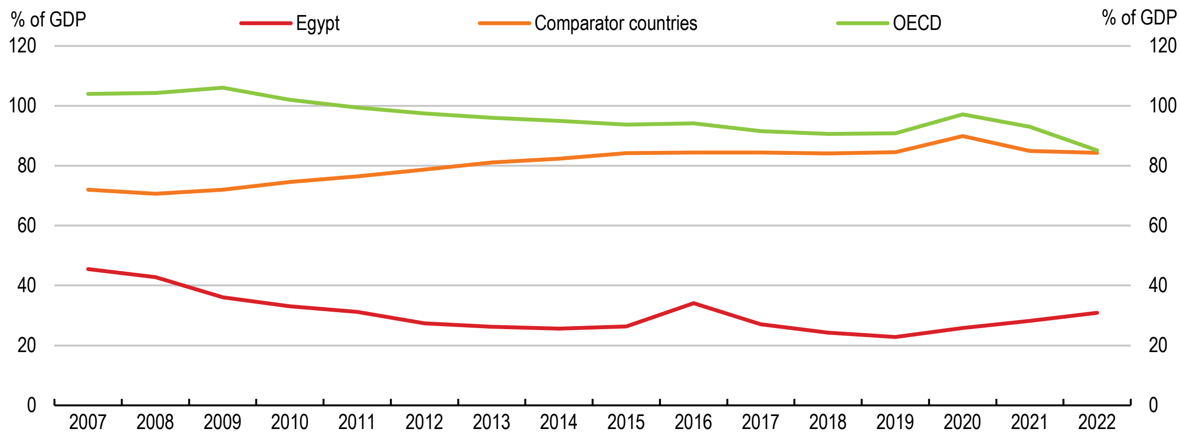
Note: 1. Percentage of responding firms reporting to have used service. Selection bias is likely to have formal firms overrepresented. Excludes firms under five employees.
Source: World Bank, Enterprise Surveys.

Government borrowing is crowding out lending to the private sector

Lending to the private sector is low by international standards (Figure 17), with bank lending to the government crowding out available funding for businesses (Figure 18). Crowding-out occurs through two channels: on the one hand, government borrowing drives up interest rates, increasing the cost for the private sector; on the other hand, banks tend to prefer government bills and bonds over riskier private loans (El-Said et al., 2013; Shetta and Kamaly, 2014). Empirically, Betz et al. (2019) find that unlike in other countries in the Middle East and Northern Africa, firms in Egypt are more credit constrained in areas where the local banks invest more in government debt, pointing to particularly severe crowding-out in Egypt (Betz et al., 2019). A recent study finds that extending credit to the government is associated in Egypt with a more than commensurate reduction in lending to the private sector (Haikal et al., 2021).

Figure 17. Lending to the private sector is low by international standards

Domestic credit to the private sector, % of GDP

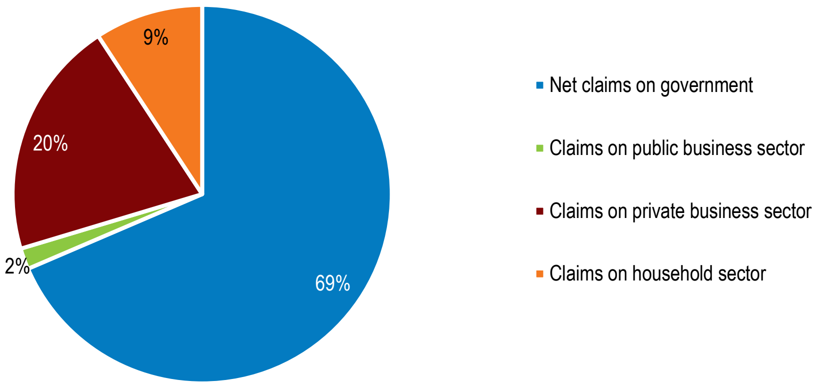


Note: Domestic credit to private sector refers to financial resources provided to the private sector by financial corporations, such as through loans, purchases of nonequity securities and trade credits.
Source: World Bank, based on International Monetary Fund, International Financial Statistics and OECD National Accounts.

The government has tried to impose a target for SME lending on commercial banks, recently raising it from 10% to 25% of total bank lending. However, this raises questions of moral hazard and about banks' ability to assess the prospects of small firms. OECD research suggests that enabling factors to support bank lending to small firms would include tackling policy failures that implicitly impose additional costs on risks, such as poor contract enforcement and timely bankruptcy procedures (Calvino, Criscuolo and Menon, 2016).

Figure 18. Domestic credit goes overwhelmingly to the government

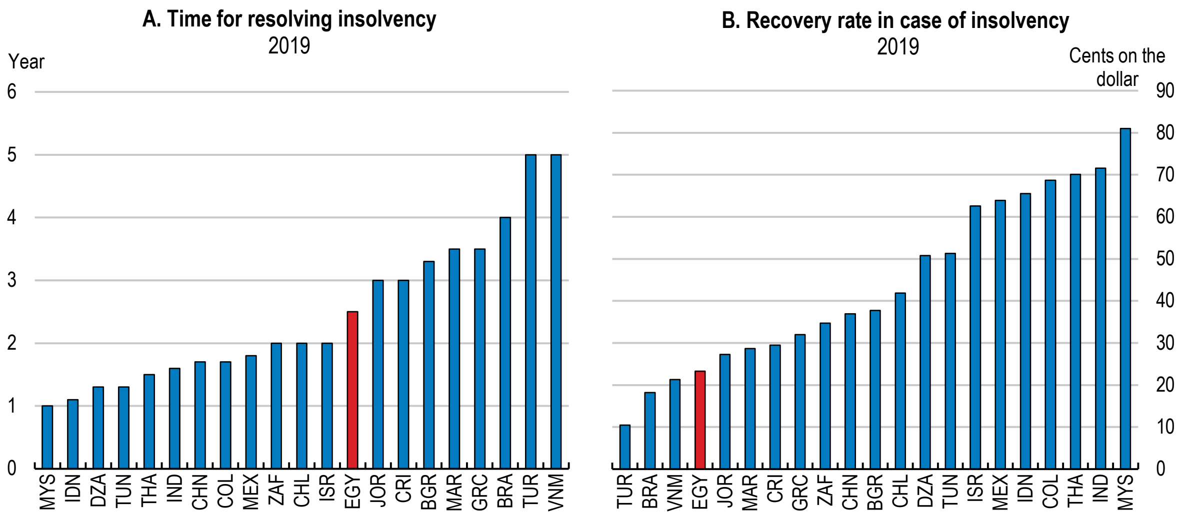
Share of total domestic credit, October 2023



Note: Domestic credit refers to financial resources provided by financial corporations, including the Central bank of Egypt, such as through loans, purchases of non-equity securities and trade credits. Provisional data.
Source: Central Bank of Egypt.

Resolving insolvency in Egypt on average takes just under three years, and cost recovery is low (Figure 19). A new Bankruptcy Law was ratified in 2021. Among its positive features, it decriminalises bankruptcy for firms, and allows firms to restructure and continue operations during bankruptcy procedures, akin to the Chapter 11 Bankruptcy Code in the United States. This could support a shift towards more bank lending to firms. Furthermore, reducing the time to resolve insolvencies is one of the factors shown to stimulate growth (Égert, 2017). However, the Bankruptcy Law is onerous for small firms that must show at least two years' continuous accounting statements to apply.

Figure 19. Resolving insolvency is slow and recovery rates are low



Source: OECD, Structural Policy Indicators Database for Economic Research (SPIDER).

In addition, the law applies only to commercial companies and traders but not to non-merchant individuals, who continue to be subject to the insolvency provisions under Civil Code 131/1948, including prison time for even small debts. As many small traders rely on personal consumer credit to buy equipment, these provisions still hamper smaller firms' access to credit. Moreover, the Bankruptcy Law does not apply to SOEs. To fully reap the benefits of the revised insolvency framework, decriminalisation and removal of debt-prison should be extended to individuals. The framework should also include SOEs to allow restructuring rather than funding from the public purse (OECD Council, 2021). More support should be provided to small firms to enhance management, financial literacy and accounting, for instance through public training programmes. Bank staff should be trained in understanding the needs of small or new firms.

Developing non-bank financial services to support firm financing

The government has been working to activate non-bank financial services since 2014 and to improve access to formal finance. All non-bank financial services are regulated by the Financial Regulatory Authority, including microfinance, factoring, leasing, insurance, the stock market, and financial technology (Fintech, which in some cases is also dually regulated by the CBE). The Micro, Small and Medium Enterprises Development Agency (MSMEDA) also falls within this framework as a provider of financial support to MSMEs. The 2014 Microfinance Law allows specialised microfinance companies to join NGOs, which were previously the only microlenders in Egypt, in the market Box 7). In 2020, the law was extended to allow microfinance lenders to extend credit to SMEs, which can now borrow up to EGP 200 000, typically repayable over four to 24 months. The 2018 Factoring and Leasing Law created a regulatory framework for factoring and leasing services, unlocking new tools to help small firms improve their cash flow.

Box 7. Support for SMEs has grown

According to the latest Egyptian economic census, carried out by CAPMAS in 2017/18, Egypt had 3.742 million enterprises, with micro, small and medium enterprises (MSMEs) representing close to 98% thereof. Of these 47% were in the formal sector (1.7 million enterprises), and 53% in the informal sector (2 million). MSMEs accounted for some 43% of GDP and over 75% of total employment. The government has been working to develop an inclusive MSME ecosystem to promote private sector expansion and create more and better jobs in sectors such as technology, digitalisation and the green transformation.

To support expansion, the government aims to facilitate access to finance for smaller firms, and several regulatory changes to micro-lending have been implemented since 2014. The number non-banking microfinance lenders operating in Egypt has risen considerably to 1 012 by mid-2023, the large majority of which are NGOs.

In 2017, the Micro, Small and Medium Enterprises Development Agency (MSMEDA) was established under the Prime Minister to replace the Social Fund for Development founded in 1991 to continue to support micro and small firms. Law 152/2020 on MSMEs which for the first time formally defined micro, small and medium enterprises, came into force in April 2021, with a view to better apportion financial support and define appropriate tax and non-tax incentives, and establishes the frame for MSMEDA's work.

MSMEDA runs a national MSME and entrepreneurship development programme, within the remit of Egypt Vision 2030, to foster a culture of entrepreneurship and research, creativity, and innovation, and to co-ordinate public and private stakeholders, including international and regional donors. The organisation operates through a network of 33 branch offices covering all governorates and comprising One-Stop-Shop Units, besides partnership with intermediaries (close to 680 NGOs and about 1 900 bank branches), and community development partners. Its outreach includes potential entrepreneurs, as well as existing enterprises that aim to expand; the unemployed; young graduates from technical, vocational and higher education; unskilled and semi-skilled youth. MSMEDA's programmes aim to be socially inclusive and have a special focus on youth and women, and marginalised and vulnerable groups (female-headed households, disabled-owned MSMEs, poor families).

MSMEDA provides both financial and non-financial services, through soft loans to small firms, but mainly by lending to microfinance projects. In addition, it provides venture capital and participates in VC institutions, such as accelerators, VC and SME funds. Non-banking finance includes financial leasing to allow clients to purchase fixed assets, and factoring for short-term needs. The Agency has supported some 3.8 million MSMEs since its establishment. It is also leading Egypt's National Strategy for the Development of Organic Clusters 2019-30.

Collectively, microfinance providers, both banks and non-banks, had lent EGP 64.6 billion to 4.5 million beneficiaries by June 2022 (up from 2 million clients in June 2016). Outstanding microfinancing balances were EGP 33 billion (USD 1.8 billion) at end-June 2022. The largest share of microfinancing is directed towards small commercial businesses, followed by agriculture, services and industry. Women represent 62% of beneficiaries. The quality of the microfinance portfolio was affected by the Covid-19 crisis: the ratio of loans past-due date for more than 30 days rose from 3.4% of the total in FY 2020 to 21.9% in FY 2021.

Source: CBE, MSMEDA, OECD, World Bank.

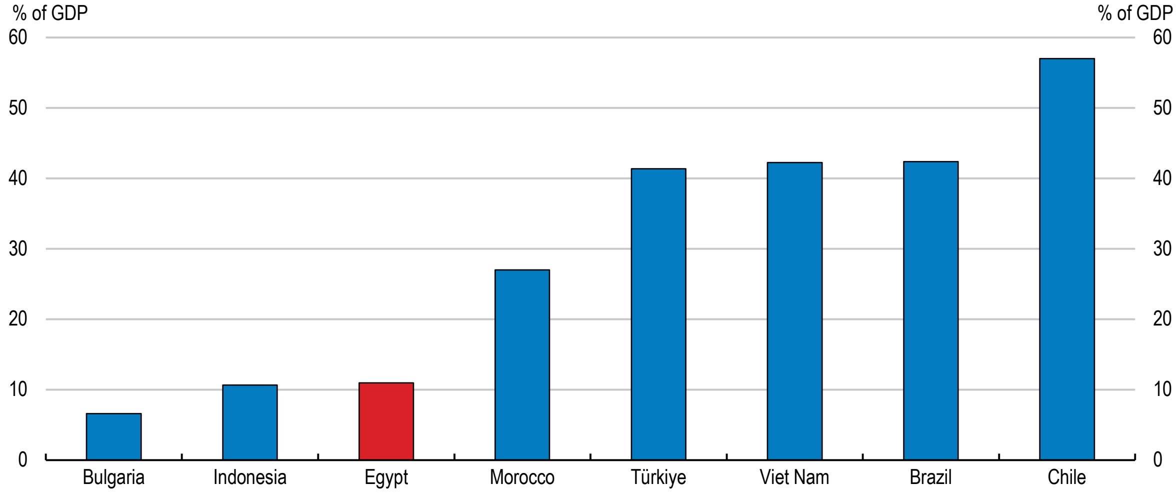
Alternative sources of funding include venture funds and business angels that can provide longer-term finance, and the capacity to give management advice. However, most venture capital (VC) and other equity funds are small and hampered by complex rules for taxation, ownership and exit, which is preventing the sector from expanding, and limiting alternative financing sources for new and growing firms. To support the VC industry, the authorities should ease ownership restrictions and facilitate exit, including through the stock market, to support Egypt's budding venture capital sector, and continue with public-private partnerships to support VC funding (Egypt Ventures, 2023).

The Egyptian Stock Exchange is comparatively small (Figure 20), and most of the listed firms are domestic. Attempts to revive the small-caps NILEX exchange (renamed *Tamayoz*) to deepen Egypt's capital markets, have so far failed to yield meaningful results. Strict ownership and licensing rules also apply in non-bank financial services, limiting the attractiveness of making acquisitions in the Egyptian Stock Exchange (EGX). There is hardly any trading of corporate bonds. The EGX should continue to expand its products and diversify its range of instruments available to Egyptian firms, in particular for market-ready SMEs. Project 1.4. under the OECD Egypt Country Programme with the OECD Centre for Enterprise is working with the authorities to further enhance Egypt's SME policies, including access to finance, fintech and digitalisation.

To further support access to finance for small and growing firms, Egypt could make greater use of Fintech, as recommended by the *2022 Updated G20/OECD High-Level Principles on SME Financing* (OECD, 2022a). Egypt has a budding Fintech industry and uses regulatory sandboxes to encourage start-ups, with the second cohort underway in 2023. Sandboxes have been used with success in places such as the United Kingdom and in Singapore to launch financial start-ups without their having to fully comply with heavy macroprudential regulatory frameworks (OECD, 2019d). New regulations for Fintech institutions from June 2023 impose similar capital adequacy levels as for fully fledged banks, possibly stifling new initiatives. In March 2023, the EGX launched the first centre to support innovative Fintech solutions for non-banking activities named "CORBEH", in partnership with the Financial Regulatory Authority, one of several initiatives to incubate new non-bank financial service technologies. A new Fintech Law from 2022 regulates the use of platforms and aims to facilitate electronic commerce. However, it falls short of opening up the market by not also allowing full open data access and interoperability.

Figure 20. The stock market is shallow

Stock market capitalisation, 2022



Note: Data refer to the calendar year for all countries.
Source: CEIC.

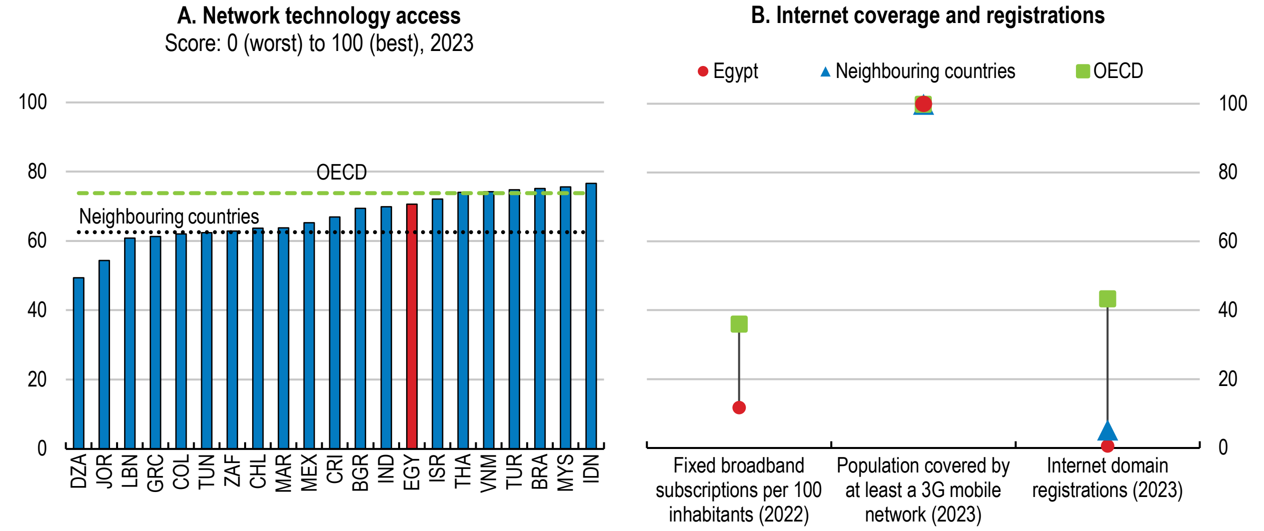
To stimulate competition and increase market access for prospective Fintech institutions, Egypt could implement a fully-fledged open banking approach such as first implemented with success in the United Kingdom and Australia. Open Banking stimulates competition in financial services by allowing new financial service providers to gain access to vital consumer data on the one hand, and for consumers to switch bank accounts and access new services, on the other (OECD, 2019d). It would help newcomers challenge incumbent banks, notably in payment services. While, initially, Fintech institutions may not directly provide new sources of finance, they can help small businesses identify and accede to financial services. The advent of Fintech has also stimulated competition and improved and broadened banking services in the United Kingdom and Europe, ultimately supporting better access to finance and financial services (Land and Roberts, 2021; OECD, 2019d). This could also help Egypt leapfrog banking sector development and spur innovation. To work, however, Fintech also requires fast, reliable and nation-wide broadband services, and trust in digital payments systems (Arezki et al., 2019).

Promoting digital diffusion to support private sector expansion

Accelerating Egypt's digital transformation is crucial for achieving strong and sustainable economic growth, with the information and communications technology (ICT) sector being a priority area in the government's NSRP. ICT contributes to the industrial development of the country, which in turn requires skilled and productive human resources to grow (OECD, 2024, Chapter 4). Successful adoption of digital technologies hinges on two key factors: capabilities and incentives. Capabilities include managerial and technical skills (OECD, 2024, Chapter 4), while incentives involve a competitive business environment. These factors exhibit strong complementarities (Andrews, Nicoletti and Timiliotis, 2018).

Egypt has made progress with respect to several digital development indicators, and network technology access is better than in several neighbouring countries (Figure 21). 4G coverage is around 98%, one of the highest in Africa, but broadband penetration rates remain low. The rural-urban divide is high with 23 percentage points more households in cities having at least low-speed broadband access, compared with just 4 percentage points for rural-urban split in the OECD. Businesses in particular lag behind. Firms in Egypt have only a small internet presence, with few internet domain registrations (Figure 21, Panel B). Trade in digitally-deliverable services constitutes only some 15% of commercial services in Egypt, versus 38% in the OECD on average (OECD, 2023e). International trade in ICT goods and services, another objective outlined in the NSRP, accounts for 5% of total trade, as against 12% OECD-wide, and 26% for China (OECD, 2023e), although digital services exports have been expanding in recent years. The slow diffusion of digital technologies may be attributed to entry and expansion barriers that impede competition across product markets (Arezki et al., 2018).

Figure 21. Mobile broadband penetration is low



Note: In Panel B, fixed broadband subscriptions refer to all subscriptions regardless of price, contracted or realised connection speed and are sourced from OECD Going Digital Toolkit. 3G mobile network coverage refers to the share of inhabitants living within the range of at least a 3G mobile-cellular signal, irrespective of whether or not they are subscribers. The Internet domain registrations indicator measures the production of Internet content and refers to two types of top-level domains: generic top-level domains and country-code top-level domains.
Source: The Network Readiness Index 2023; and The OECD Going Digital Toolkit, based on the OECD Broadband Portal.

The authorities are seeking to accelerate Egypt's digital transformation. The three-pillar Digital Egypt programme, a part of the updated *Vision 2030* strategy, aims to expedite the country's digital transition seen as the key enabler to achieve the *Vision 2030* objectives of sustainable development. The digital transformation pillar aims for a digital and data-driven environment, facilitating faster and simpler public service delivery. This includes building a national information infrastructure as well as data centres for secure data storage across the country. In 2019-20, Egypt invested around USD 1.9 billion in developing the ICT infrastructure. The government is digitising its services, resulting in computer usage and internet adoption among government and public sector entities now surpassing those in the business sector (99.9% and 95.3%, compared with 82.5% and 65.7%, respectively) (World Bank, 2021). The Digital Egypt platform was launched in July 2022. By end-year, it had over 7.5 million users and more than 170 government services had been launched on the platform, covering law enforcement, notarisation, personal status, agriculture and investment. The number of e-signature transactions rose by 142% in 2022, to 375 million. A proposed amendment as part of the 22 measures announced in May to facilitate investment aimed at further simplifying the use of e-signatures, but the amendment was rejected by the Ministry of Justice (Table A.1). Egypt's ranking in the Network Readiness Index for 2022 improved, to 73rd position out of 131 countries (Portulans Institute, 2022).

As part of the *Hayat Karima* (Decent Life) programme, the Ministry of Communications and Information Technology is deploying fibre-optic networks in 4 500 villages, ensuring reliable internet access for 58% of Egypt's population, through a mandate to Telecom Egypt. Furthermore, it is expanding mobile telecommunications networks and enabling Egypt Post to deliver local digital services. To facilitate the efficient rollout, it has expedited the process of issuing permits for building cell towers for mobile operators to enhance 4G services. It is also allocating new frequencies to improve network coverage and the quality of communication services.

However, barriers to entry remain in the telecommunication sector. In the past few years, the sector has registered high growth rates both in terms of revenues and subscribers in the mobile and Internet markets, whereas the fixed line segment has experienced slower growth, which may be a result of the dominant position of the incumbent, part-state-owned Telecom Egypt, which owns the legacy fixed-line infrastructure. The market is open to competition at the service level, however. The National Telecommunications Regulatory Authority (NTRA) issued three integrated licences for fixed virtual network operators in 2016 to the existing mobile network operators. The three operators are operational and offer their services to consumers. Telecom Egypt has started to deploy fibre-optics to replace copper lines and improve the quality of internet services, but the high cost makes it uneconomical to roll them out in poorer neighbourhoods. The high infrastructure cost means that private operators struggle to provide the last-mile network owing to difficulties in recuperating the cost, limiting quality especially in city centres. This is partly because tariffs are capped by the NTRA, and operators need to apply to the NTRA for new tariffs. New communities and the New Administrative Capital will however receive fibre-optics from the outset. International call services are routed through Telecom Egypt, despite the presence of four mobile network operators in the country (WE (owned by Telecom Egypt), Vodafone (40% of which is owned by Telecom Egypt), Orange and Etisalat).

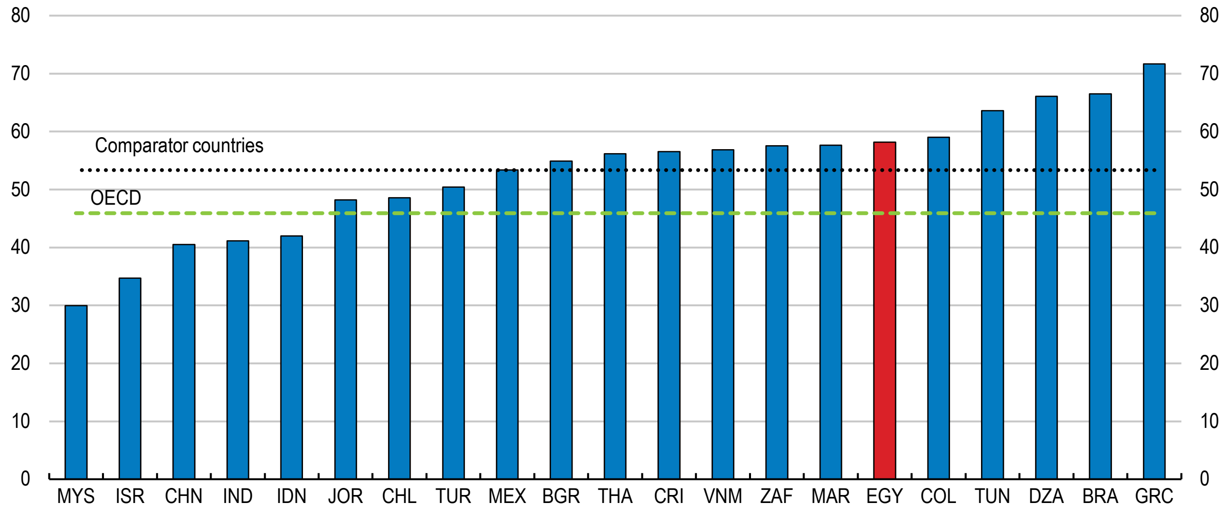
The Minister of Communications and Information Technology appoints the CEO of Telecom Egypt, as well as the head of the NTRA, and the head of the Information Technology Industry Development Agency, which oversees Egypt's digital development. The licensing of communication services and network deployment activities are regulated by the NTRA. Competing operators pay both access and annual fees to the NTRA, potentially limiting entry. A further 10% stake of Telecom Egypt was sold in mid-2023, but the company is yet to be fully restructured. Its retail and network business could be separated, as happened for the privatised telecommunications incumbent in Australia, Telstra, to promote competition in the fixed-line retail sectors (OECD, 2016c).

Digital Egypt's second pillar focuses on digital skills and jobs, to develop citizens' capabilities and expand the skills pool within the ICT industry, including training programmes in co-operation with major technology companies and global universities, targeting different segments of society, including students, professionals, women, persons with disabilities, and young people. Digital skills are essential to innovation, competitiveness and development of the digital economy and training young people in these much-needed skills can contribute to reduce youth unemployment (OECD, 2024, Chapter 4). However, Egypt needs to step up efforts to increase the supply of digital skills in line with rising digital needs, and the large number of youths in the population. To benefit from the digital economy, the development of intermediary and advanced digital skills needs to be further scaled up (OECD, 2024, Chapter 4). The ICT strategy also includes digital literacy programmes.

Digital Egypt's third pillar focuses on entrepreneurship, research and development, and ICT-based innovation. Collaboration among various stakeholders, including the government, academic and research institutions, financial institutions, the private sector, entrepreneurs, and support networks, will be instrumental in driving sector growth and positioning Egypt as a regional innovation hub, taking advantage of agglomeration effects to create clusters (Badr et al., 2018). However, Egypt's regulatory framework is not well adapted to digital business models (Figure 22). For instance, it limits opportunities for digital start-ups: digital platforms need a licence from the Supreme Council of Media. Moreover, according to the Media Licensing Regulation, only the state can own companies carrying out any business activity related to creating digital or satellite platforms, and they must hold a minimum authorised capital of EGP 50 million (Soliman et al., 2023). Lifting the state-ownership requirement for digital platforms would help stimulate activity in the sector, as would lowering the minimum capital requirement. The market for digital services should be fully liberalised.

Figure 22. Legal framework adaptability to digital business models

Scale from 0 (not burdensome at all) to 100 (extremely burdensome), higher score corresponds to a poorer outcome



Source: World Economic Forum (2019), Global Competitiveness Index 4.0.

Finally, the Ministry of Communications and Information Technology seeks to foster an ecosystem that encourages entrepreneurship and spurs creativity and to promote R&D, innovation, and entrepreneurship in the field of ICT, to support sustainable national development and position Egypt as a regional innovation hub, in line with NSRP objectives. With over 560 active tech start-ups, Egypt has the fourth-largest eco-system in Africa by number of companies, behind South Africa, Nigeria, and Kenya (ITIDA, 2021). Egyptian tech start-ups attracted investment and financing deals for USD 600 million in 2022. Start-up activity is concentrated in Cairo, which ranks second in Africa and fifth in the Middle East as a start-up ecosystem. In 2023, MNT-Halan, a microfinance lending and payment platform, reached unicorn status, the first such case in Egypt. To further boost its ecosystem for startups, Egypt should continue to work on expanding its physical infrastructure, and pursue regulatory improvement, to allow for the growth acceleration of young and small firms (StartupBlink, 2023).

Policy recommendations to support a better business climate

Main findings	Recommendations (key ones in bold)
Unleashing market forces to promote private sector expansion	
High regulatory barriers stifle the opening and operation of businesses, and the overall burden of licensing imposed on firms is high.	**Streamline licensing procedures for new and operational licences. Introduce the "silence is consent" principle for business registration.** Fully implement the Industrial Permits Act at the local level.
Regulatory quality is perceived to be low, hampering private sector development. ERRADA, the government agency carrying out regulatory impact assessment, only has the capacity to carry out qualitative and superficial regulatory impact assessments and lacks teeth.	Systematically conduct regulatory impact assessment of new legislation. Grant ERRADA a mandate and resources to do quantitative assessments. Undertake a competition assessment of sector regulations, in particular in manufacturing, agriculture and ICT.
The judiciary has a high case load and backlog, and judiciary efficiency is perceived to be low.	Increase the funding of economic courts to improve their IT infrastructure and increase their resources, such as administrative staff.
Perceptions of corruption are high, affecting investor confidence. The 2018 Public Procurement Law does not apply to state-owned enterprises (SOEs) and allows direct awards for non-civil firms.	**Fully implement the 2018 Public Procurement Law, and strictly limit exemptions for SOEs and direct awards for non-civil firms.**
The Egyptian Competition Authority (ECA) is highly active, but lacks sufficient resources, as well as institutional independence. The ECA cannot impose fines but must refer matters to court for prosecution. This creates uncertainty on the final outcome, and may make deterrence less effective.	Increase the institutional independence of the ECA and ensure it has more budget and staff resources. Grant the ECA powers to issue administrative fines, and only refer criminal matters to courts.
Increasing competitive pressures through trade and foreign investment	
Egypt is not well integrated into global value chains. Tariff and regulatory barriers to imports are high.	**Lower, simplify and streamline tariffs.** **Eliminate routine requirements to obtain pre-export authorisations for products exported to Egypt that meet domestic standards**.
Barriers to FDI remain, notably ownership restrictions in some sectors and activities, such as civil aviation or tourism transportation.	Lift remaining barriers to foreign investment, notably in tourism transport, to support inward investment.
No single entity is clearly mandated with planning and designing investment policy.	**Consolidate investment policy in a single entity with powers to design and execute investment policy and provide the General Authority for Investment (GAFI) with sufficient resources to act effectively as Egypt's investment promotion agency.**
The corporate tax system is subject to numerous exemptions. Overlapping legal texts increase the risk that incentives fail to attract more foreign investment.	**Consolidate tax incentives into a single law under the Ministry of Finance.** **Tax incentives should be reviewed regularly to verify that they remain aligned with objectives.**
Reducing the state footprint to support competitive markets	
State-owned enterprises dominate network sectors and compete with private firms in services, manufacturing, and agriculture. Network industries are heavily regulated, and the state plays a large role as both owner and regulator.	Implement the announced divestment programme in full, and over time continue to sell firms that do not operate in strategic activities (such as national defence). Implement structural separation, and adhere strictly to the principles of competitive neutrality, in particular by separating the functions of regulator and operator in network industries.
The privatisation process requires great clarity as to the objectives of the sales, the preferred method of privatising and the role of the state.	**Increase transparency in the choice of firms to be sold, the sequencing of sales, the valuations of assets, and the future role of the state.**
The state will likely remain a significant player in the economy.	**Fully adhere to and implement the principles of competitive neutrality across all state entities and transactions.**
The state footprint is large, with SOEs operating across most sectors of the economy. The full extent of the SOE sector is not known, and ownership is dispersed across numerous ministries, while financial transparency is lacking.	**Fully execute the announced divestment programme with a clear timeline. Regularly publish a list of all SOEs and their ownership, and increase financial transparency.**
Improve access to finance to support better resource allocation	
Alternative sources of funding for firms need further development. Rules on taxation, ownership and exit, are preventing venture capital firms from expanding. Fintechs could help facilitate access to finance by improving services and helping consumers make better choices.	Lift strict ownership rules to allow the venture capital industry to expand further. Implement Open Banking regulations to spur competition in the banking sector.
Promoting digital diffusion to support private sector expansion	
Egypt still lags behind on a number of digital development indicators. Slow diffusion may be related to barriers to entry and expansion, such as the monopoly of Telecom Egypt over certain national services.	Impose structural separation of retail services on Telecom Egypt, and encourage private investment in fibre-optics.
Digital platform service activities are heavily regulated, requiring state ownership as well as licensing by the Supreme Council of Media.	Revoke the rule stipulating state-ownership, and replace licensing of digital platforms with registration.

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Annexe A.

Table A.1. The 22 measures to stimulate investment announced in May 2023, and their progress

Measure	Progress
Amending the Investment Law to facilitate the establishment of companies in private free zones and expand their activities to include services and IT.	Done
Amending the Investment Law to allow licensing for industrial projects with a high content of natural gas to operate under the free zones system.	Done
New decision limiting the response time for security checks on foreign stakeholders to 10 working days. Absent a response, approval should be considered as granted.	Done
Launching an e-platform for establishing, operating, and liquidating projects via GAFI, in co-operation with all concerned parties.	Done
Amendments to the Electronic Signature Law to reduce bureaucracy and simplify procedures were announced but the Ministry of Justice noted that the current electronic signature law and its executive regulations effectively meet all objectives. GAFI and the Real Estate Authority agreed to simplify the use of e-signatures in their procedures.	Previous measure remains in place. Electronic signature authorised for company establishment services.
Allowing non-Egyptians to own built real estate and vacant lands for residential purposes, provided that the price is paid in foreign currency with a transfer from abroad, and in accordance with the controls issued by the Central Bank of Egypt.	Done
Expanding the issuance of the single approval license also known as the "Golden Licence" to more activities and different legal forms of new and existing companies.	Done
The Cabinet will study the setting up of independent sector regulators for utilities (telecom, electricity, transportation, water and wastewater), removing them from ministerial supervision to guarantee their independence, and the separation of ownership from management in a number of sectors.	In progress
Revoking preferential treatment to state-owned enterprises and entities. A law was issued in July cancelling exemptions from taxes and fees for state owned entities in investment and economic activities. However, the law is open for interpretation as exemptions remain for some “strategic firms”.	Done, but caveats remain
Establishing a permanent unit at Cabinet headed by the CEO of GAFI, to set appropriate policies, laws and regulations for start-up companies in Egypt, as well as receiving complaints from start-up companies in co-ordination with the Investors’ Problem-Solving Unit in the Cabinet and developing appropriate solutions for each in co-ordination with the competent authorities.	Done
Improving governance and transparency with respect to public procurement, tax exemptions, sovereign guarantees and profit distribution of SOEs. The Ministry of Finance and the Health Unified Procurement Authority have started implementation.	In progress
Amending the Importers’ Registry Law to allow foreign corporate importers to be registered in the importers register for a period of up to ten years with an option to extend for another ten years subject to Cabinet approval.	Done
Any decision, regulation, law or decree which adds a financial or procedural burden on firms, related to the establishment or operation of projects subject to the provisions of the Investment Law, or imposes fees or charges for services related to the Investment Law, can only be accepted after the joint approval of GAFI Board, Cabinet and the Supreme Council for Investment.	Done
The Ministry of Finance is mandated to implement an automated clearing system between dues to investors and any tax or other payments they need to make to public entities, with a 45-day limit on reimbursing VAT and expediting procedures.	In progress
Expediting the announcement of a new five-year tax policy document to help reduce the instability in tax legislation and moving away from multiple authorities charging additional fees. The Ministry of Finance has engaged a consulting office to prepare a tax policy document which will be put out for stakeholder consultation.	In progress
A decision mandating the Ministry of Justice to expedite drafting a law regulating profit transfer to holding companies and affiliate companies to avoid double taxation.	In progress
Assigning the Ministry of Justice to make legislative changes raising the threshold value for the competence of economic and partial courts, and expanding the scope of their substantive jurisdiction to resolve commercial disputes, while raising the quorum for non-appeal.	In progress

Assigning the Ministry of Justice to set a specific time limit for disbursing compensation to investors in cases of expropriation, not exceeding three months, while obligating the administrative authorities to intensify negotiations with investors on appropriate compensation.	Order executed
Formally tasking the IFC to contract an international consultant to lay out a coordinated strategic vision for investment in Egypt and mechanisms to improve Egypt's ranking in the Ease of Doing Business in the coming years to raise investment rates to a range of 25%-30% of GDP.	In progress
Studying the amendment of articles of the Special Economic Zones Law 83/2005 which governs the Suez Canal Economic Zone to grant new incentives and further exemptions to economic zones.	In progress
Obliging all state agencies to issue the necessary licences within 20 working days, with facilities to simplify licenses for industrial projects and renewal of licenses for five years, instead of one year previously.	Done
Approving a package of incentives for a number of sectors and projects, including agriculture, industry and energy (green hydrogen), housing (real estate development and investment projects in new cities) and transportation (related to export fees and customs, among other measures).	Done
Granting further incentives and facilities to real-estate developers and investment projects (real estate, agricultural, industrial, tourism) in the new cities.	Done
Granting new incentives to green hydrogen projects.	In progress
Amending the Investment Law to grant new incentives and facilities, including extending the time during which incentives are in force. Incentives include exemptions from stamp duty, and cash payments of between 35% and 55% of the value of the tax paid on the income generated from the investment project, provided the project is funded with foreign exchange for at least 50%.	Done

Source: Government of Egypt; elaborations by the Secretariat.