

Egypt Private Sector Country Profile

2009



African Development Bank

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Foreword

The African Development Bank (AfDB) Group aims to become the “Premier Knowledge Bank for Africa,” cementing its role as a leading change agent for sustainable socio-economic development to the continent. Recognizing the importance of generating, mobilizing, sharing, and applying knowledge, the Bank is continuously strengthening its analytical capacity, building partnerships, and developing collaborations with universities, think-tanks, and relevant external institutions. Through enhanced knowledge dissemination and sharing, the Bank also aims at strengthening its operational and development effectiveness.

As part of this process and to support one of the leading private sector reformers in Africa, the AfDB prepared in 2005 a first “Private Sector Country Profile” for Egypt. The report reviewed the country’s progress in terms of macroeconomic performance, government policies and support to private sector growth. The report also took stock of the support from international agencies with a close look at AfDB activities and provided an analysis of the private sector’s prospects for the future. The report, in concluding, outlined a strategy to support private sector development, in terms of technical assistance and financial support.

Four years later, with the fast development of Egypt’s economy it became necessary to revisit our analysis. This report--“2009 - Private Sector Country Profile”--thus provides an update on the developments since 2005. It takes into account important economic and financial changes that have occurred in Egypt, including the impact of the 2008/2009 global financial and economic crisis. The report highlights the numerous progresses made as well as the challenges facing the country in the coming years.

We believe that the report will provide entrepreneurs, investors and decision and policy makers with comprehensive information on the Egyptian economy, the business climate, current economic reforms and the private sector itself. We are confident that this report will assist decision makers in refining their private sector development strategy and make an effective and useful contribution to the Egyptian economy.

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Preface

Private sector development in Africa is an important element of economic development and an engine for strong and sustained growth, employment creation and poverty reduction. In this spirit, the government of Egypt, has since 2004, intensified the economic reforms started in the 1970s. Considered as one of the world's top private sector reformers, the country has significantly improved its business climate in recent years. Such efforts have resulted in private sector led economic growth stimulated by a sharp rise in foreign direct investments. In turn, Egypt has experienced robust economic growth over the last decade with an increasing contribution of the private sector.

The 2009 Private Sector Profile on Egypt provides a snapshot of the country's private sector activities in recent years including a liberalized and stable foreign exchange regime; lowering and simplification of external tariffs and taxes. The country has further continued the privatization of public enterprises, eased business procedures and established an open policy towards private investments in infrastructure. As a result of these changes, the private sector in Egypt is increasingly diversified -

which has helped Egypt to weather the worst ramification of the 2008-2009 financial crisis.

The report also cautions that further growth of the private sector is contingent on the removal of several obstacles including streamlining bureaucracy and minimizing judicial bottlenecks. Furthermore, the lack of access to finance by small and micro-enterprises and for the development of public-private partnerships in addition to the lack of skilled workers and professionals is limiting the ability of the private sector to expand further.

In this regard, the report provides suggestions in terms of the role that the donor community can play for the country to overcome these challenges. The report further illustrates the need for a clearly defined global strategy to support the business environment.

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List of acronyms

AfDB	African Development Bank
ACDIMA	Arab Company for Drug Industries & Medical Appliance
AMOC	Alexandria Mineral oil Company
ATM	Automatic Telling Machines
BOT	Build, Operate, Transfer
BOOT	Build, Own, Operate, Transfer
BSAC	Business and Analysis Centre
CBE	Central Bank of Egypt
CAA	Central Auditing Agency
CAI	Cairo International Airport
CASE	Cairo & Alexandria Stock Exchange
CAPMAS	Central Agency for Public Mobilization and Statistics
CGC	Credit Guarantee Company for Small and Medium Enterprises
CIB	Commercial International Bank
CIDA	Canadian Development Agency
CDPF	Canadian Developing Programming Framework
CMA	Capital Market Authority
CMO	Cairo Metro Organization
COMESA	Common Market for Eastern and Southern Africa
ECC	Egyptian Cement Company
ECHEM	Egyptian Petrochemical Holding Company
EDB	Export Development Bank
EEHC	Egyptian Electricity Holding Company
EFSA	Egyptian Financial Supervisory Authority
EGPC	Egyptian General Petroleum Corporation
ESBC	Egyptian Small Business Centres
EGAS	Egyptian Natural Gas Holding Company
EID	Egyptian Institute of Directors
EIP	Egyptian Investment Portal
EIPICO	Egyptian International Pharmaceutical Industries Company
ECES	Egyptian Center for Economic Studies
EDF	Electricité de France
EGP	Egyptian Pound
ERF	Economic Research Forum
EOS	Egyptian Organization for Standardization and Quality Control
FDI	Foreign Direct Investment
GAFI	General Authority for Investments and Free Zones
GATT	General Agreement on Tariffs and Trade
G & S	Goods & Services

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GOE	Government of Egypt
GOIEC	General Organization for Import and Export Control
GOFI	General Organization for Industrialization
GDF	Gaz de France
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GST	General Sales Tax
GUPCO	Gulf of Suez Petroleum Corporation
GTL	Gas to Liquid
HEIA	Horticultural Export Improvement Association
ICT	Information and Communication Technology
IFC	International Finance Corporation
ILO	International Labour Organization
IMP	Industrial Modernization Program
IPO	Initial Public Offering
ITC	Industrial Technology Centre
LNG	Liquefied Natural Gas
MFI	Micro Finance Institution
MOI	Ministry of Investment
MPC	Monitoring Policy Committee
MTI	Ministry of Trade and Industry
MCIT	Ministry of Communication and Information Technology
NBE	National Bank of Egypt
NGO	Non Governmental Organization
NGL	Natural Gas Liquids
NAT	National Authority for Tunnels
NSGB	National Société Générale Bank
NTRA	National Telecom Regulatory Authority
OCI	Orascom Construction Industries
OTC	Over The Counter
PAFTA	Pan Arab Free Trade Area
QIZ	Qualified Investment Zones
RTGS	Real Time Gross Settlement
SEDICO	South Egypt Drug Industry Company
SFD	Social Fund for Development
SIDPEC	Sidi Kerir Petrochemical Company
SIS	State Information Service
SME	Small and Medium Enterprises
SSH	Sharm El Sheik Airport
TB	Treasury Bill
TCF	Trillion Cubic feet
TFR	Total Fertility Rate
TRIPS	Treaty for Intellectual Rights Protection System
UNIDO	United Nations Industrial Development Organization
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organization

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Introduction

Private sector development is an essential component of economic development and an engine of growth. Egypt has seen major developments in this field in the early nineties, but especially in mid-2004 when a new cabinet was appointed and major reforms launched.

A first Private Sector Country Profile was prepared in 2005, with some data updated in early 2006. Four years later, it is essential to review and update the previous report to reflect important changes that occurred in the country, including the 2008/2009 global economic crisis which has also affected the country. The document is not only a snapshot of the country's private sector activities in 2008/2009. It highlights some changes that have occurred since 2005, especially progress made and delays, the impact of the global

economic crisis as well as challenges the country will face in the coming years.

The report's conclusions do not necessarily reflect the AfDB's position. The main objective of the document is to outline a coherent, independent strategy proposal to foster private-sector growth, both in terms of technical assistance and financial support.

This document can be used as a structuring tool to support and improve dialogue with Egyptian authorities on current economic reforms and proposed programs to develop and help modernize the private sector. It offers the opportunity to coordinate with other international institutions that are supporting and financing the development of private sector programs.

Executive Summary and Conclusions

1 Background

Egypt's economic reform program started some thirty years ago, but it only recently caught the attention of international observers following significant improvements in the business climate, a rise in the country's growth, a reduction in inflation and budget deficit, as well as improvements in its financial and foreign currency stability.

While private sector investments in Egypt amounted to only 47% of total investments in 2003/2004, they reached 65% in 2007/2008, reflecting the government's commitment to facilitate private-sector participation and local entrepreneurship. Private entrepreneurship and public-private partnerships constitute one of the government's most important priorities as it encourages the private sector to invest in non-traditional areas, especially in financial services and infrastructure development.

Until 2004, Foreign Direct Investments (FDIs) mainly focused on a few sectors, especially the oil and gas sector. Over the last years, investments in the country's manufacturing industry have attracted foreign investors and the manufacturing sector's share in FDIs has increased significantly. Over the last five years, FDIs have increased, reflecting the increased confidence in the country's business environment. They have increased from a low USD 407 million in 2003/2004 to over USD 13 billion in 2007/2008. Investments from EU countries registered the highest growth, reaching USD 5.1 billion in the same year. Though foreign investments have been affected by the global economic crisis, the country's outlook remains

buoyant as its economy and banking sector have been resilient in the face of the global financial crisis.

The Egyptian government's policy has, over the last years, been to support the private sector's development and growth as it is expected to be the main generator of real jobs. The Egyptian government now considers unemployment as a top priority. It is trying to remove all obstacles to efforts by the private sector and to provide incentives to local and international investors in order for them to increase and expand investments in Egypt, now considered a social and political priority.

2 Private Sector

Today, there are about 2.5 million private businesses in Egypt, most of them small or micro (probably 90%). In addition to foreign multinationals which are heavily investing in the oil and gas, manufacturing, tourism and financial sectors, there are a number of large and efficient Egyptian firms in all sectors of the economy quoted on the Stock Exchange or are family-owned. On-going privatization will rapidly enlarge this top group of competitive Egyptian companies.

What is often called the "private sector" is not an economic sector per se, as private activities are conducted in all sectors of the economy. This report tries to capture the economy's private face.

3 A Positive and Improving Business Climate

Important changes have been made to the business environment and these changes have been

welcomed by businesspeople. The most important of these changes include:

- the liberalized and stabilized foreign exchange regime;
- inflation management;
- the lowering and simplification of the external tariffs.
- the significant lowering and simplification of taxes
- the privatization of public corporations, banks and insurance companies (under preparation)
- the easing of bureaucratic procedures when registering a business (creation of efficient one-stop shops).
- the open policy towards private investments in infrastructure.

This has been recognized by the World Bank “Doing Business” where Egypt has significantly improved its ranking and has been nominated as one of the top reforming countries, four years in a row.

4 Private Sector Growth and Obstacles to Growth

The private sector is diversified and the private sector’s growth will come from a number of sources:

➤ Private Companies

There are few large private Egyptian companies, the largest being Orascom Group companies operating in the tourism,, construction and telecommunications sectors (some of these companies have recently been sold to international investors - cement to Lafarge and Mobinil to Orange). While international banks have been operating in the Egyptian market for a number of years under joint venture arrangements, they are now growing rapidly after their acquisition of stakes formerly owned by public banks. International companies are also present in the insurance sector. Finally, international oil companies have been very

active in oil and gas exploration for a number of years and, more recently, in oil and gas processing and transport.

➤ Privatizations

The government’s current policy is to privatize sectors which were, until a few years ago, closed to foreign investors such as telecommunications, oil, petrochemicals, fertilizers, banking and insurance. This move, which is already well underway, will create new champions capable of competing in international markets. The global financial crisis has impacted this move, but it seems that it will re-start as soon as the global financial situation improves.

➤ The Egyptian Stock Market

The Egyptian stock market has witnessed significant growth (and a bubble) in May 2008 followed by a serious correction. Trading activities have, at some point, exceeded EGP 1.8 billion per day. Many private sector companies were able to obtain financing for their expansion through the Egyptian capital market and this resulted in some privatizations. Egypt is becoming an attractive investment destination to Arab and international investors and institutions. The strong corrective measures carried out in May 2008 have been seen by professionals as necessary, bringing prices more in line with fundamentals. The market returned to growth in 2009.

➤ New Regulations and Laws for Micro-finance

Although micro-finance serves very small and artisanal activities, in addition to poor people, it has been recognized as an important source of seed capital and development money for micro-entrepreneurs. A new law and regulations under discussion in Parliament (to be adopted by February 2010) will make it possible to probably double the sector’s size in the coming years.

➤ Investments and Foreign Investments

The jump in private sector investments already noted in the previous report, particularly in the manufacturing sector, has again accelerated. It is an indication of the strong confidence the Egyptian business community and foreign investors have. Similarly, FDIs which were very low in 2003/04 have been booming since 2004, and the strong positive trend is continuing despite a setback in early 2009 due to the global financial crisis.

➤ SME Growth

Small- and Medium-sized Enterprises (SMEs) are a major growth reservoir for the private sector. An SME law (No. 84/2004) has been enacted to improve support to the development of SMEs. Major banks - public and private - have recognized their role and are now creating departments to address the specific financing needs of SMEs. Some of them such as Banque du Caire, Banque Misr and Bank of Alexandria are even creating micro-finance departments). This will certainly help stimulate businesses which have, so far, been deprived of financing. The Social Fund for Development and IMC also contribute to fostering the growth of SMEs through their various support programs. Finally, the new law on non-bank financial services will open the non-bank financial sectors to new entrants, particularly in the micro-finance sector.

➤ Private Investments in the Infrastructure and Power sectors

In future, Egyptian and foreign private investments in infrastructure such as ports, airports, power, schools and hospitals are set to increase. New private sector projects (under various types of contracting) are under way. This will enable the construction of efficient facilities and it will also stimulate the growth of indirect private activities for tasks such as maintenance, security, etc.

However, there are still a number of obstacles to stronger growth in the private sector:

- Bureaucracy and red tape constitute major impediments often cited by businesspeople. The government will need to rapidly launch civil service reforms aimed at addressing salaries, skills and motivation issues.
- Judicial reforms, currently under way with the creation of commercial courts, need rapid implementation, as contract enforcements and other commercial litigations take a very long time to resolve.
- Access to finance is still a major problem for small- and micro-enterprises. Despite high liquidity, Egyptian banks still have difficulties serving small businesses. To cope with the large number of businesses in the country, an innovative approach is needed to jump-start financing. The processing capacity is certainly a major obstacle which would require significant training and innovative approaches. Credit bureaus covering both banks and non-bank financial institutions are a pre-requisite to speed up procedures and mitigate risks.
- Efforts at structuring financing and PPP operations are still in their infancy. Foreign financiers cannot currently participate due to lack of possibilities to borrow on the Egyptian capital market (above 10 years) and they lack tools to mitigate long-term foreign exchange risks. In addition, local experience in the operation of such structures is limited.
- Lack of skilled workers and professionals will certainly put a brake on the sector's growth. School and university curricula are not adapted to the needs of businesses. Incentives should be provided to promote this critical sector.

- In addition to business skills, Egypt's financial sector lacks professionals and the capacity to process financing packages and carry out innovations. This is not only true of the micro-finance sector which is expected to almost double over the next three years, but also of investment banks, investment funds, etc, which are rapidly developing. New entrants have been poaching existing institutions or have been trying to attract professionals from abroad. However, this initiative has limits.

5 Donor Support

Donors are already active in providing support to the private sector, be it to improve the business environment or to support business development. It should be noted that, if support has been provided, no global strategy has been clearly defined to promote the private sector. The two largest donors are USAID and the EU MEDA program. USAID has been supporting a number of reforms in all sectors of the economy (e.g.; strengthening capital markets; providing support to private practice and hospitals

in the health sector), but its most notable efforts are in the area of micro-finance where it has provided both funds and know-how. The EU has been supporting the Industrial Modernization Program which provides mostly technical assistance to manufacturing companies, with great focus on the textile sector. This program has also financed three equity funds. The EU and EIB have also been very active in providing support to efforts at restructuring the financial sector. These two donors, as well as many others, including the AfDB, are financing the Social Fund for Development. The IFC has been very active in supporting bank downscaling and in investing in funds. In terms of private infrastructure, the leading donors are the World Bank and the EIB. KfW and AFD have been focusing on environmental and infrastructure aspects.

It is worth mentioning that a new large Mediterranean Initiative (Mediterranean Business Development Initiative – MBDI) is on the drawing board as a result of the Mediterranean Union. If finalized, its objective will be to improve access to finance for SMEs and micro-entrepreneurs through various financial instruments under consideration.

1 Domestic Economy

1.1 General Information and Geographic, Demographic, Social and Environmental Data

1.1.1 Geographical Framework

Officially the Arab Republic of Egypt, Egypt is a country in north eastern Africa and south western Asia. Most of the country lies in Africa, but the easternmost portion of Egypt, the Sinai Peninsula, is usually considered as part of Asia. It forms the only land bridge between the two continents. Most of Egypt's land is desert, divided into two unequal parts by the Nile River. The Nile valley and delta are the main agricultural and habitation centres. The country's capital and largest city is Cairo.

Egypt (see map below) is bounded to the north by the Mediterranean Sea; to the east by the Gaza Strip, Israel, and the Red Sea. It is bound to the south by Sudan and in the west by Libya. The country has a maximum length, from north to south, of 1,105 km and a maximum width, near the southern border, of 1,129 km. It has a total land area of about 1 million sq km.

Less than one-tenth of Egypt's land area is settled or under cultivation. Arable land represents 2.85% of total land. This territory consists of the Nile valley and delta, a number of oases, and land along the Suez Canal, which connects the Mediterranean with the Gulf of Suez, in the Red Sea. More than 90 percent of the country consists of a vast desert plateau, interrupted by the Nile Valley and delta.

Egypt's main natural resources are oil and natural gas, with some small reserves of iron ore, phosphates, manganese, limestone, gypsum, talc, asbestos, lead and zinc. The country has desert-type climate, with hot and mostly dry summers and moderate winters. The mean average rainfall is 18 mm. The Mediterranean coast has cooler summers, with a maximum of 32°C on average.

1.1.2 Water Resources

The Nile River is Egypt's main water source. Under the 1959 Nile Waters Agreement between Egypt and Sudan, Egypt's share is 55.5 km³ /year. The 1959 agreement was based on the Nile's average flow during the 1900-1959 period which was 84 km³ /year at Aswan. The release from the Aswan High dam is a major input into the Nile system. Most of the water is used for agriculture, but more and more water is required for domestic and industrial use.

There are discussions under way to modify the respective share of water allocated to each country. In particular, upstream countries want more water. Neither Egypt nor Sudan is willing to change its allocation and this dispute will continue for a long time.

1.1.3 Arable Land

Farming in Egypt is confined to less than 3% of the country's total land mass. It is mainly concentrated in the Delta, in a narrow ribbon along the Nile, and a few oases. In an attempt to enlarge the productive area, large efforts have been undertaken to reclaim desert land and to develop new areas. This has required heavy investments eligible for specific incentives and policies which have not always been successful.

1.1.4 Demography

According to the 2006 census, the country's population is estimated at 72.7 million, 37% growth rate over the 1996 figure. In addition, there are about 3.5 million expatriates¹. As at August 2009, the country's total population, including expatriates, is estimated at over 80 million. The population's annual growth rate stands at 1.9%, which indicates a slight decline over the last ten years. The urban population growth, which was faster than overall population growth in the 70s and 80s, has now relatively stabilized to a level below the overall growth of the population² (2.4% during the 1970-1989 period as against 1.7% during the 1990-2003 period. The country's urban population is estimated at 42.6% of the total population. Almost one-third of the population is under 15 and around 50% under 45 while only 6.3% is above 60. Population density in non-desert areas is very high, about 870 inhabitants/square kilometre. The Greater Cairo Area, covering three governorates, is the largest African city and has over 20 million inhabitants.

1.1.5 Oil and Gas Resources

Oil and gas constitute major resources for the country's economy, accounting for over 50% of export revenues and 14.2% of GDP in 2008. The sector is one of the major sources of foreign exchange for the country, and has been one of the most attractive sectors for foreign investments in the past. More recently, investments over the last two to three years in the manufacturing sector which were about one-fourth of investments in the oil and gas sector, have reached the same level. This is testimony to the good diversification of the Egyptian economy. Egypt is currently a net oil exporter. Nevertheless, there are fears that in the near future,

Egypt may become an oil importer. However, with the discovery of new gas fields, Egypt is expected to become a major gas exporter.

Egyptian oil production comes mainly from the Western Desert (about 35%), the Gulf of Suez (about 28.5%), the Eastern Desert and the Sinai Peninsula. The Egyptian Ministry of Petroleum oversees the whole oil and gas sector, through four entities, Egyptian General Petroleum Corporation (EGPC), the Egyptian National Gas Holding Company (EGAS), the Egyptian Petrochemicals Holding Company (ECHEM) and Ganoub EL Wadi Petroleum Holding Company (GANOPE), with production sharing agreements with major international oil companies. Egypt's current crude oil production (2007/08) reached around 710,000 barrels per day (bpd) from the 2004 average production of 594,000 barrels per day³. Egyptian refining capacity is the largest in Africa after South Africa, but not sufficient to cover its growing needs.

Natural gas production witnessed a big boom over the last four years and gas has become the sector's growth engine following with new discoveries. Foreign oil & gas companies are very active in the exploration. Attractive exploration terms have been provided to foreign companies, and new discoveries have increased rapidly. The main production zones are the Mediterranean Sea, Western Delta, and Gulf of Suez. In 2006, Egypt produced roughly 1.9 tcf and consumed 1.3 tcf of natural gas.⁴ Egyptian Natural Gas Holding Company (EGAS), a public company, is in charge of managing the country's natural gas sector. Proven reserves stand at 58.5 tcf, roughly 1 percent of world reserves.

Egypt became a gas exporter for the first time in 2004 with the sale of gas to Jordan through a

¹ The expatriate population, is a major source of foreign exchange receipts contributing to about 4.5% of GDP

² Source UNICEF.

³ Source: Ministry of Petroleum, Annual Report 2007/2008

⁴ Egypt Energy Data, statistic and analysis August 2008 and Ministry of Petroleum data

recently completed pipeline. Gas exports have required major infrastructure development such as the building of pipelines or liquefaction plants and specific port facilities⁵

Total domestic consumption of petroleum products and natural gas during 2007/2008 period reached some 59.5 million tons with an increase of almost 7% over the previous fiscal year, where natural gas represents 50% of the total consumption due to an increase in its consumption in all sectors.

In addition to producing and transporting its own oil, Egypt provides oil transit to Persian Gulf producers thanks to the Sumed pipeline operated by the Suez Canal Authority. The Sumed pipeline is an alternative to the Suez Canal to transport oil from the Persian Gulf region to the Mediterranean. The 200 miles pipeline has a current capacity of 2.5 million bbl/day. It is operated by the Arab Petroleum Pipeline Company (Egypt 50%, Saudi Arabia 15%, Kuwait 15%, UAE 15% and Qatar 5%)

An important change, which has fostered the sector's development and growth, has been the sector's liberalization. Gas distribution has been deregulated. Currently, 80% of oil and gas services are operated by the private sector, and 90% of all exploration activities are carried out by multinationals.

1.1.6 Tourism

Tourism is a major contributor to Egypt's revenue. However, the sector is also very vulnerable to external shocks such as terrorism (e.g. the Luxor attack, 9/11 in the US) and Middle East environment (e.g. Iraq war, unrest in Gaza) as well as the global economic crisis which is currently affecting the country as a tourist destination. The conclusion of

a peace process between Israel and Palestine will certainly be of great benefit to the sector. After a drop in arrivals after 9/11 and the Iraq war, the sector has recovered and it has witnessed constant increase in the number of tourists during the 2005-2008 period with the number of tourists increasing from 8.4 million in 2005 to 12.2 million in 2008. Revenues have increased from USD 6.1 billion in 2004 to USD 11 billion in 2008. The sector is mostly private-run.

1.1.7 Environment and Development

Rapid population growth and growing industrial activities have resulted in increased water pollution, especially with the limited water resources available. According to the World Bank, 90% of Egypt's used water goes untreated and probably 80% of industrial wastewater is discharged without adequate treatment. Recently, pollution control and environmental protection laws are being underscored by the government and there are programs to implement laws designed to protect the country's water resources, especially those resulting from industrial wastewater (creation of the Egyptian Environmental Affairs Agency (EEAA)). However, there are still issues concerning their effectiveness.

The Egyptians live on a very small percentage of their country's total land area. The Nile Valley and the Delta where most of the population is located, account for less than 5% of Egypt's land mass. In this valley, agriculture, urban, and industrial uses compete for the same limited area of land. The Egyptian population which is estimated at over 80 million people today has been living in the same area for the last two hundred years when the population was about 3 to 6 million people at the beginning of the 19th century.

⁵ A pipeline project to export gas to Israel became operational 2008. A pipeline to Jordan and Syria has been completed and gas was pumped to Syria in July 2008. Through recent negotiations between Egypt and Turkey, it is envisaged that the pipeline be extended to Turkey through Syria. Two LNG projects are currently underway, One Joint Venture with Union Fenosa in Damietta, which started operation as well as one Joint Venture with Petronas and GDF in Idku. A third project of GTL (Gas-to-liquid) plant has been proposed by Shell and an NGL project with BP (gas recovery in Port Said, storage and shipping in Damietta)

Over the past twenty-five years, Egypt has lost over one million acres of agricultural land due to urbanization. The government is encouraging the use of desert areas to develop new housing and industrial areas. Many industrial cities have been developed outside of the main populated centres. Successful examples include 10th of Ramadan City, 6th of October, Borg El Arab, El Obour, New Cairo and many other cities in desert areas close to the urban centres.

The building of the High Dam has enabled Egypt to increase its agricultural land area by about one million acres. Lake Nasser, which was formed by the High Dam, is one of the largest man-made lakes in the world. It stores water that would have otherwise been lost to the Mediterranean during the floods seasons. In addition, Lake Nasser enables Egypt to generate electric power.

However, rapid population growth over the past years is putting a lot of pressure on environmental resources and limited water resources. The government is aiming at increasing the development of new industrial, agricultural and housing communities in desert areas to avoid over population in the "Old Valley". The private sector is encouraged to develop new industrial and housing communities in these newly developed desert areas.

1.2 Socio-Political Situation

1.2.1 Social Context

Major changes occurred in this field over the last three years. Under the industrial energy pricing policy, introduced in August 2007, the government has developed a plan for the gradual removal of energy subsidies over a period of three years which became effective in July 2008, following an announcement in May 2008. The impact of the new

policy is already visible and it has directly resulted in an increase in the prices of various goods and services, particularly transportation (private sector). However, due to the global economic crisis and the risk of social unrest, the planned increase in energy prices has been postponed for the time being.

Food subsidies: Almost half of the Egyptian population receives food subsidies. It is estimated that 40 million Egyptians receive basic food items (bread, wheat flour, cooking oil, sugar, etc) at subsidized prices. Changing or cutting the food subsidy system is a very sensitive issue. The government's policy is to continue subsidizing food, and basic services like education and health. The government is now replacing the old "manual" system for the distribution of subsidized food with a computerized system. All eligible beneficiaries have received a smart card, and the distribution points are linked to a central computer. This new system improves transparency and eliminates most of the fraud associated with the old system. The new system has been introduced in late 2008 in selected governorates and will be rolled out all over Egypt. In 2008/09, subsidies for food and services cost the government up to EGP 92.4 billion (32.7% of total government expenditure), equivalent to approximately USD 16.8 billion.⁶

Oil product subsidies: Over the past fifty years, energy subsidies have kept the price of vehicle fuel, heating oil, fuel oil for generators, domestic and industrial natural gas and the oil or gas fuels used in power stations at a level below world market prices. The government began to tackle that problem almost immediately after coming to power in June 2004. In September 2004, for the first time after having frozen energy prices for 12 years, the cabinet decided to increase electricity tariffs for industrial, commercial and residential consumers. Accordingly, the tariffs for all consumer groups were adapted to the full cost recovery level by a 5% increase annually over the next five years. The first tariff increase took place in October 2005 and the

⁶ Ministry of Finance, Egyptian Economic Monitor, Volume 5 , March 2009

last, which came on the heels of this plan, took place in October 2008. But due to the global financial crisis the government stopped the tariff development indefinitely.

1.2.2 Political Context

The Egyptian government has been stable over the last four years with minimal changes (see appendix for more details on government organization). The Prime minister, Dr Ahmed Nazif, appointed as prime minister for the first time in July 2004 and reappointed again in 2005 after the parliamentary election which took place in same year.

Dr. Nazif's cabinet includes several key ministers from the private sector, and several of these key ministers are, since 2004, still serving, in particular:

- Dr Youssef Boutros-Ghali – Minister of Finance
- Dr. Mahmoud Mohy El Din – Minister of Investment
- General Habib Ibrahim el Adly – Minister of Interior
- Eng. Rashid Mohammed Rashid – Minister of Trade and Industry

Overtime, other personalities from the private sector have been appointed, including

- Minister of Health – Dr. Hatem El Gabaly
- Minister of Tourism – Mr. Zouhair Garana
- Minister of Transportation – Mr. Mohamed Mansour
- Minister of Agriculture – Mr. Amin Abaza.

Several changes were made to the cabinet structure in 2005, including creating a ministry of economic development to replace the ministry of planning, expanding the responsibilities of the ministry of foreign trade and industry to also cover both internal and external trade as well as industry.

Recently, a few changes have also been implemented in order to cope with new needs, including the introduction of a ministry of state for population and family, headed by Dr. Moushira Khatab, former secretary-general of the National Council for Women and the appointment of Dr. Mohamed Nasr El Din Alam as the minister of water resources and irrigation.

1.2.3 Production System

As mentioned above, Egypt switched from a centrally planned economy to a market economy in the nineties. There are, however, remnants of the old system marked by the slow pace of privatization of state-owned corporations. While some improvements occurred over the last years, there is still strong opposition to privatization.

Moreover, some corporations inherited from the past (e.g. Mehala Kubra) are impossible to privatize in their current status. The Egyptian productive sector has evolved over the last decade from a 67% public-owned economy in the early 90's to a near 62% privately owned today, boosted by new private investments, be it Egyptian or foreign. The level of involvement of the private sector in the economy has increased in volume as well as in percentage in some sectors such as the ICT where the private sector's contribution has increase from 37.5% in 2004/05 to 68.7% in 2008/09; the private sector's total contribution stands at about 62%. While some sectors such as agriculture, internal trade, restaurants and hotels, and real estate are almost fully private, in some other sectors, the public sector is still dominant: mining and electricity. The most striking change if compared to the 2005/2006 situation is the ICT sector which has benefited from new private entrants. The private manufacturing sector is the main contributor to Egyptian production; however, there still remain a large number of publicly-owned companies. These companies are little

Table 1 - Total production in public and private sectors 2008/09 compared with 2004/05
(EGP Millions at current prices)

Sector	2004/2005				2008/2009			
	Public	Private	Total	Private as % of total	Public	Private	Total	Private as % of total
Agriculture Irrigation & Fishing	53.60	75,237.60	75,291.20	99.93%	17.90	118,803.00	118,920.90	99.98%
Oil, Gas & Mining	54,786.00	9,239.90	64,025.90	14.43%	123,691.10	22,573.20	146,264.30	15.43%
Manufacturing Industries	12,297.70	77,683.20	89,980.90	86.33%	19,764.70	142,210.00	161,974.70	87.80%
Electricity	6,648.40	1,189.10	7,837.50	15.17%	10,255.50	1,797.20	12,052.90	14.91%
Water	1,940.60	-	1,940.60	0.00%	3,024.80	-	3,024.80	0.00%
Construction & building	2,610.00	17,496.00	20,106.00	87.02%	4,335.00	38,925.00	43,260.00	89.98%
Transportation	4,793.70	16,785.20	21,578.90	77.79%	8,476.00	31,131.00	39,607.00	78.98%
Communication	6,363.00	3,819.00	10,182.00	37.51%	10,668.90	23,432.00	34,100.90	68.71%
Suez Canal	20,154.40	-	20,154.40	0.00%	41,067.00	-	41,067.00	0.00%
Trade (Wholesale & Retail)	2,191.10	54,174.60	56,365.70	96.11%	3,757.50	102,293.40	106,050.90	96.71%
Fin. Intermediaries & Services	17,215.30	9,212.50	26,427.80	34.86%	30,773.40	16,758.90	47,532.30	35.26%
Insurance	645.90	248.40	894.30	27.78%	1,112.20	416.70	1,528.90	27.25%
Social Security	10,560.90	-	10,560.90	0.00%	19,224.40	-	19,224.40	0.00%
Restaurants & Hotels	200.80	16,512.00	16,712.80	98.80%	351.90	33,870.00	34,221.90	98.97%
Real Estate	745.80	16,833.90	17,579.70	95.76%	1,069.00	24,303.40	25,372.40	95.79%
Education, Health, & Personal Services	958.70	14,159.10	15,117.80	93.66%	1,742.80	26,175.60	27,918.40	93.76%
Total	193,920.50	312,590.50	506,511.00	61.71%	362,163.10	582,789.60	944,952.70	61.67%

Source: Ministry of Economic Development Publications

contributors to the production of the manufacturing sector due to their relative inefficiency. It is important to note that despite the importance of two driving forces in the economy, oil & gas and tourism, the Egyptian productive sector is much diversified with a large manufacturing sector where the private sector accounts for almost 88% of production.

The share and volume of the private sector is expected to continue to increase rapidly thanks to the government's major privatization program (see Para 2.1.4.1.) which addresses the manufacturing, financial and insurance sectors, and the current move to privately operate a number of infrastructure facilities such as electricity, airports, and ports. In addition, the SME sector is vibrant and will also contribute to the growth.

The only sector which will remain publicly-owned for the time being is the oil and gas production sector, although production is mostly carried out through

production-sharing agreements and joint ventures which are being signed with international operators for the exploration, production, processing and transportation of oil & gas. (See Para 1.1.5 above). Water production is publicly owned and plans to change this sector will take the form of PPP projects where the private sector will provide services to the government at cost price (with agreed profit margin). The government will handle the customer side and will supply water to the end-user.

1.2.4 Reforms

Since 2004, several major reforms have been successfully implemented, that directly and indirectly affect the country's economic environment.

➤ Tax

The Egyptian cabinet approved a new unified corporate and income tax law in November 2004. The new tax law (No.91/2005) was passed on

June, 2005, replacing Law 157 of 1981 and its successive amendments. It also replaces law 187 of 1993.

It was effective July 1, 2005, for personal income. The corporate income tax was effective January 2006. The new law provides tax exemptions on profits from land reclamation or cultivation establishments for a period of 10 years. This also applied to tax exemptions on dividends on joint stock capital shares, investment securities dividends issued by investment funds and returns on deposits and savings accounts in Egyptian banks.

At the same time, the new tax law also revoked certain articles in the Investment Guarantees and Incentives Law 8 of 1997. These articles mostly exempted certain industrial and commercial activities (including hotels and tourist projects, reclamation of desert lands...etc.) for a period of 5 years. Moreover, it exempted new industrial zones and new urban communities as well as remote areas and new projects financed by the Social Fund for Development for a period of 10 years. They exempted any establishment outside the Nile valley for a 20-year period.

Under the new tax law, ongoing exemptions will remain valid for companies and establishments whose exemption period started before the effective date of the new law, until the end of the determined period.

The impact of the tax reform has been exceeding expectations, both in terms of almost immediate answer and volume. The introduced changes in tax rates were expected to reduce tax revenues due to the introduced reduction from almost 40% to 20%; however total revenue increased from EGP 67.1 billion in 2003/04 to EGP 75.96 billion in 2004/05. Tax revenues in 2005/06 reached EGP 98 billion and in 2006/07 they reached EGP 113.57 billion.

Another important law which has been newly introduced is the property tax law which was ratified by the people's assembly in 2008.

Implementation of the new law will start in 2010. According to the new legislation, property valued at less than EGP 500,000 as well as units with a rental value below EGP 6,000 per annum will be exempted from taxes. Property valued above that figure will be taxed based on an assessment of its annual rental value, with an exemption threshold of EGP 500,000 and a levy of 10 percent of a property's annual rental value. The assessment of the rental value will be calculated on bulk appraisal by an appointed committee, representing various governmental and municipal entities.

➤ Customs and Tariffs

In 2004, a presidential decree was issued concerning the customs duties, resulting in duty reductions driven by the prevailing economic circumstances. In 2007, new customs duties were issued by a presidential decree (39/2007) followed by the issuance of amendments to the Harmonized Customs Duties. The main objectives of the amendments were to simplify the structure of duties with a view to reducing distortions in duties and facilitating their implementation by all concerned parties. The main goal was to achieve several reductions in duties. The new tariffs also took into consideration Egypt's commitments to apply the World Customs Organization 2007 version of the harmonized Commodity and Description and Coding System, hence introducing "user friendly and simplified" custom duties and eliminating many of the tariff lines and keeping only those strictly necessary in order for the duty schedule to be at par with international practice.

➤ Central Bank Supervision

Within the framework of the Financial Sector Reform Program (FSRP), the Egyptian government with the financial and technical assistance of the World Bank and the EU has implemented a banking sector reform program which included the upgrading of the Central Bank of Egypt's (CBE) banking supervision capabilities.

In cooperation with the European Central Bank and EU financing, the CBE implemented a cooperation program in the area of banking supervision during the period 2004/05. Over two years, several banking supervision experts from Germany (Deutsche Bundesbank), Greece (the Bank of Greece), France (the Banque de France) and Italy (Banca d'Italia) shared their knowledge and experience with their Egyptian counterparts to reform the internal procedures and policies of the CBE with a view to providing greater focus on risk-based supervision and the development of inspection reports, regular reports, new bank profiles, new IT tools and new training curriculum. This program provided support to efforts at improving organizational efficiency within the CBE supervisory department. In accordance with several recommendations made by program experts, CBE established new units to work on macro-prudential, legal and enforcement issues and market risk supervision. This program ended in November 2007 and was considered a success by all those involved.

A new assistance program on banking supervision went underway in January 2009, focussing on building the capacity of CBE professionals in terms of risk-based supervision. The experts of the EU-funded program will support the Central Bank of Egypt in drafting new rules, policies and practices that will effectively create an appropriate Egyptian version of the internationally accepted banking supervision standard known as Basel II.

Furthermore, the program will work on providing technical assistance in the development of guidelines for the implementation of Basel II, as well as a new regulation that will apply to banks and a new bank reporting scheme in order to provide CBE banking supervisors with the information they need.

➤ Capital Markets

Several changes were made to the laws and regulations governing Egypt's stock exchange which have directly impacted the market.

In October 2006, the ministry of investment amended the Capital Market Law No. 95/1992, raising the minimum capital to EGP 5 million (from the previous requirement of EGP 250,000) for financial services companies working in stockbrokerage; evaluation, analysis, classification of securities; securities portfolio management and investment funds; and promoting the subscription of securities. The same amendments also require companies working in the fields of risk capital, direct investment funds and bond brokerage to hold a minimum capital of EGP 10 million.

In 2007, some of the rules governing the purchase of shares of joint stock companies were amended. According to the new rules, any investor wishing to purchase more than one-third of any company's total capital or voting rights must bid for all outstanding shares and convertible bonds. The new rules also specify that the investor must have an independent financial adviser if the bidding price is less than the average market price over the previous six months, if shares are swapped or if buying from a shareholder who holds more than 25% of the company's capital.

In addition, at the end of 2007 (October 2007), a new SME stock market, NILEX was launched with the objective of providing medium and small cap companies with a channel to raise capital within a regulatory environment designed specifically to meet their needs. NILEX offers relaxed listing and disclosure requirements as well as lower listing and trading fees. Three companies working in the plastics, IT and investment sectors have been listed in the NILEX.

➤ SME Laws

The development of SMEs in Egypt is considered as one of the important components of the government's social and economic development agenda, as they constitute a large portion of the country's economy as well as act as a major employment provider.

In 2004, law No. 141/2004 referring to the support and the enforcement of the development of the SME

sector was issued. The law mainly focused on providing incentives and facilitating the procedures necessary to establish these enterprises. It also laid the political ground for the implementation of different programs with international support through programs such as the Economic Development Program carried out by the main SME umbrella organization - Social Fund for Development (SFD). Although SFD is the main umbrella organization for SMEs according to the country's law, SMEs are also organized in corresponding chambers of commerce and industry which have direct access to this sector.

The SME law (141/ 2004) defined a small enterprise as "any economic, productive or service enterprise employing up to 50 workers with a paid in capital of maximum one million EGP". An enterprise would be considered a micro-enterprise if the "capital does not exceed 50,000 EGP and the number of employees is below 10 employees". Mandated to work with this sector according to this law, the SFD uses this definition, in dealing with this sector which limits its activities to micro- and small-enterprises. The new law does not provide any definition for medium enterprises.

Such a limitation excludes a large number of medium-sized enterprises (those employing over 50 employees) from taking advantage of any benefits provided under the law

The reforms, which were launched in 2004, have already produced some results which are improving the overall business environment as evidenced in the improvement of Egypt's ranking in the World Bank's "Ease of Doing Business Report" which ranks the country at 114 in 2009, up from 125 in 2008, putting the country among the top 10 global reformers - the third time in 4 years - and top regional reformer in 2009. However, there are certain aspects that still require further attention from the government, particularly related to employment and law enforcement (see details in Chapter 2 - Business Climate).

In addition to legal and regulatory reforms, there is a need to change the civil service culture and eliminate red tape which is deep-rooted in the Egyptian bureaucracy and could slow down some of the ongoing reforms. It will be more difficult to implement current administrative reforms than to pass a new law. The appointment of ministers and officers from the private sector is a right step in the right direction, but a major overhaul of the administration may be necessary to support and further reforms.

1.3 Economic Situation and Trends

1.3.1 Egyptian Economy

Following changes in economic policy in July 2004 by the Nazif government, the Egyptian economy witnessed robust growth for three consecutive years, as reflected in the real GDP growth of 7.2% in FY2007/08, reaching LE798.1bn, following a growth of 7.1% and 6.8% in FY2006/07 and FY2005/06, respectively. This came on the back of economic reforms adopted by the government in FY2003/04.

In addition, foreign direct investment (see Fig.3) have been dramatically increasing from USD 3.9 billion in 2004/05 to USD 13.2 billion in 2007/08 targeting sectors such as oil and gas as well as the financial and manufacturing sectors.

Over the same period, Egyptian exports increased, both in the petroleum and non-petroleum sectors, reaching almost USD 15 billion each (Further details on the export distribution are included in section 3). Egypt's tourism sector has also registered an outstanding performance over the last few years in terms of volume, value-added and foreign earnings. Tourist inflows to Egypt exceeded 13 million in 2007/08, up by 18% from the previous year, and generated total earnings exceeding USD 10 billion. International tourist nights amounted to

Egypt Private Sector Country Profile - 2009

Figure 2 - GDP Growth (2004/05 - 2007/08)

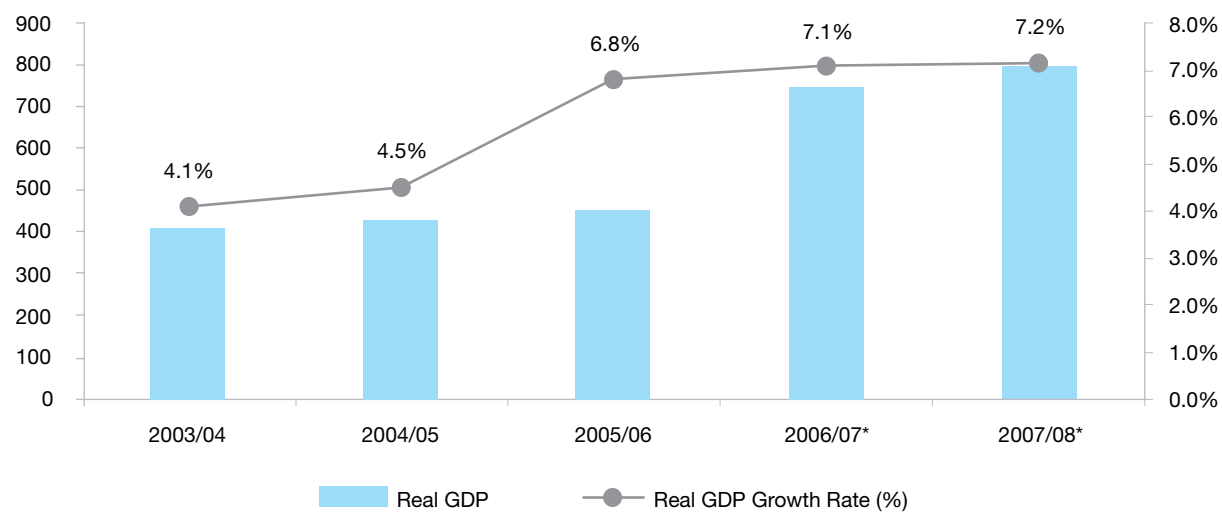
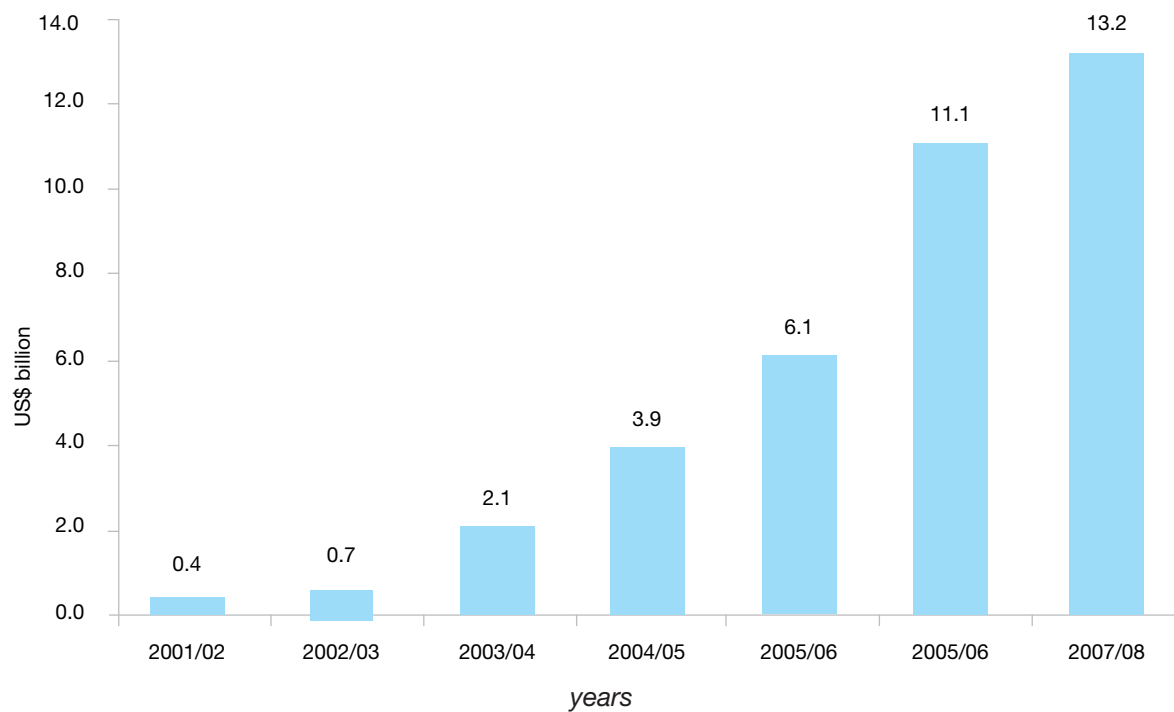
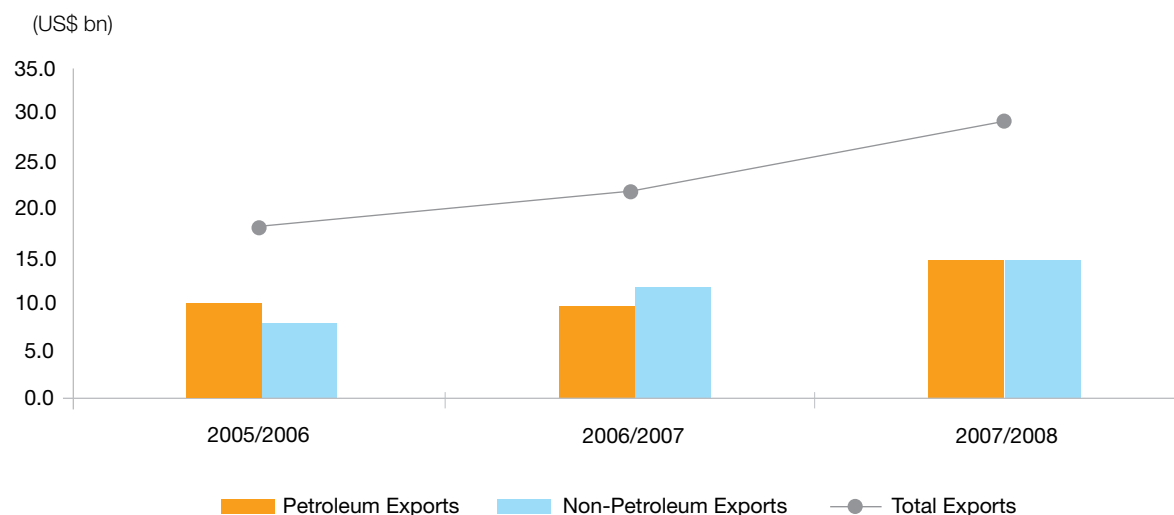


Figure 3 - Net FDI Inflow (2001/02 - 2007/08)



Source: Ministry of Investment, Egypt Investment Observer, 2007/08

Figure 4 – Egyptian Petroleum and Non-petroleum exports (2004/05 – 2007/08)



Source: The Central Bank of Egypt, Annual Report 2007/08

127.3 million nights, with an average length of stay of 10.5 nights per visitor.⁸

This development in different sectors is highly needed to achieve the necessary GDP growth and create sufficient job opportunities to absorb the annual new entrants into the labour market which are estimated at 600,000 annually.

At the same time, Egypt has been facing a high inflation rate (figure 6) throughout 2008 right up the first quarter of 2009 as a direct result of the accelerated money supply in the market and an increase in consumption. Increased inflation was also a result of higher prices of many raw materials in several industries that witnessed growth on the back of economic reforms. Prices of imported commodities jumped to higher levels, due to soaring international food and energy

prices. In addition, the booming sectors and increased outstanding projects resulted in higher demand for labour, pushing employees' wages up.

In June 2008, the government raised public sector salaries by 30% to compensate for high inflation (26.4% in May 2008)⁹. In order to finance this unforeseen increase, the government decided to increase taxes or remove tax holidays:

- removing tax exemption on treasury bills;
- taxing treasury bonds;
- removing tax exemption on energy-intensive industries, operating under the free-zone system;
- reducing energy subsidies for energy consuming industries;
- removing tax exemption on private schools and universities; and
- additional fees were added on car licensing.

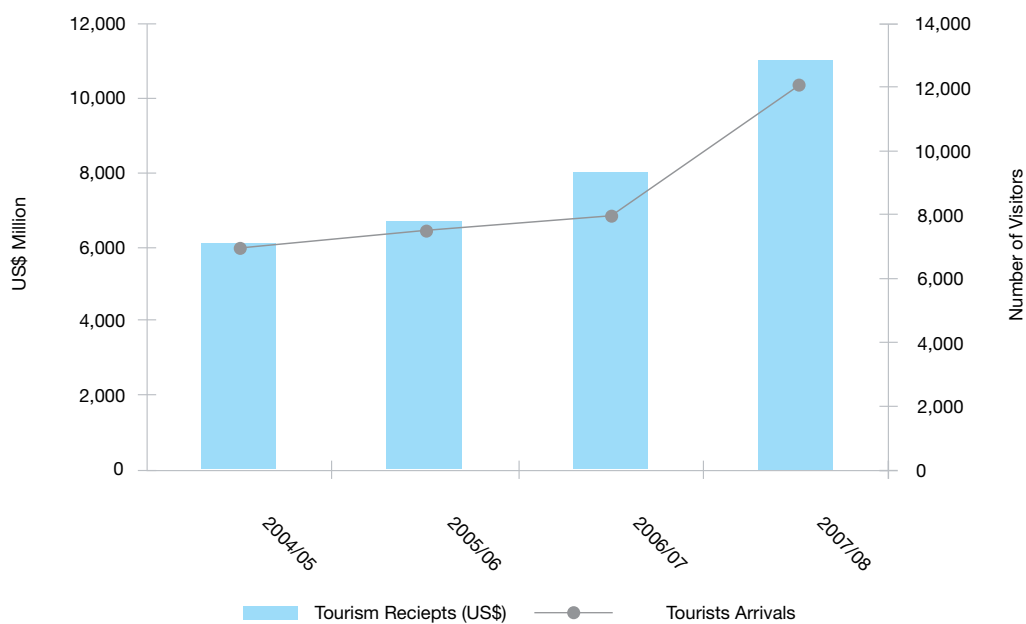
The government addressed the issue of inflation through the Monetary Policy Committee (MPC), which raised interest rates six times throughout 2008. Finally, towards the end of 2008, the

⁸ Central Bank of Egypt Statistical Bulletin, August 2009

⁹ Ministry of Investment, Egypt Investment Observer, 2007/08

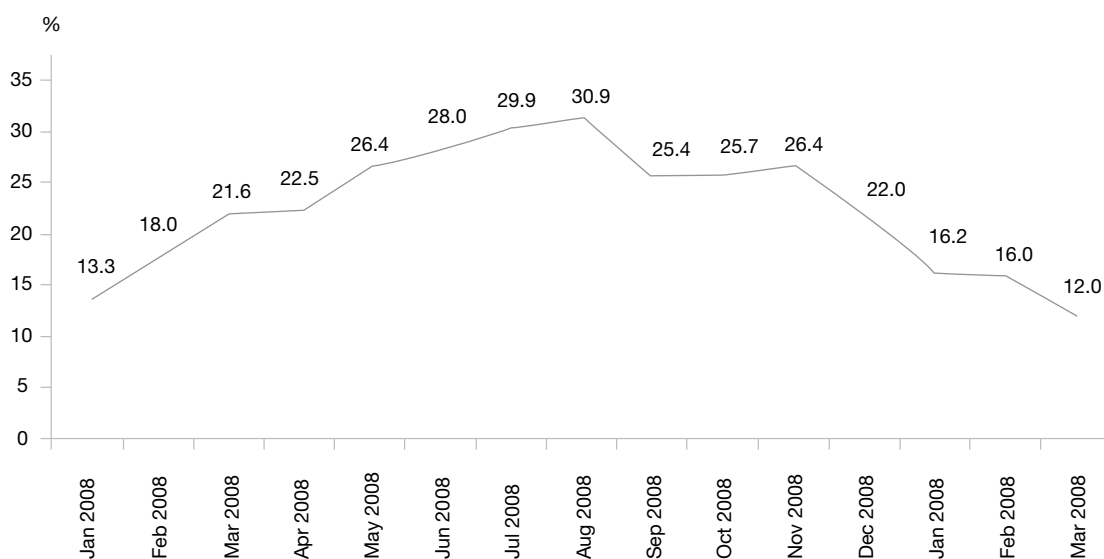
Egypt Private Sector Country Profile - 2009

Figure 5 - Egyptian Tourism Receipt and tourists arrival (2004/05-2007/08)



Source: The Central Bank of Egypt, Annual Report 2007/08

Figure 6: Inflation Rate 2008/09



Source: Ministry of Investment, Egypt Investment Observer, 2008/09

Table 2 - External debt indicators (%)

	2004/05	2005/06	2006/07	2007/08	2008/09
Debt Service/ Exports (G & S)	9.4	8.5	6.9	4.6	6.2
External Debt service/ Current receipts	7.9	7.3	5.9	3.9	5.3
Short-term Debt/ Total external Debt	6.4	5.5	4.8	7.4	6.8
External Debt/ GDP	31.2	27.6	22.8	20.1	17.0
External Debt per Capita (USD)	402.6	401.7	398.5	450	418.6

Source: Central Bank of Egypt Publications

inflation rate started to decline, reaching 18% from a peak of 23.6% in August 2008. In 2009, inflation also continued its decline with rates of 14.3%, 13.5%, 12.1% and 11.7%, in January, February, March and April, respectively. The decline could also be attributed to the decline in oil and wheat prices which drove the reduction in food prices.

In addition to the inflationary rate, another key weakness of the Egyptian economy is the

domestic debt ratio which has reached a total of EGP 478.7 billion or 53.4% of GDP. Though this is an improvement from the 2004/05 figures where the debt reached 67.6 percent of the GDP, these ratios are still high compared to emerging countries.

During fiscal year 2007/08, the main indicators of external debt improved for the third year in a row, as reflected by the drop in the external debt/GDP ratio from 22.8 percent to 20.1 percent. The balance

Table 3 – Breakdown of Fiscal Expenditure

	2007-2008		2008-2009	
	EGP billion	% of total expenditures	EGP billion	% of total expenditures
Wages	62.8	22.2	79	23
Interest Payments	50.5	17.9	53	15.4
Subsidies	92.4	32.7	134	39
Other Expenses	23.9	8.5	25.8	7.5
Sub-Total		81.3%		84.9%
Purchases	18.5	6.6	23.8	6.9
Purchase of Non-Financial Assets	34.2	12.1	28.3	8.2
Total Expenditures	282.3	100	343.9	100

Source: Ministry of Finance Publications

Table 4 - Private and Public sector contribution to Real GDP Growth (2004/05 to 2007/08)

	2004/2005		2005/2006		2006/2007		2007/2008	
	Private	Public	Private	Public	Private	Public	Private	Public
Agriculture, Woodlands & hunting	0.53	0	0.53	-0.01	0.57	0	0.47	0
Extractions	0.07	-	0.28	1.35	0.08	0.26	0.12	0.47
Manufacturing Industries	0.74	0.11	0.99	0.12	1.23	0.14	1.15	0.14
Electricity	0.01	0.11	0.01	0.14	0.01	0.1	0	0.11
Water	0	0.02	0	0.03	0	0.03	0	0.02
Construction & Buildings	0.19	0.03	0.54	0.07	0.67	0.07	0.58	0.5
Transportation & Communication	0.42	0.07	0.52	0.08	0.62	0.09	0.59	0.21
Suez Canal	0	0.47	0	0.31	0	0.5	0	0.61
Whole Sale & Retail	0.35	0.02	0.73	0.02	0.92	0.04	0.75	0.03
Financial Intermediaries & Supporting Services	0.09	0.15	0.11	0.2	0.15	0.26	0.11	0.19
Insurance & Social Insurance	0	0.1	0	0.13	0	0.16	0	0.24
Restaurant & Hotels	0.61	0.01	0.15	0	0.44	0.01	0.83	0.01
Real Estate Activities	0.11	0.01	0.14	0.01	0.15	0.01	0.1	0
Public Government	0	0.3	0	0.33	0	0.32	0	0.18
Education, Health, Social, Entertainment & Personal Services	0.12	0	0.15	0.01	0.21	0.01	0.2	0.01
Other Services	0	0	0.07	0	0.12	0	0	0
Sub-Total of Sectors	3.24	1.88	4.022	2.79	5.17	2	4.9	2.27
Total Real GDP Growth Rate	5.12		7.17		7.17		7.17	

Source: Ministry of Economic Development, 2007/08

of external debt amounted to USD 33.8 billion in June 2008 in comparison to USD 29.8 billion in June 2007.¹⁰

Domestic debt coupled with a budget deficit as well as the rigidity of the budget minimized the fiscal space required to implement any stimulus packages needed to foster economic growth.

Looking closely at the breakdown of the fiscal expenditure, wages account for 23% of total expenditure while subsidies account for 39%. This figure is expected to fall during the upcoming

period with both a decrease in commodity prices on the international market and a decrease in subsidies as planned (which was temporarily stopped by the government as one of the measures implemented to reduce the impact of the global economic crisis).

Given the above and the weakness highlighted earlier in relation to the budget, the role of the private sector as an engine of economic growth is essential. Analyzing the contribution of the private sector to real GDP growth highlights its important role. But some sectors of the economy, which can absorb large

¹⁰ Central Bank of Egypt Annual Report 2007/08

sections of the labour force such as the agricultural sector, are growing at a slower rate than other sectors.

1.3.2 Impact of the Crisis

Egypt, like most countries, has been affected by the global financial crisis. However, the country has managed to weather the impact of the crisis relatively well. The financial contagion was contained due to the limited direct exposure of banks to affected products and low levels of financial integration. However, Egypt has been more susceptible to the real spill-over of the global slow-down. The reforms that have been underway since 2004 have reduced fiscal and monetary vulnerabilities. Nevertheless, certain sectors in the economy such as exports, FDI, tourism, Suez Canal revenues and remittances have witnessed a significant slow-down.

In order to avoid a very destructive slowdown, the government undertook a package of additional expenditures as a counter-action against the foreseen impact of the global economic slow-down on the national economy and to spur growth at a cost of approximately EGP 13.5 billion. The plan included:

- increasing the infrastructure investment budget;
- cancelling taxes on exports;
- postponing plans to cancel subsidies on electricity and natural gas for energy-intensive industries like cement, fertilizers and petrochemicals; and
- limiting imports of finished goods and commodities that have a local equivalent (however no action on this proposed initiative was witnessed as of September 2009)

➤ Exports

Industrial sector exports, including textiles and consumer goods, witnessed a sharp decline in the second half of 2008 (after continuous growth since 2006) as a direct result of the decrease in imports from the main export destinations - USA and EU countries - with exports falling to approximately EGP 5.5 million monthly by the end of the year after having reached a peak of around EGP 10 million monthly in June 2008.

However, it is noteworthy to mention that exports, particularly industrial goods, have picked up again in the second quarter of 2009, reaching USD 7.9 billion as indicated by Egypt's trade and industry publications.

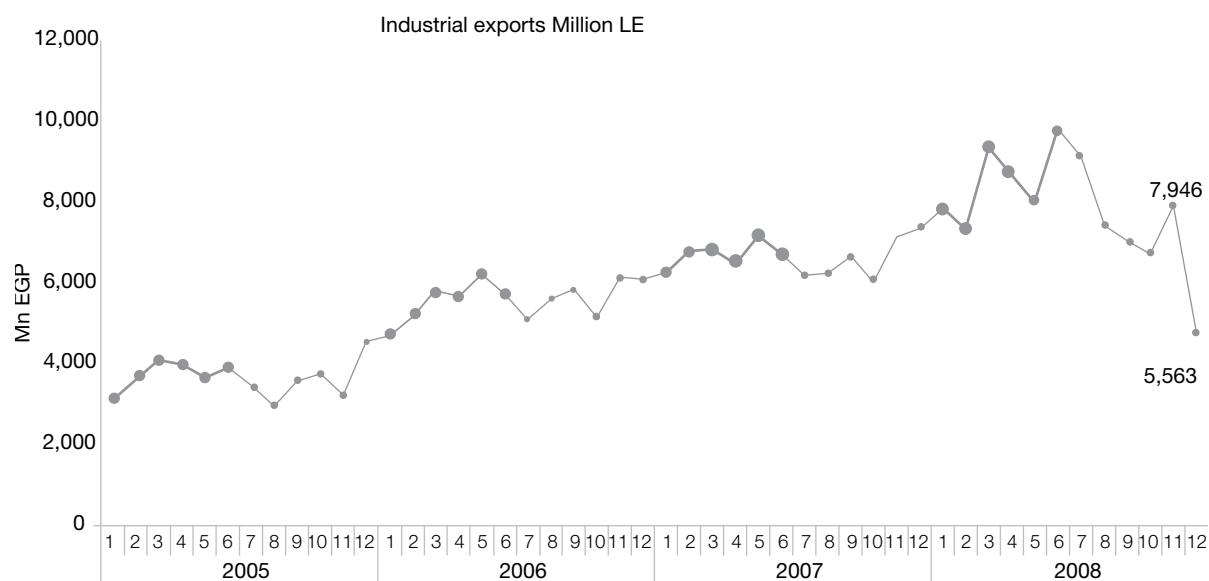
➤ Suez Canal Revenues

On the other hand, traffic along the Suez Canal, which represents about 3.2% of the GDP, has also been affected due to a slow-down in global trade, in particular, exports from China. After the boom that was witnessed between 2006 and 2008 during which earnings from the Suez Canal grew by 17.2% and 23.6% in FY06/07 and FY07/08, respectively, the slow-down in global trade has directly affected earnings from the Suez Canal, leading to a sharp decline in December 2008.

The decline may also be attributed to increased piracy off the coast of Somalia, when passing through the Gulf of Aden. This decline continued throughout the first quarter of 2009, but the latest figures announced for June 2009 showed an increase. However, a comparison with the same period of the previous year, the decrease in number of vessels and revenue is quite noticeable

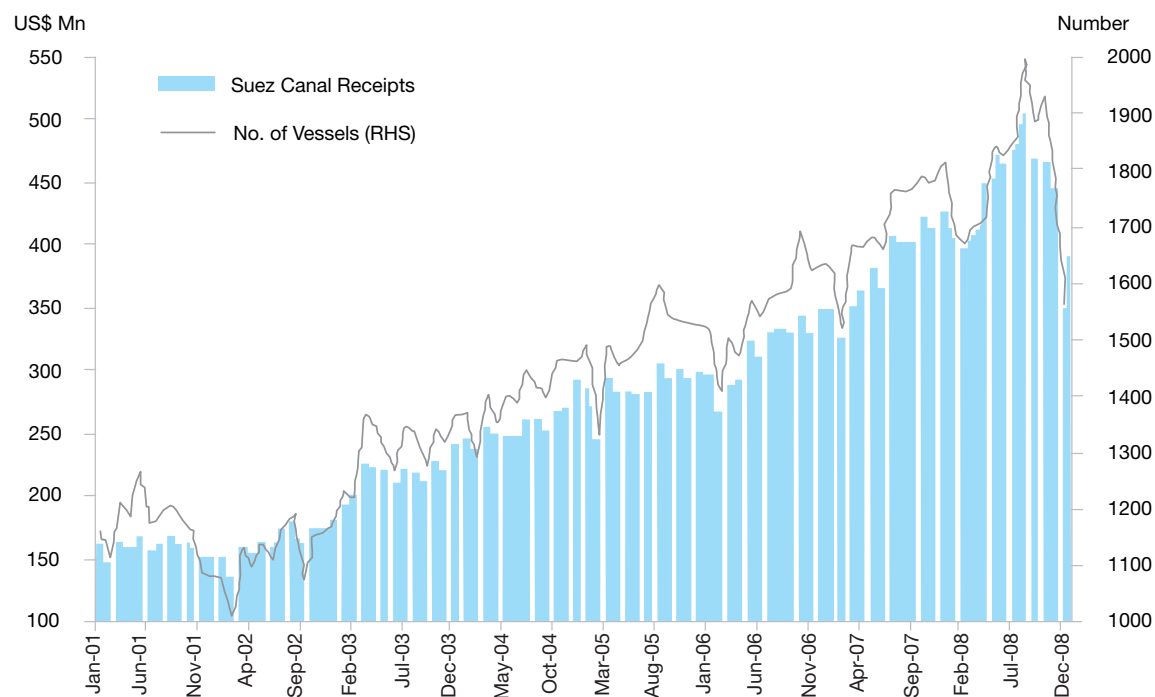
Egypt Private Sector Country Profile - 2009

Figure 7: Industrial exports (2005-08)



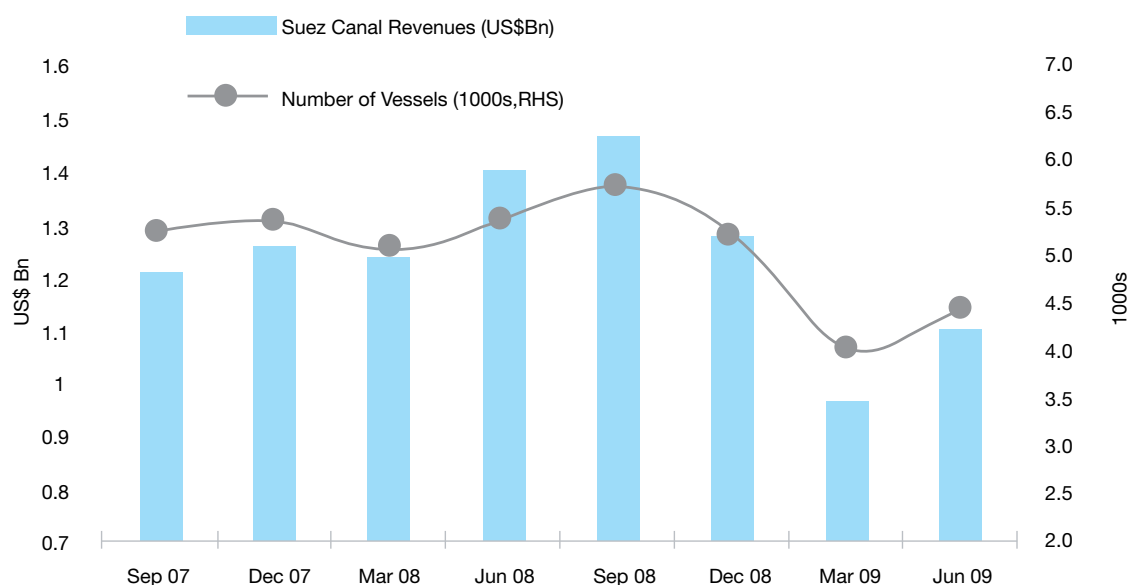
Source: Ministry of Trade and Industry Publications

Figure 8: Suez Canal Receipts and Traffic since 2001



Source: Beltone Publications

Figure 9: Suez Canal Receipts (Quarterly Sep 07 - Jun 09)



Source: Suez Canal Authority Publications, July 2009

➤ Banking Sector

The recent global financial crisis and credit crunch have had a limited direct impact on Egyptian banks due to their minimal exposure to structured products. Furthermore, none of the banks are dependent on market funding or are unduly leveraged (loans-to-deposits ratio of 55 per cent). Moreover, the activities of Egyptian banks in mortgage finance are limited and derivatives are not allowed. Mortgage finance and derivatives were the main activities which triggered the crisis in the banking sector in the USA and Europe.

However, Egyptian banks have suffered from a decrease in sources of foreign currency. Most Egyptian banks relied on their foreign correspondents for their foreign currency funding. After the crisis, most foreign banks were reluctant to lend. Consequently, they were not considered a reliable source of funding. At the same time, other

foreign currency resources decreased, mainly proceeds from export and tourism. The rate cuts implemented by the Federal Reserve Bank and other Central Banks also had a negative effect on the return on foreign currency investments and on volume of foreign currency deposits with banks.

➤ Remittances

Remittances from Egyptians working abroad, which have been a significant source of foreign exchange, have been affected by the crisis.

Though remittances had, since 2003/04, witnessed a significant increase from EGP 2.9 billion in 2003/04 to EGP 8.5 billion in 2007/08 (see below table 7), transfers have, as expected, shown signs of slowing down. The decrease has been a lot larger in the third quarter of 2008/09 (Jan – March 09) after an increase in the second quarter of 2008/09 which could be attributed to large one-off transfers

Table 5 – Change in Remittances of Egyptians Working Abroad by Country of origin
(2007/08 compared to 2008/09) in '000 USD

	Q1 2007/08	Q1 2008/09	Q2 2007/08	Q2 2008/09	Q3 2007/08	Q3 2008/09
USA	644.2	624.5	740.1	579.2	642.3	544.2
Kuwait	475.5	447.2	419.9	348.4	416.2	337.3
United Arab Emirates	271.8	279.4	343.2	542.9	326.6	298.2
Saudi Arabia	231.3	211.6	200.8	277.7	254.4	196.2
EU	184.8	244	239.8	401.8	234.7	244.4
Other Countries	110.2	68.8	118.6	72.1	115	63.8
Other Arab Countries	56.7	75.2	64.3	63.2	75.6	53.9
Total	1,974.5	1,950.7	2,126.7	2,285.3	2,064.8	1,738

Source: Central Bank of Egypt Annual Report 2007/08

of funds back to Egypt of people returning after having lost their jobs abroad, specially in countries which have been hit hard by the crisis such as UAE, England and Saudi Arabia. This assumption is supported by the fall in remittances for the third quarter of 2008/09.

1.3.3 Evolution of Employment and Unemployment

Despite the reforms and privatizations of the 90's and the recent reforms started in 2004, Egypt is yet to create enough jobs to cope with the arrival of younger generations on the job market. According to CAPMAS figures, on the work-force in Egypt (census of 2006), unemployment rates have increased reaching a rate of 9.3% in comparison to a rate of 9.0% according to the 1996 census.¹¹ According to the most recent labour force sample survey conducted by the end of the first quarter of 2009, the un-employment rate stood at 9.37%,

Unemployment is an acute problem, given the country's population growth and the number of new graduates entering the job market annually. The unemployment rate has almost not changed over the last 10 years, growing from 9% in 1996 to 9.3% in 2006 according to CAPMAS figures. According to the Ministry of Investment's latest sample survey conducted by the end of the first quarter of 2009, the unemployment rate reached 9.37%. However, some experts estimate that unemployment figures stand at a much higher level, around 15-20%. The persistence of such a level clearly means that Egypt is not creating enough jobs to cope with its population increase.

Over the last eight years, private sector employment has increased significantly from 11 million in 1999 to 15.1 million in 2007. In addition, due to privatization, employment in public enterprises has slightly decreased over the same years from 1.1 million employees to a constant 1 million employees.

¹¹ Complete data are only available for 1996 and 2006 when a complete population census was conducted

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Table 6 -- Unemployment rates (comparative figures 1996-2006)
Population in Thousands

Census Years	Population (15-64 years)	Active Population		Status				Excluded***
		Number	%	Employed*	%	Unemployed**	%	
1996	36,967	17,175	46.50	15,637	91	1,538	9.00	19,792
2006	49,515	21,917	44.30	19,877	91	2,040	9.30	27,598

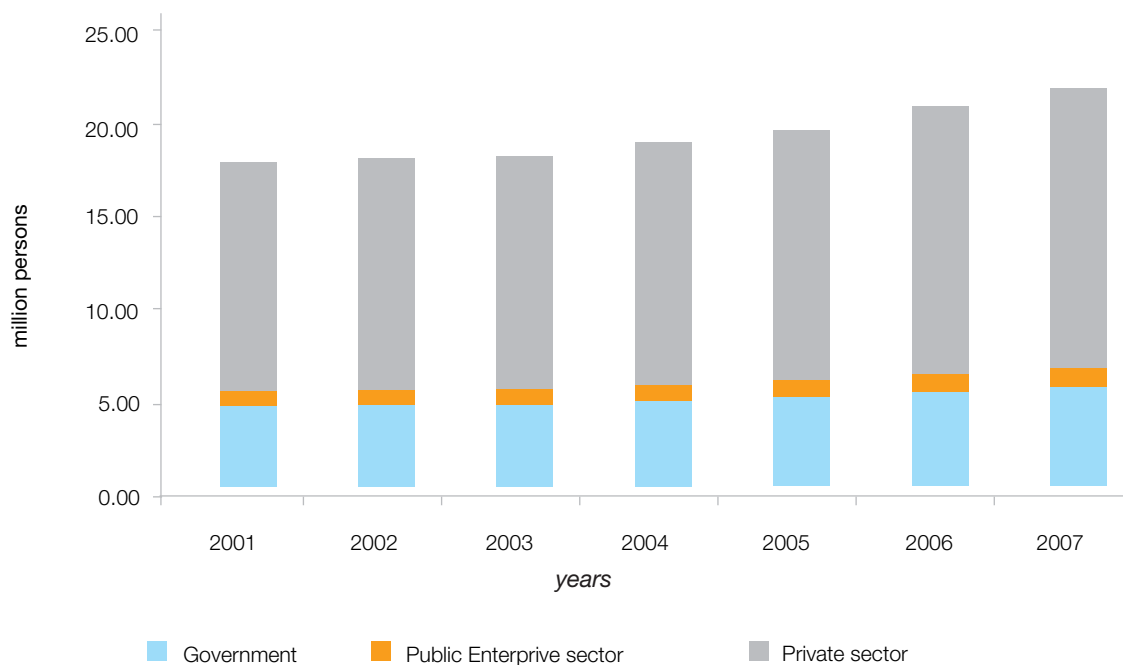
*) Including self-employed, work owner, unpaid work for the family

**) Including unemployed graduates and previously employed currently out of work

***) Including full-time students, housewives, not willing to work, retired, unable to work

Source: CAPMAS statistics 1996 census results and 2006 census results

Figure 10: Evolution of Employment by sector (government/public/private)



Source: CAPMAS statistics

Table 7 – Remittances of Egyptians Working Abroad by Country of origin (2003/04 to 2007/08)
Unit '000 USD

	Fiscal Years				
	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
USA	1,111.1	1,619.6	1,516.3	2,080.3	2,762.9
Kuwait	205.6	589.2	922.8	1,106	1,797.1
United Arab Emirates	278.8	371.6	729	989.6	1,392.9
Saudi Arabia	639.6	725.5	775.8	859.4	959.4
EU	524.4	696.1	641	858.6	927.3
Other Countries	154	212.1	237.3	255.3	428.2
Other Arab Countries	86.1	115.4	212	171.8	291.4
Total	2,999.6	4,329.5	5,034.2	6,321	8,559.2

Source: Central Bank of Egypt Annual Report 2007/08

However, during the same period, employment in the public sector increased from 4.5 million to 5.4 million.

In addition to the formal sector, the informal sector also plays a considerable role in providing employment in Egypt. According to CAPMAS estimates, informal sector employment is almost equal to the formal sector, and even slightly larger.

Expatriation has been one option Egyptians have used for a number of years. Egypt is the lead exporter of labour services in the Middle East. Around 5 million Egyptians work abroad as temporary workers, the majority of whom are in the USA and Arab countries. Remittances have increased from USD 4.3 billion in 2003/04 to USD 8.5 billion in 2008/09. The USA is the largest source of remittances, estimated at USD 2.8 billion

in FY 2007/08, reflecting the skills of Egyptians temporarily residing in the United States.

1.3.4 Future Growth

Having escaped the global contagion of the financial crisis, the Egyptian economy has avoided the first round effects of the global financial crisis. However, the country's future economic outlook is characterized by much slower economic growth given that the crisis has reached the real sector.

The structural reform package, initiated in 2004, laid the foundation for an attractive investment climate, enabling the Egyptian economy to significantly benefit from FDI. In addition to benefits to the domestic economy, it has led to an increase in the volume of exports to international markets and private

consumption growth. However, the combined decline in FDI, exports and service earnings (Suez Canal and remittances) will impact GDP, which will have difficulties to continue growing at its past level of 7%.

In order for the Egyptian economy to accommodate new entrants in the labour market, it needs to reach a minimum growth rate of 5% or more over the next years.

pharmaceuticals, fertilizers, and steel products as well as other manufacturing products. In 2008, the non-petroleum exports exceeded the petroleum exports.

The European Union and the USA are the main destinations for Egyptian exports, with 34% and 28%, respectively, while the European Union is the main source of imports (36%). Trade agreements with the EU and the USA (QIZ) have contributed to the increase and should continue strengthening exports to these zones

1.4 Evolution of Foreign Trade and Investments

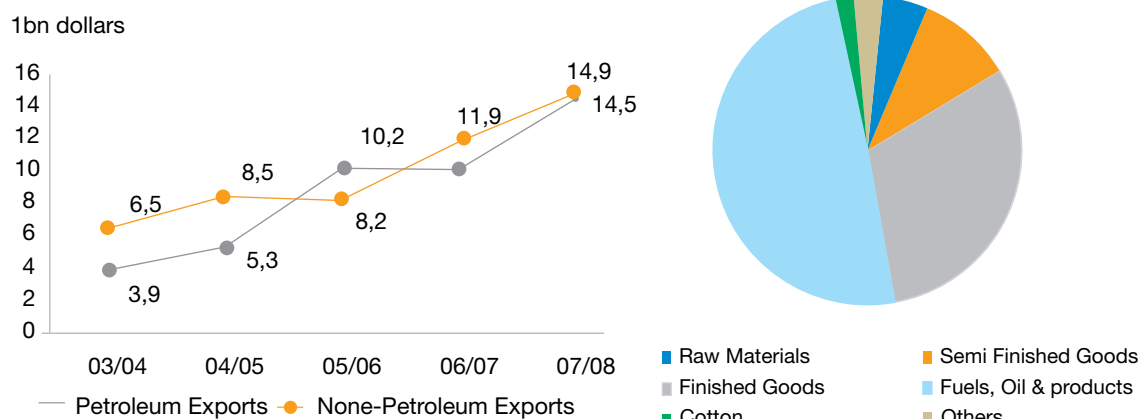
1.4.1 Foreign Trade

Over the past five or six years, Egypt's exports from all sectors of the economy - petroleum and none petroleum - have increased. The increase in exports is not only due to oil and petroleum products (which have quadrupled over the period mainly due to the significant increase in oil prices), but also to other exports which have shown a very remarkable growth. The growth has touched all of the main sectors of the economy: cotton, textiles, agricultural products,

1.4.2 Investment Trends

Investments, especially private investments have grown significantly over the past five years. Private investments (both Egyptian and foreign) have jumped since 2003/2004 and now amount to 65% of total investments as against 47% in 2003/2004. Private investments in manufacturing industries have, for their part, skyrocketed. This trend is proof of the increased confidence of Egyptian businessmen in their government. As seen in the table below, in 2007/2008, the private sector's contribution is highest in the gas sector (83%), the manufacturing sector (87% as compared to 75% in 2003/2004), construction (80%) and tourism,

Figure 11 – Petroleum and None- Petroleum Exports (Evolution & Distribution by export products)



Source: Ministry of Trade and Industry Publications, 2008

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Table 8 - Total investment by economic sector 2007/2008 in comparison with 2003/04
in EGP million

	2003/2004			2007/ 2008		
	Total	Private	% Private	Total	Private	% Private
Agriculture	7,559.00	4,000.00	53%	8,072.50	5,223.00	65%
Crude oil	4,372.10	4,069.80	93%	16,408.70	11,400.00	69%
Natural gas	8,343.60	7,198.00	86%	20,143.00	16,800.00	83%
Other Mining	65.50	32.20	49%	6.10	-	0%
Oil Products	2,000.00	1,000.00	50%	6,946.00	5,500.00	79%
Other Manufacturing	3,979.90	3,000.00	75%	35,348.00	30,922.70	87%
Electricity	7,348.90	200.00	3%	10,724.80	-	0%
Water	1,340.10	-	0%	6,742.90	-	0%
Construction & building	1,089.20	800.00	73%	3,314.60	2,655.00	80%
Transportation	12,628.20	2,716.00	22%	24,919.00	12,017.00	48%
Communication	4,880.00	2,484.00	51%	13,340.40	11,774.30	88%
Suez canal	441.40	-	0%	404.90	-	0%
Internal trade	720.60	600.00	83%	5,274.50	5,000.00	95%
Fin. Intermediaries & Supporting Services	361.40	-	0%	662.10	-	0%
Insurance & Social Security	17.30	-	0%	130.80	-	0%
Restaurants & Hotels	2,501.90	2,000.00	80%	5,301.90	4,938.00	93%
Real Estate Activities	7,358.40	7,220.00	98%	12,998.20	12,800.00	98%
Education	3,900.20	500.00	13%	6,532.00	3,000.00	46%
Health	2,819.80	800.00	28%	4,778.80	1,875.00	39%
Other Services	7,828.50	480.00	6%	17,485.50	5,175.00	30%
Grand Total	79,556.00	37,100.00	47%	199,534.70	129,080.00	65%

Source: Ministry of Economic Development

Table 9 - Net Foreign Direct Investment (in USD million)

Country	2003/04	2004/2005	2005/06	2006/2007	2007/2008	2008/2009
Total	407.2	3,901.8	6,111	11,053.2	13,236.5	8,113.4
Inflows	435	4,131.5	9,097.9	13,084.3	17,802.2	12,836.1
USA	229.4	2040,1	4,553.5	4,681.3	6,434.9	3,515.0
EU	42.5	813,9	2,954.3	4,061.0	5,114.1	5,578.4
Arab countries	152.2	213,6	554.5	3,351.4	3,059.0	2,029.7
Other countries	10.9	1,066.9	1,035.6	9,90.6	3,194.2	1,713.0

Source: Central Bank of Egypt Annual Report 2007/08, Monthly Reports 2009

restaurants & hotels, real estate and communication FDIs played a negligible role in the Egyptian economy prior to 2003/04, accounting for less than USD 500 million per year. Foreign investments growth has been due to successful government reforms to attract investors, including a significant increase in the number of privatizations, in particular, banks and financial services and sales of public shares in joint ventures, resulting in an increase in foreign investments in all sectors of the economy. Total FDIs in 2007/08 have exceeded USD 13 billion or almost 8% of GDP.

As expected, the current global economic climate has already affected the inflow of FDIs for the coming period as many investors and institutions have cut down investment expenditure. Moreover, the major FDI contributors - USA and EU countries accounting for almost 72% - have been heavily affected by the crisis.

1.5 Economic and Financial Information Systems

1.5.1 Main Sources of Information

The Egyptian government and international institutions as well as some private organizations produce a significant amount of information and studies related to economic issues and the country's private sector.

The State Information Service (SIS) is the government's public information organ. SIS was established in 1954 under the name Information Department (ID) to essentially contribute to political socialization and to help build a strong image of the newly founded republic in the wake of the 1952 revolution. Nowadays, it plays an important role in providing information on the government and it strengthens the country's image.

Most of the studies and information provided by the government are the responsibility of a related organ, the Information and Decision Support Centre (IDSC) that collects data from government ministries according to the specific subject. It is directly linked to the prime minister (not the information ministry). Development indicators and the welfare system as well as large amounts of economic information are mostly furnished by the Central Bank of Egypt, the Ministry of Economic Development and the Ministry of Trade and Industry. It is possible to find official reports on various subjects such as State Budget, Public Debt, Government Subsidies, Health, Industrial development, etc on their websites,.

But the fundamental data collection source is CAPMAS, the Central Agency for Public Mobilization and Statistics. It was established by a presidential decree in 1964. The decree stipulates that CAPMAS will be an independent authority adjunct to the presidency of the republic. It is however still tightly connected to the government. CAPMAS is considered the official source of data, statistics and reports that help with planning, development, evaluation, policy design and decision-making to state agencies, authorities, universities, research centres and international organizations.

Ministry of Trade and Industry (MTI) publishes the Quarterly Economic Digest, a broad economic document which is also available in English. The ministry also took the strategic initiative to establish the Industrial Technology Centres (ITC's) to transfer know-how & technology in technical consultancy, management, marketing, training, and information technology in Egypt. The Industrial Technology Centres together with the Business Resource Centres (BRC's) currently serve as implementation tools for Egypt's industrial modernization. Unfortunately, this ministry provides most of the information only in Arabic. For example, the trade report and trade statistics are not available in English.

The Ministry of State for Environmental Affairs supplies an annual report with information on sustainable development and environmental protection.

Furthermore, the Egyptian government attaches great importance to the agricultural sector, recognizing its significant role in the national economy. Agriculture accounts for about 20 percent of both GDP and total exports, and about 34 percent of total employment. The Ministry of Agriculture and Land Reclamation maintains an agricultural economic database which is also available on the website on plant production, the value of agricultural production and value addition and pest control.

From 1990, the General Authority for Investment and Free Zones (GAFI), provided relevant economic information to any private company that wanted to invest in Egypt. The system guarantees tax incentives to all private investors. Most of the investments are concentrated in the public and private free zones. GAFI supplies new investors and companies with the licenses required for the establishment and operation of a project. These include notarization of related deeds, issuance of residence permit and work permits. It has one register for all of the SMEs, and claims that its register is much more efficient than the official and national register which, in many cases, is not updated.

Egyptian International Trade Point is GAFI's information portal. There is a lot of information on corporations, products, transportation, useful export and import information as well as statistics and company directory on its Web site.

The Social Fund for Development (SFD) is responsible for the development of local communities as well as micro- and small enterprises. It publishes studies and reports on programs related to community development, small corporations, development as well as environmental and development issues. Currently, they do not seem to publish any specific report or analyses on these topics.

Unlike in other countries, most of the information and data do not come from technical and independent statistical research centres. The information comes from official and government organs or bodies. However, there are few private or autonomous agencies which provide economic information.

Egyptian Centre for Economic Studies (ECES) is an important organization which, through small surveys, does research in order to promote development. It advocates policies for Egypt based on international experience. It was founded in 1992 and it is a non-profit and non-governmental institution. It publishes a 'Business Barometer' related to the performance and expectations of Egyptian entrepreneurs in the manufacturing, construction and tourism sectors. Its research is being conducted by an independent statistical research centre, the Market and Research Development Center, and is based on a survey of 210 firms, specialized in these sectors.

Another important organization in Egypt is the American Chamber of Commerce, supplied by The Business & Analysis Centre (BSAC), which provides accurate, timely and concise information on specific sectors and economic issues for the benefit of those doing business in Egypt. The reports and analysis are financed by the United States Agency for International Development (USAID), whereas most of the economic indicators are furnished by the Egyptian Ministry of Foreign Trade.

The Al Ahram Centre for Political and Strategic Studies (ACPSS) was established in 1968 as an independent research unit functioning within the framework of the Al Ahram Foundation. The ACPSS is independent in conducting its own research work, in collecting data and information, and in publishing its research findings. It works with university professors and researchers at both regional and international levels. It undertakes multidisciplinary research, dealing with regional and international developments, as well as Egyptian

strategic, political, economic, and social affairs. Moreover, the ACPSS aims to play a role in enlightening the public and rationalizing the decision-making process in the country. The information unit of ACPSS maintains a collection of research materials and resources specializing in the economic, political, strategic, social and mass communication fields.

The Egyptian Investment Portal (EIP) is the official portal of the Ministry of Investments. It enables companies to make use of all the services offered by the Ministry of Investment and its affiliated entities and it helps them take full advantage of existing investment opportunities in a very transparent manner. The portal provides all the information and related news on investing in Egypt. It includes Investment Consultancy Services with a long list of all the entities and the companies that work as investment promoters

The Central Auditing Organization (CAO) was established in 1998 in Cairo and it is responsible for auditing the public and the private sector. It is ruled by a law promulgated by the People's Assembly. Unfortunately, the English version of the website is not up-to-date.

Last but not least, the Egyptian Exchange (EGX) (previously known as Cairo and Alexandria Exchange (CASE) plays a very important role in distributing information on market trends and market data. Specifically, it published a daily bulletin on the EGX 30 index, previously named CASE 30 Index, is designed and calculated by EGX. EGX started disseminating its index on 2 February 2003. The index presents data on the top 10 and least 10 companies in terms of trade value, trade volume, number of transactions, key markets (CASE 50 most active shares), bonds or funds traded, main trading indicators of daily traded companies, OTC trading, and, finally, a monthly bulletin which includes a wealth of market and trading information on the main news of the month regarding the economy, exchange rate, listed companies, etc

There are also many international organizations that are operating in Egypt to promote sustainable development and their research and reports are mainly based on official data provided by IDSC.¹²

1.5.2 Information Quality Appreciation

The global picture that emerges from the assessment of information quality and institutional providers shows some large gaps in the organization, gathering, coordination and design of business and economic information. However it is worth mentioning that some years ago, most of the above-mentioned information providers were non-existent and economic information was a state monopoly and that of its agencies. It was very difficult to gather information and state statistics were not reliable and were not delivered on time. Major shifts in culture within these organizations and operational improvements have occurred. Now, most of the above-mentioned government institutions have automated their databases and are in a position to flexibly tabulate, filter and process data as required by the client. Moreover, they have hired new management and staff who understand that they are providing services to the public and now have a better understanding of the value of time and the timely provision of information.

However, despite the existence of these sources of information, there are still problems relating to information quality. Discrepancy among government information providers is an example of these problems. Unemployment and the number of corporations, especially SMEs are examples of problematic data. The recording and analysis of the enterprise sector, particularly the private sector, is not well covered. There is also a lack of market information on organizations such as the Federation of Egyptian Industries or the official Chamber of Commerce.

The above creates an opportunity for assistance with regard to managing growth, consolidation and information quality. Creative ideas and efficient practices along side strong cooperation between the public and private sectors are essential to the provision of high quality national statistics.

1.5.3 Information Technology

The Ministry of Communication and Information Technology provides up-to-date information and indicators measuring the dissemination of new technologies among the population and the digital divide. The most recent data (2009) are:

- Telephone main lines in operation
11.9 million Lines
- Total cellular mobile telephone subscribers
44.6 million¹³
- Internet users
13 million

1.5.4 Support Programs

A network of business development centres has been established through the Industrial Modernization Centre (IMC) to provide business development services and information to enterprises. Twenty business resource centres covering the most important industrial locations in Egypt have been implemented.

Efforts to improve and promote new actions in order to modernize and revitalize Egypt's economic sector are the responsibility of the Industrial Modernization Centre (IMC) which organizes its own activities through the Industrial Modernization Program (IMP). It is a national initiative jointly founded by the Egyptian government and the European Union (Its

¹² See appendix III

¹³ Many subscribers have several mobile numbers, in particular, those moving from one provider to the other because they fail to pay their bills

management was handed over to the Egyptian government in May 2006 and it currently reports to the MTI) to help develop international competitiveness in the private manufacturing sector so that it can benefit from new opportunities arising from exposure to global markets, and the progressive introduction of free trade with European Union markets.

IMC beneficiaries include small and medium industrial enterprises¹⁴, business representative organization, service and support institutions, governmental institutions, especially the trade and industry ministry and the Federation of Egyptian Industries.

The overall strategic vision is to help industrial enterprises to modernize their companies to become internationally competitive on a sustainable basis and achieve economic development.

Unfortunately the main problem is identifying what the real structure of the enterprises is in order to

gain a better understanding of the Egyptian economic landscape.

Improvements in the establishment of a business in Egypt were illustrated by the following: procedures required to establish a business, and the associated time and cost. In 2006, entrepreneurs were informed of the 13 steps they would have to go through to launch a business over 43 days on average, at a cost of about 63% of the gross national income (GNI) per capita, but today, according to the 2009 Doing Business report, the process has been reduced to 6 steps and it now takes 7 days, while cost has been cut to only 18.29% of GNI per capita.

In addition, setting up one-stop shops to register a company with GAFI or a small company through one of the shops established by the Social Fund for Development which are available in almost all of its offices has dramatically facilitated the things.

¹⁴ IMC helps privately-owned Small- and Medium-size Enterprises (SMEs) that employ more than 10 people, have been in business for more than one year and are registered in Egypt.

2 Business Climate

Improved macroeconomic environment, in particular, a stable and free foreign exchange market, combined with reforms pursued by the new government, particularly, in customs system, tax reduction and trade liberalization, is leading to a more stable and attractive business environment. The results are already visible in the investment figures (as mentioned above and table 8). Recent developments are summarized in the following table. In order to facilitate the comparison, the table shows the previous evaluation in the two first columns and the changes in the last column to enable a quick comparison of the progress (or lack of progress)

Our evaluation of the changes over the past four years is in line with the findings of the World Bank “Doing Business” report. While our analytical grid is slightly different from that of doing business (not existing in 2004), it covers more or less similar topics. Our analysis is wider as it covers not only business climate, but also the wider competitive environment covering aspects such as privatization, workers skills and education, telecom, electricity, transportation (usually most important critical factors of any investment decision) and access to information. But “Doing Business” classification offers a chance to compare situation with other countries, and more important changes in the elements covered in the survey.

2.1 Governmental Policies and Practical Implementation

Egypt’s economic growth is an imperative to reduce poverty and is equally vital for social stability and job creation. As mentioned above, the past few years have witnessed growth and development in different sectors. However the major problem is that the benefits of the growth have not trickled down to various levels of society.

2.1.1 Monetary and Currency Policy

The Central Bank of Egypt (CBE) has put in place an inflation targeting framework to anchor monetary policy.

In 2004, the main issues to be tackled by the newly appointed CBE governor were the significant gap between the official and the parallel exchange rates, the lack of transparency in the monetary policy, and the lack of access to foreign currencies.

These issues were addressed through several measures aimed at improving access to foreign currencies and sustaining the implementation of a full floating regime, in particular, developing an inter-bank market for foreign currencies, using CBE reserves to meet demand for foreign exchange and increasing

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Economic and public management				
2005 Analysis			2009 comments	
		Recent developments and achievements	Reforms Pending	
Management of Inflation and Macroeconomic Imbalances		CBE compromised to set inflation as nominal anchor	Difficulties to set policies supporting the reduction of inflationary pressures and the stability of the exchange rate, while setting an environment for investment	Policies are in place; CBE working on a strategy to reduce inflation to one digit figure
Fiscal policy		Expansionary fiscal stance for the period 2004/05	Budget deficit and unsustainable social subsidies. Need to improve public debt management	Continuous budget deficit due to increased government expenditure
Foreign Exchange Regime		Liberalization of the foreign currency market since 2003 Recent strength of the LE (confidence in foreign and local investors) Lower inflationary pressure in local market	Need to undertake a monetary policy focused on reducing inflation and further measures to reduce currency risks	Relatively stable Forex Global economic crisis has negatively impacted the availability of foreign exchange
Economic and Political stability		Tourism's good performance Solid increases in oil, non-oil exports and Suez Canal receipts Improvement in expectations over the region	Political uncertainty and regional conflicts	No major changes
Financial and capital Markets		CASE 30 index closed at 6,572.66 on 9/03/06 after repeated life time highs and optimistic developments within the banking sector and new IPO's	In order to improve access to capital, it is required to further deepen the financial sector and improve the functioning of the Stock Exchange.	Policies and procedures in place to improve the functioning of the stock exchange Improvement of internal governance
Public Sector Management and Institutions		Highly centralized and powerful administration, excessive and cumbersome bureaucracy, confusing and time-consuming administrative procedures	Large number of reforms pending to reduce the administrative burden and gain efficiency in management of the public services	Some improvements in organisation and automation such as e-services, but still heavy administrative procedures
Legal framework and Enforcement of Law		Ongoing reform of the legal framework. Enforcement of commercial contracts requires 55 procedures and 410 days in average.	Development of Bankruptcy law and need to streamline and simplify the legal framework	Improvement in regulatory environment But Bankruptcy Law still not passed and law enforcement still problematic
Transparency, Accountability in the Public Sector		Transparency International 2005 rating: Egypt holds a low position, 70th slightly improved over 2004.	Reform in the public administration and procedures to increase transparency	Still working on improving transparency, but not much results so far
Competitive environment for the private sector				
2005 Analysis			2009 comments	
		Recent developments and achievements	Reforms Pending	
Business licensing and operating permits		Reduction of the bureaucracy in the registration of new business and investments (GAFI and SDF have organized One-Stop-Shops that offer company registration done in 2 days and official authorizations and permits done in 15 days, maximum 30 days)	The existence of three laws for the investment promotion creates some confusion to the legal framework, the issue is under analysis through a commission headed by the prime minister	Significant improvement: Only one law covers investment promotion
Contractual enforcement and litigation		The government intends to improve legal and contractual enforcement and reduce delays in the resolution of commercial litigation. Creation in the next months of specialized economic and commercial courts, streamlined procedures	To ensure a good implementation need of technical assistance and training	Economic and special courts are in place

Egypt Private Sector Country Profile - 2009

Competitive environment for the private sector			
		2005 Analysis	2009 comments
	Recent developments and achievements	Reforms Pending	
Access to financing	The Government has drafted and passed the Law No. 13/2004 to amend No.8/1997 in order to simplify further the investment procedures.	Need to improve access to capital, particularly for SMEs. A commission under MOF is assessing the possibility to create, or to stimulate the creation of investment and turn-around funds.	Access to finance for SMEs has slightly improved as most banks have now a SME department/unit Several funds targeting SMEs have been created More is needed
Access to land	In 2004, the number of days necessary to transfer and register a property title from the seller to the buyer was 193 days compared with a regional average of 54.0 days and OECD average of 34 days.	Need to streamline the real estate legislation in order to ease procedures to register land ownership both for foreigners and locals	Need to streamline the real estate legislation in order to ease procedures to register land ownership both for foreigners and locals This is still one of the biggest problems; not much progress
Customs and trade regulations	Customs reform and tariff reduction (reduction of the average tariff rate and of the number of tariff bands, improvements in management of customs through computerization and creation of Custom Tax Center)	Still excessively complex legal framework. Need to address the cash policy in the payment of the customs bills	Big improvements both in terms of simplification of procedures, and increased transparency
Taxation for business	Tax reform (particularly, reduction of income and corporate taxes and the removal of tax advantages and exemptions; progressive implementation of VAT instead of current general sales tax, increased penalties for tax evaders and tax forgiveness for companies leaving the informal economy)	Need to further improve the systems of collection and litigation	Big improvements in terms of procedures, tax collection and decrease of the income tax
Privatization process	General policy and strategy has been improved. Government has started privatizing in March 2006 Bank of Alexandria, plus initiated the restructuring of the insurance sector prior to privatization.	Government should maintain the privatization course and continue the restructuring of public enterprises	Privatization of financial institutions has mostly been implemented Privatization of public enterprises stalled; a new strategy is being worked out
Telecommunications, Electricity, Transportation	Increased private participation in Telecommunications, Civil Aviation and ports. Contract management in civil aviation and BOT in the power sector are under review for extensions. Egypt Telecom has been successfully partially privatized	Still legal and regulatory framework to be completed. Need to address the investment and maintenance needs as well as the performance of the sector	Improvements in transportations and ports using management contracts; PPPs are being introduced Gradual removal of subsidies on electricity, both for general public and industry
Access to Information	Several sources to acquire information of interest for the business community. Some of the data are only available in Arabic and the statistics are not updated	Information should be made available in several languages (other than Arabic) and frequently updated Overall improvement of the data collection and access to resulting databases	Improvements are tangible
Labour regulations	Increased labour flexibility resulting from the amendments to the Labour Law	Need to simplify further the hiring and firing procedures and the Social Insurance System	Major progress with the new labour Law (in particular possibility of hiring for a limited period of employment and easier termination of contracts)
Skills and education of available workers	Firms perceive lack of sufficiently skilled workforce High level of low-skilled unemployment	Foresee reforms of the Education system to better respond to the needs of the labour market	Still mismatch between supply and demand

Table 10 - Fiscal and monetary aggregates

	00/01	03/04	04/05	05/06	06/07	07/08	08/09**
Nominal Interest Rate*	9.09	11.5	9.06	8.8	6.7	9.6	11.32
Total Liquidity (M2) (Annual% Change)	11.6	13.2	13.6	13.5	18.3	15.7	8.4
Dollarization (% of M2)	21.3	28.4	24.6	24.4	23.2	20.08	20.1
Exchange Rate (End of Period) (EGP/USD)	3.86	6.22	5.79	5.74	5.64	5.44	5.51
Budget Deficit (% of GDP)	5.6	6	9.3	8.2	7.5	6.8	7.0
Period Average Inflation (%)	2.4	9.5	11.7	7.2	8.6	20.2	n.a.

* Based on annual Average 3-month t-bill rate

** Preliminary

Source: Ministry of Finance, monthly reports, Central Bank of Egypt, annual report

the interest rates of Egyptian pound-denominated deposits. This new business and financial environment, as well as foreign income growth, have made it possible to overcome the exchange rate instability.

The Foreign Exchange Inter-bank System has largely contributed to the pound's gradual appreciation against the dollar. It has also helped to eliminate the parallel market by sufficiently covering market needs, preventing manipulation or speculation in the FX market. As a comparison, in January 2004, a year before the new system was launched, the parallel market was trading dollars at almost a 13 percent premium to the official exchange rate. This margin has diminished to almost zero since January 2005.

In targeting inflation, the Central Bank of Egypt (CBE) has, since 2003, adopted a tight monetary policy.

The main tool used was the corridor range, which refers to the overnight lending and deposit rates at the CBE. The CBE established the Monetary Policy Committee (MPC), which meets every 6 weeks to set the corridor range. The CBE sets the overnight deposit and lending rates in line with inflation, and initially decreased at 8% and 10%. The MPC kept modifying the corridor range along with the changes in inflation, which reached its peak level in August 2008 at 23.6%, setting overnight deposit and lending rates at 11.0% and 13.0%, respectively. An additional 50bp were added to the corridor range in September 2008, where inflation rate was 21.5%. In December 2008, the inflation stood at 18.3%. From December 2008 to May 2009, inflation continued its decline with rates of 14.3%, 13.5%, 12.1% and 11.7%, for January, February, March and April, respectively, and interest rates declined throughout the same period.

Table 11 - Average Exchange rate (exchange of 1 foreign currency into EGP)

	2003/04	2004/05	2005/06	2006/07	2007/08
USD	6.194	5.791	5.740	5.644	5.438
EUR	7.701	7.226	7.255	7.836	8.078
GBP	11.348	10.569	10.648	11.448	10.186

Source: Central Bank of Egypt

2.1.2 Public Finances

The budget deficit is structural rather than temporary. In recent years (except in the last year), the fiscal deficit has decreased from a GDP share of 9.6% in 2004/05 to 6.6% in 2007/08. However, the budget still has several key weaknesses, the domestic debt ratio, the budget deficit and the lack of fiscal space to implement any stimulus plan to foster growth. This is mainly attributed to the inelasticity of certain high expenditure items such as wages (22%), and subsidies (32%).

Against all expectations, revenues witnessed strong growth over the past years despite the reductions in taxes and tariffs. Tax revenues witnessed strong growth of about 16% and 20%, respectively in 2006/07 and 2007/08. However, the increase in oil and food commodities prices led to increased subsidies expenses, as well as the 30% increase in public wages introduced in June 2008. Consequently, the expenditure side of budget grew by 25% in 2007/08.

On the revenues side, the government has approved a new real estate tax law and will start its implementation in the coming months, providing the budget with an additional source of income in the longer term.

2.1.3 External Sector

Egyptian exports have almost quadrupled in volume during the period from 2003/2004 to 2007/2008, growing from EGP 7.6 billion to EGP 26.2 billion. Exports today are almost equally distributed between petroleum and non-petroleum. (See figure 9 above),

The EU is now Egypt's first trading partner, highlighting the importance of the Egypt/EU Association Agreement. This agreement offers favourable conditions such as opening European markets to Egyptian exports. It also demonstrates Egypt's commitment to engage in sweeping reforms to open the country's economy to international trade and integrate it in the global market. Arab countries are now the second destination for Egyptians exports.

Table 12 - Geographic distribution of trade (2005 compared to 2008)

Region	2004/2005		2007/2008*	
	Origin of Imports	Destination of Exports	Origin of Imports	Destination of Exports
Eastern Europe	14%	6%	11%	4%
European Union	23%	32%	27%	35%
Arab Countries *	n. a.	n. a.	14%	26%
Asia (Excluding Arab countries)*	27%	27%	23%	18%
Africa (Excluding Arab Countries)*	5%	7%	2%	4%
North America	10%	9%	12%	6%
Latin America	6%	0.30%	5%	1%
Others	15%	18.70%	6%	6%

Source: Ministry of Trade and Industry, Egypt, Monthly Foreign Trade Statistics April 2009

* Export to Arab Countries were included in the exports from Asia and Africa in 2005 since their volume was negligible

2.1.4 Fiscal Policy for Enterprises

Taxes may be divided into two categories: the first category concerns direct taxation of incomes or profits of individuals and legal entities, and the second involves indirect taxation of goods and services. Overall taxation revenues accounted for 15.7 % of GDP in 2008/09.

When the government introduced significant reforms in this area, it was expected to cause a sharp decline in tax revenues in the initial years. In practice, tax revenues have dramatically increased, reaching EGP 137.2 billion in 2007/2008 from EGP 67.1 billion in 2003/2004.¹⁵

The government is also working on improving the tax administration system through the simplification

of procedures and the promotion of trust between the business community and the tax administration. The reduction of tax levels is a further step in the fight against tax evasion; however the benefits of reforming the law will only be tangible with a strong, trustworthy collection and litigation framework.

➤ Direct Taxation

The new tax law (91/2005), which was enacted at the end of 2005, completely changed the taxation system. The previous corporate tax was set at 32% for industry, 40.55% for the Suez Canal and the oil industry, and 40% for other businesses. The personal income rate was 16% for incomes lower than 16,000 EGP per year and 36% for incomes above this level. The ambitious tax reform was very well received by the business community. Apart from unifying the tax legislation and exemptions, income and corporate taxes have been reduced to a maximum

¹⁵ Ministry of Finance Publications (2008/09)

of 20% as of 2005 for all economic activities, except for banks, the Suez Canal and the oil industry (corporate tax rates in this strategic sector will, however, remain at their current 40.55%). The additional income tax has been abolished. Most of the existing tax benefits and exemptions have been removed, except for those companies which have already obtained these previous benefits. The law provides for the elimination of the partial and full 5- to 20-year tax exemptions for newly established companies, to be applied non-retroactively. Additionally, companies listed on the stock exchange have lost the tax-exempt status of their paid-in capital. Finally, the new law increases penalties for tax evaders.

Personal income tax has also been reduced, with three tax rates of 10, 15 and 20% maximum.

Egypt has concluded treaties on the prevention of double taxation with over 15 countries (including several EU member states such as Italy, France, Germany, Sweden among others), as well as the United States, India and Japan.¹⁶

Open tax forgiveness was offered to companies leaving the informal economy and becoming registered.

➤ Indirect Taxation

In May 2004, the People's Assembly approved a law amending the 1991 General Sales Tax (GST) Law. The GST is a fairly high, non-uniform tax applied at the manufacturing level on imported and domestically produced goods. The rates range from 5 to 25%, with some exceptionally high rates for certain goods (e.g. beverages, cigars and cigarettes). In terms of impact on foreign trade, since it is also applied on imported goods on a duty inclusive basis, it multiplies the effect of existing tariffs and ultimately raises export costs.

The amendments aimed at imposing a higher sales tax on a number of services, including hotel and tourist restaurant bills (10%), tourist transportation services (10%), fixed telephones and local telegraph services (5%), local and international cellular communication services (15%) and international communication services through fixed phones (10%). The general sales tax (general rate of 10%) will be progressively transformed into a Value Added Tax (VAT). The government expects that the introduction of statutory fees on air travel fares and imported and domestically assembled vehicles, in addition to increasing the sales tax on fixed line and mobile telephone services, will help compensate for the decline in tax revenues.

➤ Taxes on Dividends

It should be noted that since Egypt does not levy taxes on dividends, its tax treaties provide reduced withholding tax rates only for interests and royalties.

➤ Other Taxes

The Stamp Duty Law (Law No. 111/1980) and its subsequent amendments (D. No. 1714/1998 and Law No.10/2000) impose stamp taxes on most types of documents and bills, including company creation, banking transactions, documents, transfers of shares and debentures, leases, insurance premiums and other transactions and instruments (no change during the period). For instance, stamp duties on loans are 8% and LE 0.40 on bank checks and vouchers issued by a signature-carrying company. Moreover, under investment promotion regulations, the government has issued privileges for some projects, whether owned by Egyptians or foreigners. Among others, construction contracts for these projects and all related contracts, right up to their completion, are exempted from stamp duties, authentication and registration.

¹⁶ Egypt Taxation for International Executives , KPMG Publication, 2008

Employers must pay social insurance to the Ministry of Social Insurance and Social Affairs on behalf of their Egyptian employees. Egyptian employees are also expected to make contributions. Egyptian social insurance laws do not apply to expatriate staff. The rate paid is based on the employee's basic monthly salary at a rate of 26% paid by the employer and 14% paid by the employee.

➤ Cash-based Payment System

All transactions between the government and the public are made in cash or through personal checks. However, this is changing rapidly. A certified check is not required anymore. The tax authority allows payment by instalments over extended periods and they are able to follow-up on payments even if the check issued was without a balance.

Checks are largely used for payments between corporations and for salaries and pensions. According to the new banking law, the CBE operates and oversees the payment system. The clearing and settlement systems operated by the CBE have undergone major technical upgrades.

A major change is underway. A group of commercial banks and the national post system have set up a key initiative with the objective of implementing a GIRO payment system. Giro-Nil S.A.E. was formed in 2005 as a public-private partnership between Banque Misr, Egypt Post, Commercial International Bank and Inclusion Group. This is an important step towards a cashless economy, enabling a fully automated payment of salaries and pensions.

➤ Foreign Trade and Customs

For years, customs have been the largest inhibitor of foreign investment in Egypt. Customs administration and procedures have been traditionally described as inefficient, cumbersome and time-consuming, this inefficient framework results from the previous autarchic regime and an economic model based on import substitution.

A new customs code was introduced and the customs tariff grid was modernized and simplified (April 2004).

Egypt has, since 1994, been applying the Harmonized System. The customs authority, operating under the finance ministry, is the central governing body for customs administration. Despite efforts within the context of a comprehensive reform plan launched in 2002, the customs administration still needs further restructuring in order to simplify procedures and to find a right balance between customs enforcement and trade facilitation. Stringent deadlines for sampling procedures and releasing of goods have been established, and complaints against decisions by customs officers can be lodged at the Customs Complaint Office. In 2003, a Model Customs and Tax Centre (MCTC) was created to act as an automated one-stop shop for tax purposes, implementing operational coordination between the three revenue departments - income tax, sales tax and customs - and simplifying customs clearance and tax payment controls. Though still at the pilot level, the MCTC model is currently being rolled out across the entire country and it is already available in the main ports.

Customs valuation remains a recurrent problem in terms of transparency and implementation. In line with its WTO obligations, Egypt adopted measures to implement the principle of transaction/invoice value for customs valuation. However, due to discretionary application by customs officials, there are problems relating to overpricing and price list practice.

➤ Tariffs

A major customs tariff reform took place in September 2004, fundamentally reforming the Egyptian tariff structure within the context of a comprehensive customs reform. Tariff bands and items have been substantially reduced, administrative and WTO-incompatible ad-valorem

service fees eliminated and the average tariff rate has been substantially reduced (from 14.6% to 9.1%). This latest tariff reform reduced the number of tariff bands and tariff rates. It included cuts on most imports fees and surcharges, including processed foods, agricultural goods, paper products, and some durable household goods among others.

➤ Special Zones

Nine public free zones operate in Egypt, as well as a number of private ones, under the responsibility of the General Authority for Investments and Free Zones

(GAFI)¹⁷. They are located within the country, but considered to be outside Egypt's customs territory.

Companies operating in free zones are exempted from customs duties, sales taxes or taxes and fees on capital assets and intermediate goods. Concerning public information, the customs website contains information and samples of the application forms to be submitted by companies for the customs clearance process (only in Arabic). The Single Administrative Document (SAD) is in use in Egypt.

Table 13 – Economic outlook of companies established in Free Zones

	Unit	2007/2008
Available Free Zone	Million square meter	10.6
Companies	(existing companies)	1,138
Equity	USD Billion	15.8
Labour creation	Total number of employment opportunities created	230,000
Total exports	USD Billion	5.6

Source: Ministry of Investment Annual Report, 2007/08

¹⁷ The Law No. 83/2002 for Special Economic Zones provides for the establishment of SEZ that have the ability to compete with their counterparts all over the world, thus becoming an instrument to increase the attractiveness of the Egyptian economy to FDI.

2.1.4.1 Privatization Framework

The Egyptian privatization program was launched in 1991 within the framework of the Structural Adjustment Program adopted by the Egyptian government. This regulatory framework paved the way for the transformation of public organizations which were divided into Holding companies supervising subsidiary companies. It started with 314 companies distributed over 27 holding companies.

In terms of implementation, the 90's witnessed the sale of several state-owned enterprises. However, the pace of sale slowed at the end of the decade. Only 12 companies were sold in 2000/01, compared to 39 in 1999/2000 and 33 in 1998/99. One factor which may explain the slowdown is public opposition,

mostly the fear of unemployment caused by the needed post-privatization restructuring of enterprises and the large debt of the unsold enterprises.

Since the appointment of the new government in July 2004, the government adopted a new approach in dealing with state-owned enterprises through the Asset Management Program supervised by the Ministry of Investment. The main objectives of this program were:

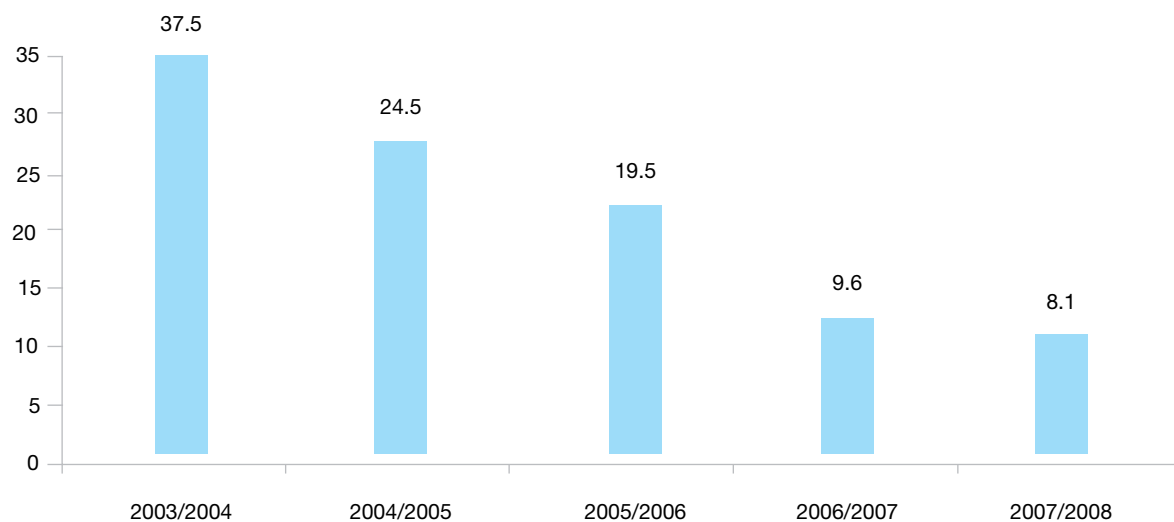
- increasing efficiency of public enterprises (formerly huge loss makers) to operate in a competitive market, a key enabling element to facilitate privatisation, and
- attracting local, regional and foreign direct investments.

Table 14 - Number of companies privatized until Dec 2004

Privatisation technique	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	01/07/04 31/12/04	Total
Majority privatisation													138
Majority IPOs	1	1	5	21	9	0	0	1	0	0	0	0	38
Strategic investor	2	0	3	2	2	6	12	2	0	0	2	3	34
ESAS	1	9	0	0	3	14	3	0	1	2	0	0	33
Liquidation	8	2	1	0	3	7	9	2	0	1	0	0	33
Partial privatisation													74
Minority IPOs	1	3	4	7	1	0	0	0	0	0	0	0	16
Assets sales	0	0	0	0	6	10	16	4	3	9	1	9	58
Total	13	15	13	30	24	37	40	9	4	12	3	12	212

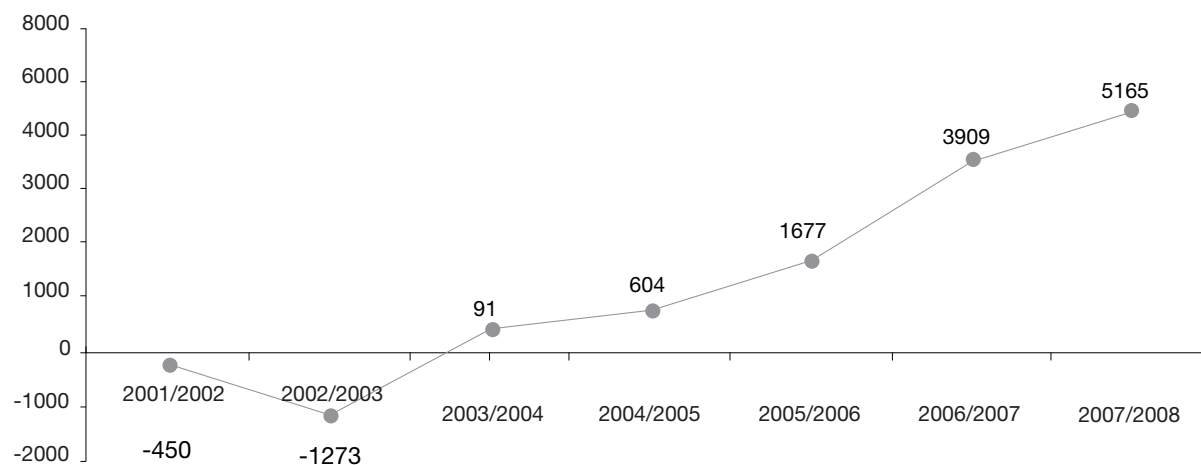
Source: Ministry of Investment

Figure 12 - Debt of public enterprises from 2003/04 to 2007/08



Source: Ministry of Investment

Figure 13 - Evolution of public enterprises profitability since 2001 (million EGP)



Source: Ministry of Investment

Table 15 - Number and Value of Offerings over the period 2004/05 to 2007/08 (Million EGP)

	2004/05		2005/06		2006/07		2007/08	
	Nb of transation	Value	Nb of transation	Value	Nb of transation	Value	Nb of transation	Value
Public Business sector Companies	4	389.8	-	-	3	748.5	1	74.0
Companies & Production lines	5	66.8	7	1,007.0	5	1,170.7	5	190.3
Unutilized Land plots and assets	7	367	40	836.4	37	854.7	14	480.8
Public enterprises/Banks	-	-	1	5,122.0	1	9,274.0	-	-
Public stakes in Banks and JVs	12	4,819.0	17	7,647.0	7	1,558.8	16	3,238.0
Total	28	5,642.6	65	14,612.4	53	13,607.7	36	3,983.1

Source Ministry of Investment, Egypt Investment Observer 2008

The main pillars adopted in the implementation of the program include:

- implementing integrated financial, technical and operational programs, restructuring public sector companies to upgrade their levels of efficiency, supporting productive activities and increasing returns on invested capital;
- broadening the scope for private sector involvement in the ownership of state-owned assets;
- enforcing the principles of corporate governance in public sector companies, as well as ensuring efficient management.

Launched in 2004, the Asset Management Program has already produced significant results:

- A large portion of debts due to banks by public corporations has been settled,

reducing the balance of debts by public corporations from EGP 31.5 billion in 2003/04 to EGP 8.1 billion in 2007/08.

- the performance of public corporations has improved during the period from 2003/04 to 2007/08 showing some profits after years of losses. The overall profits of the public sector increased from EGP 92 million in 2003/04 to EGP 5.2 billion in 2007/08.
- Restructuring public corporations to upgrade their financial and managerial capabilities as well as building the capacity of employees of these corporations (including training of managers on governance issues). These restructuring initiatives were implemented in several companies. For example, the restructuring cost of the Egyptian Iron and Steel Company reached EGP one billion and that of the Egyptian Aluminium Company reached a

total cost of EGP one billion. The global cost of all these restructuring initiatives over the past years (2004 – 2008) reached EGP 8 billion (financed out of the proceeds of privatization, see below).

- A portion of the proceeds from the sales of various public companies or shares was utilized to restructure and upgrade public enterprises as part of the government's plan to use the proceeds in its plan to upgrade state-owned and public enterprises.¹⁸

Over the past four years (2004/05 – 2007/08), the privatization process has picked up. The volume and number of transactions was relatively high compared to the previous years. It is important to note that privatisation concerned sectors which were previously considered as strategic, and closed to privatisation such as banking, cement, telecommunication and petrochemicals.

Within the framework of the Asset Management Program and under the supervision of the Minister of Investment, a proposal was put forward for discussion to adopt a new scheme, the “popular privatization” covering 80 to 100 public companies out of a total of 153 lined up for privatization under law 203 and maybe other state-owned companies. Under the proposed scheme, the government would distribute shares to around 40 million Egyptians aged 21 years and above, thus entitling them to shares in the companies. This initiative is still under study and a draft law was under preparation to be presented to the parliament at a later stage. While the scheme has been approved by the prime minister, it is currently on hold given the turmoil of international financial markets.

2.1.4.2 Investment Support

In addition to attracting foreign investors through privatization, Egypt successfully managed to attract foreign direct investments with the objective of creating

value and jobs. The government introduced several changes in the legislation framework to provide equal treatment for investors and safeguard their rights. The labour law introduced in 2003 allowed more flexible hiring and firing of workers. The government also announced its commitment “to create an environment capable of attracting foreign investments and channelling capital into its various economic sectors”. [Source: Web page of Egypt Invest]

The improvements introduced by the Egyptian government created a better investment climate, attracting foreign investors to engage in various projects. This was reflected on inflows from Foreign Direct Investments (FDIs) (see above table 9). FDIs jumped from USD 407 million in 2003/04 to USD 13.2 billion in 2007/08. It is worth mentioning that inflows from FDIs amounted to USD 4 billion in the first quarter of 2008/09, declining from the same period in the previous year, where they stood at USD 7.8 billion. This could be attributed to the global financial crisis as detailed earlier.¹⁹

In addition to FDIs, the government strategy also aims to promote Public-Private Partnership Projects (PPP) to provide a new source of investment capital for required infrastructure projects, reduce government borrowing, drive the creation of local long-term funding markets, create a new private sector facility management market, stimulate job creation and increase the quality of public services. Within this initiative, the Ministry of Finance established a PPP “Central Unit” to be in charge of the study, application, implementation as well as coordination with line ministries and with the private sector to develop the PPP theme in a policy framework and a clear action plan.

The PPP Central Unit is also ensures that project proposals are supported by sound analysis, receive the necessary budget approvals and that partner

¹⁸ Ministry of investment publications 2004- 2008

¹⁹ Ministry of Investment, Quarterly report March 2009

selection takes place through fair and transparent competition. The Central Unit is conducting its tasks in co-operation with international experts/consultants with wide experience.

To further attract PPP investments, a special law has been drafted to clarify the PPP legislative framework and to establish the required institutional implementation guidance and it will be presented to the parliament for approval.

2.1.4.3 Support to SMEs

In its SME strategy development review in March 2005, the government recognized the importance of SMEs in Egypt. They account for almost 90% of all private productive units in Egypt and the greatest source of job creation. According to recent studies, micro, small and medium enterprises contribute about 80% of total value added and attract 47% of total investments. Moreover, their input into the country's exports reached around 20% (both directly and indirectly). SMEs provide affordable goods and services that suit the lower and lower-middle income groups - which account for 57% of the population – and they are highly interrelated to the informal economy. Such a high level of informality limits SMEs access to a wide range of formal services, in particular, credit facilities.²⁰

For these reasons, the current national policy addresses ways and means of developing the capacities of SMEs. The main goals are to remove obstacles hindering the development of SMEs (especially high costs of compliance with regulations dealing with enterprise establishment, operations and growth; major difficulties in access to capital; low level of non-credit financial services). The new strategy is based on a comprehensive cooperative operation in which all government agencies, civil society organizations and the private sector play an active role, in addition to support from the

Canadian International Development Agency (CIDA) and other donors.

A law has been passed establishing the legal framework for the promotion of small enterprises (Law No. 141/2004). This law aims at providing incentives and facilitating the procedures necessary to establish and start up SMEs. The text defines both small and micro-enterprises and states the procedures for their establishment. The Social Fund for Development (SFD) is designated as the coordinator of all governmental bodies and other non-governmental institutions involved with small and micro-enterprises.

In view of addressing issues of access to financing faced by SMEs, the law includes some provisions for the regulation of the financing of small and micro-enterprises (in addition to the funds provided by the SFD): establishment of trust funds in each governorate to finance small and micro-enterprises through civil associations and institutions (funds can be derived from the government or from grants and donations of national and international financing institutions). None of these funds has been established. There is also a three-year tax exemption starting one year after the business' registration.

In line with the government's initiatives to support SMEs, CBE has agreed to waive the mandatory 14% reserve requirement on deposits for amounts equal to loans extended to SMEs (defined according to CBE declared definition). The impact of this decision on the market cannot be assessed as it has only been effective in 2009.

Some instruments were enhanced by the 2004 law, but its impact has been insufficient, and a new law is being drafted for micro-finance to boost the sector. Micro Loans and micro-insurance are offered by several programs designed for individuals for income-generating activities as well as for the development

²⁰ Egypt Book, CI Capital research publication, December 2008

of micro- and small enterprises. They are being offered through banks (the biggest being Banque du Caire), NGOs, the SFD regional offices and business associations (e.g. ABA). A draft law for micro-finance institutions will be presented to parliament for approval within this year (more probably early 2010) to allow for the establishment of micro-finance institutions. According to the new law, the MFIs will need to have a minimum capital of EGP 20 million and will need to be licensed in order to operate. The new law does not authorize them to collect deposits.

Venture Capital (VC) is not yet very common in Egypt. However, it is an important source of financing SMEs which have a huge potential. The main investment funds that are active in Egypt are targeting mature stage financing (mainly for large and mega projects). However, it is important to note that within the last year, three VC funds targeting SMEs have been launched, though none started operation yet (August 2009).

2.1.4.4 Export Promotion

Total trade (imports and exports minus services) accounted for a quarter of the GDP before 2000/01. It has been growing and is expected to continue growing in the next few years to reach more than 30%. Imports are increasingly pushing out local products, and the government is trying to reverse the trend. Items concerned are mostly equipment and materials for the local industry such as machinery and vehicles, and consumer goods such as livestock, food and beverages. Exports are mainly raw materials such as crude oil, raw cotton and other crops, as well as oil products, textiles, metal goods and cement, but they have been affected by world prices and the range of products sold is still narrow (see Para 1.4.1.).

The association agreement signed with the European Union on 25 June 2001 came into force in June 2004 after ratification by the Egyptian, European and EU member-state parliaments. This agreement creates an area of dialogue, cooperation

and trade between EU countries and the 12 southern Mediterranean states, and it has certainly contributed to the strong increase in trade between Egypt and EU countries.

Law No. 155/2002 Export Promotion

Exports are essential for Egypt's economic recovery and a source of future growth; therefore, they have been and are still a priority in the government's agenda.

The export promotion law came into effect in October 2002. It gives the Trade and Industry Ministry the authority over the export policy. This institution, therefore, issued the necessary rules and regulations to achieve higher levels of exports, open up new markets and work on increasing the competitiveness of the exporting sectors in global markets. This law also aims at improving the customs rebate system for exporters by establishing a central unit under the joint supervision of the Ministries of Finance, and Trade and Industry to oversee the system. It also establishes an "Export Promotion Fund" financed at least in part by fees levied on imports. This fund is providing support to exporters affected by the international crisis. The support has enabled them to continue exporting and maintaining their market share.

2.1.4.5 Quality Control

Egypt's membership of the WTO/Technical Barriers to Trade Agreement implies that the technical regulations, standards and conformity assessment procedures should follow the principles of no discrimination, harmonization with international standards and transparency. Compliance is not always the case, but Egypt is genuinely seeking to bring mandatory regulations into conformity with such principles and, thus, with EU legislation and practice.

The Egyptian Organization for Standardization and Quality Control (EOS) is the only official and competent body in charge of standards and it is under the

supervision of the Ministry of Trade and Industry. In Egypt, there were more than 5,600 standards, 95% of which were voluntary, but regulatory ministries could adopt technical regulations when health and safety were involved. Verification of compliance was the responsibility of agencies affiliated with several ministries, including the Ministry of Health, Agriculture and, for imported goods, the General Organization for Import and Export Control (GOIEC) responsible to the Ministry of Trade and Industry. The administration of standards was made more complicated by the fact that their enforcement was carried out by different ministries, with little or no inter-agency coordination. An effort to harmonize all Egyptian standards with international standardization was under way in 2004 by EOS whereby most of them are already online and publicly available. This is still on-going in 2009. Egypt has also established an Egyptian Accreditation Council (EGAC).

The Industrial Control Authority is one of the service institutions affiliated to the Ministry of Trade and Industry responsible to develop world-class quality standards, in respect to global economic changes. Unfortunately, in practice, this institution is not active.

2.1.4.6 Land Ownership and Land Registry

Land ownership by foreigners is governed by three main laws and their amendments which, inter alia, exclude foreign ownership of agricultural land. The laws in question are:

- Law No. 15 of 1963 provides that no foreigner, whether physical or legal persons, may acquire agricultural land.
- Law No. 143 of 1981 governs the acquisition and ownership of desert land. Certain limits are placed on the number of feddans (one feddan is equal to approximately 0.42 ha) that may be owned by individuals, families, co-operatives, partnerships and corporations.

Partnerships are permitted to own 10,000 feddans. Joint stock companies are permitted to own 50,000 feddans. Partnerships and joint stock companies may own desert land within these limits even if foreign partners or shareholders are involved, provided that at least 51 percent of the capital is owned by Egyptians. However, upon liquidation of the company, the land must revert to Egyptians. Article 1 of Law No. 143 defines desert land as land that is two kilometres outside the border of the city. Further, the lease of such land for more than a period of 50 years shall also be considered to be ownership under Law 143. Although companies formed under the Investment Law No. 8/1997 does not require Egyptian participation, companies that undertake projects over desert land must have an Egyptian majority (the President of the Republic may decide to treat Arab nationals as Egyptian nationals for purposes of this law.).

- Law No. 230 of 1996 supersedes Law No. 56 of 1988. This law allows non-Egyptians to own real estate whether built or vacant with the following conditions:
 - that ownership be limited to only two real estate properties throughout Egypt for accommodation purposes for the person and his family (family meaning spouses and minors), in addition to the right to own real estate needed for activities licensed by the Egyptian government;
 - that the area of each real estate must not exceed four thousand square meters,
 - that the real estate is not a historical site.

Exemption from the first and second conditions is subject to the approval of the prime minister. Ownership in touristic areas and new communities

is subject to conditions established by the cabinet of ministers. Furthermore, non-Egyptians owning vacant real estate in Egypt must build within a period of five years from the date their ownership becomes effective (the date on which the realty is recorded at the competent Notary Public Office). Non-Egyptians may only sell their real estate five years after registration of ownership, unless the consent of the prime minister is obtained.

The main issue is still the absence of proper land registration probably because of the high cost of registration (until the recent change) and the administrative burden. The current cost of changing a title in the land registry has been recently changed from a fee-based structure to a fixed fee structure. The main objective is to segregate between taxes (denominated in a percentage of the value) and the service fees (at fixed cost). This was designed to reduce the cost so as to encourage owners to register their property. However, the procedures are still relatively lengthy and usually require the assistance of a lawyer.

2.1.4.7 Public Service and Administration

One of the impediments to private investments has always been the poor public services. The government has been aware of the extent of the problem and its negative impact on potential investors. The Ministry of State for Administrative Development has been mandated to help improve the quality and performance of public services. The authorities have started to outsource certain activities to reorganize the workflow in certain services so as to avoid duplication and delays. They are also automating several services such as the issuance of IDs, birth certificates, and death certificates. This process is on-going.

In addition, this ministry is also carrying out an annual assessment of the services provided by government entities. The best performing units are given an official recognition and final bonus.

2.2 Legal and Regulatory Framework, and its Implementation

2.2.1 Creation of a Company

Investors interested in establishing businesses in Egypt are subject to four laws: Corporate Law No. 159 of 1981; Investment Law No. 8 of 1997; New Communities Law No. 59 of 1979; and the Desert Land Law No. 143 of 1981. All companies established in Egypt are governed by the Corporate Law No. 159 of 1981 and the Commercial Law of 1883.

Egyptian law provides the following organizational forms for investors:

- joint-stock companies and partnerships limited by shares
- limited liability companies
- joint partnerships and limited partnerships, which are more suitable for small projects, but which would require a minimum of 51% Egyptian shareholding;
- branches and representative offices for a foreign parent company.

Within this framework, the most favourable form of foreign investment is the joint stock company, normally set up under Law No.8. Acquisitions and takeovers must be done through GAFI for firms that are established under Law No.230 and Law No.8, although foreign takeovers remain rare.

The government has undertaken a key initiative to reduce bureaucracy in the registration of new businesses and investments. GAFI, the general authority in charge of investment promotion and free zones, has organized a single one-stop shop that offers a quick procedure to create and register a new enterprise and investment. Representatives of various related ministries and institutions are on GAFI premises to establish direct contact with customers. Company

registration takes two days and other official authorizations and permits are obtained within 15 days. The Social Fund for Development (SFD) has also established one-stop shops for micro- and small enterprises (i.e. less than 50 workers) according to the specialized law for SMEs in almost all its branches in the different governorates. The maximum period to obtain all authorizations in the case of SFD is 30 days. After that, the SFD will be able to deliver a provisional register to the entrepreneurs. In practice, GAFI and SFD, acting as interfaces between the entrepreneur and the administration, are, through this system, forcing the whole administration to streamline their procedures and reduce bureaucracy.

2.2.2 Exit Framework

Currently, a new bankruptcy law is in the pipeline and is expected to be presented to the parliament for discussion in the upcoming parliamentary session. Appendix IV presents a detailed table listing the main deficiencies and recommendations for reforms in the country's bankruptcy system.

Egypt needs a clear and predictable market exit policy in order to improve productivity, promote investments and credit flows, and protect the rights of various stakeholders. An in-depth analysis of the bankruptcy system reveals that Egypt needs to introduce a more efficient system that is effectively enforced and provides appropriate incentives for debtors, creditors and bankruptcy trustees to reorganize potentially viable firms thereby preventing their premature liquidation.

In Egypt, barriers to market exit such as excessive costs and bureaucracy have adverse effects on the allocation of assets, efficiency and stability as well as on equality and fairness. Exit restrictions can lead to increased disputes between various shareholders which, in turn, result in higher transaction costs and a loss of rights, ultimately undermining the investment climate. Furthermore, not having a bankruptcy law makes the process long and inefficient.

To be defined as efficient, a bankruptcy system should, first and foremost, reduce the costs of procedures, and the procedures should maximize the total value available to be divided between the debtors, creditors and, possibly, other interested parties.

Egypt's bankruptcy system is more expensive than those of other countries. As calculated by the World Bank in 2004, the cost of the entire bankruptcy process accounts for about 18% of the bankruptcy estate, compared to 13% in other Middle East and North African countries, 15% in Latin America and 17% in East Asia.

After the full administration of the bankruptcy estate, only a small sum is usually left over for distribution among creditors, who receive far less than even partial satisfaction of their claims. As a result, creditors tend to opt for informal workouts or settlements since the formal system does not help to mitigate their losses.

Excess delays constitute another problem, characteristic of the Egyptian bankruptcy system. A bankruptcy case takes more than four years to be resolved in Egypt, longer than in countries at similar levels of economic development. The average time needed by Egyptian joint-stock companies to finalize bankruptcy procedures differs from one industry to another. It ranges between two and a half years for companies working in the tourism sector, to more than six years for those in the agricultural sector. (Source, General Authority for Investment and Free Zones).

Expensive, drawn-out and inefficient bankruptcy procedures make creditors unwilling to push for a formal bankruptcy resolution. Creditors fear that their claims will likely be trapped in the bankruptcy process indefinitely and will not be resolved in a timely or satisfactory way. They therefore see informal workouts or out-of-court settlements as a way to get something in the short run rather than receive less or nothing at all after the administration process has consumed nearly all of the estate. A new reform is therefore not only necessary, but also

urgent. The main rationale for such a reform is that a reorganization is often preferable to liquidation, and success will preserve job opportunities, achieve social equality and help stimulate economic growth.

2.2.3 Foreign Trade Framework

Egypt has signed a number of international agreements which will facilitate its exports. These agreements aim to open new markets for Egyptian products as well as facilitate and increase the volume of existing trade.

Agreements signed include:

- The EU/Egypt Association Agreement
- COMESA. Common Market for Eastern and Southern Africa
- Bilateral Agreements with Arab countries
- Agadir Agreement
- Qualified Industrial Zones (QIZ)

Details on the different trade agreements are available in Appendix V

2.2.4 Competition

In January 2005, Egypt enacted its first Competition Law which prohibits anti-competitive practices and establishes a regulatory authority to implement the law, the Egyptian Competition Authority (ECA). It prohibits producers and distributors from undertaking steps that can directly or indirectly harm consumers. Since 2006, the ECA has been receiving assistance to improve its operations.

In practice, the investigations into breaches of the competition law are initiated either by the ECA itself, the minister of trade and industry or by a company that registers a complaint. If an issue is found to fall under the framework of the ECA and under the jurisdiction of the competition law, the executive director of the authority initiates an investigation into this case. The investigating team follows three key steps: data collection, determination and assessment of the “relevant market” and, finally, a

determination of the type of violation. All complaints are dealt with on a case-by-case basis. However, as criminal cases, all violations require hard evidence to pursue prosecution and convince the court.

It is worth mentioning that in 2008, Egyptian courts rendered a landmark decision against nine cement companies for engaging in anti-competitive behaviour. This cartel case is a significant milestone and a signal in Egypt as it resulted in a major monetary penalty (USD 37.7 million for each company) against the defendants.

2.2.5 Egypt's Judiciary and Legislative Framework

2.2.5.1 The Judiciary

Egypt has one of the most highly developed and influential judicial structures in the Arab world. Given that modern judicial reform began in Egypt much earlier than in other countries, and because of the early development of legal education in Egypt, many Arab countries have drawn on the Egyptian model and their expertise when embarking on their own programs of judicial reform.

➤ Constitutional Provisions for the Judiciary

Egypt has one of the earliest constitutional traditions in the Arab world. Its 1971 constitution contains provisions for the judiciary that reflect this heritage. There are strong pronouncements guaranteeing the right to litigation, the presumption of innocence and the ability to resort to one's “natural judge.” There are also some influences from Egypt's socialist period, with provisions for popular participation in justice and for a “Socialist Public Prosecutor.” In recent years, the more liberal provisions of the Egyptian constitution have come to the fore, especially under the watchful eye of the country's Supreme Constitutional Court. Other elements such as the Socialist Public Prosecutor have not been repealed, but they have diminished in importance.

➤ **Court System Structure: Common Court System**
The Common Court System is composed of four tiers, including summary courts, first degree courts, courts of appeal and the supreme court.

➤ **Summary Courts**

Summary courts have jurisdiction over cases involving misdemeanours and minor offences; civil and commercial cases, the value of which does not exceed LE 5,000, as well as minor personal status issues and labour disputes arising between employers and employees.

➤ **First Degree Court**

The first degree courts have jurisdiction over all cases involving matters whose value exceeds EGP 5,000 and all major personal status matters, subject to a right of appeal to the courts of appeal. They also have jurisdiction over appeals against decisions of the summary courts in civil and commercial cases and misdemeanour criminal offences.

➤ **Courts of Appeal**

Courts of Appeal are located in Egypt's major cities. They have jurisdiction over appeals from civil, commercial and personal status cases decided in the first instance by first degree courts. Furthermore, they have jurisdiction over cases involving major crimes whose penalty is death or imprisonment ranging from three to twenty-five years with hard labour.

➤ **Supreme Court**

The Supreme Court only hears appeals on final judgments of the Courts of Appeal and is only available if a breach of law is claimed as the basis for the appeal.

➤ **The Administrative Court System**

Egypt's judiciary, which is similar to those of France and Italy, does not have the power to interfere with, repeal or nullify an administrative decree. However, a court may award compensatory damages caused to a party by such an administrative decree.

The only possible recourse regarding administrative decrees is to bring a suit before the Council of State.

The Council of State is composed of university-trained judges. It alone is vested with the power to declare invalid and revoke illegal, arbitrary, or abusive administrative decrees issued by government officials and ministries.

The Superior Constitutional Court was established in 1969 and is given exclusive jurisdiction to decide on issues regarding the constitutionality of laws, rules and regulations.

➤ **Personal Status Issues**

Personal status issues are dealt with by the courts of general jurisdiction. There is no special personal status or shari'a judiciary, though the regular courts do have designated sections for personal status cases. Personal status law has been codified for Muslims and Coptic Christians. In other cases, the judiciary works to apply sectarian law.

In 2004, the Egyptian government introduced a new initiative to improve the delivery of justice in cases related to family law. It created a new court system, the family courts, and established mediation offices for families seeking to resolve their legal issues through those courts.

➤ **Prosecution System**

Egypt was a pioneer in its adoption of a "niyaba" system in which the investigation and prosecution of crime is a judicial function. Members of the niyaba are part of the Egyptian judicial corps, and many (though hardly all) judges begin their careers as members of the niyaba. The niyaba is headed by the Attorney General (al-na'ib al-'amm).

The members of the niyaba are treated like judges in all respects and thus have a large degree of independence.

➤ **Appointment/Assignment/Evaluation of Judges**
The Egyptian constitution of 1971 provides for a "Supreme Council of Judicial Organizations." The creation of this body occasioned considerable controversy because it included executive branch appointments and seemed to remove some of the

judiciary's hard-won autonomy. Accordingly, in 1984, most of the appointment and assignment of judges was returned to the "Supreme Judicial Council" which consists entirely of judges (most of whom serve by virtue of their office) or judicial personnel. This makes the Egyptian judiciary one of the most independent in the Arab world.

While the Supreme Judicial Council thus serves as an important bulwark to Egypt's judicial independence, its authority over some matters involves consultation or approval rather than initiation of action. This is especially the case with some very senior judicial appointments (such as the Attorney-General).

Other judicial bodies (such as the Council of State and the Supreme Constitutional Court) have separate procedures. Many (but not all) of these contain their own guarantees of independence even if they are out of the Supreme Judicial Council.

Judicial inspection and discipline are carried out by judicial personnel seconded to the Ministry of Justice. Their recommendations are submitted to the Supreme Judicial Council.

➤ Administration and Relationship with Ministry of Justice

The Egyptian judiciary has not yet achieved as much budgetary and administrative autonomy from the Ministry of Justice as it would like, though it has greater autonomy than many of its Arab counterparts. In recent years, there has been a dedicated effort to maintain judicial salaries (though the government has not been able to be as generous with support staff for the courts). Some courts complain that they suffer from under-budgeting, forcing them to make periodic requests for supplementary funds from the Ministry.

Over time, the judiciary has successfully obtained a considerable degree of autonomy from the Ministry of Justice. There have been some reversals in this process, most notably in the 1960s and

1970s. However, since 1984 there can be no doubt that the basic framework for Egyptian judicial independence has been laid. In the years immediately following the 1984 reform, there were occasional clashes between the judiciary and the ministry on the application of the law, but those have been largely resolved.

➤ Specialized Courts

Egypt has some systems of specialized and exceptional courts. The regular court system has specialized courts for some matters (such as taxation and customs as well as family issues).

A recent addition to these courts is the newly established "Economic courts" which are finally up and running. As of 1 October 2008 these specialized courts began to look into economic disputes, hear cases and conduct criminal trials. Economic courts, established under Law 120/2008, are welcomed by the business community as a vital addition to legislation governing economic activities in Egypt. Their creation is intended to ensure speedy settlement of disputes by qualified judges. The courts will look into disputes emanating from 18 laws, including laws on bankruptcies, capital markets, intellectual property, consumer protection, investment, insurance and telecommunications.

There is also a dual system of security courts. Permanent state security courts have two levels and draw their judges from the regular court system. In addition, a "State Security Court—Emergency Section" exists with much more direct executive involvement in its composition and jurisdiction. The permanent state security courts allow some basis for appeal; the Emergency Section allows no judicial appeal, but the military governor (under a state of emergency) is allowed to affirm the verdict or order a retrial. Military courts exist generally to try those cases involving the armed forces, but during a state of emergency, the president is authorized by the law of the military courts to transfer crimes to them.

A Court of Ethics was created to try cases of corruption and illicit economic gain. The public prosecutor is the only body authorized to bring cases to this court. While most of its members are professional judges, respected public personalities are added to the bench as well. The Court of Ethics has two levels.

When Egypt's constitution was amended to allow a multi-party system, a new body was created to determine the legality of new parties and their eligibility to contest elections. While generally referred to as the "Parties Court," this body is as much a political as a judicial body.

There is an extensive administrative court system, attached to the State Council (Majlis al-Dali). Established in 1946, the Egyptian administrative courts are among the most developed in the region. They have jurisdiction over any case in which the state is a party.

Finally, the Supreme Constitutional Court is an independent judicial body that has jurisdiction over matters of constitutional interpretation. The court receives cases referred to it by other courts when there is an issue regarding the constitutionality of a law, regulation, or administrative decision. Its decisions are final and binding on all official bodies. The court may also offer constitutional interpretations when requested by certain official actors and it also plays a role in cases when there is a clash of jurisdiction among judicial bodies.

➤ Judicial Education

Egyptian judges generally begin their careers when they graduate from law school and are selected on a competitive basis. Cairo's National Centre for Judicial Studies, one of the leading judicial training bodies in the region, has been called upon to play an increasing role in preparing judges for their work. The Centre is constructing a full two-year program for new members of the judicial corps. The Centre has also stepped up some efforts to provide continuing education for judges. Some other Arab countries send judges for training to the Centre as well.

2.2.5.2 Laws and Regulations

Formulating a whole new set of laws and regulations for a free market economy is not an easy task for a country that has lived under socialism for many years. Most of the laws needed for the new era have just been passed or are still being formulated or debated in Parliament. Environmental law and a new labour law were passed a few years ago. Laws which have recently been passed or still pending cover the areas of PPP, non-bank financial services, micro- finance and companies law.

Delays in passing and enforcing laws in the areas of social welfare and ethics are a common occurrence in emerging countries. These countries give higher priority to economic growth over social welfare. For example, while the international code on breast-milk substitutes marketing was supported internationally by powerful NGOs and international organizations, it suffered from limited compliance from emerging countries.

In addition to confusion over priorities, delays in the articulation process could be due to difficulties in envisioning consequences or to resistance by established interests.

In formulating a law or a regulation another conflict that needs to be resolved is between the jurisdiction of different ministries or administrative units as well as between those affected by the law.

A Constitution

The Egyptian constitution of 1971 upholds socialist principles and makes room for economic market relations at the same time. Both public and private property is recognized, albeit with a trace of unconditional trust in public ownership and trust in private property conditional upon it being un-abusive. Market economics is limited by certain objectives such as fairness of distribution, eliminating unemployment, sharing profits. The state guarantees

its role as provider of social goods such as education, health and cultural products; but it is only in the case of education is free provision explicitly stated. The constitution provided for constitutional monitoring and review by entrusting this function to a higher constitutional court. The latter has played a reasonably liberal role since its inception, defending private property and privatization.

On March 26, 2007, 34 amendments to the Egyptian constitution were approved in a popular referendum. Revised Article 88 curtails judicial supervision of general elections and transfers oversight responsibility to an electoral commission. Revised Article 62 changes the electoral system from a “candidate centred system” to a mixed system of party lists and individual districts. This amendment also establishes a quota for female representatives in parliament.

B Specific Economic Legislation

➤ Investment

Egypt’s investment regime has seen six regulatory changes since 1971 (law 65/1971, law 43/1974, law 32/1977, law 230/1989, law 8/1997, and law 83/2002). The common feature of this regulatory framework is the provision on tax and other exemptions to local and foreign investors, and the specification of certain fields of activities where investors could get approval (18 in the 8/1997 law) and most recently providing for the establishment of special industrial zones (83/2002). All investment laws in Egypt have had limited effect on investment flows which have been dwindling, especially in the 1990s. The Companies Law No.159 of 1981 is the basic law governing the establishment and operation of companies in Egypt. Investment Law No.8 of 1997 introduced more incentives to private and foreign investments in Egypt and it is considered an improvement to the regulatory framework. Among its most essential provisions is the grant of national treatment to foreign investments. However, official approval is still required for all foreign direct investment firms.

The majority of foreign companies now choose to register under the Investment Law No.8, under the administrative authority of the General Authority for Investment and the Free Zones (GAFI). The law allows 100% foreign ownership and permits foreign investment in 16 distinct fields, some of which were previously restricted, including industry and mining, tourism and oil production and related services. The Executive Decree of August 1997 added petroleum refining and cinema production. Other fields still require prior approval from interested ministries before an investor can approach GAFI (for example, all military products and related industries; tobacco and tobacco products; any investment in the Sinai).

Investment law No.8 does not impose any restrictions on the number of Egyptian employees that have to be hired in the foreign company, but Companies Law No.159 requires that the majority of the directors must be Egyptian and employees must be represented on the board. Under Law No.8 companies – regardless of the level of foreign ownership – have the right to possess and own buildings and land as necessary for the exercise and expansion of their business. Companies and projects are protected against nationalization or confiscation by article 9 of the Egyptian Constitution and article 9 of the Investment Law No.8.

Incentives available under this law include:

- guarantees against expropriation or suspension of license (the license cannot be revoked or suspended);
- tax incentives (basic tax exemption lasts 5 years, starting from the fiscal year during which the productive activities begin). As mentioned above, these tax incentives have been cancelled by the new tax law for the new companies being incorporated. However, companies already established will keep their tax incentives;
- custom and Import Incentives (a flat rate of 5% is assessed on the value of equipment and machinery needed for the establishment);

- price control and profit margins (they are not applied for projects established under this law);
- exemption from Egyptian laws (certain labour requirements are exempted);
- repatriation of profits and repatriation of capital (both can be freely repatriated after the liberalization of the exchange market in 1991).

To qualify for these benefits and privileges, and in order to receive requisite Egyptian government approval, certain specified procedures must be followed, and they are specified in the Executive Regulations. The tax incentives have been abrogated for the new companies created under law 8/97 while existing companies will continue to benefit from the tax exemption.

Investment Law No. 8 of 1997 specifies those fields in which a company may receive the incentives and guarantees. These fields include: reclamation and cultivation of barren and desert lands; animal, poultry and fish production; industry and mining; hotels, motels, boarding houses, tourist villages, tourist travel and transport; transport of goods in cooling vans, cold stores for preservation of agricultural products, industrial products, food stuffs, containers stations and grain silos; aviation transportation and services directly connected therewith; overseas maritime transport; all service for jigging and exploration operations, transport and delivery of gas; housing projects, with housing units leased wholly empty for non-administrative housing purposes; the infrastructure comprises drinking water, drainage water, electricity, roads and communications; hospitals and medical treatment centres; financial leasing; guaranteeing subscription to securities; risk capital; production of computer software systems; and projects funded by the Social Funds for Development. The Council of Ministers can add more fields to the mentioned ones.

Egyptian, Arab and foreign investors have the right to act separately or together in activities falling

under any of the fields of investment outlined under the law.

➤ Property Rights

The institutional framework on property has seen an important development with the passing of the intellectual property law in 2002. This law overhauled several laws which governed property since the 1950s. Despite being a positive step that might attract foreign investment, the law has provoked a debate between those who question its benefits to domestic investors, especially in sectors such as pharmaceuticals and software; and those who expect long-term benefits also for domestic industries.

C Labour Law

The Egyptian labour market is now regulated by the new unified Labour Law No. 12 for 2003. The Law comprises 257 articles that address all the legal aspects regulating the Egyptian labour market and replaces the Law 137 of 1981 and the Articles 674 to 698 of the Egyptian Civil Code (1948).

The law aims at increasing private sector involvement and, at the same time, achieving a more equilibrated balance between the rights of employees and employers. Amongst the most important issues that the new law addresses is the right of an employer to dismiss an employee and the conditions pertaining to this as well as granting employees the right to carry out a peaceful strike according to controls and procedures prescribed in the new law. The new law also allows employers, for economic reasons, to fully or partially close down or downsize their firms, impacting the size of the employed labour force.

The old labour law was a significant business impediment, particularly the difficulty of dismissing employees. According to foreign investors, the 2003 law is more flexible allowing employers and employees to terminate employment contracts under specific circumstances identified by the law and ministerial decrees.

The Unified Labour Law provides comprehensive guidelines on individual labour relations, including organization of work, and recruitment and termination of employees in Egypt, in addition to vocational guidance, training, health and safety. The law equates the rights and regulations of employee-employers relationship in all sectors except government employees, or individuals working for government ministries and agencies. Previously, employees of various sectors were governed by separate laws, which created a lack of standardization between all employees.

The law establishes rules and guidelines governing mediation, arbitration, and collective bargaining between employees and employers. Non-discrimination clauses are included, and the employment and training of women and eligible children is regulated by the law in accordance with labour related International Labour Organization conventions. The law creates a national council to discuss and establish a national minimum wage policy and a national committee that formulates general policies for employment in Egypt. The National Wage Council met several times in 2004 to discuss the problem of increasing prices and stagnant wages.

Workers may join trade unions, but are not forced to do so. A trade union or workers' committee may be formed if 50 employees express a desire to organize. Most union members, about 27 percent of the labour force, are employed by state-owned enterprises. All trade unions are required to belong to the Egyptian Trade Union Federation (ETUF). The International Labour Organization's Committee of Experts has emphasized repeatedly that a law requiring all trade unions to belong to a single federation infringes on the freedom of association, but the government has not changed the law.

The law provides statutory authorization for the rights to strike and to engage in collective bargaining. Workers have the right to strike peacefully, provided the trade union organizes the strike in defence of vocational, economic, and social

interests and announces it at least ten days in advance. They must also notify the employer and concerned administrative officials of the reasons and time frame of the strike. The law prohibits strikes in strategic or vital establishments in which the interruption of work could result in disturbing national security or basic services provided to citizens.

Collective negotiation is allowed between trade union organizations and employers or their organizations when attempting to improve labour terms, conditions, and employment provisions; cooperating between labour parties to achieve social development for workers of an establishment; and settling disputes between workers and employers. Agreements reached through negotiations will be recorded in collective agreements regulated by the Labour law. The labour law allows employers to fully or partially close down or downsize their firms for economic reasons. Parliament passed an Emergency Subsidy Fund in June 2002 to compensate employees whose wages are suspended due to partial or complete closure of their firm or due to downsizing. The law states that financial resources for the fund will come from a one-percent deduction from the base salaries of public, public enterprise, and private-sector employees in firms with over 30 workers. Government contributions and outside donations will also provide support. Press reports indicate the fund has been used in a number of cases where difficult economic conditions and some privatization deals have resulted in the downsizing of companies.

Between 2008 and 2009, labour strikes become widespread as inflation increased and average incomes stagnated. A congressional report published in 2009 on the US-Egyptian trade relation quoted Hamdi Abdelazim, an economist and former president of the Cairo-based Sadat Academy as saying: "The success of labour actions in 2007 and 2008 encouraged workers to demonstrate and call strikes to realize long-standing demands.... Many people now see labour strikes as the only means

of forcing the government to address their grievances.”

2.2.5.3 Arbitration

The Cairo Regional Centre for International Commercial Arbitration (hereinafter CRCICA) is a non-profit international organization operating in Egypt since 1979 according to an international agreement signed between the Egyptian government and the Asian African Legal Consultative Organization (having more than 45 member-states). The aim of CRCICA is to contribute to economic development in both Asian and African countries through the provision of specialized services to prevent or help settle trade and investment disputes, through fair operations of expeditious and economical procedures. This constitutes a wholly integral dispute-resolution mechanism which employs various effective arbitration processes. It includes also Alternative Dispute Resolution techniques (ADR) such as conciliation, mediation and technical expertise.

CRCICA has its headquarters in Cairo and 5 branches (in Alexandria, Port Said) through which it administers domestic and international cases – according to the UNCITRAL Arbitration Rules with parties from all around the world, reaching 440 cases by mid-May 2005,. Maintaining an international list of more than 1,000 arbitrators, CRCICA is increasingly acting as an appointing authority in various cases. The Cairo Centre is therefore becoming a crucial body for the administration of domestic and international arbitrations, and it provides administrative and technical assistance to parties regarding ad-hoc arbitration upon request. It also offers legal opinion during the pre-contractual stages of international commercial and investment contracts.

Moreover, CRCICA also develops capacity-building and training programs, conferences and research activities in the field of international

arbitration and international commercial and investment disputes.

2.3 Governance

2.3.1 General Governance

Egypt is moving towards new forms of public-private partnerships in a new business and investment environment marked by increasing economic liberalization and privatization of state-owned enterprises.

The two main targets of the government’s current economic policy are the promotion of investment and the development of SMEs. To foster an attractive climate for local and foreign investment, the Egyptian government is strongly committed to continuing efforts at streamlining investment procedures, dismantling bureaucratic obstacles and liberalizing business.

On the one hand, the government offers, within the existing framework, direct incentives to investors who carry out commercial activities in Egypt.

- The Investment Guarantees and Incentives Law (8/1997) provides tax holidays, reduced custom duties, guarantees against expropriation, and regarding foreign exchange and repatriation of capital and profit. It also regulates the free zones regime.
- Law No 83 of 2002 established special economic zones (SEZ) in non-urban areas for the purpose of setting up industrial and agricultural services economic zones.

As mentioned in the previous chapter, the cabinet has undertaken an ambitious revision and modernization of key laws such as banking, taxation, competition, non-bank financial services, etc, which have begun showing positive impacts on the business community and on the country’s economic growth.

The current cabinet has boosted this political momentum. Managers with private sector experience have been appointed to key positions in the current administration and the biggest state banks and insurance companies. For example, the Ministry of Investment, which is one of the key departments in the current policy reform, has embraced good principles of corporate governance, including transparency, predictability, consistency and accountability.

2.3.2 Corporate Governance

Awareness of corporate governance has increased significantly in Egypt due to a number of banking scandals and the media's active role. In recent years, the corporate governance framework of state-owned banks has been significantly upgraded with professional managers coming from the private sector. Furthermore, the medium- and large-sized companies, as well as family-owned businesses are more frequently recruiting professional and better trained managers who have broader experience.

In Egypt, there have been a number of major reforms which incorporate the observance of corporate governance principles in the law system. This reflects, in particular, developments that took place in the area of law and regulatory reform for companies and security trading as well as recent changes in regulations (new listing rules, disclosures, etc...) governing the Egypt Stock Exchange. Current weakness are mainly related to two factors: the first one is the need to raise public awareness of the importance of good governance and minority rights among investors, and the second one is to strengthen judicial recourse accorded to those whose governance rights have been infringed upon.

The Egyptian Institute of Directors (EID) was created in Cairo in 2004 (financed by the World Bank and the EU). It works under the umbrella of the Ministry of Investment on strengthening local corporate governance, providing research and

technical advisory services, advise the government on the implementation of new corporate legislation and provide training for local business management. It has already trained directors of public companies (middle management and top management). The Institute has also issued the code of corporate governance for the private sector (Oct. 2005) and the code of corporate governance for state-owned enterprises in Egypt (Jul. 2006). These codes present a comprehensive set of corporate governance principles which define rules and procedures that achieve optimum protection and balance between the interests of directors, shareholders, and stakeholders. The impact of these codes on work practices is yet to be determined.

One of the Stock Exchange's main objectives and priorities is protecting investors. It has approached this objective through monitoring and regulation, as well as providing information. Significant progress has been noted in this field.

With regard to institutional building, the CMA (Capital Market Authority) and other supervisory authorities have been merged into the Egyptian Financial Services Authority. This new institution will license and monitor all non-bank financial services.

2.3.3 Corruption

The perception of corruption varies from source to source. According to the 2007 World Bank & IFC Enterprise Surveys, nearly 60% of companies identify corruption as a major constraint on doing business in Egypt. Reportedly, "the civil service is overstaffed and underpaid, but due to the high level of unemployment and the possibility of extracting bribes, many people are still willing to take positions in the civil service. Moreover, positions are often given to associates and relatives of high-level government officials. The Egyptian civil service system is therefore often characterised by bribery, nepotism, cronyism and patronage".

According to the 2008 US Commercial Service, many investors, while acknowledging the existence of corrupt low-level officials, have not identified corruption as a major impediment to foreign investment. Finally, although companies in the World Economic Forum Global Competitiveness Report 2008-2009 identify inefficient government bureaucracy as the second most problematic factor regarding doing business in Egypt, they only identify corruption as the eighth.

Corruption is certainly an impediment, or a cost to private business. Small gifts are always necessary to “thank” officers who control enterprises, for security, health, social security, etc. Corruption is even mentioned in post-office branches (with some officers being accused of not delivering mails without a “gift”).

However, Egypt has signed the UN convention against corruption (effective December 2005) and has launched a number of initiatives to combat corruption and increase transparency. But corruption is still a very challenging task which will require even some cultural changes. Egypt still has a weak position in the Transparency International Corruption index (118 on 180 countries in 2008).

2.3.4 Society's New orientation

Increasing private sector participation in the economy is widely recognized as a primary element in any strategy for sustaining market reforms and economic development. Moreover, sustained growth in emerging markets is maximized through higher corporate productivity growth and by reaping benefits from capital flows. This process must, however, advance in strict partnership with the public sector, given that without appropriate governance structures, Egypt will find it difficult to participate in, and benefit from, the process of globalization while ensuring a fair distribution of these benefits among the various population segments.

With regard to political and economic reforms in Egypt, the country has witnessed significant reforms on the political, economic and social levels. These reforms started in the early 1990s when Egypt embarked on the comprehensive economic policy restructuring program.

The government has prepared the economy for the new millennium through economic reforms (opening markets and reducing taxes and tariffs) and through massive investments in communications and physical infrastructure. Economic conditions have improved considerably over the last five years after a period of stagnation due to the adoption of more liberal economic policies as well as increased revenues from tourism and a booming stock market.

However, the main concern is that the impact of various reforms has not trickled down to the various strata of society, particularly the lower strata resulting in a general feeling of inequality in the income distribution.

2.4 Human Resources

2.4.1 Population and Active Population

2.4.1.1 Population

High fertility and population growth are still among the major concerns, but it is widely believed that on-going projects designed to increase the amount of arable land will mitigate the consequences of high population density in the Nile Valley. Egypt's total fertility rate (TFR) has fallen from 7.2 children per woman in the early 1960s to 3.2 in 2003 and to 2.89 in 2009. United Nations population projections suggest that Egypt's TFR will decrease to two children by 2020-2025.

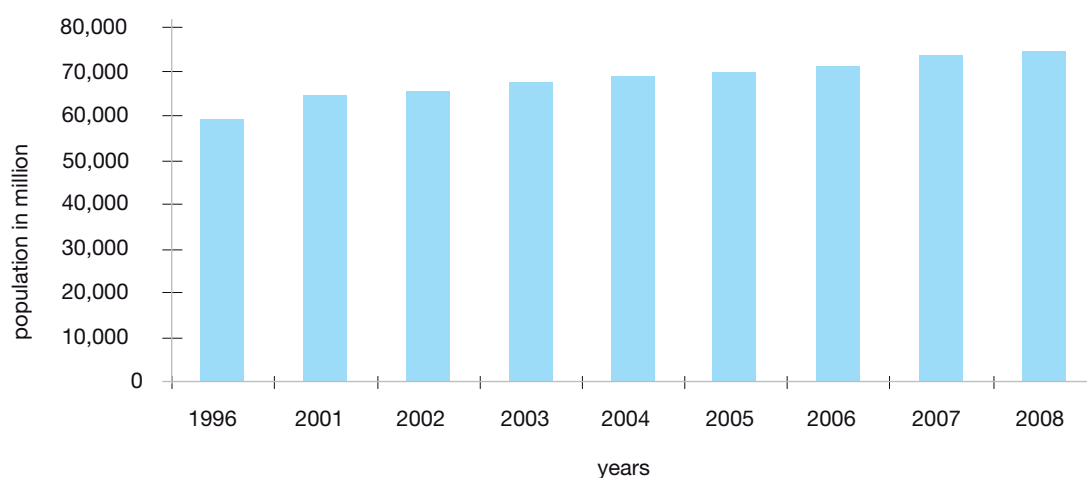
Egypt Private Sector Country Profile - 2009

Quick facts related to the sector

	2004	2009
Population	68,648,489	77,124,962 (excluding Egyptian expatriates)
Population growth rate	1.66%	
Birth rate	26.1 births/1,000 population	25.7 births/1,000 population
Death rate	6.5 deaths/1,000 population	6.3 deaths/1,000 population
Net migration rate	-0.24 migrant(s)/1,000 population	0.2 migrant(s)/1,000 population
Infant mortality rate	58.6 deaths/1,000 live births (2002 est.)	27.26 deaths/1,000 live births
Life expectancy at birth	total population: 70.1 years	Male: 69.5 years Females: 74.0 years Total population: 71.8 years
Total fertility rate	3.2 children born/woman	2.89 children born/woman
Unemployment rate	9.0%	9.37%
Rate of Unemployment for women	22.7%	19.18
Rate of Unemployment for men	5.1%	7.69

Sources: (1) CAPMAS, (2) Ministry of Manpower, (3) ILO

Figure 14-Population growth in Egypt (1996-2008)



Source: United Nations (Population Division, Department of Economic and Social Affairs of the United Nations Secretariat, 2005)

Egypt's population still grows each year by approximately 1.5 million people, or the equivalent of Kuwait's population. United Nations projections indicate that the population will grow from 68.6 million in 1995 to 95.6 million by 2026 and will reach 114.8 million before it stabilizes in 2065 - an increase of approximately 84.4 percent over the current total. This increase will continue as fertility rates are still high in many parts of the country and deaths at birth have decreased. The momentum will continue to cause an increase even after fertility rates reach replacement level.

According to the last 2006 census, 51.13 percent of Egypt's population was male and 48.87 percent female. More than 35 percent of the population was 15 years old or younger, and 64 percent was under 60. Fewer than 3 percent of Egyptians were sixty-five years or older. In 2003, average life expectancy at birth was sixty-seven years for men and seventy-two years for women; however this has increased to sixty-nine years for men and

seventy four years for women. This can be attributed to greater awareness among the population and better health services. The infant mortality rate was 58.6 deaths per 1,000 births in 2004, but according to the latest indicators, it has dropped to 27.26, which is great progress. Although the urban population has been increasing at a higher rate than the rural population since the 1947 census, approximately 56 percent of people still lived in villages in 2003.

2.4.1.2 Active Population

Since the adoption of economic reforms, structural adjustment has produced mixed results. The streamlining and modernization of Egypt's civil service, through civil sector reforms and privatization programs is ongoing. Layoffs are partly responsible for the relatively high rate of unemployment, despite national efforts at job creation. The private sector is helping to provide jobs. However, new entrants in the market are much higher.

Table 16 - Employment by sector and labour market demand in Egypt (2001-2005)

	1998	2009
Sector	%	%
Agriculture	42.0	33.4
Mining	0.2	0.1
Industry and petroleum	11.6	10.5
Electricity	0.7	0.8
Water supply		0.4
Building and construction	5.1	10.5
Transportation	4.4	6.3
Trade	11.6	10.2
Financial services	1.5	0.9
Tourism and hotel	-	1.7
Business services	-	-
Personal services	22.9	-
Education	-	8.9
Health	-	2.5
Compulsory social service & military service	-	7.9
Communication & IT	-	0.9
Others	-	4.9
Total	100	100

Sources: Employment: CAPMAS, Labour Force Sample Survey 1998; compared to sample survey 2009

The table hereunder portrays the distribution of employment by sector and labour market demand according to economic activity

2.4.1.3 Unemployment

The Egyptian government policy in recent years has been to support the private sector to develop and grow as it is the main generator of real jobs. Like public sector companies, the government is no

more capable of providing jobs, as they both suffer from excess labour problems. The Egyptian government recognizes unemployment as a top priority. As such, the government is trying to remove all obstacles facing the private sector and to give incentives to local and international investors to increase and expand investment in Egypt. This is considered the vehicle to create jobs and solve unemployment which is a social and political priority in Egypt.

Table 17 - Unemployment rate in Egypt (1995-2009)

years	1995	2000	2005	2006	2007	2008	2009
unemployment rate	11.60%	8.98%	11.24%	10.64%	8.95%	9.04%	9.37%

Source: CAPMAS, Labour Force Survey 2009

The Egyptian government is laying a lot of emphasis on overcoming unemployment. Official estimates placed unemployment at about 9.0% in 2003/2004, almost unchanged from 9.2% in 1991/1992, (table 17).

However, to control unemployment, Egypt needs to achieve sustained real GDP growth rate of at least 6 percent per year. The economy has to generate between 600,000 and 800,000 new jobs each year in order to absorb new entrants into the labour force. The size of the informal sector and the level of over-employment in the public sector add to the complexity of the problem.

In addition, there is a mismatch between the supply and demand within the Egyptian labour market. There are annually some 400,000 graduates from various Egyptian universities (un-proportionately distributed over different majors).

The overall share of public employment has decreased from 29 percent in 2005 to 22.6 percent in 2009. The increase in private sector employment over the last ten years has been in both the formal and the informal sectors. According to some estimates; the informal sector accounted for 51 percent of total employment in 1990, and it increased to 54 percent by 1998. The latest estimates of the informal sector indicate that between 70-80% of all small and micro-enterprises

operate as part of the informal sector.²¹ Moreover, the share of women in informal employment increased from 33 percent to 39 percent and that of men declined from 67 percent to 61 percent during the same period. It points to a trend toward the increased feminization of the informal sector.

Though migration had declined as a result of the decline in oil prices during the 1990s and by countries replacing foreign labour with nationals, it still represent a major absorbent of labour, with approximately 430,000 people travelling for the first time in 2007 to Arab countries. Expatriates represent a huge group (over 4.millions persons accounting for about 5% of the total population according to the 2007 census). These include not only unskilled and skilled labour, but also significant numbers of professionals (teachers, doctors, finance experts, engineers).

The salient features of unemployment include:

- unemployment is essentially a youth problem. Total unemployment for those aged 15-29 stood at 58.8 percent in 2009;
- Unemployment is higher among the graduates of intermediate education (47.7% of total unemployment). Prospects of finding jobs for this category of people are not promising;

²¹ Amal Raafat , Legal Empowerment of the poor. Research paper, 2008

- unemployment is widely spread in urban areas than in rural areas;
- the rate of unemployment among women is double the national average; and
- the early-retirement scheme which was adopted to solve the problem of redundant workers in privatized state-owned enterprises generated a large number of new unemployed people among people between the age of 45 and 65.

2.4.1.4 Gender

Despite the decline in public employment, the public sector that has been the preferred and dominant employer of educated females in Egypt and unemployment of women, decreased from 25.1% in 2005 to 18.6 in 2007. However, it increased again according to the 2009 sample survey reaching 22.9% which could be attributed to the economic crisis. The overall participation of women in the global work force is still reduced as they represent only 25% of the registered working persons. The sectors in which they are highly represented include health, social and religious services with 35% followed by the agricultural sector as well as money and economy both with 21% women participation. Female participation rates are rising while those of males are declining.

A closer look at the evolution of female participation in the labour market reveals that participation among older, married females is increasing in urban areas, but the increase can be attributed entirely to female government employees, who make up the bulk of female employees and who are holding on to their increasing valuable public sector jobs. Employment in public enterprises, on the other hand, is falling in all age groups, but the decline is larger for younger females. The reduced access to public sector employment for young women is not being counteracted by increased access in the private sector. Employment ratios in that type

of employment have remained virtually unchanged for urban women and have declined slightly in rural areas.

While government employment policies have encourage women to work for pay outside the home by providing employment opportunities in government in a relatively egalitarian way, often in un-skilled positions, but with fringe benefits that make them gender-appropriate. They have also contributed to the lack of acceptance of employment conditions in the private sector.

In the same context and within the government initiative to encourage women to actively participate in political activities, the Egyptian parliament passed a law in June 2009, adding 64 seats reserved for women to the lower house of the legislature. The quota creates 32 new constituencies with two seats each for women candidates only. It will take effect during next year's elections and it raises the number of seats in the People's Assembly from 454 to 518. This law will remain in effect for two five-year parliamentary sessions.

2.4.2 Employment and Labour law – Salaries and Social Charges

The most significant rules governing the relationship between employer and employee in Egypt are depicted above in Para 2.2.5.2. In Egypt, for public employment and public enterprises, wage setting mechanisms are defined by law. Labour legislation sets the minimum wage and wage increases linked to cost of living. It fixes wage levels according to the different job categories, field of specialization, and it describes the qualifications required to receive a specific salary. Promotions and incentive mechanisms are also precisely defined. In addition, a maximum amount to be granted for overtime, allowance and incentives is set by law.

In the formal private sector, wages are determined by labour demand and supply. National law only sets the minimum wage, social insurance, special

wage increases, and living-cost allowances. These rules have always been largely ignored by private employers and their application can certainly not be imposed by workers, given their low unionization level. Wages are set almost on an individual level according to personal skills and degree of specialization. In the agricultural and informal sector, wages are determined by the labour market and are therefore rather flexible.

Egyptian law ensures equal rates of pay for the same work to men and women, but not for work of equal value as required by ILO convention N° 100.

Social insurance is mandatory for formal government and company employees, who contribute 0.5 and 1% of their basic salary, and their employers 1.5 and 3%, respectively.

Unemployment benefits correspond to about 60% of the last salary received by the dismissed worker and they are granted for a maximum period of 28 weeks after dismissal. Unemployment benefits are financed through a contribution of employers equal to two percent of their worker's wages, and through the revenues made by investing such contributions.

A workers' Emergency Aid Fund was created to alleviate the effects of economic liberalization and privatization in order to provide financial support to those who are not receiving any unemployment benefits. The fund is financed through a fee of about one percent of the worker's basic wages.

2.4.3 Education

The Egyptian government has developed an overall framework to improve human development, and demonstrated its commitment to improve access to and quality of education from pre-school to tertiary levels. The Egyptian government has developed a vision of Egyptian Education for the 21st Century, which is the basis for the educational sector's 20-year strategic framework.

Education is the responsibility of two ministries within the framework of the Egyptian government, the Ministry of Education responsible for all primary and secondary schools in Egypt and the ministry of Higher Education responsible for university education.

The Egyptian government identifies the development of the educational sector, both pre-University education and higher education as well as skills development, as being critically important to ensuring adequate and balanced social development in Egypt. The improvement of the educational system is critical to ensuring the competitiveness of the Egyptian labour force in the globalizing economy.

Reforms in the educational system have been introduced with the aim of improving the system, as a whole and the quality of education, in particular. Educational legislations, which specified the general framework governing the main features of the educational policy, have witnessed several amendments since 2004. New laws, presidential and ministerial decrees, have been enacted aimed at developing the educational system in general by:

- (i) providing physical and technical support required by different governorates (Presidential decree No 290 /2004);
- (ii) setting standards and levels as well as job criteria for jobs in schools (Ministerial decree No 250/2005); and
- (iii) Implementing a comprehensive evaluation of education officers and teachers (Ministerial decree No 255/2005).

The most important law introduced over the past five years has been law 155/2007 regarding the teachers' framework. This law improved teachers' incentives by increasing their salaries by amounts up to 50% of the basic salary as well as introducing accreditation incentives up to 150% of basic salary. According to this law, teachers are annually evaluated through an objective system

Quick facts about the sector

		2006	2009
Net enrolment rates (NER)	Grades	%	%
Primary education	1-5	97	96
Lower secondary level	6-8	74	85
Upper secondary level	9-12	65	72
Illiteracy rate		39	29.6
For men		29	22.3
For women		50	37.3

Illiteracy rate		39	29.6
For men		29	22.3
For women		50	37.3

* Including Public and Private Universities

** Excluding Private Universities

Sources: (1) CAPMAS, (2) Ministry of Education (3) The Development of Education in Egypt: a National Report 2004-2008

(examination) that relates promotion, salaries and performance according to objective standards. This system was implemented with the objective of improving the quality of teachers and their salary scale as well as reducing the number of teachers dropping their career for other better paying opportunities.

In addition, a professional academy for teachers was established with the objective of initiating an assisting body to work on the implementation of the national strategic plan for the 2007-2012 pre-university reform.

The main objectives of the strategic plan include:

- achieving quality in accordance with the national education standards in Egypt by working on the development of schools;
- developing effective management systems, monitoring and evaluating performance within the system; and

- providing equitable access, improving quality for all by supporting equal educational opportunities for all children in Egypt.

The Egyptian government has taken different measures aimed at achieving this strategy. Among these measures are:

- increasing the number of schools (today there are around 42,184 schools in Egypt). The objective is to reduce classroom density and put an end to the multiple educational periods.
- developing technology in the field of education and equipping schools with the various multi-media; developing science laboratories, knowledge resources, and building a reception hall/ room to receive educational satellite channel transmissions.
- varying methods and patterns of teachers' training to include face-to- face training,

distance learning and training mission abroad to modernize teachers' knowledge, information and skills, raise their efficiency standards and improve their performance levels.

- continuously developing educational curricula, improving the quality of schoolbooks and supporting educational activities; and
- promoting computer science at all levels of education (decree #168 dated 19/8/2000)
- Major Problems and Challenges Facing Egypt's Educational System:

The growing population has led to severe and fundamental impacts on the educational path. These issues include:

- Increased access ratio for children within the compulsory education age group is more than 90% of those children. This has led to raising classroom density
- the severe shortage in the number of teachers needed in Egyptian schools to cope with the increasing numbers of pupils, taking into consideration the universal rate. This universal rate is a teacher for every 20 pupils.

➤ University and Higher Education

The ministry of higher education supervises university and higher education. In addition, there are azharite establishments which adopt the same educational ladder and the same curricula in addition to Islamic studies. Egypt ensures the independence of universities. Each university has its own character and a private budget. Both the council and its own chairman administer each university. Universities have a supreme council that includes in its membership, heads of universities and a number of public and experienced individuals.

In 2002, ministerial decision No. 1067 was issued for the establishment of the Supreme Council on Higher Education. The Supreme Council plans the general policy of university education, scientific

research, co-ordination among universities regarding various activities, and the arrangement of students' admission and numbers.

The number of universities is expanding as a socio-economic and cultural development necessity. There are currently 19 public universities covering the country's various governorates. In addition, there are also Al-Azhar and the American University, plus 15 other private universities located mainly in Cairo and Alexandria. The following statistics reflect Egypt's focus on university education:

- the number of university Colleges/faculties was 266 faculties and institutes in 1999/2000, while in 2009, the number of faculties within public universities reached 300 and 51 within private universities;
- the total number of students enrolled in universities in 2007/08 was 1,898,920 students for public universities, and 83,108 for private universities;
- the number of university graduates was 195,156 in 2003/04, while in 2007/08 it reached 231,704;
- the registered number of students in post-graduate studies was 371,726 in 2007/2008 as against 182,120 students in 2002/03.

The Egyptian government also encouraged the creation of private universities with the aim of upgrading education levels and relieving some burdens on public universities. As mentioned above, 15 private universities comprising 51 faculties currently operate in the country.

➤ Problems and Challenges in Egypt's Higher Education System:

Egypt's higher education sector faces a number of challenges, including:

- antiquated system-wide governance and management

- low quality and relevance at the university level;
- low quality and relevance at the middle technical level; and
- limited fiscal sustainability of public-financed enrolments related to the dramatic increase in enrolments in university education.

Given the high population growth in higher education, to simply maintain the share of 18-22 age group at its present 20 percent level (this is an official policy) would require, on average, an additional 60,000 new enrolments in higher education for the next ten years

2.4.3.1 Adequacy of Training/ Education to the Needs of Private Businesses

➤ Problems and challenges facing vocational training:

There is a rift between education/training institutions and labour market needs. Despite the high level of unemployment, the private sector is in need of skilled labour and well trained professionals in numerous fields (hotel managers, technicians in the oil industry, others) . Three main reasons can be advanced:

- (i) there is a set of values which dates from the beginning of the past century and grew during the era of centralized planning which places higher value on university education as opposed to specialized vocational training, and places higher value on individuals who study in some faculties over others.
 - (ii) limited cooperation between universities and the industry whether related to university academics or research and development.
 - (iii) the quality of education/trainings is certainly seen as a major issue with little or no control on the performances of the system:
- participants are not up to the required level to receive the course;
 - course organizers are not aware of the realities of the existing situation and working environment;

- the course is not designed to meet the real needs of the attendants and local practices and requirements; and
- local specialized professionals are not participating, though they are the best when it comes to knowing local requirements.

A required mechanism for youths to identify promising career paths and for educational institutions to identify labour market requirements with respect to course of study and syllabus content should be put in place in order to develop the educational sector.

This persistent mismatch may also be remedied through effective training programs. The current system of training has many deficiencies that are all attributed to the lack of an overall strategy for training. This has led to dispersion and an overlap in training efforts and it has, in turn, resulted in serious deterioration in the efficiency of the system:

2.5 Financial Sector

Despite the challenges that the Egyptian government is currently facing to sustain economic growth above 5%, the financial sector, especially the banking sector, has not been hampered by the international credit crunch, supported by a strong banking sector thanks to healthy balance sheets (thanks to recent government reforms which focussed, in particular, on the elimination of non-performing loans) and low level of global financial integration. Egypt's banking sector reforms focused mainly on strong supervision and CBE regulation, elimination of non-performing loans and the implementation of "unadventurous" financing and investment practices.

As mentioned above, the recent global financial crisis and credit crunch have had a limited direct impact on Egyptian banks due to their minimal exposure to structured products and their excess liquidity (loans to deposits ratio around 50%). In addition, the activities of Egyptian banks in the

mortgage finance sector are limited and derivatives are not allowed.

On the contrary, the Egyptian stock market which had seen tremendous growth since 2004/05 and became an attractive place to Arab and international investors and institutions has been greatly affected by the global financial crisis. The Egyptian stock market dropped sharply in 2008, recording an all time single year loss of 56.4%. This unpleasant performance of the country's market in 2008 came on the back of the global financial crisis.

One of the main recent and important changes affecting Egypt's financial sector is the establishment of the Egyptian Financial Supervisory Authority (EFSA) replacing the Capital Market Authority and other specialized Authorities (Insurance, Mortgage, etc...) effective July 1, 2009, according to Law No. 10/2009. EFSA is responsible for licensing and supervising all the non-bank financial instruments, markets and institutions, including but not limited to capital markets, activities related to insurance services, mortgage finance, financial leasing, micro-finance, factoring and securitization.

2.5.1 Banking Sector

Egypt's banking sector is one of the oldest in the region. The sector witnessed a major overhaul in 2004/05 with the introduction of the law on the central bank, the banking sector and money (law 88/2003 and its amendments) as well as the implementation of Financial Sector Reform Program (FSRP). Through this programme, the

Egyptian government with the financial and technical assistance of both the World Bank and the EU, has implemented a deep banking sector reform program which includes among major components:

- (i) the privatization and consolidation of the banking system;
- (ii) the elimination of non-performing loans mostly within the state-owned banks;
- (iii) financial and managerial restructuring of state-owned banks; and
- (iv) the upgrading of the CBE banking supervision capabilities.

These reforms improved the asset quality and capital adequacy of Egyptian banks and eliminated the weak and poor performing banks. The policy to sell public shareholdings in joint venture banks and to promote the concentration of the sector has been accelerated and successful. As a result, the total number of banks shrank from 62 in 2000 to 40 banks in 2008²².

As of 30/06/2008, the Egyptian banking system consists of the CBE and 40 banks with an aggregate network of branches of about 3,250 branches, plus other branches that are licensed to operate abroad.²³ It is important to note the increase in the number of branches of private banks.

The largest private banks currently operating in Egypt include CIB, NSGB and AAIB, while foreign banks that have recently entered the market include Credit Agricole (France), Piraeus (Greece), Bank

²² This is in line with our forecast in the previous Egypt PSCP

²³ In 2009 the Egyptian Workers Bank was merged into the Industrial Development Bank of Egypt bringing the total number of banks operating in Egypt to 39 banks.

Table 18 – Comparative table: number of banks by type of ownership (2004 -2008)

Type of bank ownership		30/06/2004	30/06/2008
		Number of banks	Number of banks
Public banks	Commercial Banks	4	3
	Specialized Banks	3	3
Private and Joint venture Banks*		35	27
Branches of foreign banks		19	7
Total number of banks		61	40

* In 2004/5 banks operating in Egypt were divided into Commercial Banks and Business & Investment banks. In 2004 the total number of banks working under these two Categories was 35 banks including 11 Business & Investment Banks and 24 Commercial bank.

Source: Central Bank of Egypt

Audi (Lebanon) and Blom Bank (Lebanon) as well as the Italian bank, San Paolo IMI, which has purchased Bank of Alexandria, the first large public sector bank to be privatized.

The three remaining commercial banks currently operating under full public sector ownership are NBE, Banque Misr and Banque du Caire.²⁴ The specialized banks are Egyptian Arab Land Bank (EALB), Industrial Development Bank of Egypt (IDBE) and Principal Bank for Development and Agricultural Credit (PBDAC). The three public sector commercial banks are the largest in terms of balance sheet size.

They account for nearly 50% of total bank assets. They also have a significant market share in the retail sector as a result of their wide network of branches as well as their long-standing relationship with state-owned companies.

Despite recent improvements, public sector banks are not as profitable as the private banks whose share of the market is steadily growing through the expansion of network of branches. As the table 20 clearly indicates, CIB, the biggest private bank is more profitable than National Bank of Egypt, despite the difference in assets.

²⁴ Banque du Caire was about to be privatized in 2008, with 67% of the Bank to be sold to a strategic investor. Among 14 banks that presented preliminary offers to acquire the Bank, 5 were allowed to make due diligence. However, the government announced in June 2008 that the deal was cancelled and that the privatization of the Bank would be postponed, as the bids presented were below the minimum price set for acquisition. Currently the bank is "merged" with Banque Misr, however it still maintains a separate management and Board as well as a separate balance sheet.

Table 19 - Major Banking Acquisitions in Egypt over the last 4 years

Year	Acquired Bank	Acquirer	Origin of Acquirer	Ownership stake (%)	Value in EGP Mil.
	Cairo Barclays	UK Barclays Bank	England	40	345
	Misr Exterior Bank	Banque Misr	Egypt	100	1,600
	NSGB	Société Générale	France	78.3	713
	Misr America International Bank	Arab African International Bank (AAIB)	Egypt/Kuwait	100	239.5
	Egyptian Commercial Bank	Piraeus Bank	Greece	100	193
2005/06	Port Said National Development Bank	Société Arabe Internationale de Banque (SAIB)	Egypt	100	100
	Suez Canal Bank	Arab International Bank	Egypt	16.8	48
	Misr International Bank	NSGB	France	90.7	2,204
	Misr Romania Bank	Blom Bank	Lebanon	100	591
	Egyptian American Bank	Group Crédit Agricole	France	74.7	2,916
	CIB	Ripplewood Consortium	USA	18.7	1,301
	Cairo Far East Bank	Bank Audi	Lebanon	100	541
	MIDB	National Investment Bank	Egypt	29.9	109
2006/07	Alexandria Commercial & Maritime Bank	Union National Bank	UAE	94.8	245
	Delta International Bank	Ahli United Bank	Bahrain	89.3	1,653
	Bank of Alexandria	SanPaolo IMI Bank	Italy	80	9,225
	National Bank For Development	Abu Dhabi Islamic Bank	Abu Dhabi	49	152
	Al Watany Bank Of Egypt	National Bank of Kuwait	Kuwait	93.9	5,625

Source: American Chamber of Commerce, Banking Sector Development 2008

Table 20 - Selected Financial Highlights of selected public and private Banks (Dec 2007)
(EGP million)

Bank	Assets	Loans	Deposits	Profits	Number Employees
National Bank of Egypt	212,917	76,935	161,606	373	13,332
Banque Misr	110,303	32,701	98,433	125	10,590
Banque du Caire	45,691	21,968	39,902	33	8,000
Bank of Alexandria (SanPaolo IMI)	37,619	10,197	31,023	681	5,690
Commercial International Bank	47,521	20,376	39,515	1,232	2,906
National Société Générale Bank	47,277	19,756	39,299	674	2,700

Source: American Chamber of Commerce in Egypt Banking Sector Developments 2008

Over the period from 2003/04 to 2007/08, the banking sector witnessed drastic changes which were initiated by the issuance of the new banking law (law 88/2003 and its amendments) which organized the banking system replacing all previous laws regulating the CBE and the banking system and dealing with foreign exchange, account confidentiality and bank ownership. The law increased the capital of the CBE to EGP 1 billion and set the minimum capital for Egyptian banks at EGP 500 million (from EGP 100 million previously) and at USD 50 million for branches of foreign banks operating in Egypt. (Previously USD 15 million)²⁵ Furthermore, CBE added a requirement for capital adequacy ratio of at least 10%.

Assistance to the banks to tackle the problem of non-performing loans was also provided through the establishment of an Arbitration Committee at the CBE to resolve bad debts and to handle disputes between banks and borrowers. A scheme to deal with the NPL of state-owned enterprises was agreed upon and resources were allocated to this effect. Regarding private sector NPL, a unit was established within the CBE allowing for the settlement or rescheduling of these loans

Among other recent improvement to the banking sector has been the establishment of the first credit

bureau in Egypt: the Egyptian Credit Bureau (I-Score). I-Score specializes in the retail market and gathers information on both individual customers and SMEs. It has been working with the support of IFC and EFS-USAID. I-Score has also selected Dun & Bradstreet International "D&B International" as a strategic partner to obtain technology and know-how. They started operations in 2007 and they are in the process of building a database.

2.5.1.1 Banking Regulations

As mentioned above, the former laws regulating the operation of the banking sector and the role of the Central Bank have been replaced by Law 88/2003 which sets the new framework for the banking sector, aimed at strengthening the banking sector through a series of prudential measures. The new law was designed to bring the country's institutions in line with international rules and standards.

This law sets and regulates

- (i) the role of the Central Bank and its relationship with the government, ensuring the independence of the Central Bank;
- (ii) the establishment and registration of banks, the supervision of bank management, the ownership of bank shares;

²⁵ CBE capital was increased to EGP 4 billion in 2009

- (iii) the management of public sector banks
- (iv) activities to ensure bank account secrecy, and information disclosure;
- (v) the pledge of property and assets
- (vi) the issuance of banknotes and foreign exchange

In addition, Egypt has passed an anti-money laundering law (law 80/2002) and has implemented it. In February 2005, Egypt was removed from the black list of the Financial Action Task Force on Money Laundering.

Finally, law 148/2001 has paved the way for mortgage activities which were not possible before. It will help create a large new market in the banking sector.

2.5.1.2 Loans to Enterprises

Following years of loans without much evaluation of risks or loans made under government orders which led to huge unbearable levels of non-performing loans (more or less cleaned today), banks have been very cautious with lending, which can be reflected in loans to deposits ratios. In addition, purchasing T Bills and government bonds was more profitable and with minimal risk than lending to enterprises, in addition to the tax exemption on T Bills and government bonds. Recently, (June 2009) the government announced that investments in T-bills and government bonds for banks will be subject to taxes.

Private enterprises have access to loans. Despite lengthy approval procedures large enterprises have no problems getting a loan. However, it is certainly difficult for smaller enterprises, and impossible for micro enterprises. Many SMEs do not have a bank account (SMEs with business account are estimated at less than 10% of the total SMEs²⁶) and do not use the banking sector, very often because they are partially in the informal sector where most of the transactions are on cash basis,

and where financing is done through the family-friend network.

Since the commencement of the reform program in 2003/04, total loans/deposits ratio has declined from 70% in 2003/04 to 52% in 2007/08. This shows a decrease in the bank lending activity. The sector is very liquid and can withstand further loan growth without jeopardizing its liquidity position.

The loan breakdown by sector shows an increase in the household sector versus a slight decrease in the industry, though it still represents about 30% of total loans.

➤ SMEs Lending

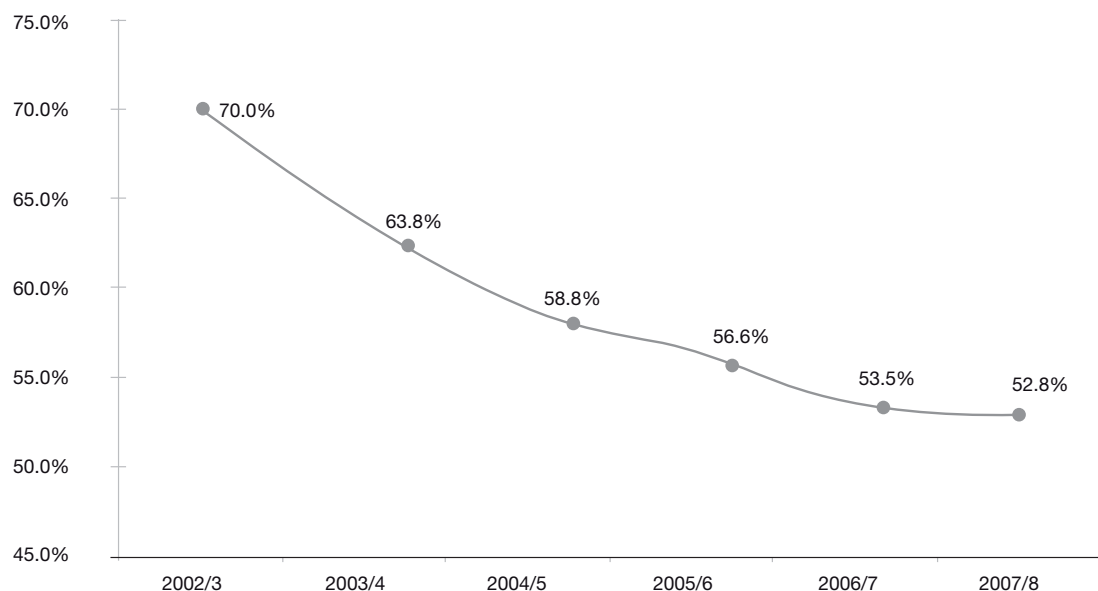
Many banks operating in Egypt have started to establish a specialized SME Unit to target this sector which represents over 80% of the operating private non-agricultural enterprises. This move has been recently accelerated by a decision introduced by the CBE 14% reserve requirement on deposits for amounts equal to loans extended to SMEs mentioned above... To this day, this has mostly resulted in a split in bank portfolios to separate the loans to SMEs from the other loans and gain waivers from reserve requirements, but with no significant increase in lending to SMEs. The situation could improve in the future as most banks have now set up SME departments and are training staff in this regard.

By August 2009, most banks had established a SME department, but the most active are

- NBE, the largest public sector bank in Egypt with a wide network of branches (approximately 425 branches all over Egypt) and a portfolio of around EGP 77 billion. The SME Department within the bank was established in 2004/05 and it received

²⁶ /Source: National Bank of Egypt Research Department 2008

Figure 15: Total loans /deposits ratio 2002/03-2007/08



Source: Central Bank of Egypt publications

- assistance from several development institutions. Though the size of the SME portfolio is not declared, it is estimated to be around 10-15% of their total portfolio.
- CIB, the most active among the private sector banks, established the SME department/ unit with the assistance of the IFC. It offers financial services to SMEs through two units in Cairo and Alexandria using the branch network as a service provider. Their main target group within the SME sector has been the feeding industries, especially those working with their own corporate clients
- HSBC, with over 85 branches, is attracting SMEs with specially tailored products and services to fit their needs. It has also established a call centre, especially for SME clients
- Bank of Alexandria, after acquisition by SanPaolo IMI, has started implementing the strategies of the foreign shareholder which is known to be active in the SME sector.

- Bank du Caire, mainly active in financing small and micro-enterprises with a wide network of branches (217 branches)

The Social Fund for Development is another main stakeholder in providing loans to SMEs, either through participating banks or directly through its offices in the various governorates (an activity introduced in 2006). These loans to SMEs are slightly subsidized by 1.5 to 2.5%, especially the direct loans, as seen in the example of rates on Dec 3, 2009 below.

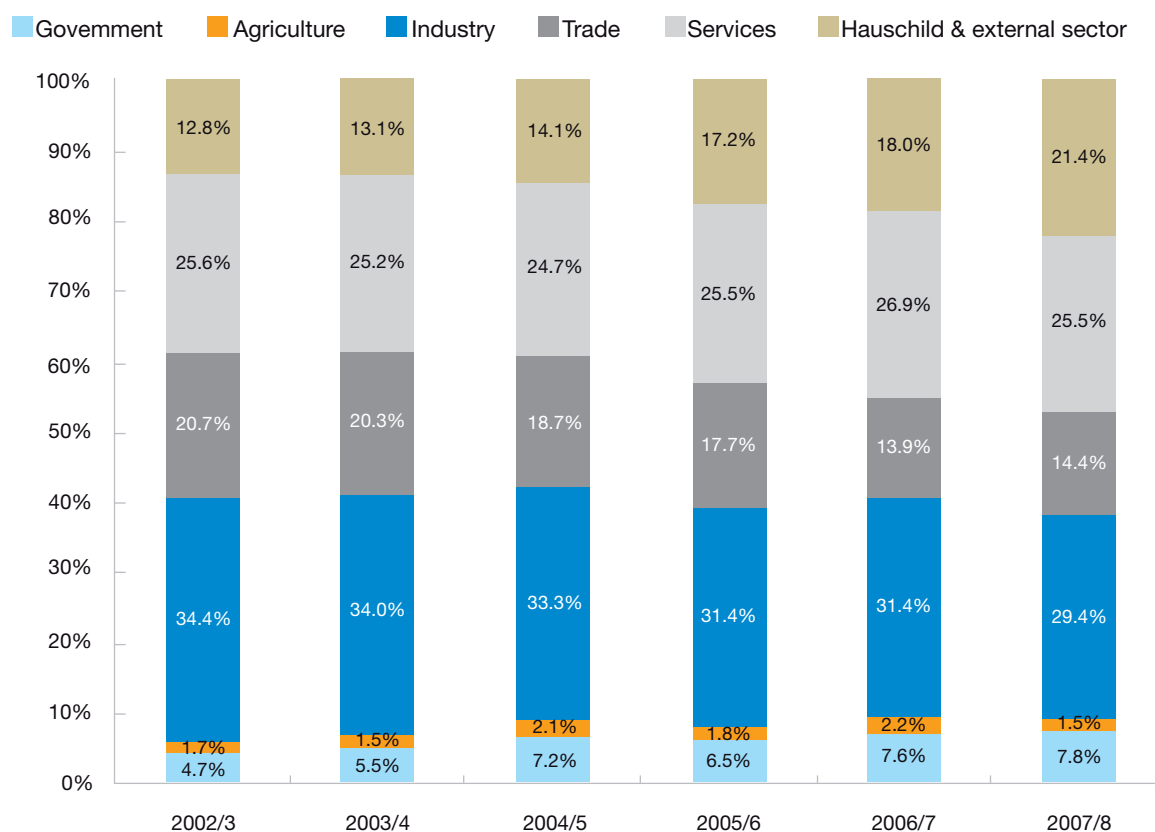
Most banks, public and private, participate in the scheme. These loans have, in general, a repayment period of up to 5 years, with a one-year grace period. In order to help businesses without that the requisite collateral to obtain a loan, the SFD has supported the creation of the Cooperative Insurance Society (see below 2.5.8) which provides guarantees to banks. However, despite all the efforts, loans to SMEs are still not enough.

The market sets interest rates; usually benchmarked against the mid-corridor rate plus a margin of around 1.5% to 2.5% for Egyptian pound loans depending on the borrower's financial position. Currently (July 2009), the mid-corridor rate is 9.75% (9% and 10% for "bid" & "Offer" rates respectively). CBE discount rates as well as cost of fund are not commonly used by banks. Banks ask for collaterals, which are usually company assets (machinery, buildings). They may also ask for assignment of sales proceeds (accounts receivables) or export contracts, if any.

Most banks, private and public, are now better organized, with specific credit committees; professionally specialized by economic sectors, site visits, etc.

However, some aspects still need to be addressed such as risk management, portfolio management, and the specific organization and know-how required to lend to SMEs is highly required, especially in banks which are still in the process of establishing SME units.

Figure 16: Loans Breakdown by Sector (2002/03 - 2007/08)



Source: Central Bank of Egypt publications

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Table 21 - Bank loans (except CBE) in EGP million

End of	2004	2005	2006	2007	2008	2009**
	June	June	June	June	June	June
Total Credit Facilities of which:	296,199	308,195	324,041	353,746	401,425	429,957
For Government*	16,203	22,018	20,997	26,683	31,159	30,748
In local Currency	9,963	10,938	11,285	10,787	9,699	12,946
In foreign Currencies	6,240	11,080	9,712	15,896	21,460	17,802
Non-gov.Lending and Discount	279,996	286,177	303,044	327,063	370,266	399,209
Balances in Local Currency	218,196	222,203	227,641	237,757	257,467	282,246
Agriculture	5,015	5,772	4,853	6,929	5,337	4,721
Private business sector	4,972	5,756	4,794	6,922	5,326	4,718
%	99.14%	99.72%	98.78%	99.90%	99.79%	99.94%
Industry	75,698	77,416	72,042	74,524	71,758	87,220
Private business sector	58,434	59,099	55,827	65,453	62,693	74,053
%	77.19%	76.34%	77.49%	87.83%	87.37%	84.90%
Trade	47,539	45,648	43,428	37,474	42,456	43,979
Private business sector	42,267	39,712	39,110	33,487	38,342	39,881
%	88.91%	87.00%	90.06%	89.36%	90.31%	90.68%
Services	53,585	53,519	56,430	62,463	67,181	64,912
Private business sector	48,474	47,624	50,753	57,430	60,897	58,456
%	90.46%	88.99%	89.94%	91.94%	90.65%	90.05%
others	36,359	39,848	50,888	56,367	70,735	80,971
Balances in Foreign Currencies	61,800	63,974	75,403	89,306	112,799	116,963
Agriculture	550	619	829	929	843	2,145
Private business sector	550	619	829	929	843	2,145
%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Industry	25,453	25,648	29,824	36,811	46,789	45,416
Private business sector	19,850	20,388	26,072	34,200	43,349	41,240
%	77.99%	79.49%	87.42%	92.91%	92.65%	90.81%
Trade	12,553	11,881	13,893	11,824	15,309	14,637
Private business sector	12,020	11,370	12,337	10,944	14,599	13,355
%	95.76%	95.70%	88.80%	92.56%	95.36%	91.24%
Services	20,854	22,432	26,001	32,547	35,065	37,735
Private business sector	19,249	21,126	24,942	29,948	32,037	34,037
%	92.30%	94.18%	95.93%	92.01%	91.36%	90.20%
others	2,391	3,394	4,856	7195	14,793	17,070

Source: Central Bank of Egypt, several publications 2009; team calculations

The analysis of loans made to the private sector shows that private enterprises receive a share which is roughly in line with their share in the sector. This does not mean that there is sufficient lending activity. However, data analysis shows that private enterprises are, today, not discriminated against.

2.5.1.3 Bank Services

The banking sector is expanding rapidly. The total number of branches in 2008 was 3,279 which represent an increase of 17% from 2005 where total number of branches was 2,850 branches all over the country. (This is a breakthrough as the number of branches in 1999 was only about 1,400) With increased competition from both Egyptian and foreign private banks, more innovative and sophisticated products are being introduced, and different services offered to clients such as insurance, bill payment (mobile) as well as payroll services. In addition to offering better services by increasing the number of branches, banks have increased their

opening hours to customers and some branches are even opened 24 hours, seven days a week.

Bank accounts are available for both individuals and companies in EGP and foreign currencies. Checks are widely used. The automation of the Cairo Clearing House in June 2002 has considerably reduced check processing time. A check is currently cleared in two days. The total number of checks processed in 2008 was 11.8 million for a total value of EGP 483 million. The RTGS (Real Time Gross Settlement) was applied to bolster the sector's effectiveness in facilitating asset exchange, services and information among economic units, with the aim of reducing credit and settlement risks.

However, many SMEs do not have a bank account, and do not use the banking sector very often because they are partially or totally in the informal sector where most of the transactions are on cash basis and where financing is mainly done through the family-friend network.

Table 22 - Bank loans (except CBE) in EGP million

	Type of bank ownership	30/06/2004		30/06/2008	
		Number of banks	No. of branches	Number of banks	No. of branches
Public banks*	Commercial Banks	4	923	3	837
	Specialized Banks	3	1230	3	1252
Private and Joint venture Banks*		35	571	27	1145
Branches of foreign banks		19	59	7	63
Total		61	2783	40	3279

Source: Central Bank of Egypt)

*The number of branches does not include the post-office branches.²⁷

²⁷ / The post-office is rapidly modernizing its branch network with foreign assistance and has the ambition to create a postal bank, as has been done in many European countries.

Credit cards are well developed and offered by most banks (about 3 million credit cards are currently in circulation). In addition to credit cards, more recently, debit cards have been introduced. ATMs are available in many large cities. CBE has already licensed 12 banks to provide E-banking services. Individuals have access to personal loans offered by all banks and, recently, mortgage loans and mortgage finance are slowly penetrating the market.

However, the development of such an instrument will not be easy as bank resources which comprise mainly deposits, are mainly for short- or medium-term purposes. Moreover, the absence of land title registration constitutes a major impediment, as well as legal issues with collaterals. Finally, if it is relatively easy to get a court hearing in case of default, it is almost impossible to evict someone from their home if they default. Despite difficulties, over the past five years, the volume of mortgage finance has increased from EGP 714 million in June 2006 to EGP 2,635 million in June 2008.

The banks offer a lot of diversified instruments covering: merchant banking activities, portfolio and asset management, mutual funds, tradable bonds, GDRs (Global Depository Receipt).

2.5.2 Non-banking Financial Services

The Egyptian Financial Supervisory Authority (EFSA) was established in accordance with Law No. 10/2009, and it is responsible for supervising all the non-bank financial instruments, institutions and markets, including, but not limited to, capital markets, activities related to insurance services, mortgage finance, financial leasing, factoring, micro-finance and securitization. The law aims at strengthening the role of the state in tightening market supervision as well as unifying the supervision of non-banking financial sector under the umbrella of the Financial Supervisory Authority which has assumed its duties at the beginning of July 2009.

According to the law, EFSA is a public legal person under the Minister of Investment. EFSA has a Board of Directors, which includes the chairman and two deputies as well as six members with expertise in the area of non-banking financial services nominated by the Minister of Investment, of which one member will be the deputy-governor of the Central Bank. The Board of Directors has the ultimate authority over all aspects of operation and the decisions of the Board are final and do not need any approval from any higher administrative body. According to the law, EFSA is financially independent with an autonomous budget which is to be supervised by the Central Audit Agency in accordance with the governing laws.

The new authority's Board of Directors will assume the responsibilities of the former Board of Directors of the Egyptian Insurance Supervisory Authority, the Capital Market Authority and the Mortgage Finance Authority as stated in the related laws.

The authority is mandated to supervise all non-bank financial activities and its objective is to ensure the stability and integrity of the non-banking financial markets and instruments as well as regulate related activities to foster market development.

The responsibilities of the Financial Supervisory Authority include granting licenses to practice non-banking financial activities, providing information on non-banking financial markets, setting the regulations for non-banking financial services, protecting the rights of financial services users as well as contributing in raising investment awareness.

2.5.2.1 Stock Exchange and Capital Markets

The Egyptian Stock Exchange (EGX), formerly known as Cairo & Alexandria Stock Exchange (CASE) has a long history, but after being dormant for years, it was revived in 1992. Since 1997, it is a fully computerized, order-driven and a modern system. The main organizational change occurred

Table 23- Selected Market Indicators (2005-2009)

Indicators	2005	2006	2007	2008	2009
					Jan. - July
Number of listed companies	744	595	435	373	331
Number of traded companies	441	407	337	322	260
Average monthly traded companies	186	183	199	213	213
Market capitalization end of year (EGP billion)	456.3	534	768.3	473.6	500.7
Turnover Ratio (%)	31.14	48.70	38.70	70.3*	33.10

Source: The Egyptian Stock Exchange, July 2009

in 1997 with the election of a new board of directors, and the establishment of a number of board committees. Market capitalization has grown reaching close to EGP 300 billion (USD 52 billion) at the end of February 2005 and it currently stands at EGP 463 billion (USD 84 billion) as of 30 June 2009²⁸. Egypt has been included in the Morgan Stanley Capital Index since 2001, and has shown the highest dollar growth in the category of “emerging markets Europe, Middle East and Africa” over the past years (before the crisis).

Shares, bonds (government and corporate) and funds are traded on the stock exchange. Though the number of listed companies has dropped dramatically over the period from 744 in 2005 to 373 in 2008, the total market capitalization has increased over the same period from 456 billion EGP to 473.6 billion EGP. Significant changes were introduced in 2008. Newly listed companies will have to offer at least 10% of their shares within three months of their listing date, while companies

already listed could have a grace period of as long as one year to launch their IPO if they have not yet done so. In addition to the elimination of tax breaks for listed companies as well as the tightly implemented rules on corporate governance (disclosure rules and audits), this change was the main reason why several companies de-listed during the past year.

The Egyptian Exchange launched a new index (EGX70) as of March 1, 2009, which measures the performance of the 70 most active companies in the Egyptian market after excluding the 30 most active companies which constitute EGX30 Index. The values of the index are calculated and published instantly during the trading session. EGX30 (formerly CASE30) is now calculated in US dollars to measure the impact of exchange rate fluctuations.²⁹

The table below shows selected market indicators of the Egyptian Stock Exchange during the 2005-2009 period.

²⁸ Ministry of Investment, Monthly report, June 2009

²⁹ CBE Annual Report 2007/08, American Chamber of Commerce in Egypt, Banking Sector Developments Report 2008.

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EGX currently has in place a disclosure information system and regularly reviews the situation of listed companies. The large firms are audited by Egyptian branches of international auditors as well as by local auditing firms.

Only a limited number of the listed companies (about 181) are the most active companies according to market capitalization (as of 30 June, 2009). These represent 81% of the market capitalization.

The main sectors active on the stock exchange (in June 2009) are:

- telecommunication, the largest share;
- construction and material;
- textile and clothing;
- real estate;
- industrial goods and services, and automobiles; and
- financial services, excluding banks.

Table 24 : 15 most active companies ranked according to Volume traded (June 2009)

Company	Sector Category	Volume traded (EGP000)	% of total	Nb of transaction
TMG Holding	Real Estate	525.6	12.09	71,686
Egyptian Electrical Cables	Ind. Goods & services & automobiles	386.6	8.90	60,396
Upper Egypt Contracting	Construction & materials	348.3	8.02	73,765
El Nasr Cloths & Textile (Kabo)	Textile and clothing	327.7	7.54	64,685
Egyptian Fertilizers Company	Real Estate	386.6	7.36	NA
Egyptian For Tourism resorts	Real Estate	305.6	7.03	NA
Alexandria Spinning & Weaving	Textile and clothing	278.0	6.40	56,196
Arab Cotton Ginning	Textile and clothing	233.6	5.38	63,575
Extracted Oils	Oil and Gas	193.2	4.45	44,980
Pioneers Holding	Financial Services, excluding banks	162.0	3.73	NA

Source: The Egyptian Stock Exchange, June2009

The Egyptian stock market has been considered among the most active emerging markets during the 2005-2008 period, reaching a market capitalization of EGP 869 billion in February 2008. However, the CASE30 performance shifted dramatically, starting from mid-2008, where it faced a downward trend. The Index lost 29.2% from May 2008 to September 2008.

Following the global trend as a direct impact of the global financial crisis, the CASE30 Index plunged drastically by 45.6% over a 4-month period from September 1, 2008, to December 31, 2008, affected by the panic that gripped local, regional and foreign investors. The Egyptian Exchange sector indices were negatively affected by the dramatic plunge in the stock market, where all the sectors suffered from large losses in 2008. The best performer was the food and beverage sector, declining only by 16.9% in 2008, while the healthcare and pharmaceutical sector posted a loss of 19.2% and the chemical sector registered a loss of 30.7%.

Despite the collapse of global financial markets which, in turn, negatively affected the Egyptian market, the number of newly registered investors continued to grow over the past year, reflecting the relative attractiveness of the Egyptian market. In 2008, the total number of registered investors grew by 4%, reaching 1.68 million, the majority of whom were individual investors, accounting for 98.3% of total investors.

During the period, the number of new Egyptian and Arab institutional investors decreased by about 11% and 24%, respectively, which further contributed to the decline in overall growth. At the same time, the number of newly registered foreign individual and institutional investors rose considerably by 11% and 7%, respectively, reflecting the potential of the Egyptian market in the eyes of foreign investors. An SME Stock exchange, NILEX, was launched in October 2007 with the objective of providing medium- and small-scale companies with access to long-term finance. The first three listed

Table 25: Registered investors (comparative table 2007-2008)

	Total new investors registered during 2008 compared to 2007				Total registered investors		
	Retail		Institutions		Retail	Institutions	Total
	2008	2007	2008	2007			
Egyptians	60,895	89,128	453	508	1627,977	18,034	1,646,011
Arabs	1,066	917	138	182	18,187	1,731	19,918
Foreigners	414	373	859	804	5,624	8,624	14,248
Total	62,375	90,418	1,450	1,494	1,651,788	28,389	1,680,177

Source: Source: EGX publications

companies are: Masria Card, El-Badr Plastics and T N Holdings for Investment. Two more companies are expected to be listed before the end of 2009. NILEX regulatory environment is designed specifically to meet the needs of the SME sector with relaxed listing and disclosure requirements as well as lower listing and trading fees under the guidance of listed nominated advisors responsible for directing the company in the admission process and in the public offering of its shares. To day, 18 financial institutions, including 10 large financial institutions, are appointed as nominated advisors, reflecting their interest in the SME sector.

2.5.2.2 Leasing

Egypt's leasing law was introduced in 1995 and it is governed by Law 95, which was amended by Law 16 in 2001. The regulatory leasing body was the General Authority for Investment and Free Zone

Department of Corporations (GAFI) which is under the Ministry of Investment (MOI). With the establishment of the Egyptian Financial Supervisory Authority (EFSA), leasing activities are supervised by this newly established authority. According to GAFI, there are currently 262 companies registered to carry out leasing activities. However most of these companies are operating on a small scale. Only 6 or 7 companies account for the bulk of the leasing activities. The understanding of leasing and the growth of the sector have grown over the last years as shown in the table and graph below: Currently, the major leasing companies are:

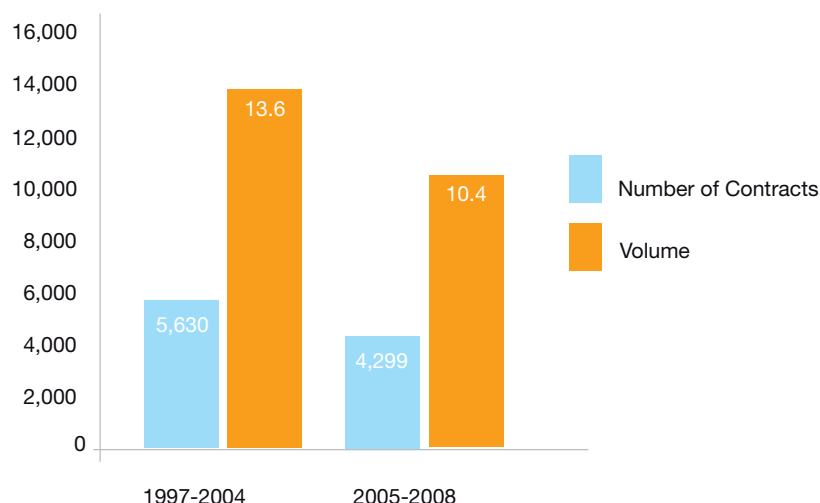
- Sogelease, a subsidiary of NSGB established in 1997 and specialised in big ticket leases for industrial machinery, transport vehicles and real estate;
- Citilease, a subsidiary of Citibank, established in 2000 and is specialised in medium-big ticket leases for a range of businesses, including

Table 26 - Evolution of the leasing activity

Period	Volume (EGP billions)	Number of contracts
1997-2004 (8 years)	13.6	5,630
1997-2007 (10 years)	24.0	9,929
2005- Q1 2008 (less than 3 years)	10.4	4,299

Source GAFI

Figure 17: Development in the Egyptian Leasing Sector (1997/2004 – 2005/08)



Source: General Authority for Investment and Free Zones

- food processing, packaging, textile, IT, cold storage, furniture, agricultural processing and shipping;
- Orix Leasing Egypt (OLE) was established in October 1997 and its shareholders include NBE (24%), IFC (7.5%), CIIC (7.5%), Orix Japan (23%), Orix Pakistan (23%) and the MAF Trust (15%). It is specialised in small-to-medium ticket deals, including trucks, textile machinery, vehicles, electro-medical equipment and office equipment;
- Incolease was also established in 1997 and provides lease finance for all sectors (start-ups and expansion investments). Current focus is on transport equipment;
- Corplease's shareholders include CIB, DEG and UBAF. It is specialised in machinery, transportation equipment and real estate, and it is considering aircraft leases; and
- Nilefin leasing was established in 2004 and it is owned 70% by ADI and 30% by its management.

Leasing activities are expanding in Egypt particularly after the amendment on the leasing law was enacted to eliminate restrictions on leasing companies to finance certain types of assets namely, land, cars and tourism buses. This has boosted leasing activities in these fields. In addition, article No. 19 of the new tax law states that profits from renting out mechanical or electrical machines is deemed to be taxable at the standard 20% maximum, but profits from renting out machines used for agriculture or irrigation are tax-exempt.

Leasing also provides favourable accounting treatment and is governed by the Egyptian Accounting Standard (EAS) 20, under which all types of leases "operating & financial" are treated as an off-balance sheet transactions.

2.5.2.3 Insurance Companies

Egypt's insurance sector is still small and under-developed. However, the government has been

Table 27 - The insurance sector in Egypt (comparative table 2004/05 – 2007/08)

Indicator	2004/05	2007/08	Change %
Number of companies	21	28	33%
Contribution to GDP	0.8%	1.2%	50%
Total value of assets (billion EGP)	20	33.4	66%
Insurance Companies Investment (Billion EGP)	16.3	29	78%
Total Compensations paid out by Companies (Billion EGP)	2.4	4.2	75%
Net Profit of Insurance Companies (Billion EGP)	0.6	1.1	82%

Source: Ministry of Investment, Reform Indicators of Non-banking Financial Sector, June 09

moving forward with the restructuring of the non-banking financial sector, including the restructuring of the insurance sector and state-owned insurance companies. A new holding company was established in October 2006 to take over ownership of state-owned insurance companies. A major step was taken in November 2007, when three companies were merged, including the reinsurance company. A new Insurance Act was approved by the country's parliament in May 2008, strengthening the independence of the regulator, separating life and non-life business, increasing minimum capital of companies to EGP 60 million, and introducing corporate brokers. Furthermore, Motor Third Party Liability Insurance (MTPL) premiums, which had been fixed by the government at a very low level for years, were raised to enable insurance companies to cover their costs and eventually lead to full market-based pricing.

Over the last years, the management and board of directors of insurance companies have changed, with new professional managers with international experiences taking control of things.

The sector has seen the arrival of major international firms such as Allianz, Legal & General, Royal Insurance Company and American International Group. The private and joint venture companies are flourishing in the non-life market, offering different products and insurance services to the Egyptian market.

Further reforms are under way and privatisation of some public insurance companies has also been announced. .

2.5.2.4 Micro-finance

Several donors and local banks have participated in the creation of a vibrant micro-finance sector. The micro-finance industry started in the early 90s steered by the Social Fund, USAID and UNDP.

Despite its strong growth over the last five years (1.5 million today as against about 250-300,000 clients in 2003), Egypt is still lagging behind in terms of number of micro-finance users when compared to other players, and the needs of its economy, poor

people and micro-entrepreneurs. This is due probably to the current regulatory set-up which is undergoing change. Today, micro-finance is provided mainly by NGOs and public banks which started a micro-finance department under the “request” of the Government. The status of the NGOs combined with an absence of supervision makes it difficult for them to raise funds (equity or loans). As donor grants decrease, they are experiencing some difficulties. As of today, their offering consists mostly of micro-credits, but other new instruments are being tested or are at a pilot stage (micro-insurance, mobile banking). Rural micro-finance is in its infancy, and it is only evaluated at this stage, but it may develop rapidly.

Recent and upcoming regulatory and legal changes will completely change the industry’s structure and capacity:

- micro-finance providers will have the possibility of operating as financial services

companies regulated by the new EFSA (see above) which will authorise and license them, supervise and monitor their activity;

- a credit bureau (I Score) has been established and once the database also starts covering the micro-borrower (or a second bureau covers the small loans), it will certainly impact positively on the activity’s risk assessment;
- an information-sharing pilot on micro-finance NGOs has started operations; and
- a new law should be enacted most probably in early 2010 that will facilitate the work of the micro-finance industry (elimination of the cap of 7% for interest rates in the constitution, etc). According to the draft law, the new companies will need to have a minimum capital of EGP 20 million, will be able to borrow, to have outside investors in their equity, but will not be authorized to take deposits. A micro-finance institution taking deposits will be assimilated into a bank, with

Table 28- Main players in the micro-finance sector

Juridical form	Main microfinance providers	Number of Beneficiaries (June 2008)
NGOs	Assiut Businessmen Association (ASBA)	217,226
	LEAD Foundation	141,285
	Egyptian Small Enterprise Development Association (ESED)	96,211
	Alexandria Businesses Association (ABA)	
	Dakhalaya Businesses Association (DBACD)	86,010
Banks	Aga Khan Agency for Microfinance	84,564
	Banque du Caire	94,235
	Banque Misr	44,443
	National Bank for Development	37,126
	Bank of Alexandria (today private)	27,959
Financial services companies (New)	Tenmeya	

Source Ministry of Investment; consultant

the same requirements as any bank (minimum capital, CBE supervision, etc).

Many new entrants (Egyptian and foreign) are considering getting into this market or are ready to start (one company, Tenmeya, has already started as an “operator” for a bank) and some of the current larger NGOs will probably be transformed into MF companies. The new or upgraded MFIs will also offer larger credits and new products, thus helping to fill the gap with small entrepreneurs.

It is not sure yet if the new legislation will foster micro-finance or develop a new business - consumer credit. It seems that the new entrants are mostly interested in consumer credit which is easier to implement and more profitable.

2.5.2.5 SME Guarantees

➤ Credit Guarantee Company for Small- and Medium-scale Enterprises

CGC is an Egyptian private Joint Stock Company established in December 1989 under the provisions of Law 159/ 1981 and it started operations by mid-1991. CGC founding shareholders are nine Egyptian banks and one insurance company. There are currently 34 banks under contract with CGC, including shareholding banks, but few of them use this service on a regular basis. CGC was established to guarantee loans and credit facilities offered by banks to Small and Medium Scale Enterprises (SMEs) which lack sufficient collateral for establishing new venture, expanding their existing activities, enhancing their export potential, etc. CGC guarantees up to 50% of the loan provided by the bank to SMEs in all sectors of the economy, except trade to finance both fixed assets and working capital. The number and volume of loans guaranteed by CGC are still very low after close to 20 years of activity and a potentially high demand.

➤ Cooperative Insurance Society

The Cooperative Insurance Society was founded in 1999 with the support of the Social Fund. Any SME may benefit from CIS’ insurance coverage provided they become members of the cooperative. CIS is the main organization which provides credit insurance coverage in the Egyptian market. According to this policy, CIS undertakes to pay banks any loan instalments in case the insured fails to fulfil his obligations under the loan contract after deducting the deductible stated in the policy. CIS provides a guarantee of up to 80% of the loan and, in some cases, 90%.

2.5.2.6 Equity

Egypt’s private sector, in general, lacks access to equity sources as well as medium- and long- term financing. Equity financing is not well spread particularly among medium-and small-scale enterprises. Businesses, especially traditional ones, are not yet used to raising funds from the EGX to finance their investments and development even with the introduction of NILEX (the SME exchange) and are not very familiar with venture capital (VC) and investment funds. Venture capital and investment activities are not sufficient to meet equity needs and only a few institutions specialize in this field. The most active and established VC funds are managed by EFG-Hermes, Concord, and Citadel. In addition, a few international/ regional funds are active in Egypt (Actis, Capital Trust, etc) Recently, several SME Venture Capital and private Equity funds have been established to cater to this market segment, Beltone MidCap was closed in September 2009.

The turnaround activity has also attracted some funds. Two funds (Haykala and Oasis) have been in activity for about two years and a new fund, Sphinx, is being launched by Citadel.

2.6 Services to Enterprises

and Individuals

It should be noted that although the financial sector is well developed, the market is still limited by the buying power of individuals. There are only about 5 millions bank clients (some say 10% of the population, which would make 7 to 8 millions), in addition to corporate accounts. Despite having around 3 million plastic cards in circulation (both debit and credit cards), Egypt is still a cash economy. However, in its initiative to reduce cash dependency, the government, started using a new payroll system on all government employees, replacing cash with bank accounts and plastic cards.

2.6.1 Services to Enterprises

2.6.1.1 Legal, Accounting and Auditing, Management Consulting

Egypt is sophisticated and cost-competitive in the supply of a wide range of services for both the private sector and the institutions. Engineering design and construction services, data processing, financial and legal services, printing and publishing, cinematographic services, market research and advertising services are all well developed and geared to high growth domestic industries in Egypt and neighbouring countries on the continent and the Middle East.

The Kompass database lists almost 3,500 consulting firms in Egypt, defined broadly and most of them micro and small companies. The management consultant association reduces this number to around 2,000 operational companies, out of which 800 firms plus additional 1,500 individuals are providing consultancy services to companies and institutions.

The main factor that drives the market has been donor aid which addresses many areas of social, business and economic reforms and fuels demand for professional services. Also, the Industrial

Modernization Centre represents another main market driver, recruiting professionals to provide consultancy services to businesses as well as carry out sector analysis. Most of the professionals working in the field are university graduates and the public sector players, having local and foreign MBAs.

A large number of Egyptian accounting and legal firms are in partnership with multinational companies to provide world class quality services. Prominent international firms with local partnership include: KPMG, Ernest & Young, Deloitte Touche Tohmatsu International, Price Waterhouse Coopers and Baker & McKenzie.

For example, KPMG Hazem Hassan is a leading accounting and auditing firm in Egypt and the Middle East as well as Talal Abu-Ghazaleh. The Cairo office of Baker & McKenzie, one of the world's largest international law firms, was established in 1985.

However out of 30,000 accountants registered with the Ministry of Finance (which requires no more than a bachelor's degree with a major in accounting), only 700 of them are well established as associates or partners in larger firms and are active members of the Society of Accountants and Auditors. The Egyptian Accounting Standards have closely mirrored International Accounting Standards (IAS), but until recently no reliable data existed on professional compliance with the standards.

2.6.1.2 Factoring

Despite the importance of factoring for trading activities, factoring activities are not widespread in Egypt. Only two companies are currently offering factoring services, namely; the Export Credit Guarantee Company of Egypt (ECGE) and Egypt Factors.

Export Credit Guarantee Company of Egypt (ECGC) was established in the early 1990s under Law no.

21/1992 with the main objective of “managing the Egyptian Program for Export Credit Guarantees”. The main activity of ECGC is to provide guarantees on export operations dealing in national commodities and services against commercial risks through insurance policies issued by the company and payable to banks and other financing sources. ECGC also provides reinsurance. It is therefore not a pure factoring company, but an export credit guarantee company offering factoring services as a complementary service along with its main service, which is export credit guarantee.

Egypt Factors is the first pure factoring company in Egypt registered in the Factoring Company Registry with an authorized capital of USD 15 million and an issued capital of USD 5 million. It is a joint venture between CIB, Fim Bank and IFC owning 40%, 40% and 20%, respectively. Egypt Factors, licensed in April 2007, is authorized to practice export factoring; import factoring and domestic factoring. The company started its activities with export and import factoring and this will be followed by domestic factoring. Egypt Factors is currently launching a marketing campaign.

Another financial institution offering factoring services to exporting clients is Misr Bank Europe, a German bank located in Frankfurt owned mostly by public sector Egyptian banks.

In addition to the above mentioned financial institutions, the various banks operating in Egypt offer discounting services for their customers as part of credit lines and credit facilities they offer to their clients.

2.6.1.3 Franchising

Franchising has been supported by the Social Fund for Development (SFD), which created a special franchising department (this has been supported by the AfDB). With this support, franchising has made gradual progress. Based on a franchising

census conducted in 2004 in Egypt, 209 business format franchising systems were in operation. Probably today, the number exceeds 300 as this activity has grown very rapidly. A franchising association, the Egyptian Franchising Development Association, was established a couple of years ago and is assisting potential franchisors to turn their business into franchise systems.

2.7 Physical Infrastructure

Investment in infrastructure has been identified as one of the priorities in the coming years. It has been a significant component of the economic package to combat the crisis. The Egyptian transport minister announced in February 2008 that an investment of EGP 90 billion (USD 16.3 billion) would be made in the country’s road, rail, port and waterway infrastructure over a five-year period. The minister estimated that the road network would receive an investment of EGP30 billion (USD 5.46 billion) through PPPs.

2.7.1 Roads and Road Transport

Roads constitute the dominant means of internal transportation for both passenger and freight operations. Today (2009), Egypt has 52,000 km of paved roads, in addition to a network of bridges. The new roads and bridges have helped to lighten traffic, which however remains very heavy. This therefore calls for an urgent improvement of infrastructure and other measures. The number of passengers increased as well as cargo transport, reaching 46,288 million tons/km during the year 2007/08.

The number of vehicles registered in Egypt has almost doubled over the last ten years, reaching almost 6.6 million in 2005³⁰. About 50 per cent

³⁰ Egypt Information Portal, 2009

Egypt Private Sector Country Profile - 2009

Quick facts related to the sector

	2003	2008
Number of ports	9	15
Total existing capacity of ports	83.3 million tons (2005)	96 million tons
Ships movements at Egyptian ports	19,000 (2002)	20,299
Number of Egyptian vessels	121	172
Aircraft movements	194,386	18
Number of air passengers	28,7 million tons	n.a
Rail freight	12.8 million tons	4790 million ton
Length of rail lines	9,700 km	9,768 km
Length of paved roads (2004)	45,500 km	52,007 km

Source: Egyptian Maritime Transport Sector Publications, 2008

of the total vehicles were registered in the Cairo metropolitan area. Most of the vehicles are powered with gasoline or fuel oil. But in order to decrease cost and combat pollution, natural gas was introduced 1992 as an automotive fuel. Conversion costs around \$1,000 and takes less than half a day. Drivers can pay in instalments through the Ministry of Finance initiative which is being implemented through National Bank of Egypt (particularly targeted at taxis operating in Cairo). Currently, there are around 15 centres to help cars work with natural gas.

Road safety is a major concern in Egypt. A 2007 report prepared by the Egyptian National Democratic Party revealed that the number of road accidents in the country is higher than global rates. For example, every 100 million km driven, 43.2 people die, compared with 0.9 in Australia. Road accidents have caused the Egyptian economy up to EGP 2 billion of losses in 2007 (1.5% of GDP). This highlights the need for (i) improved roads to both decrease the mortality and to cope with the foreseeable traffic increase and (ii) the necessity to shift some of the cargo to other transportation means.

Inter-urban road freight and passenger operations have been fully liberalized, while urban transport is shared by public sector transport companies ('holding companies') and private companies.

The GOE is considering a number of PPP projects in the transport sector. Currently, the main projects under consideration are:

- Shubra / Banha Highway Project (38 km); and
- Rod El Farag Access Project (4.2 km length, and width 45 m consisting of 4 lanes each side.)

2.7.2 Railroads

Egypt has a developed, but aging railway network. Egypt has 28 lines which are, by 2008, running over a total distance of about 9,700 km. The total number of stations stands at 796 passenger stations.

Currently there are around 1800 trains in service, covering distances of 135,000 km. The Egyptian railway transports around 60,000 million passenger/km and cargo, reaching about 4,700 million ton/km (one tenth of the road transport).

The Egyptian National Railway (ENR), the national operator, is state-owned and highly subsidized. ENR is presently undertaking significant investment in order to modernize and upgrade the railways and extend its network. Some improvements are already noticeable. Major stations have been electronically equipped, passenger carriages upgraded and car bridges and tunnels constructed along the railway network. The ministry's main policy is to achieve total renewal of the sector and better service quality. While rail transportation has a relatively high share of the domestic passenger market, its share of the freight market is very low (only 8 per cent of the total tonnes/km capacity).

Revenues of railway passenger transport reached EGP 694 million (over the period from January to October 2008), a 13.6 % increase from its revenues during the same period in the previous year.

2.7.3 Subways

The Egyptian subway, known locally as "the metro" is one of the major urban transportation projects in Egypt with investments amounting to EGP 12 billion. Two public organizations manage the subway, the Cairo Metro Organization (CMO) and the National Authority for Tunnels (NAT). Both were created in the eighties for the Grand Cairo Metro. The metro links three governorates (Cairo – Giza - Qalyoubia) and transports around 3 million passengers/ day. The lines extend over a distance of 64.6 km through two main lines:

- The first line: Helwan - Al-Marg with a length of 43 km and 34 stations.
- The second line: Shubra Al-Khaima - Al-Munib with a length of 21.6 km and 11 stations

- A third line is currently under construction. The first construction phase started in April 2007. It covers 34 km across 29 stations, 27 of which are underground stations. This line will cross the two branches of the Nile below the 15th of May Bridge right up to Imbaba. The total cost is estimated at EGP 22 billion³¹.

The Greater Cairo Urban Master plan is a comprehensive transport sector investment plan with a vision for 2020. It has outlined the necessity to upgrade the current subway network to a total of six lines. Main prospective lines are:

- 2 lines « Massif Rapid Transit » connecting (i) Imbaba to the airport and (ii) Nasr City to Pyramids avenue;
- 2 lines of light railway connecting (i) Nasr City, Heliopolis with Shubra and Port Saïd street, city centre and (ii) Sayeda Zeinab with Maadi.

2.7.4 Air Transport

Over the last years, the sector has undergone significant changes. Civil aviation sector reforms began in 2001 and the Ministry of Civil Aviation (MCA) was created in 2002 and entrusted with overall responsibility for the country's airports and civil aviation matters. MCA is overseeing Egypt Air, the state-owned airline, and its subsidiaries, as well as the Egyptian Holding Company for Airports and Air Navigation (EHCAAN), which owns four affiliate companies, including: (i) Cairo Airport Company (CAC) created in 2002; (ii) Egyptian Airport Company (EAC) created in 2001 to manage and develop other public airports; (iii) National Air Navigation Services Company; and (iv) Aviation Information Technology Company.

➤ Airports

Air transport is developing rapidly, fuelled by tourism development. Today, Egypt has 30 civil airports

located in major tourist and population centres, such as Cairo, Alexandria, Sharm El Sheikh and Luxor. Currently, in addition to the Cairo Airport, Luxor, Aswan, Assiut and Borrg El Arab (North of Cairo) airports receive international flights. The Egyptian Airport Development plan, announced by the Ministry of Transportation and the Civil Aviation Authority, aims at upgrading Egyptian airport accommodation capacity to reach 55 million passengers annually by 2010³².

Close to 50 percent of Egypt's passenger traffic is handled at the Cairo Airport International (CAI), which has recently undergone a complete overhaul. A new air terminal (terminal three) was inaugurated in December 2008 at a total cost of EGP 2.64 billion financed by loans from the World Bank and National Bank of Egypt. The new terminal can accommodate up to 11 million passengers annually which will increase the annual capacity of Cairo International Airport (CAI) to 22 million passengers/ annually. In addition, terminal two reconstruction work is already under way with the objective of increasing its accommodation capacity from 3 million passengers/annually to 7.5 million passengers/ annually at a total cost of USD 400 million³³.

➤ Air Transport

The sector is dominated by the state airline, Egypt Air, which has recently undergone a complete restructuring with the objective of upgrading its services. In May 2002, Egypt Air was restructured into a holding company overseeing eight affiliated companies which handle the Egypt Air's, cargo, training, maintenance and engineering, ground services, in-flight services, tourism and duty-free, and medical services. To ensure the restructuring took place, a special law had to be passed, creating the EgyptAir Holding Company and regulations governing the relation between the holding company and the different affiliates. Each company has its own separate management. This move was

³¹ Ministry of Transportation, year book 2008

³² The Ministry of Transportation annual report, 2008

³³ IDSC monthly report, December 2008

designed to improve the airline's efficiency and profitability. One of the achievements of this restructuring process has been joining "Star Alliance", one of the biggest international alliances in the air transport industry, therefore confirming the airline's international accreditation.

Egypt Air's domestic monopoly has also been curtailed since 2000, allowing international airlines to operate direct scheduled flights to all Egyptian airports and to award licenses to private domestic operators.

2.7.5 Waterways, Ports and Maritime Transport, Suez Canal

For thousands of years, the Nile has been Egypt's main waterway and transport channel, but it has

been almost abandoned over the last 50 years. Egypt's navigable waterways stand at about 3,500 km, divided almost equally between the Nile and the canals, and carry less than 4% of domestic freight. Alexandria is the main port, handling about 4,000 vessels/year with a total capacity of 36.8 million tons (t/y). Egypt's seaports have a total capacity of 125.3 million tons per year and handle some 85-90% of international trade³⁴.

2.7.5.1 Ports

Egypt has about 2450 km of coastline on the Mediterranean and the Red Sea. These coasts have 41 specialized ports used for several activities (petroleum ports, fishing ports, mining ports and other services). After years of negligence where ports were

The general statistics on ports

Total Number of commercial ports	15 Ports
Total Berths' Length of Main Maritime Commercial Ports	32.06 Km
Total Area of Main Maritime Commercial ports	481.53 km ²
- Total land Area	76.49
- Total water Area	405.04
Number of specialized ports	41 ports
- Tourist ports	8 ports
- Petroleum ports	12 Ports
- Mining ports	8 Ports
- Fishing ports	10 Ports
- Scaffold (Platforms)	3 Ports
The main river ports	
- El Nahda port in Alexandria	
- Assar El Naby Port in Cairo (a container port)	
- Damietta Port	
- Aswan Port	
- Kena Port	

Source: Egyptian Maritime Transport Sector Publications, 2008

³⁴ Egyptian Maritime Transport Sector Publications, 2008

not maintained, equipment not corresponding to shipping line requirements (including insufficient space and water depth unable to accommodate container vessels), and narrow roads inside the ports affecting the movement of cargo inside ports, Egyptian ports are currently undergoing major changes with the private sector participating.

The Egyptian government's new strategy currently under implementation for the development of Egyptian ports focuses on the private sector's participation. Egypt's first privately-run ports - at Ain Sokhna on the Red Sea, south of the Suez (completed in 2001), and East Port Said, at the mouth of the Suez Canal (completed in 2002) – have been equipped and are operated under 30-year concessions by a consortium led by a US company, Stevedoring Services, and by ECT International, Netherlands, in partnership with Maersk, Denmark, respectively. Ain Sokhna is used for international trade and serves a nearby industrial zone. East Port Said capitalizes on its strategic location (every container ship on the Asia - Europe route passes through Egypt's catchments area) to make the port the transshipment hub of the eastern Mediterranean. East Port Said also serves a large industrial zone. Other privately run ports include:

- Marsa Alam Port;
- Old Alexandria Port/ (Dekheila);
- Petroleum Quay in Alexandria;
- Damietta Port, Liquid Gas Quay.

The port of Damietta is also being developed at a cost of around USD 680 million to improve existing facilities and construct new quays to boost its capacity.

In addition to maritime ports, Nile ports facilities are also being upgraded using BOTs. The Ministry of Transport announced in August 2009 that it was accepting offers for the development of both the port of ELNahda (located south of Alexandria City) and the Port of Quena in Upper Egypt.

2.7.5.2 Suez Canal

The Suez Canal Company, a publicly-owned company, is an important source of foreign exchange, as it serves roughly 8% of sea-transported world trade, with 21,415 vessels, passing through it in 2008. Suez Canal revenue reached USD 5.113 million in 2008, an increase of almost 22.9% from the previous year (2007). They account for about 3.2% of GDP.

In order to improve its services and develop traffic, the canal authority has implemented several projects:

- applying a new electronic monitoring and control system for navigation in the Canal; and
- increasing the depth of the canal to 66 feet and further deepening (under way) the Canal to allow for ships with a draught of 72 ft by 20110.

Table 29 - Suez Canal traffic

	2004	2005	2006	2007	2008
Total Crossing Vessels (Vessel)	16,850	18,193	18,664	20,384	21,415
Net Tonnage (million tons)	621.2	671.8	742.7	848.2	910.1
Number of Containers (Vessel)	5,928	6,557	6,974	7,718	8,156
Total Cargo Volume (million tons)	521	571.1	628.6	710.1	723

Source: Egyptian Maritime Transport Sector Publications 2008

As mentioned above (see para 1.3.2), Suez Canal traffic has also been affected due to the slow down of international trade and, in particular, export from China. After the boost witnessed in 2007/08 during which Suez Canal earnings recorded a growth of 17.2% and 23.6% in FY06/07 and FY07/08, respectively, the earnings declined sharply in December 2008.

2.7.6 Water

Egypt has vast land resources, but scarce fresh water sources. Water resources in Egypt are limited to the Nile River, rainfall and flash floods, groundwater in the deserts and Sinai and desalination of sea water. The Nile river constitutes more than 95% of Egypt's total water resources and this cannot be increased due to the international agreement (see above para 1.1.2.). The remaining 5% is distributed among the other resources.

Egypt's water supply is equivalent to an allocation of 860 cubic metres per capita per year, well below the water poverty line of 1,000 cubic metres per capita a year. Agriculture is the largest consumer with 83.3 percent of water consumption in fiscal year 2007/08. Irrigation water is available for free while water for households costs 0.23 EGP while water for industry and commerce, and tourism activities costs around 2 EGP (plus 35% for drainage cost). The actual cost of production is much higher.

According to the 2017 National Water Resource Plan prepared by the Ministry of Water Resources and Irrigation, the Nile is expected to supply only 80.5 percent of Egypt's resources by 2017. Consequently, water could be a severe constraint on Egypt's economic development and food self-sufficiency given the expected population growth and the limited supply of additional resources. This has resulted in programs to improve efficiency in the irrigation sector which uses over 80% of available resources.

The National Plan aims at developing new water resources, improving the efficiency of water use and protecting the environment by treating and controlling polluted water. Many of these activities are carried out in cooperation with other ministries, including the Ministry of Agriculture, the Ministry of Housing and Utilities and New Communities as well as the Ministry of the Environment.

The Irrigation Improvement Program (IIP) is one of the large-scale projects aimed at helping Egypt sustain its ambitious development plan in the 21st century. In Egypt, users have always played a major role in water management at various periods of history. Currently, the idea of user participation is once again becoming a reality. The initial implementation of the current Irrigation Improvement Project (IIP) shows that user participation is essential for both sustainability and greater system performance.

The present phase of IIP comes at a time when the government is moving away from its former development strategy, based on centralized ownership and planning, towards a decentralized, market-based and outward-oriented economy. Significant progress has, for twenty years now, been made in liberalizing the agricultural sector, including the removal of a range of quotas, price controls and input subsidies, and the privatization of various agricultural production projects and new state-owned lands

The Nile Basin Initiative (NBI) should also help the country cope with the issue of water scarcity. However, increased investments will be needed for the operation and maintenance of drainage and irrigation systems in new and old lands, which will make the institution of a viable cost recovery program critical. As agriculture uses more than 80 percent of available water, a key option will be to reallocate water within agriculture by moving gradually out of water-intensive crops such as rice and sugarcane.

Finally, waste water treatment is getting more and more attention, and the government has also opened these operations to the private sector to

accelerate their implementation. Recently, one tender was closed and awarded. The New Cairo Wastewater Treatment Plant Project was awarded to Orascom Construction Industries, Aqualia and Aqualia Infrastructures; the contract was signed in July 2009. The operation duration is expected to last 18 years, including 2 years of construction. Another tender is opened for the construction and operation of the 6th of October water treatment.

In the proposed PPP water projects, the government buys water at production cost and sells it at reduced prices.

2.7.7 Oil & Gas Export and Domestic Infrastructure

➤ Export

GOE is intending to develop its oil and gas export capacity by building additional pipelines. According to the Oil and Gas Journal's January 2008 estimate, Egypt's proven oil reserves stand at 3.7 billion barrels (see above Para 1.1.5)³⁵. Private Companies (US/Egyptian) have built and operated a chemical terminal (Alexandria Chemicals Terminal) in Alexandria since 2008. This is the first and only chemical terminal and tank farm in Egypt on the Mediterranean coast.

The pipeline to Jordan and Syria has been completed. Gas was pumped to Syria in July 2008. Through recent negotiations between Egypt and Turkey, it is envisaged that the pipeline will be extended to Turkey through Syria. The pipeline project to export gas to Israel became operational 2008. Two LNG projects are currently under way. A third project of GTL (Gas-to-liquid) plant has been proposed by Shell and an NGL project with BP (NGL recovery in Port Said, storage and shipping in Damietta).

➤ Domestic

The domestic gas sector has been liberalized and more and more private companies are operating distribution networks. Currently, 80% of oil & gas services are operated by the private sector.

2.7.8 Export Infrastructure

Given the number of maritime ports, air cargo was not developed until a few years back. It however started to grow mostly because of the export of perishable products (fruits and vegetables, flowers). Air cargo traffic has been concentrated in CAI which has handled some 22,500 tons in September 2008 (an increase of 1% over the same period last year)³⁶. Two-thirds of cargo traffic is export-oriented. Saturated capacities at CAI combined with operational inefficiencies help explain a good part of traffic stagnation.

Infrastructure development was carried out by the private sector. The Horticultural Exports Improvement Association (HEIA) and the affiliated Exporters Union constructed a warehouse (cold storage facility) near the Cairo International Airport, equipped with high-tech equipment. Its initial capacity (2004) of 160 tons every six hours has been gradually upgraded to 300 tons every six hours. This storage facility has been built under a BOT contract. The facility occupies an area of 24 square kilometres and it includes five main storage areas.

2.7.9 Private Sector Evolution and Participation

Over the last five years, the private sector's participation in infrastructure development has increased. The private sector is not only active in ports, it is also involved in construction and operation of roads, airport, water treatment

³⁵ Oil and Gas country Report 2008

³⁶ Ministry of Transportation year book 2008

facilities (waste or fresh water), hospital, schools. The Egyptian economy has performed well on several fronts over the last five years. However, to sustain the GDP growth, investment in infrastructure has to be increased appreciably and this has yet to materialize given the time necessary to prepare projects and launch PPPs. The government has realized the challenge this bottleneck poses to further growth and has set-up specialized teams in the ministries (in particular finance, investment and transport)

The share of private transport infrastructure is still low, but is expected to increase rapidly. Banks have started to understand these operations, in particular, the more complex PPPs and ready to offer financing structure. However, a major problem that has not yet been resolved is the participation of international financial institutions in these long-term projects where revenues are expected to be in Egyptian pounds. The main impediments include:

- Asset long-service life which makes it necessary to invent and implement expensive and sophisticated measures mitigating political, economic-commercial, legal-regulatory and fiscal-financial risks inherent in the projects;
- Financial engineering needed to match the expected toll revenue stream, to be generated by the project in line with the terms and conditions (interest rates, loan tenors, risk premiums etc.) of private finance available on the market.
- Lack of enabling laws and regulations

Though infrastructure growth in absolute terms has been impressive, it has not kept pace with demand or international standards. By most standards, and in all sectors, delivery of infrastructure services has lagged behind demand. Demand has been fuelled by tremendous increase in population, increasing urbanization and the success of Egypt's industrial growth. Until the early 1990s, supply was the sole

responsibility of the government. The planning exercise, through the five-year plans set out objectives for the development of infrastructure. However, these targets were rarely achieved and the gap between demand and supply progressively increased. The congestion at Egyptian ports and roads is clear to all users.

These bottlenecks and shortages due to poor infrastructure result in delays, cost overruns, missed opportunities, and the lack of competitiveness in international markets erodes the economy's productivity. Over the last years, the GOE has introduced a series of legal and policy changes to attract private investments in various infrastructure sectors. However, the success achieved has not been up to expectations and, in many sectors, significant demand-supply imbalances and bottlenecks remain, as is described above.

The framework for analyzing the private sector's is necessarily a customized one, taking into account the broad angle of assessment and the various formulae that can apply. The following table show the different modes of PPPs applied in Egypt: Under such circumstances, foreign investors approach such projects with caution. In addition, certain kinds of investments (for instance, rural water and sanitation and certain roadways) are not likely to attract private finance and the government will need to step up investments in these particular areas. Similarly, funds for the maintenance of existing investments are short.

There is still scope for further private sector participation in power and water services and a number of ventures/ PPPs are under negotiation. More aggressive marketing of such possibilities should be undertaken. In addition, the government needs to address difficult questions of cost recovery (including foreign exchange risk) and adequate maintenance. Pricing of water is particularly sensitive. Finally, as greater private participation in infrastructure development occurs, questions of regulation and legal efficiency will become more important.

Table 30 - Types of Public Private Partnership in Infrastructure

Options	Operation and maintenance	Capital investment	Commercial risk	Asset ownership	Contract period
Service contract	Public/Private	Public	Public	Public	1 to 2 years
Management contract	Private	Public	Public	Public	3 to 5 years
BOOT (Build, Own, Operate & Transfer)	Private	Private	Private	Private then Public	20 to 40 years

The government has been aware of these issues and is keen on attracting private investors to finance and operate infrastructure development with the aim of boosting quality infrastructure, investments and employment. Several projects are already under way. The government has specialized teams in key ministries and has drafted a PPP specialized law to strengthen and clarify the PPPs legislative framework and to establish the institutional guidance required for implementation. This law will be presented to parliament for approval during the upcoming Parliamentary session (2009).

Some sectors which were not functioning properly a couple of years ago are now up to international standards. The GOE has steered communications infrastructure into the 21st century. The number of mobile phone lines has reached almost 45 million and now exceeds the number of fixed lines (see below). In terms of information technology (IT), Egypt has linked up with the information superhighway. Although the number of Internet users in the country remains small compared to the overall population, it is however growing rapidly. Basic computer skills are being imparted to young people with the aim of creating a computer-literate generation capable of servicing a fledgling IT industry.

Port operations have also been greatly improved through private management. But roads remain a major bottleneck. Some efforts have been made, but much more is still needed. To service new city centres, good roads are needed. The

ring road around Greater Cairo has somehow improved traffic flow, particularly for trucks shuttling between the north and south of the country. The Al-Mounib Bridge, connecting Giza and the Cairo district of Maadi, and the 26th July route, both parts of the ring road, have greatly improved transit times within the capital. The Al-Mounib Bridge and the final extension of the 6th October Bridge are landmarks that facilitate transport needs. Also, two new bridges over the Suez Canal, located at Al-Firdan and Al-Qantara, connecting Sinai with mainland Egypt are essential in reducing transport bottle necks. Inside Cairo, the Cairo subway provides over 60 kilometres of tracks to effectively enable Cairo's population move around with relative ease. But the famous Cairo traffic jams are still there.

Finally, Nile transportation needs to be promoted in order to relieve the road congestion. This is not receiving proper attention as of now, and will certainly be a major opportunity for the private sector.

2.8 Power Sector

2.8.1 General Overview

Egypt is one of the fastest growing economies in Africa and the Middle East and its energy demand

is increasing rapidly. In 2006, prime energy demand reached 727 TWh and has almost tripled over the last 25 years. Main reasons for this development are population growth, economic development, increasing use of electrical appliances, expansion of energy intensive industries and rural electrification. In spite of its favourable geographical position which results in excellent wind conditions and high solar intensity, the contribution of renewable energies to the country's energy supply remains marginal below 1%. About 85% of Egypt's electricity is produced by power plants predominantly operated by natural gas, oil and coal, while the remaining 15% is generated by water and wind energy.

At the moment, Egypt is one of the main energy exporters in the region. But due to persistent growth of energy consumption of more than 5% per year and limited national fossil energy resources, Egypt is expected to convert to a net energy importer by 2015. The increasing electricity consumption in the residential sector, which became one of main electricity consumers in the country in 2000/2001, requires annual growing

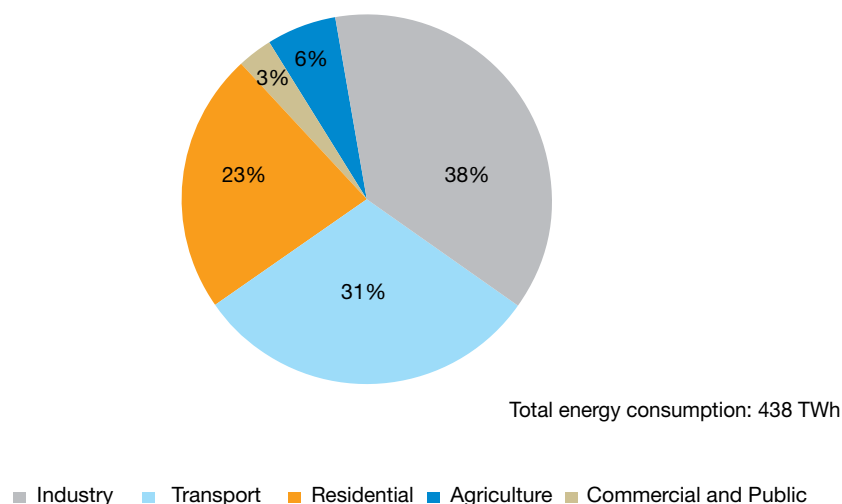
investments for the construction and commissioning of new generation plants which are mainly owned by the government.

Energy consumption has been growing with the same ratio as the GDP and has led to an unchanged energy intensity of 0.53 kgoe/USD1,000 GDP, which is four times as high as in Germany and almost double that of neighbouring countries. As new reasonable oil and gas discoveries are lacking and predicted energy demand is expected to exceed the national energy supply potential by 2015, the reduction of national energy intensity has moved further into political focus.

Although the industrial sector's share in terms of total final energy consumption decreased over the last ten years, the sector is still the country's main energy consumer followed by transport, residential, commercial and public sectors

Due to the high rural electrification percentage, a growing population and increased use of electrical appliances, the residential sector has, since

Figure 18: Energy Consumption by Sector 2006



Source: CAPMAS, 2006

2000/2001, been the main electricity consumer in Egypt (38%) followed by industrial sector (35%), the public sector (15%) and commercial sector (8%)³⁷.

2.8.2 Investments and Private Participation

The Egyptian Electricity Authority was incorporated in 2000 and renamed the Egyptian Electricity Holding Company (EEHC). EEHC then reshuffled its distribution activities into nine regional companies. The subsequent unbundling of the electricity sector and planned privatisation have not occurred until now, but are one of the main aspects to be considered in the future.

In spite of the restructuring of the electricity sector, the involvement of private participants, especially in the area of production, is not widespread. Egypt has several privately-owned power plants which were financed under Build, Own, Operate, and Transfer (BOOT) financing schemes. BOOT projects are used to fund large-scale public infrastructure without affecting the country's debt profile. Private developers are allowed to recover their costs of construction through ownership and operation of the plant for a fixed period before handing it over to the state.

The electricity market is dominated by the Egypt Electricity Holding Company (EEHC). EEHC owns about 90% generation, 100% transmission and over 99% electricity distribution. The market currently comprises a single client, which means that all generators (including BOOT companies) sell their outputs to a single transmission company, the Egyptian Electricity Transmission Company (EETC). The latter in turn sells electricity to consumers and to the nine distribution companies.

BOOT companies sell electricity to EEHC for 20 years and, at the end of the period, transfer the facility's assets to EEHC. Over the past five years, private investments in the electricity sub-sector have increased from EGP 120 million to EGP 5,030 million. The share of private generating companies in total installed capacity was just under 8% in 2003 and increased to 13% in 2005/06. The country's first independent power project, a 683-MW gas-fired steam plant, was commissioned in 2002. Two more BOOT plants, in the Gulf of Suez (680 MW) and in Port Said (680 MW), started operation in 2003.

In March 2008, Egypt signed an agreement with Russia to assist in building Egypt's first 1,000 MW nuclear power plant at al Dabaa which shall be built by 2017. Referring to the government's plans, the nuclear power's contribution in 2021/2022 will amount to 5.4% which corresponds to 2,000 MW of installed capacity³⁸.

2.8.3 Current Key Strategies

For the GOE, the private sector's participation is crucial to its vision regarding the future of the energy sector. The government has taken a strategic decision to make the industry more efficient by shifting a substantial part of electricity generation and distribution into private hands, while at the same time, keeping control of a strategic asset by holding onto transmission.

Any BOOT project involves risks, including country risks, commercial risks and unavoidable risks. The developer carries a risk as it provides 20-25 percent of the project's capital, while the larger burden falls on the lender who finances 70-75 percent of the project. Besides the Central Bank of Egypt guarantee, the World Bank offered the

³⁷ CAPMAS Electricity consumption by sectors in 2007/2008

³⁸ On the Economic Feasibility of Nuclear Power Generation in Egypt", Tarek H Selim, Working paper No. 143, 2009.

private sector a Partial Risk Guarantee and a Partial Credit Guarantee.

The future of BOOT financing for power production in Egypt is unclear. Recent government statements on this issue are also unclear. For new power-plant projects in North Cairo and Nobareya, the traditional method of contracting construction and arranging international loan financing are used. There has been little mention over the past year of plans announced earlier to corporatize and eventually sell up to 49% of the Egyptian Electric Holding Company. However, there are rumours that this may change.

2.9 Telecom and IT

Over the past few years, total Investments in Egypt's ICT sector has grown dramatically and the ICT sector's contribution to real GDP reached 3.7% in the first quarter of 2009.

ICT real GDP reached EGP 7.2 billion in the first quarter of 2009, compared to EGP 6.33 billion in the first quarter of 2008, representing an annual growth rate of 13.5%. The total number of employees in the ICT sector reached 176,390 in the first quarter of 2009, compared to 163,700 in the first quarter of 2008, representing an annual growth rate of 7.76%. The number of ICT companies reached 3,055 by the end of the first quarter of 2009, representing an annual growth rate of 25.5%

The liberalization of Egypt's telecom sector has proven to be a success story and the telecom plan has been fully implemented, allowing for reductions in the waiting lists for new telephone lines from 2 years to only a few weeks or a few days in greater Cairo. Other improvements have enabled the immediate opening of new lines for corporate use and the progressive installation of digital lines.

Quick facts related to the sector:

	2005/06	2008/09
Total number of fixed telephone lines	10	11.9
Total number of mobile subscribers	12	44.6 ³⁹
Penetration of fixed lines in 2004	13.5%	15.6%

Sources: (1) ICT Indicators Bulletin June 2009

³⁹ Many subscribers have several mobile numbers, in particular those moving from one provider to the other while not paying their bill

Table 31 – The development of Egypt's ICT sector (1999-2008)

Detail	Indicator	Oct-99	Dec.2006	Dec.2007	Dec.2008
Fixed Services	Exchange Capacity	6.4 million	13.2 million	13.75 million	14.3 million
	No. of fixed telephone line subscribers	4.9 million	10.8 million	11.1 million	11.7 million
	Waiting list for fixed telephone lines	1.3 million	36,339	22,733	5,295
	No. of exchange in rural areas (1007 Villages)	775	1.142	1.162	1.176
	No. of public phone cabins	13,300	56,449	57,758	58,209
Mobile Lines	No. of mobile phone subscribers	654,000	18 million	30.05 million	40.17 million
	Mobile service companies	2	3	3	3
Internet Penetration	Internet Capacity	20 Mbps	9.9 Gbps	14.87 Gbps	27.08 Gbps
	No. of Internet users	300	6 million	8.62 million	12.03 million
	Monthly Internet subscription	EGP 100 (USD 29)	Cost of local call	Cost of local call	Cost of local call
Information Technology	Total Number of IT companies in Egypt	266	2,070	2,348	2,907
	IT Clubs	30	1,442	1,712	1,776
Post	Number of post Offices	5,227	5,488	5,519	6,658

Source: the Ministry of Communication and Information Technology annual report 2008

3 Private Sector Profile

In Egypt, private sector activities are now found all across the economy and the definition of the “private sector” would encompass real sectors from agriculture to infrastructure, education and, of course, industry and services. This chapter is focussing on agriculture, industry and services while infrastructure, educational services and other economic activities have been covered in the previous chapter.

While public enterprises have been losing money for years (see above figure 12 and 13), private sector activities have been booming during the same period, most of them profitable and creating significant employment while public enterprises were losing employees.

Currently, public enterprises are being managed through the Asset Management Program supervised by the Ministry of Investment. According to this new approach adopted by the government since 2004, state-owned enterprises were grouped in Holding Companies and several restructuring initiatives were implemented to upgrade their performance. The companies reporting to the Holding Companies work in different sectors including, construction, transportation, tourism, textile and ready-made garments, and food industries. The table below provides some data on state-owned enterprises:

The private enterprises listed in the Egyptian stock exchange could provide an overview of the private

Table 32: Public Sector Enterprises

Item	2004/05	2005/06	2006/07	2007/08
No. of Holding Companies (HC)	9	9	10	9
No. of Companies reporting to HC	174	166	164	162
No. of Companies put for sale	4	0	3	1
No. of Companies liquidated	0	5	0	1
No. of Companies merged	3	2	3	8
No. of Companies acquired	1	0	0	0
No. of Companies established under law 203/1991	-	-	-	1
Total No. of companies at the end of the period	166	164	163	155
Profitability of the Public sector companies (EGP Million)	604	1,677	3,909	5,165
Total Debt to banking sector (EGP Billion)	24.4	19.5	9.6	8.1

Source: Ministry of Investment, Asset Management Report 2007/08

Table 33: Profitability of top 55 companies listed in the Egyptian Stock Exchange

Sectors (EGP million)	No. of Co	Net Profit 2006	Net Profit 2007	2007 Growth	Sector Weight 2007	YoY Growth Sep 2008	Sector Weigh Sept 2008
Financial Services	4	1140	2075	80.4%	5.6%	8.1%	5.0%
Travel & Leisure	5	636	984	54.7%	2.7%	75.6%	3.3%
Industrial Goods & Services & Automobiles	6	1515	2296	51.5%	6.2%	44.3%	7.3%
Real Estate	5	358	534	49.2%	1.4%	- 25.7%	0.6%
Telecommunications	3	7548	11080	46.8%	30.1%	- 6.3%	18.7%
Food and Beverage	2	230	322	39.8%	0.9%	- 29.9 %	0.9%
Constructions and Materials	9	5303	7335	38.3%	19.9%	40.1%	25.6%
Banks	6	2089	2757	31.9%	7.5%	35.6%	9.4%
Personal & Household Products	4	1212	1489	22.8%	4.0%	6.9%	3.8%
Chemicals	3	1651	2003	21.3%	5.4%	35.5%	6.3%
Basic Resources	4	3702	4380	18.3%	11.9%	35.7%	14.9%
Oil and Gas	1	796	867	9.0%	2.4%	32.1%	2.7%
Healthcare & Pharmaceuticals	3	651	708	8.8%	1.9%	-20.4%	

Source: CI Capital, Egypt Book, 2008

sector's performance, especially as they cover the same sectors and are close in terms of size to the public enterprises.

The top 55 companies by market capitalization in the Egyptian exchange have achieved healthy growth of 37.2% in 2007. These 55 companies are accounting for 57.5% of the total market capitalization as of December 31st, 2008. Their performance over the past two years showed a healthy growth despite the financial crises which affected the market.

3.1 Formal Sector

Regular coverage and statistics of the formal private sector in Egypt are mainly provided by the Central Agency for Public Mobilization and Statistics (CAPMAS). It provides monthly demographic indicators as well as quarterly indicators on several sectors, including trade (retail and wholesale) and agriculture, among others. However, CAPMAS does not provide any detailed data related to the informal sector. It also does not supply any details related to Small and Medium Enterprises (SMEs)

in Egypt. Selected details of the census are given in Appendix III.

The enterprise sector in Egypt is characterized by a multitude of very small private enterprises, in all sector of the economy (except in the mining sector). And in all sectors, the public companies are in average much larger than the private ones.

3.1.1 2006 Census

The total number of establishments registered in Egypt according to the 2006 census is 4,591,000, 2,646,000 of which are in operation. The public sector (including public enterprises and public service) represent 7.9% of the enterprises. The registered companies employ 7.25 million formal workers spread over the country's various governorates. All public enterprises are medium- and large-sized.

It is interesting to note the difference between the number of persons employed in enterprises (table 35 below) and the total in table 34 below (about 20 million). The difference between

the total number of formal workers (7.25 million in enterprises, plus about 5 million in government)) and the distribution of labor force according to main economic activity can be attributed to employment in the informal sector as well as informal employees within formal enterprises.

As shown in table 35, Egypt has a very high concentration of enterprises employing only one worker, a category which represents around 91% of all formal enterprises. It should be noted that the number of employees identified in the census refer only to employees receiving an "official" salary on which social security is paid. The discrepancy between numbers probably highlights the importance of informal employment in very small enterprises (not to mention informal employment in informal activities) and this category (employing 1 employee) represents close to 60% of the total official enterprise employment. The larger enterprises, that is above 100 employees, employ around 16% of the formal work-force and generally have a very low percentage (if any) of informal employees.

Table 34 - Distribution of Labor force according to main economic activity according to the 2006/07 census

Activity	Total	% distribution
Agriculture & Hunting	5,209,601	26.01
Mining & Quarry	35,580	0.18
Manufacturing	2,366,839	11.82
Electricity & Gas	195,989	0.98
Water Supply activities	96,826	0.48
Construction	1,888,206	9.43
Trade of retail & repair of Motor Vehicules	2,512,546	6.27
Transport and Storage	1,255,417	6.27
Food & accommodation services	400,173	2.00
Information & Communication	176,426	0.88
Financial intermediaries	180,720	0.90
Real-estate	9,328	0.05
Scientific & technical activities	373,292	1.86
Administrative Activities	125,465	0.63
Public Administration & defense	1,730,364	8.64
Education	1,900,485	9.49
Health and social word	518,246	2.59
Arts and creativity	75,010	0.37
other services	532,546	2.66
Personnel services	148,016	0.74
International organizations	3,295	0.02
Incomplete data	155,704	0.78
unstated	135,583	0.68
Total	20,025,657	100

Source: CAPMAS

Table 35: Distribution of enterprises according to number of employees
(all data refer only to the formal sector in 2006)

	Total	Size of the company									
		Up to 1		1 to 10		10 to 100		100 to 1,000		Above 1,000	
Establishment	2,450,903	2,252,550	91.91%	194,983	7.96%	42,538	1.73%	3163	0.13%	207	0.0085%
Workers	7,254,033	4,242,805	58.49%	1,825,511	25.17%	914,256	12.6%	762,698	10.51%	423,021	5.83%

Source: CAPMAS 2006 CENSUS RESULTS

The distribution of enterprises by governorate does not differ between the 1996 and 2006 census. Greater Cairo (Cairo, Giza and Kaliobia) is still the biggest region

in terms of number of enterprises, followed by Alexandria and Dakahlia. Sharkeya and Gharbea have also a large concentration of enterprises.

Figure 19: Distribution of enterprises by region

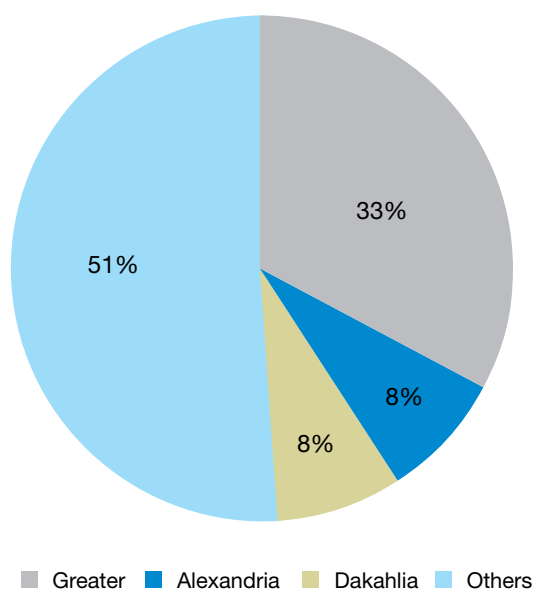
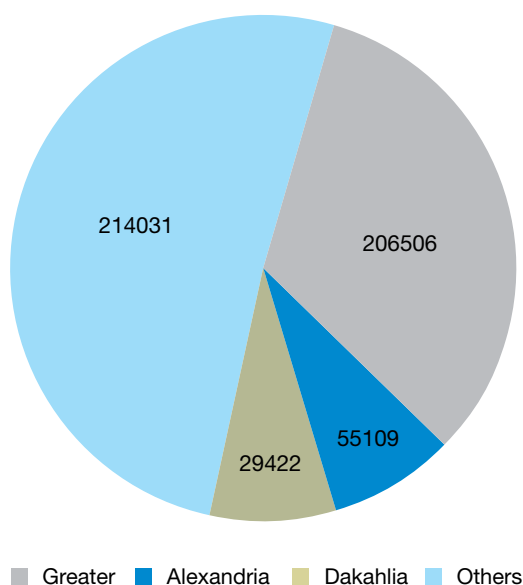


Figure 20: Distribution of enterprises by numbers of workers



If greater Cairo and Alexandria have the largest number of enterprises, they have also the largest share of employment. The overall location and employment have not significantly changed since 1996, with an only slight relative increase towards other regions due to attempts by the government to attract new investments in new cities (see Para 2.1.6.) and industrial zones, and to issue licenses only for locations other than Greater Cairo and Alexandria.

3.1.2 SME Estimate

Though 2006 provided detailed statistics in areas related to population, particularly in relation to education, healthcare and unemployment, the exact number of SMEs was not available. This could be attributed to the different definitions used by the

different entities targeting this sector such as the SFD, the financial sector and various NGOs working

with this sector. However, if we consider the number of employees as the sole indicator, the following table presents the current status of operating establishments in Egypt. However, the categories used for classification are not ideal for classification. This means that only 13% of the total number of enterprises has over 100 employees. Even if we take into account the informal employment in formal enterprises (larger in smaller enterprises), around 90% of enterprises are probably below 100 employees. However, these classifications depend mainly on the number of employees which is not the sole criterion used to define SMEs by other stakeholders targeting this sector.

Table 36 – Enterprises in operation - Results of 2006 Census (by size)

Type of Formal Enterprise	Number
Very Large (over 1000 employees)	207
Large (500 to 1000 employees)	292
Medium (100 to 500 employees)	2,871
Small (10 to 100 employees)	3,163
Very small (5 to 10 employees)	42,538
Micro (1 to 5 employees)	152,445
Micro (one employee)	2,252,550
Total	2,450,903

Source: CAPMAS 2006 Census

The SFD uses the definition, combining the number of employees and the paid in capital (based on the law). It defines a small enterprise as “any company or sole enterprise practicing an economic activity in which the paid-in capital shall not be less than EGP 50 thousand and shall not exceed one million EGP and the number of employees shall not be more than fifty employees”. The law has not specified any definition for a medium-sized company.

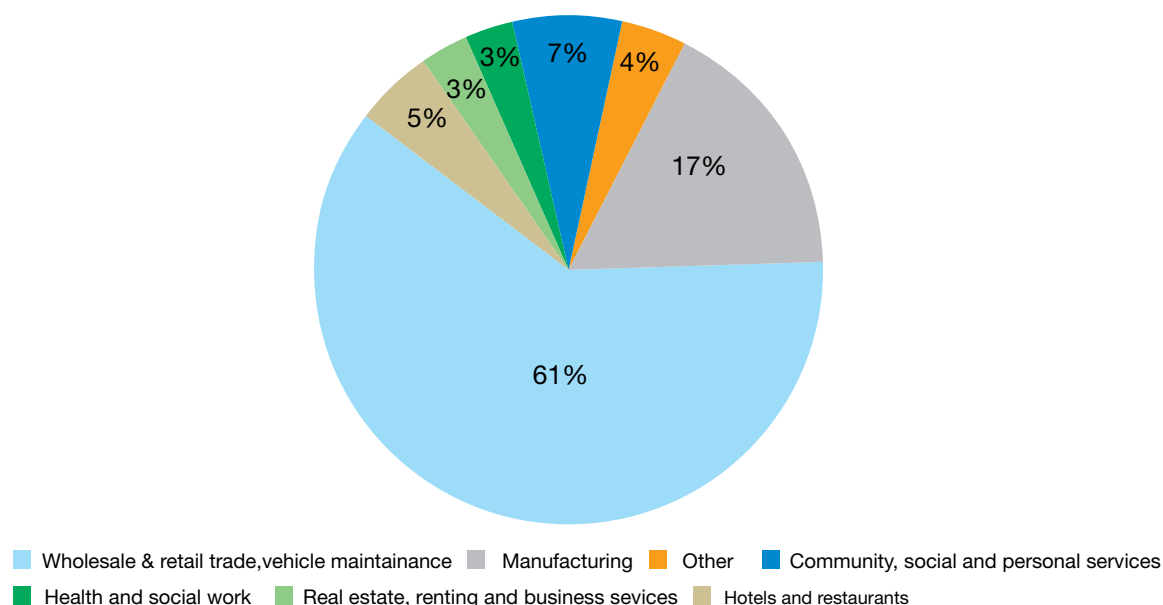
In its efforts to encourage bank lending to SMEs, CBE has provided a definition for this sector in its directives. The definition used by CBE is based on the annual sales of the enterprise and their paid in capital, and not on the number of employees. SMEs are therefore classified as those enterprises with:

- turnover/sales volume not less than L.E. 1 million and not exceeding L.E. 20 million; and
- paid-in capital not less than L.E. 250,000 and not exceeding L.E. 5 million.

This decree does not differentiate between small and medium-sized enterprises. However, CBE and SFD do not issue statistics on the number of SME according to these definitions.

The SME sector activities are spread widely across trade, services and manufacturing. Referring to the most recent data provided by CAPMAS, trade and services are most dominant, accounting for almost 80% of the whole sector's activities followed by the manufacturing sector.

Figure 21: Distribution of SME by sector of activity (estimation)



Source: Al Ahram weekly, 2007

In an article by Al Ahram weekly, it was estimated that the wholesale, trade and retail services represent the largest activity for SMEs⁴⁰.

3.1.3 Private Enterprise Ownership

Most private enterprises are family-owned. As seen in table 37, close to 92% of all enterprises have only one proprietor, and only 19,030 enterprises (that is 0.7% of the total is joint stock companies). Out of these, there are 331 enterprises listed on the Egyptian Stock Exchange, many of them having only a small share of their capital on the Stock Exchange. Even

the largest enterprises quoted on the Stock Exchange such as the Orascom conglomerates are still being strongly controlled by the original family. A few hundred companies are foreign-owned, mostly multinational companies and Arab investors. There are a handful of enterprises partially owned by Venture Capital Funds (see above Para 2.5.9.3.), mostly in the IT and food sectors.

3.1.4 Foreign Participation

Egypt is an increasingly attractive choice as a location for trans-national corporations, with its natural resources, competitive wage rates, geographical

⁴⁰ Al Ahram Weekly publications, Distribution of SMEs in Egypt, 2007

Table 37 – Number of establishments according to legal status

Legal Status	Number of enterprises	Percentage
Sole Proprietorship	2,273,383	91.6
Joint Company	99,663	4.0
Unregistered	31,618	1.3
Limited Partnership	6,459	0.2
Partnership limited by shares	1,787	0.1
Limited Liability Company	3,154	0.1
Joint Stock Company	19,030	0.7
Branch of foreign Company	1,417	0.1
Other	46,227	1.9
Total	2,482,738	100

Excluding government enterprises
Source: CAPMAS, 2006 census

location, a dynamic and growing financial sector, advanced infrastructure and opportunities for combining trade and investment strategies.

In 2007/2008, the total number of companies with foreign participation has reached 9,339, a significant increase if compared with 2003/2004 (3,905) with an estimated employment of 226,000.

3.2 Informal Sector

The extent of Egypt's informal sector cannot be estimated. No official or private statistics on this

matter are available (although the notion that the informal sector accounts for 30% of Egypt's work-force is generally accepted as an estimate, but some estimates put it at 70% of the work-force). According to certain surveys, the informal sector may comprise some 1.4 million extra-legal entrepreneurs⁴¹ and provides work for some 12.7 million workers. The team therefore based its approach on the information and impressions received directly from business people and other stakeholders, as well as the obvious difference between the total number of workers mentioned under 3.1.1 and the distribution of population according to main economic activity 'see above table).

⁴¹ Source Ahmed Galal from ECES « Out of the shadows » in Emerging Egypt 2004

The Small Enterprises Law (known as the SME law, law 141/2004) and the new tax law were expected to help attract enterprises to register or register their workers, but it has had little or no impact on informal workers. However, the government has launched an extensive campaign to attract informal enterprises to register as well as assist them with the registration procedures through the one-stop-shop available both through GAFI offices and SFD branches.

The informal sector, however still remains an important segment in the economy that is not included in the formal economy. It cannot be ignored as it plays a significant role in providing services and employment to a significant segment of the society.

3.3 Private Sector's Participation in Agriculture, Tourism, Construction, Manufacturing Sub-sectors and Profiles of These Sub-sectors

The sectors mentioned above were included in this report - after careful consideration - according to several mixed criteria. The two main criteria were (i) the share by each of the sectors in the country's production, and (ii) the size of private ownership in the sector. The resulting selection represents, to a large extent, Egypt's manufacturing activities (of which the private sector accounts for approximately 65% of total investments according to official data). The IT sector which recently became a very important sector and it is mostly private, is not treated under this section. It is dealt with under the infrastructure section.

Sectors like agriculture, food processing, tourism, construction, cement, textiles, and information technology are generally understood to be the pillars of Egypt's private sector. They are decisive in their contribution to the economy's growth. The consultant also decided to include petrochemicals and fertilizers sectors which are now part of the private sector after privatization.

3.3.1 Agriculture and Food Processing Sectors

3.3.1.1 Agriculture

Agriculture is a crucial component of Egypt's economy. It is the biggest employer, accounting for 26% of all employment, and a major exporter. Egypt still exports cotton, fruits, vegetables, medicinal plants, sugar and rice. It is also a very important supplier of raw materials to two of the strongest economic sectors, namely; textile and food processing.

> Exports

Before industrialization, agriculture accounted for most of Egypt's exports, but in 2007/08 agricultural exports (including cotton) accounted for 7.3% of total exports of non-oil products⁴².

> Production

Nearly all of Egypt's agricultural production takes place in around 8.4mn feddans (3.5mn hectares), while multiple cropping projects in the agricultural sector have led to an increase in farmed area of about 15.2mn feddans (about 6.4mn hectares) in 2008. The multiple cropping practices can significantly raise the cropped area's productivity. Egypt's cultivated area is narrow, as 90% of the agricultural land is concentrated in the Delta and the Nile River banks between Aswan and Cairo. Some desert lands are being developed for agricultural purposes, but some fertile lands in the

⁴² CBE annual report 2007

Quick facts related to the sector

	2004	2007/08
Agriculture production share in GDP	15.8%	13.6 %
Private sector share	98%	99%
Arable land of the Egyptian total	2.8%	3%
Employment by agriculture	34%	26%
Agriculture as a % of commodity exports	20%	NA

Overview of the sector :

- Off-season production capabilities allowing multiple crops
- Energy and labour costs can be regarded as low
- Insufficient facilities for refrigerated storage and processing
- Demand from Europe increasing
- Local supply of agricultural production factors
- Large projects to increase usable land as well as to improve irrigation
- Sustained process of productivity increase

Sources: (1) CBE, (2) CAPMAS, (3) GAFI

Table 38 - Major Agricultural and Food exports (2003/04- 2007/08)

Main products	2003/04	2004/05	2005/06	2006/07	2007/08
Cotton	202	138	146	110	194
Potatoes	5	1	2	17	33
Citrus Fruits	13	24	38	32	32
Rice	13	141	136	146	162
Preserved and Dried Fruits	4	6	4	17	17
Dried Onion	2	6	4	7	8

Source: CAPMAS 2007/08 – Ministry of Trade and Industry Statistics

Nile Valley and Delta are being lost due to urbanization and erosion, as well as desertification. Mega agricultural projects are currently being developed at a very high cost such as Toshka, Al Salam Canal and East Owainat, adding together around 1.4mn feddans to Egypt's cultivated land.

The country's cultivated land (except the newly reclaimed land in the desert) is heavily fragmented in small ownership (average size of farms less than one feddan) which increases the cost of farming to the average Egyptian farmer. This issue is not a major factor in the reclaimed land due to the economics of scale implemented in these newly reclaimed farms

Government efforts are currently focused on upgrading the irrigation systems (see above water section 2.7.6) and introducing new cultivating techniques. Moreover, expansion in organic crop cultivation is considered as one of the country's plans. The Ministry of Agriculture has set a goal of converting 1.3 million hectares of desert land into farmland by 2020, in order to increase the country's capacity to grow 254 million tons of fruits and vegetables⁴³. This goal might be difficult achieve.

The World Bank has provided a USD 145-million loan to the Egyptian Ministry of Irrigation and Water

Resources to support an irrigation project in western Delta areas. The project aims at reclaiming 170,000 feddans, including 70,000 in Sadat City and 100,000 along the Natroun-Alamein road.

➤ Government Incentives

In order to avoid a decrease in cotton and wheat production, essential for the Egyptian economy⁴⁴, the government has put in place temporary incentives, guaranteeing purchase prices for cotton and wheat, and fixing prices once a year.

In 2007/08, most of the cultivated crops registered an increase from 2% to 10%. Wheat production increased by around 10%, reaching 8mn tons in 2007/08 as a result of government incentives provided to local farmers. However, the government didn't disclose if it would buy wheat from farmers in FY2008/09 at a certain price due to the decline witnessed in the global wheat price, dropping from a peak of over USD 450/ton in March 2008 to below USD 250/ ton in November 2008, as result of the global financial crisis.⁴⁵

Egypt has opportunities of continuing to be an important and efficient agricultural producer, due to its large domestic market and its export markets, either

⁴³ Ministry of Agriculture and Land reclamation , year Book 2008

⁴⁴ The Government objective is to cut the spending on the imported wheat by motivating the local farmers to plant more wheat. Egypt's imported wheat was more than 50% of the total agricultural products imports in 2007/08, reaching USD 1.6bn.

⁴⁵ Ministry Agriculture and Land reclamation , Yearbook 2008

traditional (cotton, onions, etc.) or new products (fruits and vegetables). The development of new lands will offer opportunities for large commercial private farmers. But a number of inefficiencies will have to be addressed, in particular, education and training for farmers and inefficient water use.

3.3.1.2 Food Processing

Over the past five years, the food processing sector has experienced significant growth (around 20% per year on average), fuelled by both a growing domestic

agri-product prices and the opening of new markets. Egypt's major markets for processed food are Europe, the Middle East and Africa. In the Middle East, Saudi Arabia is the largest importer of Egypt's processed food products, with exports exceeding USD 150 million (EGP 820 million) in 2007. The food items include processed cheese, frozen potatoes, essential oils and frozen strawberries. Libya is not far behind, with just under USD 130 million (EGP 710 million) of imports during the same year. In addition, the EU imported a little over USD 151 million (EGP

Quick facts about the sector

	2002/2003	2006/07
Food processing production value of (2002/03) (*)	28.9 billion EGP	30.262 billion EGP
Share of private sector in value	16.2 billion EGP	25 billion EGP
Number of enterprises	4,700	4,576
% of total manufacturing sector	15%	10%
Employment equals of total manufacturing sector	20%	n. a.
Private sector share 95% (2003)	95%(2003)	95% (2006/07)

Sources: (1) CAPMAS, (2) Egypt's Information Service. (3) GAFI

*Includes food, beverages and tobacco

(and tourism) consumer market and exports. The sector's main activities are basically fruit processing (juices, jams, marmalades, confectioneries), frozen vegetables, cereals and biscuits for both domestic and export markets. Other products such as oil, flour, sugar, non-alcoholic and alcoholic beverages, dairy products and ice cream are more focused on the domestic markets.

➤ Exports

Export volume and value increased, most significantly over the past three years, due to both diversification of export products, increased

830 million) in 2007. Italy was the largest European importer of Egyptian products in 2007, with an estimated USD 33 million (EGP 180 million) spent on products such as artichokes, tomato sauce, fruit juice and dried onions.

Between 2006 and 2007, Germany, Spain, Greece and the United Kingdom nearly doubled their food and processed food imports from Egypt. Romania, which imported as little as USD 820,000 in 2006, increased its imports to USD 5 million in 2007. Belgian imports jumped from USD 2 million to USD 7 million (LE 38.5 million) in Egyptian food imports during the same period⁴⁶.

⁴⁶ The Egyptian Food Export Council (FEC) Publications (2008/09)

The sector obtained great support from the Egyptian government, particularly after the financial crisis, through the establishment of an export support system.

The government and private sector organizations and enterprises through the Food Export Council (FEC) are working towards the design of a sector strategy to develop this growing food processing industry and its exports. Egypt is currently taking advantage of the highly productive agricultural sector, relatively cheap labour, and the possibility of expanding into food product markets in Europe, Middle East and North Africa.

The tendency in this sector is towards improving the quality of raw materials and processed food for both the local and export markets. This includes applying international food safety regulations. Food safety and quality assurance require investments that large companies can easily afford, while the SMEs cannot do so easily. Management efficiency and labour productivity are also priorities necessary to achieve competitive product costs. Currently, an initiative has been taken by several private sector organizations and enterprises as well as relevant government bodies to draft a food safety law that would upgrade the sector's output and apply international standards to all food products targeting local and international markets.

Long- and medium-term financing of investments is highly needed in the food processing sector, particularly upgrading technology for production to be able to compete in international markets and satisfying the international food safety regulations; increasing production levels; strengthening storage and transportation capacities to reduce losses and waste of raw materials and finished products.

➤ Domestic Market

Most promising high value products for the domestic market include dressing sauces, apples, nuts, high quality beef, cheese, special flours, dairy products and

raw materials for bakeries and pastries. Oil, milk, and flour account for roughly 30% of the sector in Egypt. The sector's growth is important due to a work-force increase (particularly women), the massive arrival of tourists as well as increasing demand for better products on the local market. This is creating a large diversified domestic market, brought about by advertising and ensuing changes in people's habits. The sector will particularly need investments in terms of infrastructure, cold storage facilities and packaging. Dispatching and transporting goods quickly will also require investments in the logistic and distribution network.

3.3.2 Tourism

The mostly private tourism sector is heavily regulated by several government authorities and institutions. To operate in the sector, a company must make a deposit of EGP 500,000 to EGP 1 million (depending on their activities), and obtain a license which is certainly a barrier to entry to smaller SMEs. However, some overall planning and quality control are necessary to avoid inefficient operators, site destruction (both antique sites and non-environmental friendly activities) and a deterioration of the country's overall image.

A major development over the last decade has been the boom in leisure tourism to the Red Sea and Sinai resorts, which outstripped traditional tourism to cultural and historic sites

The Ministry of Tourism's annual report pointed out that Russia was among the ten top countries whose citizens visit Egypt, with over 1.5 million tourists. Germany, England and Italy account for about 1 million tourists each to Egypt. Arab tourists (2 million tourists) come mainly from Libya (439,000 tourists) and Saudi Arabia (412,000 tourists).

Current strategies include the overall development of the Northern coast (Alexandria to El-Saloum) and further development of the Red Sea Coast and the Sinai areas. Some recent investments reveal the

Quick facts about the sector

	2003/04	2007/08
Visitors to Egypt	8.1 million	12 million
Tourism impact on GDP	11.3% (direct and indirect)	7% (direct)
Direct employment persons	1.2 million	n.a
Tourism revenues (hotels + restaurants only)	USD 4 billion	USD 11 billion
Number of companies in the tourism sector (mainly private)	1,204	n.a
Tourism share of total Egypt's foreign currency income	25%	19.3%
Annual Growth rate (including restaurants + hotels)	19.7%	29.5%
Sector added value	7.5%	n.a.
Hotel occupancy rate	80%	63%

Sources: (1) CAPMAS, (2) GAFI, (3) Ministry of Tourism

private sector's confidence in the sector's future (Al-Kharafi Group development in Port Ghalib, EGP 1.2 billion together with Hurghada new developments and Taba Heights in South Sinai).

The sector's biggest companies are Al Khalifa Group and Egos (owner of Marriot Cairo, Helman Shephard, Old and New Cataract, and Winter Palace Hotels).

The Egypt's tourism sector is working on adding new tourism niche areas - such as sports tourism, health and therapeutic tourism, shopping tourism and residential tourism - to diversify the sector and upgrade quality.

Sector recommendations made four years ago are still valid and would need further implementation:

- efforts should be made to improve most infrastructure such as roads and airports. A shortage of airports is especially evident in the Sinai and Red Sea areas. Seven airports such as Cairo, Luxor, Aswan, Sharm El Sheik and Hurghada have been designated as international gateways for tourism development;
- construction of new hotels ought to be regulated to avoid short-term approaches and the deterioration of touristic sites;
- training in environmental protection and the training of staff at the new Ecôles d'Hotellerie in Hurghada and Sharm El Sheik are also needed to continue to upgrade vocational and managerial capabilities. Environmental awareness must also be raised among investors; and

- constraints are mentioned in the areas of taxation (a 21% of tourist costs), ranking Egypt as one of the countries that overtaxes tourism. A new and more tourist-friendly environment must be created with competitive fees and tax regulations.

3.3.3 The Private Sector in Export-oriented Manufacturing Sub-sectors and Profiles of Some Major Sub-sectors.

3.3.3.1 Pharmaceuticals

➤ Market

Egypt's pharmaceutical market is the largest in the region, estimated at USD 2.2 billion in 2008. Pharmaceutical sector activity centres on two major areas: the introduction of WTO TRIPS-compliant legislation on intellectual property rights and the status of the drug pricing system.

Egypt's drug market has a strong growth potential because of the country's large population and low per capita drug expenditure estimated at USD 15 per year. Experts expect the value of the market to increase to around 9% per year in the coming years. The main factors driving growth include:

- (i) on the domestic market: increasing internal demand fuelled by increased and improved coverage in health insurance and disposable income; and
- (ii) on export: trade liberalization with regional peers and improvements in the regulatory environment.

However, the development of the domestic market will be hampered by strict government price controls in this sector. The shortfalls of intellectual property both in terms of laws and their enforcement may hamper the growth of production and markets.

Quick facts about the sector

	2002/03	2008
Value of pharmaceutical market:	4.1 billion EGP	
Private sector share	86%	12 billion EGP
Public sector share	14%	
Egyptian Market value	USD 1.27 billion (2004)	USD 2.2 billion
Imported raw materials	2.52 billion EGP (1999)	n.a
Exports present of production value	n.a	USD 691.5 million
Number of private manufacturing companies	22 (2001)	n.a
Number of public manufacturing and trading companies	8 (2001)	n.a
Estimated growth rate	6.5%	9% per year

Source (1) GAFI, (2) American Chamber of Commerce sector study 2008; (3) Espicom World pharmaceuticals markets 2004

➤ Production

Domestic manufacturers meet a high volume of Egypt's pharmaceutical needs, but their focus on basic low-cost medicines is highlighted by their relative market share: 93% of the country's needs by volume, yet only 56% by value. Government restrictive pricing policies do not allow for inflation and are causing domestic producers to look abroad to increase their profit margins.

Three categories of companies with different strategies - Egyptian private companies, multi national companies and public sector companies which are subsidiaries of Drug Holding Companies - are operating in Egypt. Private sector companies, both Egyptian and multinationals, dominate this sector. The Egyptian private sector has the lion's share of the local market with production covering over 70% of the market.

Multinational companies active in Egypt account for 37% of total private sector sales. Novartis (6.7%), Glaxo Wellcome (7.5%), BMS (4.2%), and Pfizer (4.2%) are the key players in the market. Others like EPIC and Pharco are also active in the market. Their approach is to produce - with no competition - products from their mother companies even if they have to import raw materials which will erode their net profit margin.

Public sector production and market share have been reduced mainly because of inefficient

distribution and high operating cost. Main public companies are: Nile, CID, Misr and El Nasr Chemicals. Extremely restricted research and development (R+D) expenditure; overstaffing; sales below cost for political reasons, and weak marketing and sales efforts plus heavy government control and restrictions are mentioned as reasons for the decline. Currently, the public sector is trying to upgrade its production facilities, focusing on exports to compensate for loss of internal market, and changing its product mix to secure a higher margin.

Egypt is implementing a reform program aimed at modernizing its health system in partnership with international organizations. The new system aims at providing universal coverage to all the country's citizens.

➤ Import/ Export

The sector is a major exporter, mostly of generics and exports have significantly increased over the past years. However, at the same time, it is also a major importer of raw and active materials. The overall balance is negative. The main targeted export regions are the Middle East and the Commonwealth of Independent States (CIS).

➤ Sector Development Strategy

The sector's main strategic needs included the attraction of foreign investments and technology;

Table 39 - Import/ export of pharmaceuticals (drugs and active material) (in USD millions)

	2003/04	2004/05	2005/06	2006/07	2007/08
Exports	209,1	215.2	124.5	238.0	691.5
Imports	476.9	524.6	627.4	887.4	1,423.6

Source: Central Bank of Egypt

and the reduction of customs and tax barriers already adopted by the government. An alternative to the sector's development could require making Egypt a base for multinational companies that are outsourcing and boosting export volumes by upgrading the general quality of pharmaceutical products to match international standards.

Several studies have been made on the sector and the main conclusions are still valid:

- improving the regulatory framework, particularly in relation to Intellectual property;
- strengthening Research and Development;

- improving quality standards;
- encouraging foreign direct investments;
- promoting the enhancement of the health insurance coverage.
- improving export performance;
- finding internal alternatives to excessive imports of materials and finished products;
- developing and introducing new products in the market;
- supplying essentials to Egypt's healthcare system internally;
- investing to create new manufacturing sites or to upgrade existing ones; and
- obtaining international approval for domestic products.

Quick facts related to the sector

	2002/03	2002/03
Employment (including textile and apparel) of all industrial working force.	349,000 persons	102,875 (spinning & weaving only) Estimated
Total sector investments	8 billion USD (1999 – 2003)	n.a
Total production value (spinning and weaving only)	28.9 billion EGP	n.a
Total private share in spinning and weaving	55%	n.a
Total private share in garment manufacturing	92%	95%
Textile exports represent	25% of all exports and 44% of manufactured exports	25% of all exports
Break down of Egyptian textile exports (million USD)	Cotton 440 Knitted 320 Woven 280 Other 260	Cotton Yarn 92.7 Ready Made Cloths 431 Cotton Textile 496.3
Number of companies in the sector: (*)	4,500	n.a
Number of private companies in spinning and weaving	1,186	n.a
Number of public companies in spinning and weaving	28	47 (spinning & weaving & readymade Garments)
Number of private garment manufacturers	1,500 (2005)	

*Includes all sub-sectors (weaving, knitting, dyeing, finishing, silk, cotton, and fibre producers)
Sources: (1) GAFI, (2) CAPMAS, (3) COTTON CAIRO, (4) Business Study & Analysis Centre

3.3.3.1 Textile

Egypt's textile industry covers the entire cotton processing spectrum, including spinning, weaving, knitting and garment manufacture. It is growing at an average rate of 6.5% annually and it is considered to be of paramount importance to Egypt's economy. It employs more than half a million Egyptians and is a crucial foreign exchange earner. Over the years, Egypt's textile industry moved towards higher value added products instead of exporting raw cotton.

One of the important characteristics of the textile/garment industry is that it is one of the very

The private sector dominates textile production in Egypt, especially in downstream activities such as garment production. Sectors which had not been earmarked for privatization are now for sale.

➤ Spinning and weaving

Egypt's spinning industry is still largely public and it is the second largest industry in the Euro-Mediterranean region. In spite of its superior raw materials, Egypt has been unable to exploit its advantageous position to the best of its capabilities. This is creating problems for the down-stream industry. The EU has provided some assistance to develop these advantages and restructure the industry.

Table 40 - Key textile productions in Egypt

Product	Unit	2002/03	2003/04	2004/05	2005/06
Cotton textile ⁴⁷	'000 meters	136,694	7,497	44,955	21,377
Wool yarn	Ton	15,272	1,433	3,719	4,041
Ready made cloths	Pieces	3,736	21,133	99,770	761,389

Source: CAPMAS

few manufacturing processes in Egypt that is handled completely in-country. The sector produces a wide range of fibre-based products, including raw cotton, yarns, fabrics, garments and ready-made textiles. International brands such as Gap, Guy Laroche, Pierre Cardin and Tommy Hilfiger are made in Egypt under licence for the highly protected domestic market. The industry benefits from low labour costs (around US\$60 a month) and some of the world's best raw cotton, although much is exported.

➤ Garments

Egypt's apparel industry is one of the most dynamic in its industrial sectors. It comprises some 1,500 private sector apparel and intermediate manufacturers, the majority of which are equipped with state-of-the-art machinery. This sub-sector is almost a hundred percent private. As seen in table 38 above, the production has increased dramatically, boosted in particular by the QIZ agreement

⁴⁷ Cotton textile is the wording used by CAPMAS for pure cotton fabric used for upholstery (underlining); the huge variations reflects the variations in cotton production.

Total apparel production output is estimated at USD 3 billion per year, accounting for 3.5% of Egypt's total GDP. The investment cost of creating one job in this industry is about USD 2,000 compared to USD 150,000 in other industries. The Egyptian market offers a complete range of products from simple T-shirts to tailored suits.

➤ Household textiles and carpets

Egypt's household textiles and carpet manufacturing is also witnessing an huge growth. Oriental Weavers - a listed Company on the Stock Exchange - is reported to be one of the top-five machine-made carpet manufacturers in the world.

➤ Production Costs

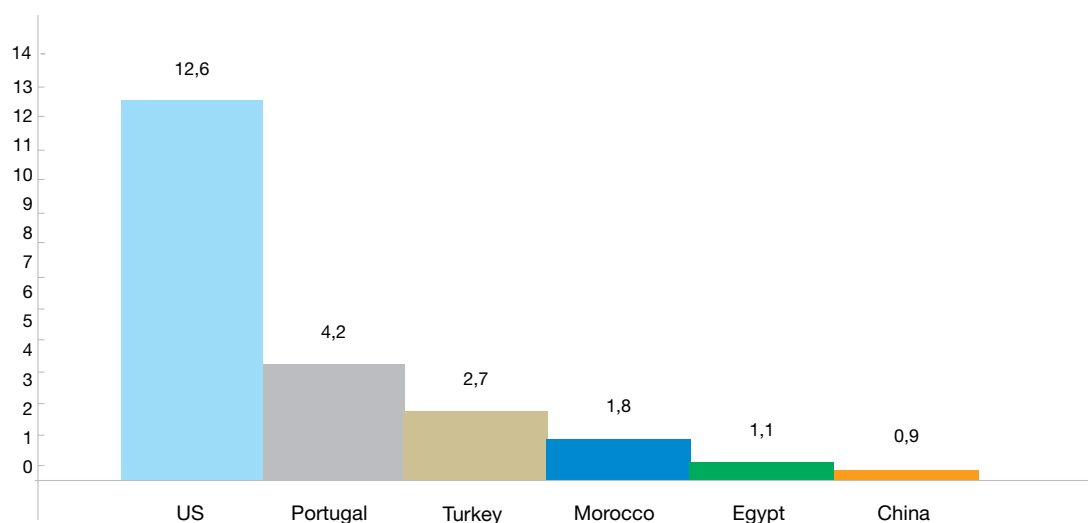
High quality raw materials, the existence of a skilled labour force, low salary costs and a good geographical location are generally and traditionally understood as competitive advantages for the country's textile sector and guarantees for the continuation of its expansion. The threat of even cheaper labour costs in Far East countries is being dealt with by seeking greater added value in production, keeping abreast of sector technologies and reducing tariffs in countries of destination.

Egypt is well placed if compared to other low-cost countries (see figure below), and it is, in addition,

Table 41 - Manufacturing cost comparison 2005 (Source: GAFI)

	Spinning%	Weaving%	Garments prod. %
Industrialized Countries	100	100	100
Egypt	57	41	15

Figure 21 - Textil Sector - Cost of salaries Comparison (US\$/hour)



Source IMC , 2005

benefiting from favourable entry conditions in Europe and the US (especially if compared to Asian competitors)

➤ Sector Support

A number of private and government institutions provide ongoing support to this sector that is strategic to the Egyptian economy. Among them, the Industrial Modernization Center helps the overall textile industry by seeking increased added value, enhanced quality, and product diversification. The Egyptian government has actively supported the textile sector by helping to create the "Egyptian Cotton" logo, or by seeking the sector's preferential inclusion in the EU-financed Trade Enhancement Program and similar actions.

Another example of business support entities is the Textile Clothing Technological Center which provides technical consultancy, technology transfer, product development and innovation.

Egyptex Trade Fair, a specialized fair, aims at promoting exports and attracting inwardproductive investments. The Egyptian Cotton Logo is part of a broader program to revitalize the country's cotton sector.

Production in the country's textile private sector mainly deals with knitted wear and garment manufacturing (recently undertaking spinning, weaving, dyeing and finishing). The sector complains about insufficiencies in the quality and quantity of dyeing and finishing. This results in production bottlenecks at the lower end of the chain. The garment producing sub-sectoris nonetheless experiencing an unprecedented boom in its activities and export figures. WTO agreement requirements however pose certain risks to Egypt's textile industry. The implementation of the QIZ has brought very positive results, especially in the garments sector as well as several investments from other countries, particularly Turkey.

Quick facts⁴⁸ related to the sector

	2004	2008/09
Estimated number of companies	26,000	n.a
Estimated number of private companies	25,000	n.a
Percentage of active companies	50%	60%
Estimated production value	3.5 billion EGP	n.a
Total estimated direct employment	3 million	n.a
Official employment in the sector	1.3 million(2002/03)	3 million
Estimated share over global employment	8.3%	11% of new jobs

Sources: (1) Federation of Chambers of Construction Industry, (2) CAPMAS, (3) American Chamber of Commerce.

⁴⁸ The statistics are again unclear; the numbers mentioned in the box have been given by senior members of the Federation of Chambers of Construction Industry; other experts believe that the number of public companies is much lower.

The growth of the sector has been facilitated by the introduction of the QIZ (see Appendix V)

3.3.3.2 Construction Sector

The construction sector as understood here encompasses the building of residential homes, construction of factories or structures for industrial purposes, and all types of public works related to infrastructure development (roads, ports, airports, and others).

The Federation of Chambers of Construction Industry is over 10 years old and affiliation to this organization is compulsory. Among other activities, it issues licenses necessary to operate in the construction sector. Its board is composed of 45 members (15 are appointed by the GOE, and the remaining 30 are elected).

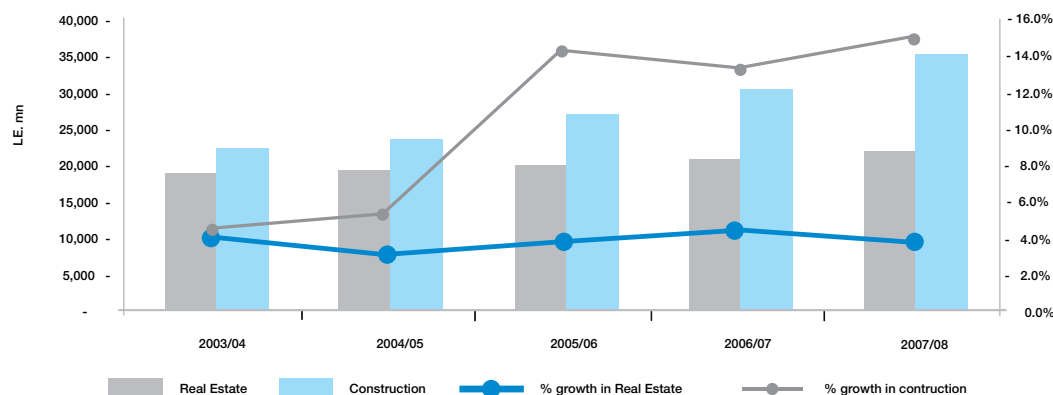
➤ Producers

The construction sector is mainly in the hands of private companies. However, the largest company⁴⁹ in terms of volume, Arab Contractors, is still a publicly-owned company. In addition to these, new entrants have come into the Egyptian market from the Gulf and are investing in this sector, which witnessed a boom over the past five years with ongoing developments in the north coast as well as the new residential areas and tourist resorts.

➤ Market

This sector has witnessed strong performance over the past couple of years, on the back of Egypt's economic growth, favourable demographics, new regulations encouraging registration of home

Figure 22: Construction and real estate sector macro Indicators



Source: Ministry of Investment, Annual report 2007/08

⁴⁹ Orascom OCI is a leading general construction company (building, public works, and infrastructure concessions such as ports, industrial parks and gas distribution networks) not only in Egypt, but also in a number of Arab and African countries. It recently acquired a construction company in Belgium. A totally private company, it actively competes with Arab Contractors. Orascom OCI's key success factors include low labor cost, stringent procedures regarding procurement and receivable collection, and well trained and adaptable staff.

ownership, the entrance of a number of major Middle Eastern property developers, availability of mortgage financing, elimination of restrictions on real estate ownership by foreigners and relatively cheap prices compared to other countries in the region.

The real estate sector has accounted for about 3.4% of total GDP in the FY2007/08. The construction sector, which is highly correlated with the real estate sector, grew significantly during the past couple of

as well as for the real estate sector on condition that new real estate investments are directed to segments where real demand exists.

3.3.3.3 Cement

➤ Production

13 companies are operating in the cement sector, and only one is state-owned. Foreign companies

Quick facts about the sector

	2003/04	2008/09
Number of companies	15	13
Number of private companies	12 + 2 mix	4 Egyptian 8 foreign Co.
Number of public companies	1	1
Total production	35.5 million t	39.3 million t
Total consumption	26.8 million t	n.a
Exports	7.8 million t	n.a
	11.7 million t	
Demand growth	3-5%(2005)	n.a

Sources (1) GAFI; Ministry of Investment,

years, recording a growth rate of 14.8% in FY2007/08, compared to 13.1% in FY2006/07.

Another factor that has been impacting construction activities is the price of building material, especially those of steel and cement. The prices of local building materials have witnessed a unprecedented rise, fuelled by high demand and expensive feedstock, during the first half of 2008, which was directly reflected in the prices of housing units. Recently, global prices of building materials and feedstock witnessed a decline following the outbreak of the global economic slowdown. The prices of building materials prices in the country changed dramatically over the past year. The decline in prices could serve as a stimulus for the construction sector

have invested heavily in Egypt and today 8 out of the 12 private companies are foreign. Total capacity reached 46.1 million tons split between grey cement (97.1%) and white cement (2.9%). It is worth highlighting that the Arabian Cement Company which started operations in 2008 is currently producing only clinker, until its own cement mills are up and running.

The acquisitions of local cement companies by foreign companies started in 1999 with the acquisition of public companies by Lafarge & Cemex acquiring 76% and 96% of Beni Suef Cement and Assiut Cement companies, respectively. The latest deal is the acquisition by Lafarge of the largest private operator, OCI Cement Group (Egypt Cement

Table 42 - Main cement companies

	2007	2008
Italcementi Group	11,800	11,800
Suez Cement	4,000	4,000
Helwan Cement	4,500	4,500
Torah Cement	3,300	3,300
Egyptian Cement Company (lafarge)	9,600	9,600
Assuit Cement (Cemex)	5,000	5,000
Alexandria & Beni Suef Cement (Titan)	3,300	3,300
Ameryah Cement (Cimpor)	3,900	3,900
Sinai Cement (Vicat)	1,500	1,500
Misr Beni Suef Cement	1,500	1,500
Mier Cement Qena Cement	1,500	1,500
South Valley Cement	-	1,500
National Cement	3,500	3,500
Arabian Cement	-	2,200
Total	41,600	45,300

Source Ministry of Investment, GAFI publications 2008

Company). The deal became effective by the end of January 2008, moving up foreign ownership share – in terms of local sales- from 20.8% in 1999 to 78.9% in 2008 - hence, reflecting the market's potential.

Total cement production in Egypt for the FY2007/08 reached 39.3mn, against 37.1mn tons in 2006/07, posting a growth rate of 6%, while the consumption of cement significantly increased by 14.7% from 32.1mn tons in 2006/07 to 36.8mn tons in 2007/08. The rise in cement consumption was attributable to the boom witnessed in construction activities.

➤ Demand

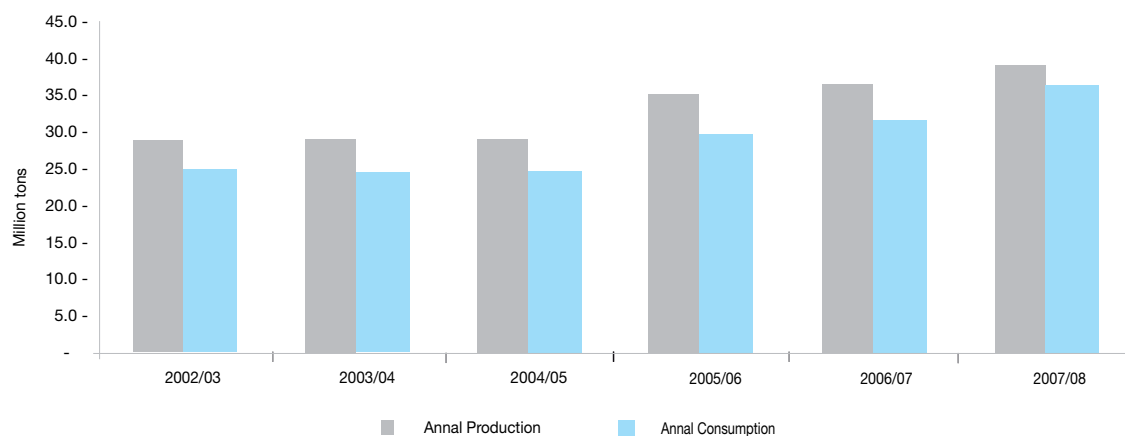
Egypt's cement industry received a great deal of attention from government supervisory authorities because of the increases in local cement prices, resulting from artificial supply shortages created by

some distributors. This situation occurred because cement producers preferred to export cement where prices were higher than those in the local market. To ensure local supply at reasonable prices, the Egyptian government imposed an export duty of EGP 65 (USD 12)/ton on exported cement in February 2007. Apparently, the export duty was not severe enough to offset cement export price differential. Therefore, the government increased the export duty to EGP 85 (USD 15.5)/ton in August 2007. However, local cement prices remained high, as cement producers passed their increased cost to domestic consumers.

In an attempt to bring discipline to the local cement market, the Egyptian government imposed a ban on cement exports for 6 months starting from April to the end of September 2008, extended for an additional month (October 2008), to calm an overheated local cement market.

Egypt Private Sector Country Profile - 2009

Figure 23: Cement Production vs. Consumption



Source: Ministry of Investment

Quick facts about the sector

	2003	2008/09
Production	510,000 tons	n.a.
Revenues	310 million USD	n.a.
Umbrella Holding	Egyptian Petrochemicals Holding Company (ECHEM)	Egyptian Petrochemicals Holding Company (ECHEM)
Plastic consumption	1.2 million tons growth 6% per year	n.a.
Domestic production of plastics	covers 35% of needs	n.a.

Furthermore, the Minister of Trade and Industry filed a case of anti-competitive practice against local cement producers (see above 2.2.4.). Local cement producers were accused of forming a cartel to manipulate local cement prices and dividing market shares among them. In August 2008, the court found local cement producers guilty of monopolistic behaviour and fined 20 cement company executives EGP 200 million.

The global economic slowdown combined with the liquidity squeeze in the financial markets resulted in a decrease of global cement demand and prices. In order to minimize the negative impact of the global economic situation on Egypt's cement exports, the Egyptian government took some measures. These measures included the removal of the EGP 85/ton export duty in October 2008, as well as ending the export ban.

3.3.4 Oil and Gas Downstream Sectors

With increased availability of gas (see above Para 1.1.5.), Egypt plans to develop all gas processing industries, in particular, petrochemicals and nitrogen fertilizers.

3.3.5.1 Petrochemicals

Despite the decrease in oil prices, a shortage of refined products and, thus, refinery capacity appeared at the world level. Investors have been looking for new locations for new oil refineries and Egypt is currently eyed by international investors as a strategic location for new refining facilities.

Currently, Egypt's oil refining capacity stands at 35.7 million metric tons per annum, while only 32.3 million metric tons were produced in 2007/08. The Egyptian government encourages the private sector to establish partnerships with the Egyptian General Petroleum Corporation (EGPC) in oil refining investments.

There are four refineries currently under project or construction in Egypt.

- the Egyptian Refinery Company (ERC), which is primarily owned by Citadel Capital, an Egyptian private equity firm, and partly by EGPC, with an annual capacity of 4.2 million mt or 140,000 bpd;
- the Sokhna for Refining and Petrochemicals is another refinery being established with a refining capacity 6.2mmt per annum; and
- the Minister of Petroleum announced at the end of 2008 that there were two other refineries in project, a partnership with the Libyan government, with an investment cost of USD10bn and another one with a foreign undisclosed partner with a total investment cost of USD 9.0bn.

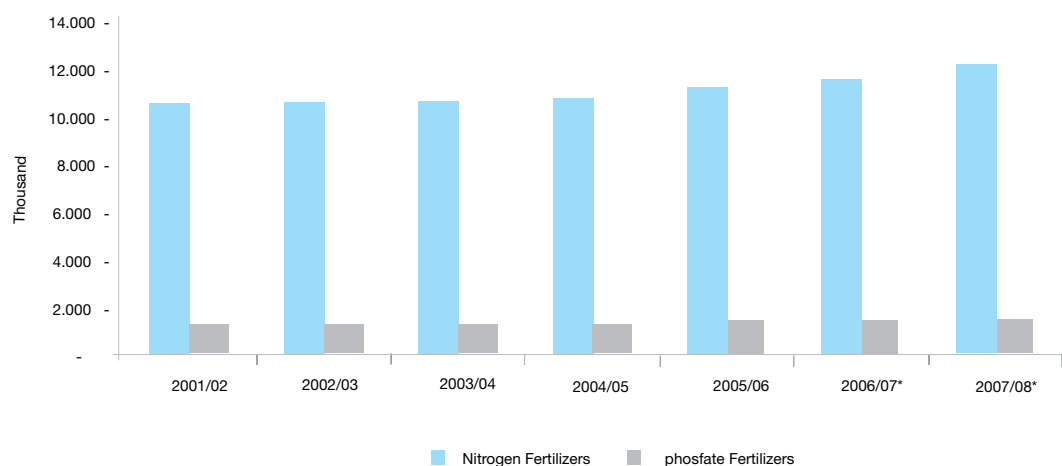
It is worth mentioning that local and foreign investments in the Egypt's oil sector reached an unprecedented USD 6.6bn in 2007/2008, an 86.6% increase over the 2006/07 level.

Quick facts related to the sector

	2003	2008/09
Number of companies in sector	37 (including distribution companies)	9 (producing companies)
Sector employment	41,458	n.a
Total production capacity	12 million Tons	15.2 million Tons
Estimated export demand	8 million Tons	n.a
Total exports 2002/2004	125 million USD	n.a
Fertilizer market potential	2 billion EGP	n.a

Sources: (1) GAFI, (2) Central Bank of Egypt

Figure 24 - Production of fertilizers in Egypt ('000 tons)



Source: CBE

Table 43 - Fertilizers projects in Egypt

Nitrogen	Unit	Ammonia	Urea
About Qir Fertilizer	Ton/Day	2400	3650
Alexandria Fertilizer company	Ton/Day	1200	2000
El Delta Fertilizer & Chemical Industries Co.	Ton/Day	300000	570000
Egyptian Fertilizer Company (EFC)	Ton/Day	-	1300000
El Nasr Fertilizer & Chemical Industries (SEMADCO)	Ton/Day	198000	-
Helwan Fertilizer Co.	Ton/Day	1200	2000
Phosphate	Unit	Phosphate	Sulphuric Acid
Egyptian Financial & Industrial (EFIC)	Ton/Year	900000	
Suez Company for Fertilizer Production (SCFP)	Ton/Year	3000	425000
Abou Zaabal Fertilizer	Ton/Year	800000	350000

Source: Arab Fertilizers Association

3.3.1.2 Fertilizers

Sector highlights:

- deposits of phosphate rock partly exploited;
- considered to be a globally competitive industry in terms of pricing;
- labour force well trained and skilled; and
- erratic policies practiced in the past by the GOE concerning storage, distribution, subsidizing, and crediting through PBDAC (Principal Bank for Development and Agriculture) severely hindered the growth of fertilizer consumption.

Egypt's nitrogen fertilizer industry is a major exporter, but it also serves a large internal agricultural sector.

➤ Production

Egypt produces nitrogen and phosphate fertilizers, natural gas, the basic feedstock for nitrogen fertilizers is increasingly available in Egypt at a low cost. Phosphate rock, the main raw material for phosphate fertilizer production, is abundant in Egypt, with an annual capacity of 2.3 mn tons in 2007. Fertilizer production is dominated by two major public companies. Nitrogen fertilizers production is dominated by Abou Qir Fertilizers Company, which holds a local market share of 62% in 2008. The Egyptian Financial and Industrial Company (EFIC) dominates phosphate fertilizer production, with an estimated local market share of 70% in 2008. In future, the relative share of production will change with the arrival of several private producers, mostly located in the free zones. The Egyptian fertilizers sector has witnessed rapid growth over the last couple of years, fuelled by increased internal and external demand. Local

demand is driven, in particular, by the government's promising agricultural projects in new reclaimed areas - Toshka, Al Salam Canal and East Owainat - in order to increase the country's food production by expanding the cropped areas and increasing yields. This will also imply enhancing fertilizers application rates. The demand from international markets has also been increasing rapidly.

Total fertilizer production (both public and private companies) reached 15.2 mn tons in FY2007/08 (both Nitrogen and phosphate fertilizers). Nitrogen fertilizer consumption was only 9.2mn tons, 7.2mn tons of which were provided by public companies, while the balance of about 2mn tons was provided by private producers at global prices.

➤ Market

Fertilizers are distributed through two distinct channels: one for the subsidized fertilizers and another for non-subsidized products. The Egyptian government is controlling the distribution of nitrogen fertilizers. More than 80% of the production by public companies, that is, 47.4% of the country's total production is sold at subsidized rates through the Principal Bank for Development and Agricultural Credit (PBDAC) and agricultural cooperatives, both of which are government entities. The part produced by public companies is sold through private distributors. Private fertilizer producers, who account for 52.6% of the total production, can freely sell their entire production in the local market or export it. Since the fertilizers produced by public sector companies do not cover local demand, the government buys the remaining amounts from private companies at international prices. Export markets represent already a major share of Egyptian fertilizer sales.

3.4 Main Government Sponsored Support Programs

3.4.1 Industrial Modernization Program (IMP)

The program implemented by IMC (Industrial Modernization Centre) is a national initiative jointly funded by the Egyptian government and the European Union (until May 2006) to help the private manufacturing sector to enhance its international competitiveness so that it can benefit from exposure to global markets and free trade with EU markets. Other beneficiaries of the program are business representative organizations and the Ministry of Trade and Industry (MTI). Launched in 2001, the program was supposed to expire in mid-2006, but the Egyptian government has continued to finance it after EU financing ended. It is now under the Ministry of Trade and Industry. Recently, the IMP has undergone a number of structural changes (management, financing schemes and others). The main components of the program are:

- Technical Assistance for Industrial Enterprises.
- sector-based programs for production upgrading, quality, strategic planning and advisory services;
- cross-sectoral programs covering financial management, organizational and human resources, ICT use and management information systems; and
- horizontal programs for internationalization and entrepreneurship development
- Technical Assistance for Business Representative Organizations
- intensive training for key staff; and
- help to reach twinning agreements with European associations
- National Quality Plan
- implementing quality plans approved by the Egyptian government; and

- supporting the creation of a national quality centre.

➤ Policy Reform Unit

- design of a green paper on industrial policy to identify, formulate, guide and help implement changes to increase the competitiveness of the Egyptian Industry;
- preparation of strategic sectoral studies; and
- contribution to efforts at reducing impediments in the business environment

➤ Finance

- assisting entrepreneurs - through several approaches - to enable them have access to financing for their needs through Business Resource Centres (BRC); and
- designing innovative financing tools: credit guarantees, guarantees for exporters, venture capital funds

➤ Business Resource Centres

- IMP strategic delivery arms established throughout Egypt. Their role is to act as catalyst for IMP and encourage entrepreneurship; and
- Host Market Information Service and European Information Correspondence Centre.

3.4.2 Social Fund for Development

Operating under Prime Minister's direct supervision and under the umbrella of the United Nations Development Program (UNDP), the Social Fund for Development is the entity in charge of fostering the development of small and very small enterprises. It is also responsible for planning, coordinating and promoting activities. It provides assistance to meet the needs of the enterprises, including finance and

services, in collaboration with the ministries, their institutions and agencies, public authorities, local government units and other entities (Law on Small & Medium Enterprises, June 2004, Article 2).

As defined by the law, a small enterprise will include every company or sole proprietorship conducting an economic activity - productive, services or commercial - in which the paid-up capital shall not be less than fifty thousand pounds and shall not exceed one million pounds and in which the number of employees shall not be more than fifty employees.

The Social Fund for Development provides an integrated package of financial and non-financial services. It covers the entire country, with at least one office in each governorate.

SFD implements several pre-programs to cover the following initiatives:

- human development activities
 - o Training , skills development
- micro-finance activities
- non-financial services
 - o marketing services
 - o export development assistance
 - o technical assistance

➤ Social Fund Scheme of Support Services

- Franchise - Loan Performance Development Department
- Technology Support Centre
- Business & Technology Incubators
- Cooperative Insurance Society
- Network of Egyptian Small Business Development Centres (ESBDC)

All technical assistance and training, as well as other services to businesses are free-of-charge. Financial Support

The SFD provides financial support to SMEs through participating banks (see above Para 2.5.7.) and micro-financing through NGOs (see above Para 2.5.6.); since 2006, it has set up its own lending program operated through its own branches in the different governorates.

The Social Fund for Development also operates one-stop shops to register small-scale enterprises (see Para 2.2.1.). Thanks to new regulations, all enterprises are now registered and have an ID number.

The SFD is has a funding base of about EGP 1 billion. The SFD is supported by almost all donors through credits and grants and through targeted technical assistance.

3.5 Professional Associations

3.5.1 Chambers of Commerce

3.5.1.1 Egyptian Chambers of Commerce

Chambers of Commerce are organized according to the economic activity of their affiliates and also according to their geographical distribution. The combination of these two factors therefore determined the creation of a regional chamber such as the Alexandria chamber for vegetable growers. The chamber's superior body is the Union of Chambers of Commerce which coordinates the 46 different chambers. Affiliation to the chambers is mandatory in order to obtain an operating license. Affiliated companies pay a moderate fee as a contribution to Union and Chamber general expenses. The boards of both the Union and Chambers are partly elected by members and partly appointed by the Egyptian government. This therefore underlines the public character of such an organization. The basic intended mission is to provide appropriate advice on GOE measures; contribute by expressing opinions on GOE legal

issues and initiatives; transmit to the GOE members' opinions and suggestions to improve general economic development as well as protect their members' interests. Since the private sector has grown to be a lot bigger than the public sector (and is also supporting the GOE reforms process) the Union and Chambers are focusing more and more on the private sector.

3.5.1.2 Foreign Chambers of Commerce

The German-Arab Chamber of Industry and Commerce (GACIC), Egypt's oldest bilateral chamber, was established in 1951 as one of over 70 German chambers of commerce worldwide under the auspices of the Association of German Chambers of Industry and Commerce. The chamber has played an important role in promoting trade between Egypt and Germany, opening new markets for industries and endorsing business relations between the two countries. It also offers specialized services such as training in different fields, including management, marketing and finance, as well as consultancy in legal matters, IT and industrial management. Nowadays, one of the major functions of the Chamber is assisting its members in finding and using the economic information available on the World Wide Web on producers, exporters and importers of the two countries.

The American Chamber of Commerce in Egypt started in 1974, when President Sadat initiated the "Open Door" policy. Its constitution was approved in December 1982 as the 44th American Chamber of Commerce established abroad and the first one in the Middle East. President Mubarak supported the American Chamber, recognizing the need to have an institution committed to fostering commercial and investment ties between Egypt and the United States by creating a friendlier business environment and by facilitating relationships between businesspeople. Another important objective is providing a network for sharing business information on Egypt and for addressing common

problems. Furthermore, it was important to create a direct link with the U.S. Chamber of Commerce and other chambers of commerce and business organizations. It was also designed to share the views of the local American business community with public and private interests in the United States. With a growing number of American businesses joining the Chamber in order to access the Arab-American market, there are increased opportunities for all to expand their market base. In addition, the Chamber sponsors numerous educational and informative seminars, as well as an important number of studies and research in order to keep members informed about all the new economic opportunities.

The Egyptian-British Chamber of Commerce was established by the two governments in 1981. The Egyptian-British Chamber of Commerce is a non-governmental organization whose mission is to mobilize British and Egyptian enterprises to strengthen economic and commercial ties between the United Kingdom and Egypt, thereby increasing mutual flows of trade and investment. The activities include providing information and advice, as well as organize seminars, conferences, informal meetings and trade missions. The chamber also provides information to the Secretariat of the British-Egyptian Business Council and Round-Table and, is nowadays, in the process of establishing an Investment Office on behalf of the Egyptian government. As a private institution, it operates closely with both governments, as well as with other organizations involved in business with both countries. The Chamber helps Egyptian or British businesses to figure out new opportunities with the aim of investing in Egypt.

The Arab-Italian Chamber of Commerce was created in 1972 by the joint initiative of the Arab Ambassadors in Italy, the Arab League, the General Union of the Arab Chambers of Commerce and the Italian business community. It is a non-profit organization, with the aim of promoting the economic cooperation and commercial relations

with Arab Countries. The chamber maintains regular contacts with the European Commission regarding economic relations with the Arab World, and projects involving Arab countries carried out by the Chamber and co-financed by the EU. The services offered to its members include the organization of economic missions in Arab countries and Arab delegations in Italy, participation in exhibitions in Arab countries designed to promote trade relations and the organization of meetings, seminars and conference.

The Arab-Belgium-Luxembourg Chamber of Commerce was set up in 1978 as a joint Arab-Belgium-Luxembourg Chamber of Commerce. The chamber developed as one of the organizations whose aim is to promote commercial, industrial, financial and cultural links and understanding between Arab countries and the Belgium-Luxembourg economic Union. The organization has, in fact, strong links with Belgian and Luxembourg business associations and government institutions. It maintains close contacts with the European Union on matters affecting the community's trade with Arab States and also cooperates with the Arab League and its specialized agencies, Arab diplomatic missions and Arab Federations of Chambers of Commerce Industry and Agriculture.

The French-Egyptian Chamber of Commerce is one of the youngest chambers representing the Union of French Chambers of Commerce and Industry. It was created in 1992 to inform and assist French companies to positioning themselves in Egypt. One of the main goals of the chamber is to create a forum for contact and communication and to represent the business interests of new investors. The chamber plays the role of linking international companies or business people with local investors. It provides training courses, conferences and seminars to enable local investors gain a better understanding of new opportunities in Egypt. There are also smaller chambers of commerce

representing other European countries such as Austria, Greek, Hungary, Ireland, Malta and Switzerland.

3.5.2 Federation of Egyptian Industries

Its principles are similar to those of chambers of commerce: affiliation is compulsory and members must pay a fee. The main difference is that the Federation only shelters industrial companies (from 25,000 to 30,000, as per their estimates). The 16 industrial sectors are governed by their own Board of Directors composed of 22 members (8 appointed by the GOE). Theoretically, its intended mission is much like that of the chamber. Simultaneously, each sectoral chamber is the basis for so-called Commodity Council whose objectives include:

- inviting experts in specialized fields related to each commodity council production to tackle problems facing member companies and improving their performance;
- providing specific training programs;
- publishing promotion guides for each sector to be distributed through commercial representation offices abroad to market potential buyers;
- establishing a website for the Commodity Council to display sectors prices and export volumes, as well as information and programs available in this sector; and
- publishing regular achievement reports, emphasizing problems that have been solved and the council's contribution to efforts at increasing Egypt's exports.

3.5.3 Egyptian Businessmen Association

The association comprises selected medium- to large-scale Egyptian private companies in all sectors. The initial mission was to counter the systematic discrediting of private sector activities and companies in relation to public sector activities. Later on, the protection of members' interests and supporting and pushing government reform programs became its actual goal.

This includes - in a way similar to that of the Chambers of Commerce and Federation of Egyptian Industries - suggesting, recommending, and answering Egyptian government questions about economic and legal reforms. However, the substantial difference is that this is done independently of the GOE; something which gives it more credibility. The number of affiliated companies currently stands at more than 400, but the number will very likely increase in the near future.

3.5.4 Egyptian Junior Businessmen Association

The Egyptian Junior Businessmen Association (EJB) was established in 1999 and formally registered in 2001, with a vision to become the association of first choice among Egyptian Junior Business people who are committed to developing a culture of excellence, ethics and public Service and a mission of supporting Egypt's comprehensive development and its business community through the creation and coordination of a mutually supportive community of Egyptian junior businesspeople committed to a culture of excellence, ethics and public service. EJB aims at maintaining dialogue with policy-makers and other stakeholders in the interest of the public, enhancing the capacity of its members through continuous learning and training; creating business

development and networking opportunities for its members in Egypt and abroad, making direct contributions to the development of the Egyptian people, in particular, youths, women and underprivileged sectors of the Egyptian Society.

3.5.5 Strengths and weaknesses of the Associations

The role of civil society representatives as well as that of various associations, particularly, business associations, has increased over the past five years. They are currently better organized and play an active role in lobbying the government. Several draft laws are presented to business associations before presentation to parliament for input.

Businessmen associations interact more frequently with ministries and government entities to present the private sector's point of view on the business environment. However, many of the public and private organizations are clearly bereft of adequate training for their operational officers. The same, unfortunately, can be said about the availability of reliable data due to inefficient data gathering and recording systems, which at present, are run in an under-budgeted manner.

4 Strengths, Weaknesses, Obstacles, Constraints and Opportunities for Private Sector Development

4.1 Strengths

4.1.1 Natural Resources

Egypt is endowed with diversified natural resources, providing a good base for the agricultural, manufacturing and tourism industries, thus providing a major contribution to the economy.

➤ Gas

With the recent discovery of new gas fields, Egypt is and will continue to be an important gas producer. Relatively to Gulf countries, it has designed a vast plan to increase local added value by processing petrochemicals, methanol, ammonia and nitrogen fertilizers. It could certainly become a low-cost producer and major exporter of gas derivatives over the next five to ten years.

The gas is also used as a source of energy. All thermal power plants are already gas-based. This will enable Egypt to continue to have low-cost energy (even if it increases its current highly subsidized price) which would be very beneficial to manufacturing industries, in particular, the heavy energy consuming ones (e.g. aluminium and cement).

➤ Agriculture

Despite its limited agricultural land, Egypt may benefit from specialized production. Water availability is limited, but managed and regular though it may face water shortages in the coming years if it is not well regulated as the current irrigation system consumes up to 90% of Egypt's water supply. Egypt is not subject to cyclical drought such as a number of African countries,

and benefit of warm winters exploited to grow off-season crops.

Land Reclamation is creating vast areas which have never been fertile. The land will be perfect to grow organic vegetables and fruits which are in high demand in developed countries.

Egyptian cotton is well known in global markets and it is highly prized when compared to cotton from other countries. However, Egyptian cotton spinning and weaving industries are not very competitive. Egypt is expected to benefit from improvements in this industry which would improve the value added to cotton.

Egypt's agricultural and climatic conditions also enable it to grow new productions such as flowers.

➤ Historical sites and unspoilt seashores

Egypt is endowed with world famous antique sites which will continue attracting millions of tourists. The infrastructural improvements will support the growth of tourism growth. Egypt also benefits from pristine seashores. Over the last ten years, Egypt has developed its Red Sea resorts and it is now doing the same on the Mediterranean coast. Egypt has taken steps to protect sea sides and coral reefs on its coasts. Good and well managed infrastructure (ports, airports, etc.) will be key to the growth of seaside tourism.

4.1.2 Human Resources

Egypt is a very populated country and it benefits from a large reservoir of cheap manpower. On this aspect, it is very competitive at the global level. Moreover, the population is located in the same areas where agricultural, manufacturing and service industries are found.

Egypt Private Sector Country Profile - 2009

Strengths	Weaknesses
<p>Natural resources</p> <ul style="list-style-type: none"> • Gas • Virgin soils • Water • Antique sites and Unspoiled seaside <p>Cheap energy</p> <p>Human resources</p> <ul style="list-style-type: none"> • Large manpower reservoir • University graduates <p>Competitiveness</p> <ul style="list-style-type: none"> • Cheap labor • Access to know How <p>Economic and Political Environment</p> <ul style="list-style-type: none"> • Positive business climate • Low and simple custom tariffs • Low and simple tax level • Forex liberalization & stabilization • Trade agreements with USA and EU <p>Large domestic market</p> <p>Infrastructure</p> <ul style="list-style-type: none"> • Developed infrastructure • Well equipped free zones • Good ICT services <p>Financial and capital markets</p> <ul style="list-style-type: none"> • Good services from banks • Some public banks and insurances to be privatized • Very active and transparent Stock Exchange <p>Good geographical location</p> <p>Support to SMEs and micro enterprises</p>	<p>Complexity of laws and regulations</p> <p>Judicial framework</p> <ul style="list-style-type: none"> • Lack of efficient specialized courts (under implementation) • Lack of Bankruptcy Law and framework <p>Land ownership and registration</p> <p>Administration</p> <ul style="list-style-type: none"> • Red tape • Corruption <p>Competitiveness</p> <ul style="list-style-type: none"> • Lack of skilled labor • Cost of capital <p>Public associations</p> <ul style="list-style-type: none"> • Inefficient support • Lack of industry data <p>Enterprise owners</p> <ul style="list-style-type: none"> • Culture of family enterprises • Lack of professional management • Little openness to outside equity partners <p>Market understanding</p> <ul style="list-style-type: none"> • No knowledge of non EU and non Arab markets • Little understanding of global competition <p>R & D, and ICT use</p> <ul style="list-style-type: none"> • Little or no R & D • Little use of ICT for production or management improvements <p>Solvability of the market</p> <ul style="list-style-type: none"> • Limited access to the market for 50% of the population <p>Lack of long term financing</p>
Opportunities	Risks
<p>Positive business Environment</p> <p>Association with EU; and the US (QIZ)</p> <p>Privatization of enterprises, banks and insurances</p> <p>Development of tourism</p> <ul style="list-style-type: none"> • Antique sites • Red Sea and Mediterranean Coast <p>Vertical integration of the oil industry</p> <ul style="list-style-type: none"> • Petrochemicals & plastics • Ammonia & methanol; Nitrogen fertilizers <p>Development of Agriculture</p> <ul style="list-style-type: none"> • Biological crops • Off-seasons produces • Cut flowers and medicinal herbs <p>Growth of SMEs and the informal sector</p> <p>Development of private infrastructures</p> <p>Development of ICT;</p> <ul style="list-style-type: none"> • Services for Egyptian market • Export <p>Huge oil induced liquidities in the Gulf area and in Libya</p>	<p>Strengthening and blockage of the administration</p> <p>Political instability/ terrorism</p> <p>Unemployment and social unrest</p> <p>Lack of transparency and corporate governance</p> <p>Delays in implementation of necessary infrastructures</p> <p>Water availability</p> <p>Development of new trade routes, in particular development of the North pole route</p>

Egypt is not only a land of unskilled and skilled workers. It also produces some 200,000 university graduates per year which serve as a good base to develop the ICT sector. Thanks to the presence of foreign universities, many university graduates have a good command of English which could be used in specialized industries such as call centres.

4.1.3 Economic and Political Environment

As analyzed in greater detail in chapter 2, the business environment has been considerably improved over the last 15 years, and very important changes have taken place since July 2004. Egyptian private entrepreneurs benefit from a level playing field. Entry into the system is now very easy with the establishment of one-stop shops, coupled with reduced and reorganized customs tariffs and reduced taxes. Egyptian and foreign investors have all driven the foreign exchange liberalization and stabilization process, which has been instrumental in facilitating investments and exports. Privatization has and will continue to stimulate the private sector's growth. Finally, trade agreements with the USA and the EU are opening new markets for Egyptian producers.

Despite some fears (see below), Egypt is considered a stable political environment.

4.1.4 Large Domestic Market

Egypt is a large country, with 77 million inhabitants, and a per capita GDP of almost USD 2,200. Even if a significant part of the population lives on subsidies, and 16% is still living below the poverty line, Egypt is rapidly becoming a consumer market, opening a large domestic market for local producers in industries such as food, textile, mechanical and services. With the largest market in any Arab country and influence over the region (owing to its media and culture), Egypt is an attractive location for consumer goods producers, especially foreign producers. Global multinationals have realized that

Egypt is moving forward and have invested heavily in the Egyptian market. These first-comers follow the path of other well-known brands. There are now well over five hundred joint ventures operating in Egypt in sectors such as petroleum, banking, and tourism as well as in all branches of manufacturing. In addition to consumer goods, Egypt is also a very large construction market (both housing and infrastructure), and construction materials. Finally ICT companies are benefiting from a very large local market.

4.1.5 Infrastructure

Even if a lot remains to be done, current infrastructure (see details in section 2.7.) is already highly developed and relatively efficient (even if major improvements are still needed). Infrastructure is critical to the development of tourism and the attraction of new and foreign investors. It also serves as much-needed support for exporters. Private sector participation (under concession, BOOT, private management) is attracting private operators. The private sector's efficiency is manifest in the Ain Sokhna port where customs clearance time is two days as compared to 28 days in other ports. The government is slowly considering more private sector participation in infrastructure development.

Egypt has also established very well equipped free zones with excellent location, most of them with a port.

Egypt has an excellent ICT services which are key to a modern enterprise base. Waiting lists for fixed-line telecoms have almost disappeared and Egypt has one of the fastest subscriber growth rates for mobile phones in the region.

4.1.6 Financial and Capital Markets

Financial and capital markets are well developed and provide excellent support to private enterprises. Egypt has a long tradition of banking which has

been developed since the end of the nineteenth century. The recent liberalization and accelerated growth of foreign banks have stimulated the sector which is offering modern banking instruments. The privatization of several banks has contributed to the improvement of the system which is offering new services to individuals and enterprises. The country's capital market is very developed and it is considered one of the best in the region. It is popular among emerging markets. It attracts significant volumes of foreign investments. It is an excellent source to raise funds for investments and to support the growth of private companies.

4.1.7 Good Geographical Location

Egypt's geographical location comes great benefits. Its proximity to EU markets is very important, especially as it makes it possible to export fresh products. It is also close to the Middle-east and other African countries which are large importers of food and industrial products such as pharmaceuticals. It is also a major trading route because of the Suez Canal.

4.1.8 SMEs and Micro-enterprises Support

The development of private enterprises is central to Egypt's economic policy. The Social Fund for Development plays an important positive role in stimulating the creation of SMEs through the provision of subsidized loans (intermediated by the public and private banks), technical assistance support and other facilities (One-stop shops, franchising support). Many banks and NGOs provide micro-credits to micro-entrepreneurs, based originally on grants and technical assistance from many donors. The new law on non-bank financial services (issued in 2009) and the law on micro-finance (to be presented to parliament early next year) will certainly open the micro-finance market and attract more professionals. It will also steer much restructuring in the sector, as many small NGOs may have difficulties to adapt to the new law.

4.2 Weaknesses

4.2.1 Complexity of Laws and Regulations

With the reform process, many new laws have been enacted. But they have not always replaced old ones. This sometimes creates some confusion. An overall simplification of the system will need to be launched and implemented.

Similarly, the legislative infrastructure environment is over-regulated and complex, and not very attractive for private operators. Moreover, the complexity of government procurement regulations considerably slows down infrastructure development.

4.2.2 Judicial System, Law Enforcement and Bankruptcy Framework

Today, it takes years for a commercial case to be settled in court. This problem is slowly being addressed with the creation of specialized commercial courts. Though the decision has been taken, implementation is still a challenge, and it will take some time for specialized judges to be trained and specialized courts to be operational and efficient. Bankruptcy is also a major impediment to the mobilization of resources. This issue has been raised by many experts, but it is not yet resolved.

4.2.3 Heavy Administration

Egypt has been a very centralized country for some 4,000 years or more. There is strong rigidity inherited from years of administrative power, with a plethora of lowly paid and unskilled. Despite reforms (certain reforms such as One-stop shops are very positive when it comes to eliminating bureaucracy), red tape and corruption are still prevalent. There are still some areas that need to be improved such as reducing barriers to entry and exit, especially regarding practical aspects. It should be noted that even at the time of reforms, the

number of civil servants had been increased by about 25% over a 10-year period.

4.2.4 Competitiveness

Despite its cheap labour, Egypt is not always competitive. As Egyptian entrepreneurs finance their investments mostly through credit, project costs are still high with interest rates of about 15%. Labour is cheap, but there is a lack of skilled labour at all levels. Moreover, there is a need to improve the incentives and grants structure to support investments. For instance, Egypt does not grant investors' tax exemption on imports of capital goods and this increases production costs (since most of the machines are imported).

4.2.5 Efficiency of Public Associations

"State" associations; be they Chambers of Commerce or the Federation of Egyptian Industries are not providing support to their members, or any data that can be used to prepare business plans or marketing strategies. The Industrial Modernization Program has provided some assistance to industrial enterprises, but it needs to improve its efficiency.

4.2.6 Family-owned Enterprises

Despite its vibrant Stock Exchange, very few enterprises are listed. Even if they are large and listed, they remain controlled by families (e.g. Orascom companies are still 70 to 75% family-owned). Enterprises are characterized by centralized management by the family which owns the business. While this may be appropriate for the first generation, it is becoming an impediment to the second generation, and it creates businesses that do not have professional managers.

4.2.7 Limited Market Understanding

Most businesses have a traditional EU and Arab focus, but they lack an understanding of other markets such as the US, Latin America, Eastern Europe, and Africa, that are critical at a time of globalization. They also have a limited understanding of their major competitors such as Turkey, China and India. The Industrial Modernization Program provides some marketing support. But its outreach is still limited.

4.2.8 Lack of Research and Development, and Lack of ICT in Management organization

There is a lack of research and development; and this affects particularly technology sectors such as pharmaceuticals and ICTs. Moreover, despite the government's plan to develop ICTs, many businesses do not use ICTs to improve their organizations, be it for production, or for management.

4.2.9 Limited Market Solvability

As seen above, the Egyptian market is large, but some 50% of the population lives on subsidies. For example, there are only 5 million bank accounts in Egypt⁵⁰. The social acceptability of paying tolls (for example for roads, bridges and tunnels) is of great concern to the government, and a major obstacle to the implementation of private infrastructure. In the case of urban services, the collection rate is less than half, which prevents for the time being any private investor to be attracted by such investment.

4.2.10 Lack of Long-term Financing

The financing of an infrastructure project requires developed long term debt and equity market.

⁵⁰ National Bank of Egypt research department

This is not currently available on the Egyptian market for a private investor. Mortgages to finance housing and other developments are slowly implemented, but more needs to be done in this field.

4.3 Private Sector Development

Opportunities

4.3.1 Association with EU and USA

As detailed above (Para 2.2.3.), the trade agreements signed with the European Union and the US have opened new markets for Egypt. The private sector will certainly continue benefiting from these opportunities to increase its exports to Europe and the US, which are already its bigger trade partners. This will certainly benefit a number of sectors such as special agricultural products, food products and textile, in particular, garments and chemicals.

4.3.2 Tourism Development

Tourism is already one of the “cash cows” of the Egyptian economy, providing both employment and foreign income. The public-private partnership to develop new sites (in particular on the Mediterranean coast) and improve the support infrastructure will certainly have large beneficial effects on the industry. The private sector will develop and have a presence in all segments of the industry ranging from hotels and restaurants to transport, guides, airport services. The tourism sector will provide opportunities for all types of enterprises, from large and foreign to micro-enterprises.

4.3.3 Downstream Integration of the Oil & Gas Industry

The government’s plans to better develop substantial gas reserves will certainly transform Egypt into a major petrochemicals and fertilizer platform.

The combination of low gas cost with good export infrastructure, and easy access to European markets will make Egypt one of the leading players in the region. The sizable investments are attracting a number of foreign firms and will create significant employment. While the main investments will create mostly medium-to-large enterprises, these investments will induce a lot of indirect private activities relating to maintenance, transport, security, port activities and other industrial services.

4.3.4 Developing Agriculture and Biological Cultures

Egypt has limited agricultural land, but reclaimed areas are creating interesting soils for new crops. These newly irrigated virgin lands are perfect for organic crops. Egypt is starting to create a strong industry in this niche aiming mostly at European markets. In addition to organic produce, new productions with high value added show good prospects: cut flowers, off season vegetables and fruits are increasingly produced. Thanks to the newly developed private infrastructure, these products are flown to Europe in a couple of hours.

4.3.5 SME Growth/ Transformation and the Informal Sector

As mentioned above, there are millions of SMEs and micro-enterprises in Egypt as well as some two million informal enterprises. They are active in all sectors of the economy, with the exception of mining, oil and gas. The growth and transformation of these enterprises will create a strong private base for the economy, and are among government priorities regarding the attraction of foreign investors.

4.3.6 Developing Private Infrastructure

The private sector should continue to play a greater role in the telecom and power sectors through privatization, BOOT, and other forms of private operations. Airports are the most

profitable and straightforward to implement as concessions, and this sector should grow over the coming years given the increased need for new airports or airport expansion. This will also apply to port activities where private examples have shown the benefits of private operation; BOOT and concessions will be the main future mode of operation in this sector. The private sector's inroad into the infrastructure sector will not be significant in the short term.

Transport and logistics will also need to be developed to provide the necessary support to the private sector.

4.4 Risks

4.4.1 Lack of Transparency and Corporate Governance

The lack of transparency and corporate governance may slow down the development of the capital market, and the private sector's development. The Cairo Stock Exchange and the Capital Market Authority (now EFSA) are attempting to improve the situation by strengthening regulations, but more remains to be done. Real improvement will require a change in management and disclosure culture, but this will take time.

4.4.2 New Efforts at Strengthening Central Administration, Red Tape and Resistance from Civil Servants

Liberalization may be opposed by million of Egyptian civil servants who are poorly paid and have low skill levels. Bureaucracy might suffocate the reform process, impeding the creation of competitive conditions and full implementation of new legislation.

The reforms involving administrative automation are quite recent and will require an "enormous" program of management reform and retraining of civil servants before they can become entrenched and sustainable. This is already illustrated by the opposition to privatization.

4.4.3 Political Instability

There are currently three instability risks Egypt: (i) political instability associated with the post-Mubarak uncertainty, (ii) terrorism and (iii) social tensions due to increased unemployment. Although the state of emergency, which has been in place over the last thirty years, prohibits demonstrations, there have recently been several demonstrations to request more democracy. Furthermore, social unrest due to inadequate living conditions and notable class difference may emerge. Terrorism, which had been more or less eliminated since the Luxor attacks in 1997, seems to be active again as illustrated by recent bombings targeting foreign tourists and tourist destinations.

While the new government has made impressive moves, a publicly-stated long-term strategy still needs to be evolved to reduce the feeling of sudden policy decisions (which increase uncertainty in business strategies and thus, increase risks related to capital investments, jeopardizing business development). The presidential elections (designed to bring changes to the political system) have been a step in the right direction, but more transparency regarding the political changes and development process would be needed to increase stability.

4.4.4 Delays in Developing Necessary Infrastructure and Logistics

The development of tourism will require impressive investments in infrastructure for ports, airports, access roads, etc. While open to some private participation,

the government seems to prefer to retain some form of control. In such a case, they would need to mobilize large investments, which would be difficult to finance within the framework of the country's budget and debt situation. Most public agencies involved in developing infrastructure are inefficient, over-staffed and commercially-unviable. This directly impacts their ability to create projects that are attractive to the private sector. The future of BOOT-financed projects is unclear. The government will need to reassess its priorities and, probably, review its infrastructure strategy if all the required infrastructure equipment is to be financed and implemented on time.

4.4.5 Opening New Trade Routes

The North Pole routes have been for decades the dream of sailors, but the climate changes are affecting the picture with the melting of icebergs and opening new maritime routes. The Asia-Europe route through the North Pole route is shorter than the one through the Suez Canal by some 7,800 km. A German shipping line has recently launched the first commercial route. This will take some time to achieve a significant volume, but it may create strong competition to the Suez Canal in the future.

5 Donor Assistance to Private Sector Development

There has, so far, been limited donor assistance to private sector development, if compared to other donor activities in Egypt. The main focus has been through three main vehicles (i) Lines of credit through banks and loans/ grants for micro-financing; (ii) Support to the Social Fund for Development; and (iii) Industrial Modernization program. However, donors are increasingly recognizing the major role the private sector will play in the future and are focusing on the overall reform process so as to create a level-playing field for private enterprises/ entrepreneurs in all sectors of the economy from manufacturing to banking and health with a view to stimulating foreign investments.

5.1 The African Development Bank

The African Development Bank (AfDB) Group started its lending operations in Egypt in 1974, but its activities in the private sector have been limited. The AfDB has supported financial sector reform along with the World Bank with a loan of UA328.7 million which has helped the banking sector's restructuring. Under the private sector

window, the first AfDB approved operations had mixed results and part of the loans had to be cancelled.

Currently, private sector activities are associated with activities under the private sector department (or its predecessors). However, as highlighted above, private activities are not only found in what the AfDB calls the private sector in the true sense of the word, but also in a vast array of operations. For example, financing power, transportation activities and, in particular, ports, and fostering financial sector reforms may have important private sector aspects, either directly (e.g. private management or PPP) or indirectly if they contribute to the private sector's development. Sovereign loans may also have a huge impact on the private sector if they are associated with conditionalities. They may also have an impact on private business development.

The following table outlines Egypt's ongoing projects as at September 10, 2009. But in order to deepen the strategic work, it would be useful to analyse other projects and identify if they have had an indirect impact on the private sector's growth. Finally, it would be useful to review "soft" projects such as technical assistance, education and training.

Table 44 - AfDB Projects and Lines of Credit

Sector Name	Long name	Approval Date	Effectiveness Date	Closing Date	Approved Amount (UAm)
Energy	El Kuraimat CC Power Plant Project	27-jul-05	9-jul-06	31-déc-10	145,9
Energy	Abu Qir 1300 MW Steam Power Project	11-nov-07	5-sep-08	31-déc-13	227,9
Energy	Ain Sokhna Steam Power Plant Project	22-déc-08	in process	NA	291,5
Energy Total					665,4
Financial Sector Support	Financial Sector Reform Loan	26-jul-06	9-mai-07	31-déc-09	328,7
Financial Sector Support Total					328,7
Water Resources Development	Ismailia & Nubaria Study (AWF)	18-oct-07	18-oct-08	30-nov-10	1,7
Water Resources Development: Total					1,7
Transport and Communication	Damietta Port Container Terminal Project	4-déc-07	in process	31-déc-14	81,8
	Navisat (MIC Grant)	21-mai-09	1-sep-09	30-sep-10	0,6
Transport Total					81,8
Private Sector Support	The Small and Medium Enterprises Support Project (2nd Line of Credit to the National Bank of Egypt)	12-oct-05	5-mai-06	31-déc-10	140,3
Private Sector Support	Franchising	25-fév-09	in process		27,3
Private Sector Support Total	Private Sector Support Total				167,5
Promoting Social Development & Protection	Micro & Small Enterprises Development Project - SFD III	11-oct-06	19-juin-07	31-déc-12	55,1
Promoting Social Development & Protection	Health Sector Reform Program	28-oct-98	1-déc-03	30-juin-08	11,0
Promoting Social Development & Protection	Promoting Social Deve.& Protection Total				66,1
Total (Effective Operations)					1311,8

5.2 Other Development Financial institutions

The following Matrix summarizes donor activities in Egypt .

Table 44 - AfDB Projects and Lines of Credit

Donors	PPP loans	Credit line	Soft credit line	Special credit Environment	Export finance	Equipment finance	Guarantee	guarantee grant	Mortgage finance	Microfi-nance grant	Microfi-nance loans	Microfi-nance studies	PE equity financing	Co equity financing	Co equity financing	Studies & TA Industry
EIB	x	x		x			x						x	x		
AfDB	x	x		x			x									
WB	x			x					x							
IF C	x	x			x								x	x		x
EU												x		x		x
AFD				x												
Proparco		x														
KfW		x	x	x												x
DEG													x			
USAID								x		x		x		x		x
FMO												x				
DFID																
Italy		x				x										
Canada-CIDA										x	x					x
Denmark-DANIDA		x	x	x												x
JAPAN JICA			x	x												x
Netherland		x	x											x		x
Switzerland							x							x		x

5.3 Potential for Enhanced Cooperation with Other Donors

Important activities by donors in the country and private sector needs will certainly require good coordination to avoid overlaps and overcrowding. The coordination is needed both for funding and technical assistance. If there is enough funding, in general, (the banking sector is still very liquid), there are areas where funding is not sufficient. For example, additional funding for SMEs and micro-financing will certainly be welcomed. It will, however, require coordination with major players in this field, in particular, USAID and SFD. Also, other forms of assistance will have to be investigated in order to mobilize local funding.

Co-investing (for direct investments, private equity fund, infrastructure PPP) provides not only funding, but also comfort to investors. It should certainly be coordinated with main players in this field: IFC and

EIB. Co-investing will be critical for large PPPs and coordination with other donors will, again, be critical. In a number of cases, joint project appraisals should be discussed in order to speed up work and decrease processing costs.

As far as technical assistance is concerned, if certain areas are not yet covered by other donors (at least we have not identified it) such as training commercial court judges, recruiting skilled expatriate professionals, training and coaching EFSA professionals, other fields are already partially covered by the activities of other donors), the AfDB would need to find a niche to complement the already committed or to-be-co-financed technical assistance.

A lot of technical assistance has been mobilized in the past, which has not always had the adequate impact. However, technical assistance is still needed, though it could be linked with financing to achieve better results.

6 Conclusions

Successive reform programs have enabled the growth of an already solid private sector. The comparison with the 2005 situation, highlighted all along this report, shows that vibrant private businesses have invested and developed, with success. As a result, foreign investors have also targeted Egypt to set-up activities and the Egyptian government has taken significant steps to reform the economy so as to create a more open and competitive framework. The development of private enterprises is central to Egypt's economic policy and this will continue to be important for a long time. The policy is not only targeting small and large enterprises, but also micro-entrepreneurs who are the future of the country's economy. The private sector is now the most important sector, both in terms of production (close to 62% in 2007/08) and in terms of investments (63% in 2007/2008 against 47% in 2003/04) and private sector growth has been much higher than the economy's general growth.

There are about 2.5 million private enterprises in Egypt, most of them small or micro. In addition to foreign multinationals which are heavily investing in the oil & gas, manufacturing, tourism and financial sectors, there are a number of large and efficient Egyptian firms from all sectors of the economy quoted on the Stock Exchange and there are a multitude of SMEs, some of them very good. Businesspeople see the investment climate as very positive and improving, and this has been recognized by the "Doing Business" evaluations where Egypt has significantly progressed over the past four years. Businessmen have confidence in the future, even after the crisis, but one of their main concerns is the post-Mubarak uncertainty.

The private sector is diversified and its growth will stem from a number of sources:

➤ Large efficient private companies

Egypt has a number of private companies and investment companies which are capable of seizing opportunities, mobilize funding and operating large projects

➤ Privatizations

Government policy now aims at privatizing sectors, such as banking and insurance, which were, until a few years ago, closed to foreign investors. However, while the Minister of Investment looks to accelerate privatizations through various innovative schemes, there is some political opposition and it may take some time before there is new momentum on privatization.

➤ Foreign Direct Investments

FDIs which were low in 2003/04 are now booming due to the positive business environment. Foreign investors are bringing not only capital, but also know-how (technical, marketing, quality) and governance

➤ SMEs Growth

SMEs are a major reservoir for growth of the private sector, and a major reservoir of employment. Major banks - both public and private - have recognized this and are now creating departments to address the specific financing needs of SMEs. This will certainly stimulate businesses which have, so far, been deprived of financing. The Social Fund for

Development will also help to foster SME growth through its various support programs.

➤ Micro-entrepreneur Growth

The new framework which is being put in place should give a strong boost to the micro-finance industry, which may rapidly double the number of micro-finance clients.

➤ Private investments in the infrastructure and power sectors:

In future, Egyptian and foreign private investments in infrastructure such as ports, airports, roads, power, are set to increase. This will lead to the construction of efficient facilities and will also stimulate the growth of indirect private activities for tasks such as maintenance, security, etc.

However, there are still a number of obstacles to strong growth in the private sector:

- Bureaucracy and red tape constitute major impediments mentioned by businesspeople. While the laws and regulations have been greatly improved, practical problems are still there. The government will need to rapidly launch a civil service reform initiative to address salaries, skills and motivation.
- The judicial reform, which is underway with the creation of commercial courts, needs to be rapidly implemented as contract enforcements and other commercial litigations take a very long time to resolve, and are costly.
- The lack of skilled workers and professionals will certainly be a brake on the sector's growth. School and university curricula are not adapted to business needs. Similarly, there is a shortage of professionals in the financial industry to cater to smaller enterprises (SMEs and micro-entrepreneurs).

Appendixes

Appendix I – Macro-economic indicators

Appendix II – Political context and government organization

Appendix III – 2006/07 Census

Appendix IV – Main deficiencies and recommendations for reform in Egypt's bankruptcy system

Appendix V – Foreign Trade Framework

Appendix I – Macroeconomic Indicators

Macroeconomic Indicators

	2000/01	2004/05	2005/06	2006/07	2007/08	2008/09*
GDP at market price (Billion EGP)	359	536	617.7	744.8	895.5	1,038.6
Share of private sector in GDP	70.7	62.3	60.29	62.4	61.3	62.8
Real Economy (change in%)						
Real GDP	3.4	5.1	6.8	7.1	7.2	4.7
Consumer Price Index (year average)	2.4	11.7	7.9	8.8	23.1	9.7
Unemployment rate (in%)	9.2	9.5				
Public Finance (% of GDP)						
Total Revenue and Grants	24.1	24.7	24.5	24.2	24.7	27.2
Total Expenditure	29.9	30.4	33.6	29.8	31.5	33.8
Overall Deficit/Surplus	(6.9)	(5.7)	(8.2)	(7.3)	(6.8)	(6.9)
Money, Interest Rate and Exchange Rate						
M2/GDP	78.7	92.1				
M2 (annual change in%)	8.8	14.7	12.0	17.8	15.4	7.0
Credit to private sector (annual change in%)	12.3	5.0	7.8	14.5	13.2	N.A.
Lending rate (less than one year) (in%)	9.08	13.39	12.71	12.64	12.22	12.39
Nominal exchange rate (EGP/USD) average	3.86	5.79	5.75	5.71	5.50	5.51
Balance of Payments (in% of GDP)						
Trade Balance	(9.5)	(11.6)	(11.2)	(12.5)	(14.4)	(13.4)
Current Account balance	0.0	3.3	1.6	1.7	0.5	(2.3)
Overall Payments Balance	(0.9)	5.03.0	3.0	4.0	3.3	(1.8)
Reserves (in months of imports)	10.4	9.6	9.0	8.9	7.9	7.5
Public Debt						
Gross Domestic Budget Sector Debt (% of GDP)	n.a.	101.0	89.8	79.4	67.0	67.4
Total External Debt in USD billion	26.6	28.9	29.5	29.8	33.8	31.5
Gross External Debt /GDP (in%)	28.5	31.2	27.6	22.8	20.1	17.0

Sources: Ministry of Finance, Central Bank of Egypt, and Ministry of Trade and Industry , Quarterly Economic Digest,
 * 2009 figures are preliminary, subject to change, presented to parliament for ratification

Egypt Private Sector Country Profile - 2009

EGYPT Gross Domestic Product at Factor Cost^{1/}, 2000//2004/05-2007/08 Current Prices, (million EGP)						
	2000/2001	2004/2005	2005/06	2006/07	2007/08	2008/09*
Agriculture	55,065	75,293	81,766	99,953	113,104	135,465
Manufacturing industries	63,483	90,332	98,693	114,475	139,003	164,523
Mining, crude oil & gas	26,300	64,026	89,834	103,656	133,674	147,966
Electricity	-	7,838	8,880	9,880	11,507	13,043
Water ²	-	1,941	2,158	2,390	2,659	2,977
Construction & Building	15,760	20,107	23,763	30,175	36,780	44,026
Total Commodity Sector	165,899	255,521	305,094	360,530	436,727	508,001
Transportation ³	30,112	41,733	47,918	53,633	63,519	67,788
Trade, Finance and Insurance	71,389	94,950	104,878	131,578	156,513	185,830
Hotels and Restaurants	5,357	17,106	18,798	24,778	32,424	34,382
Total Productions Services	106,858	164,170	183,567	233,052	279,606	319,184
Housing & Real Estate	6,879	17,726	19,056	20,943	23,334	26,575
Gov. Services (Utilities)	1,445	51,895	56,930	64,220	79,737	94,120
Gov. Social, and Personal services	51,202	15,118	16,498	31,643	35,899	42,332
Total Social Services	59,787	84,739	84,739	92,484	116,806	138,970
Grand Total	332,544	504,430	581,145	710,388	855,308	990,212

1/ Does not include net indirect taxes

2/ Includes Water Utilities Sector

3/ Includes Suez canal

Source: Ministry of Trade and Industry Quarterly Economic Digest October-December 2004 and March 2006

* 2009 figures are preliminary, subject to change, presented to parliament for ratification

Egypt Private Sector Country Profile - 2009

EGYPT PUBLIC FINANCE/ 2005-2009 BUDGET SECTOR (MILLION EGP)				
	2005/06	2006/07	2007/08	2008/09*
Total Revenues and Grants	151,266	180,215	221,404	282,505
Tax Revenues	97,778	114,326	137,195	163,222
Income Tax	48,268	58,535	67,059	80,254
Property Taxes	1,214	1,788	2,052	2,763
Tax on Goods and Services	34,699	39,436	49,747	62,650
Tax on International Trade	9,654	10,370	14,020	14,091
Other Taxes	3,944	4,198	4,317	3,464
Grants	2,379	3,886	1,463	7,984
Other Revenues	51,108	62,003	82,747	111,299
Returns on Financial Assets	36,373	45,110	52,455	53,395
Proceeds from Sales of Goods and Services	7,879	9,774	12,038	16,216
Other	6,857	7,119	18,254	41,688
Total Expenditures	207,810	222,029	282,290	351,500
Wages and Salaries	46,719	52,153	62,839	76,147
Purchases of Goods and Services	14,428	17,028	18,470	25,072
Interest Payments	36,814	47,700	50,528	52,810
Subsidies, Grants and Social Benefits	68,897	58,422	92,371	127,033
Other Expenditures	19,740	21,208	23,892	27,007
Purchases on Non- Financial assets	21,212	25,498	34,191	43,430
Total Cash Deficit	56,544	41,815	60,886	68,995
Net Acquisition of Financial Assets	-6,160	12,883	236	2,831
Overall Fiscal Deficit	50,385	54,697	61,122	71,826
Overall Deficit/ GDP (%)	8.2	7.3	6.8	6.9
Primary Deficit/ GDP (%)	2.2	0.9	1.2	1.8
Revenue Deficit/ GDP(%)	24.5	24.2	24.7	27.2
Expenditure / GDP (%)	33.6	29.8	31.5	33.8

Sources: Ministry of Finance, Central Bank of Egypt,

* 2009 figures are preliminary, subject to change, presented to parliament for ratification

EGYPT
MONETARY SURVEY of the Banking Sector (Aug 2004 – Aug 2009)
(million EGP)

	Aug 04	Aug 05	Aug 06	Aug 07	Aug 08	Aug 09*
Foreign Assets (net) of the banking system	52,543	97,542	149,297	214,145	291,210	263,507
Central Bank (net)	10,593	46,523	67,991	101,854	183,144	178,580
Banks (net)	41,950	51,019	81,306	112,291	108,066	84,927
Domestic Assets(net)	394,628	415,188	425,502	462,764	489,989	572,714
Net Claims on Central Government	134,034	159,478	178,044	187,094	194,093	299,535
Claims on Public Business Sector	36,296	38,109	32,754	25,458	27,603	3,3061
Claims on Private Sector	259,252	272,272	293,414	335,952	380,451	383,982
Other Items ¹	-34,954	-54,671	-79,010	-85,740	-112,158	-143,864
Total Liquidity (M2)	447,171	512,730	574,499	676,909	781,199	836,221
Money Supply (M1)	80,291	97,698	115,626	139,310	175,365	187,718
Quasi Money	366,880	415,032	458,873	537,599	605,834	648,503

Source (s): Ministry of Finance ; Monthly statistical Bulletin, several Issues, Central Bank of Egypt

* 2009 figures are preliminary, subject to change, presented to parliament for ratification

¹ The agreement between CBE and Ministry of Finance to use part of the blocked account balance to retire part of the bonds outstanding on government to CBE became effective as of June 2008.

Appendix II – Political Context and Government Organization

➤ Brief Historical Summary

The Arab Republic of Egypt has been a republic since June 18, 1953. Egypt operates under a multi-party semi-presidential system where the executive power is shared by the President and the Prime Minister.

1952 revolution and nationalization

After the 1952 revolution, the government started a program to nationalize banks and industrial and commercial corporations. By the early 60s, the public sector controlled almost all industrial, financial and commercial institutions.

The 1973 Sadat "Open Door" Policy

Sadat had realized the public sector's economic inefficiency and had started a new policy to encourage private investments by Egyptians and foreigners. Special laws to provide incentives and guarantees for private investments were enacted. Egyptian, Arab and foreign investments started to flow to Egypt, at a slow, but steady pace.

Privatization and Capital Market Development in the 1990s

In the early 90s, the government issued two important laws - the public sector law ("Law 203/1991") and the Capital Market Law ("Law 95/1992"). These two laws led to the privatization of over 100 companies, and many of those companies were privatized through initial public offerings (IPOs) in the Egyptian Stock Market (see details in privatization Para 2.1.4.1.). In the mid-1990s, substantial growth in stock market activities was registered and private sector benefited from an active stock market to finance large private investments.

Mid-2004 appointed government and December 2005 cabinet reshuffle

To accelerate economic reform and liberalization policies, a new cabinet was appointed in mid-2004. The economic group within the cabinet was strengthened by the appointment of businesspeople with international experience such as the Minister of Foreign Trade and Industry, the Minister of Tourism and the Minister of Investments. The new Central Bank Governor, appointed in December 2003, also comes from the private sector. The cabinet was reshuffled in December 2005 after the presidential elections and more ministers from the private sector were appointed.

The 2004 cabinet and the new one adopted the policy of strengthening the private sector to create the jobs needed by young university graduates and to boost overall employment levels. The government has already passed key legislations to reform import duties and reduce taxes to encourage businesses and investments. Also, the government is calling for liberal monetary policies, foreign exchange and interest rate policies (see more details in Chapter 2).

➤ Legislative and Executive Authorities

The People's Assembly. It exercises legislative authority, approves the state's overall policy and controls the government's work. The assembly, in its current session, is composed of 454 members, including ten members appointed by presidential decree. 50% of the members have a worker or peasant status. The assembly exercises its legislative and monitoring power through 18 committees in areas such as

Constitutional and Legislative, Planning and Budgeting, Economic Affairs, Foreign Affairs, Transport and Communication.

The Shura Council: The Shura (Consultative) Council is mandated with studying and proposing whatever it deems fit in order to reinforce national unity and social peace, and protect the basic constituents of the community. The Shura Council mid-term elections were held in June 2001 under complete judicial supervision of all electoral committees. The current Shura Council is composed of 264 members, 14 of whom are women, with the majority of members belonging to the National Democratic Party. The term of membership is 6 years.

The Central Auditing Agency (CAA) assists the People's Assembly. The CAA is an independent public corporate body that aims to ensure control over government funds and those of other public bodies. The CAA helps the People's Assembly with both the auditing and legal aspects of financial control.

Head of State: The president presides over the executive authority and works to ensure the sovereignty of the people, respect for the constitution, the rule of law and the protection of national unity. The presidential term is six years.

His mandate has been recently renewed for another term. Until recently, the People's Assembly elected the president, but President Mubarak has introduced universal suffrage and competition for the September 2005 election. In conjunction with the Council of Ministers, the president lays down policies and supervises their implementation. He is also the supreme commander of the armed forces and head of both the Supreme Police Council and the National Defense Council. President Mubarak is currently serving his fifth term in office.

The Government: Represented by the Council of Ministers, the government is the highest administrative and executive body. It administers government affairs such as directing, coordinating and monitoring the performance of ministries and public authorities; drafting state budget and overall state planning; and concluding and granting loans. Moreover, in the execution of public policy, it is responsible for ensuring the implementation of laws, maintaining state security and protecting citizens' right and welfare. In reality, the political system works mainly as a presidential and autocratic structure through the official party. There is also expressed concern from international human rights observers with respect to press freedom and government interference in elections.

Appendix III – 2006/07 Census

	Total Population15years and above	Labour force 15years and above	Employment Status15 years and above			Unemployment rate
			Employed	Unemployed & work before	Unemployed& did not work before	
Cairo						
Male	2,549,073	1,667,520	1,512,462	38,315	116,743	9.3
Female	2,485,408	556,472	471,769	8,472	76,231	15.22
Total	5,034,481	2,223,992	1,984,231	46,787	192,974	10.78
Alexandria						
Male	1,552,911	1,022,815	939,868	8,183	74,764	8.11
Female	1,499,678	254,637	206,275	1,428	46,934	18.99
Total	3,052,589	1,277,452	1,146,143	9,611	121,698	10.28
Portsaid						
Male	212,166	143,381	131,196	415	11,770	8.5
Female	205,717	51,144	41,869	103	9,172	18.14
Total	417,883	194,525	173,065	518	20,942	11.03
Suiz						
Male	179,473	124,002	112,898	1,692	9,412	8.95
Female	173,519	32,615	25,301	233	7,081	22.43
Total	352,992	156,617	138,199	1,925	16,493	11.76
Helwan						
Male	596,533	408,029	367,291	5,800	34,938	9.98
Female	564,690	98,985	81,116	922	16,947	18.05
Total	1,161,223	507,014	448,407	6,722	51,885	11.56
6 Octobar						
Male	884,992	657,559	611,049	6,309	40,201	7.07
Female	803,846	99,863	85,994	590	13,279	13.89
Total	1,688,838	757,422	697,043	6,899	53,480	7.97
Domiat						
Male	387,903	304,048	289,797	1,164	13,087	4.69
Female	372,575	59,095	46,249	164	12,682	21.74
Total	760,478	363,143	336,046	1,328	25,769	7.46

Egypt Private Sector Country Profile - 2009

	Total Population15years and above	Labour force 15years and above	Employment Status15 years and above			Unemployment rate
			Employed	Unemployed & work before	Unemployed& did not work before	
Dakhlia						
Male	1,749,501	1,279,917	1,191,921	4,700	83,296	6.88
Female	1,709,616	240,130	190,027	448	49,655	20.86
Total	3,459,117	1,520,047	1,381,948	5,148	132,951	9.09
El Sharkia						
Male	1,841,507	1,309,524	1,201,017	4,300	104,207	8.29
Female	1,754,536	253,651	198,263	461	54,927	21.84
Total	3,596,043	1,563,175	1,399,280	4,761	159,134	10.48
El Kaliobia						
Male	1,489,863	1,067,995	988,788	11,027	68,180	7.42
Female	1,406,020	189,221	152,841	1,129	35,251	19.23
Total	2,895,883	1,257,216	1,141,629	12,156	103,431	9.19
Kafr El Shikh						
Male	910,120	712,014	650,785	1,738	59,491	8.6
Female	902,807	125,627	88,503	211	36,913	29.55
Total	1,812,927	837,641	739,288	1,949	96,404	11.74
El Garbia						
Male	1,428,234	1,006,074	925,398	4,767	75,909	8.02
Female	1,402,296	224,459	171,856	716	51,887	23.44
Total	2,830,530	1,230,533	1,097,254	5,483	127,796	10.83
Monofia						
Male	1,163,150	846,315	798,537	2,855	44,923	5.65
Female	1,090,534	196,480	168,758	378	27,344	14.11
Total	2,253,684	1,042,795	967,295	3,233	72,267	7.24
Elbehera						
Male	1,681,941	1,273,251	1,185,776	3,552	83,923	6.87
Female	1,607,276	184,580	134,357	297	49,926	27.21
Total	3,289,217	1,457,831	1,320,133	3,849	133,849	9.45
Ismalia						
Male	326,933	249,657	223,556	2,406	23,695	10.45
Female	319,785	61,117	46,530	451	14,136	23.87
Total	646,718	310,774	270,086	2,857	37,831	13.09

Egypt Private Sector Country Profile - 2009

	Total Population15years and above	Labour force 15years and above	Employment Status15 years and above			Unemployment rate
			Employed	Unemployed & work before	Unemployed& did not work before	
El Giza						
Male	1,155,758	784,422	711,909	14,740	57,773	9.24
Female	1,116,256	240,964	202,701	2,812	35,451	15.88
Total	2,272,014	1,025,386	914,610	17,552	93,224	10.8
Beni Souif						
Male	733,097	578,473	541,019	1,005	36,449	6.47
Female	720,076	190,433	168,965	135	21,333	11.27
Total	1,453,173	768,906	709,984	1,140	57,782	7.66
El Faioum						
Male	828,757	670,218	634,466	995	34,757	5.33
Female	773,106	86,299	69,775	96	16,428	19.15
Total	1,601,863	756,517	704,241	1,091	51,185	6.91
El Menia						
Male	1,331,912	998,236	952,487	2,492	43,257	4.58
Female	1,302,970	217,613	193,522	460	23,631	11.07
Total	2,634,882	1,215,849	1,146,009	2,952	66,888	5.74
Assiot						
Male	1,091,389	766,178	707,645	3,462	55,071	7.64
Female	1,071,598	137,557	110,334	333	26,890	19.79
Total	2,162,987	903,735	817,979	3,795	81,961	9.49
Sohag						
Male	1,178,109	822,650	765,065	2,201	55,384	5.65
Female	1,187,463	125,888	97,637	190	28,061	22.44
Total	2,365,572	948,538	862,702	2,391	83,445	9.05
Kena						
Male	971,241	645,788	578,687	1,744	65,357	10.39
Female	988,053	85,857	54,955	203	30,699	35.99
Total	1,959,294	731,645	633,642	1,947	96,056	13.39
Asswan						
Male	408,990	274,409	234,242	2,733	37,434	14.64
Female	410,271	67,849	43,876	391	23,582	35.33
Total	819,261	342,258	278,118	3,124	61,016	18.74

Egypt Private Sector Country Profile - 2009

	Total Population15years and above	Labour force 15 years and above	Employment Status15 years and above			Unemployment rate
			Employed	Unemployed & work before	Unemployed& did not work before	
El Oxor						
Male	163,218	111,756	96,201	1,972	13,583	13.92
Female	156,033	31,244	22,757	207	8,280	27.16
Total	319,251	143,000	118,958	2,179	21,863	16.81
Red Sea						
Male	136,538	111,559	106,675	648	4,236	4.38
Female	77,602	18,308	15,539	88	2,681	15.12
Total	214,140	129,867	122,214	736	6,917	5.89
El Wadi Elgidid						
Male	64,741	49,178	45,851	155	3,172	6.77
Female	61,230	16,500	13,369	61	3,070	18.98
Total	125,971	65,678	59,220	216	6,242	9.83
Matroh						
Male	106,229	82,160	77,547	559	4,054	5.61
Female	94,554	9,368	8,510	15	843	9.16
Total	200,783	91,528	86,057	574	4,897	5.98
North Sinai						
Male	110,141	82,089	77,857	440	3,792	5.16
Female	102,417	18,460	16,408	43	2,009	11.12
Total	212,558	100,549	94,265	483	5,801	6.25
South Sinai						
Male	85,589	67,201	63,976	131	3,094	4.8
Female	36,452	23,226	22,069	29	1,128	4.98
Total	122,041	90,427	86,045	160	4,222	4.85
Egypt						
Male	25,320,009	18,116,418	16,723,966	130,500	1,261,952	7.69
Female	24,396,384	3,897,642	3,150,125	21,066	726,451	19.18
Total	49,716,393	22,014,060	19,874,091	151,566	1,988,403	9.72

Egypt Private Sector Country Profile - 2009

Population Distribution by Main Economic Activity and Gender

Economic Activity	Male	Female	Total
Agriculture, Forestry, Fishing	4,902,739	306,862	5,209,601
Education	324,764	48,528	373,292
Mining and quarry	34,869	711	35,580
Transportation & storing	88,980	7,846	96,826
Electric air-conditioning, gas & air supply	1,868,791	19,415	1,888,206
Family service	1,852,189	660,357	2,512,546
Whole and retail sales	1,225,939	29,478	1,255,417
Defence and social security	387,887	12,286	400,173
International Organizations, UN, regional foreign service	142,130	34,296	176,426
Amusement arts and activities	135,347	45,373	180,720
Food, residence service	8,754	574	9,328
Health & social activities	112,469	12,996	125,465
Other activities service	1,331,825	398,539	1,730,364
Insurance and Financial services	1,078,006	822,479	1,900,485
Real estate & rent	237,544	280,702	518,246
Specialized technical scientific activities	64,243	10,767	75,010
Subsidy service	419,354	113,192	532,546
other activity services	2,509	786	3,295
Information telecommunication	136,576	19,128	155,704
Activities not classified	2,158,611	208,228	2,366,839
Unstated	110,352	25,231	135,583
Unattached (seasonal activities)	8,465,543	21,225,193	29,690,736
Grand total	25,320,009	24,396,384	49,716,393

Number of Working Establishments (&Temporarily Closed) Other than Government
by Legal Entity

Gouvernorate	Working Establishments (& Temporarily Closed)	Individual	Joint	Unregistered	Limited Partnership	Partnership Limited by Shares	Limited Liability Company	Stock Company	Foreign Affiliate	Other	Unstated
Egypt	2482738	2273383	99663	31618	6459	1787	3154	19030	1417	45951	276
Dakhla	190844	180191	5550	1773	101	63	159	742	18	2201	46
South Sinai	8220	7182	207	16	25	92	12	445	136	73	32
Assiut	69567	64309	2159	580	107	56	102	495	7	1747	5
Monofia	95416	90523	1295	926	160	25	83	564	3	1834	3
El Garbia	156464	146520	4979	2173	226	65	103	723	13	1655	7
Alexandria	176929	154918	11423	4108	881	282	230	1705	140	3234	8
Portsaid	25162	22202	1222	429	247	14	29	415	40	552	12
Supreme Council Luxor City	13616	12659	490	127	22	18	51	63	17	158	11
Qena	65580	60752	1607	685	66	34	84	709	1	1638	4
Cairo	359937	313084	25823	7406	2498	335	896	3781	542	5534	38
El Menia	87540	81019	2278	745	102	18	90	513	5	2770	0
El Wadi El Gidid	5582	4524	125	29	19	14	8	291	6	566	0
El Faoum	61488	57323	1099	792	66	55	78	312	8	1752	3
Beni Souif	53575	49132	1367	862	51	16	102	508	15	1518	4
Elbehera	136716	125956	7508	1316	137	47	86	372	3	1291	0
North Sinai	9622	8696	227	39	14	25	10	390	2	203	16
El Sharkia	169214	157899	3118	1478	226	29	137	1182	33	5103	9
El Kalobia	151150	138207	7148	2214	337	53	115	646	15	2410	5
Suhag	76004	71148	1745	964	54	39	67	464	19	1500	4
Ismaila	35612	32947	924	324	63	4	25	313	26	948	2
Suiz	21631	19466	560	444	33	8	10	598	10	496	6
Dorniat	88743	84525	1906	1236	49	20	93	276	6	621	11
Matrouh	10973	10079	300	101	15	7	23	139	13	282	14
Red Sea	14345	13302	474	13	24	69	16	225	24	198	0
Aswan	34410	31241	1090	211	159	31	27	591	4	1056	0
Kafr El Shikh	88350	82475	2400	927	64	11	50	504	4	1915	0
El Guiza	138817	126958	6990	766	356	235	257	737	164	2328	26
Helwan	54739	49935	2103	578	136	37	113	504	118	1212	3
6-Oct	82492	76211	3546	356	221	85	98	823	25	1120	7

Appendix IV – Main Deficiencies and Recommendations for Reform in Egypt’s Bankruptcy System

Egypt’s bankruptcy system	
Main current deficiencies	Recommendations for a Reform
<p>1 Inappropriate incentives.</p> <p>The system does not encourage the debtor, creditors and the bankruptcy trustee to enter the bankruptcy process, conduct it in a cost-effective way, or to reorganize potentially viable firms and avoid their premature liquidation. A number of indicators illustrate that Egypt’s bankruptcy system acts as a deterrent to business start-ups and to reorganization plans. Among the barriers induced by the system we find the legal effects of bankruptcy; the lack of discharge from remaining debts; and the absence of a stay on creditors’ claims.</p> <p>According to a report conducted by the World Bank in 1998, Egypt’s bankruptcy system imposes restrictions, disqualifications and prohibitions on the bankrupt debtor. The debtor is automatically prohibited from managing or conducting transactions related to his property. He is stricken from the commercial register, and is therefore not allowed to work in any commercial or industrial profession (until rehabilitation). Moreover, the debtor is deprived from all his political rights and limitations are placed on his freedoms (e.g. he must report any change of address and may be forbidden to leave the country). Egypt’s bankruptcy system makes no clear distinction between honest and unlucky, and dishonest bankrupts.</p> <p>As regard the creditors, the absolute priority for their claims is not fully observed, unfair transfers made prior to the debtor’s payment cessation cannot be annulled, and no time limit is set for finalizing bankruptcy procedures. An efficient bankruptcy system usually gives the creditor and trustee “avoiding powers” to annul any unfair or fraudulent property transactions made within a specified period before the bankruptcy filing. The Egyptian bankruptcy also provided creditors and trustees with avoiding powers, but only during the so-called suspected period. The latter starts on the date of the debtor cease to pay his debts and ends on the date of the bankruptcy adjudication. Nonetheless, the system does not allow for the annulment of a debtor’s property transaction before to the date of payment cessation.</p>	<p>1 On the side of the Debtor</p> <p>The new system should remove the severe legal sanctions that are imposed on honest debtors, offering discharge from remaining debts and imposing a stay on creditors’ claims during the process of reorganization. The system has also to distinguish between fraudulent and non fraudulent debtors, offering discharge of remaining debts is one of the conditions necessary to give honest debtors a fresh start; as it releases a debtor from personal liability for specific debts and prohibits creditors from ever taking action against him to collect those debts</p> <p>Upon filing for reorganization, no creditor should be allowed to seize or sell any of the firm’s assets during the process. As long as they stay in effect, all judgments, collection activities, foreclosures and repossessions of property are suspended. Creditors may not pursue any debt or claim that arose before the filing of the bankruptcy petition.</p>
<p>2 The bankruptcy system is not effectively enforced.</p> <p>Compared to similar developing countries bankruptcy system, Egypt’s system is not effectively enforced and the causes could be found in the high level of court involvement, the multiplicity of appeals and the lack of enforcement mechanisms.</p>	<p>2 On the side of the Creditors</p> <p>A country with a strong investor and creditor protection usually has higher rates of capital investment and productivity growth. Therefore, it is important that Egypt’s new bankruptcy system incorporates and enforces strict time limits on drafting, voting, and confirming a reorganization program.</p> <p>Creditors should be compelled to accept a change of status or a lower priority in order to protect the interests of the creditors as a group. This arrangement would help prevent a sensible plan from being substantially delayed by a dissenting minority and allows it to be imposed on that minority for the benefit of the interested parties as a whole.</p> <p>A trustee should be appointed only if there is just a cause including fraud, dishonesty, incompetence, and gross mismanagement or if such an appointment is in the interest of creditors, any equity security holders, and other interests of the estate.</p>

Egypt's bankruptcy system

Main current deficiencies

Recommendations for a Reform

A research of the World Economic Forum, driven in 2004, indicated that the Egyptian system gives the court broad powers to handle the complex bankruptcy rules and procedures. This conclusion is brought out by the court power index that documents the degree to which the courts drives bankruptcy proceedings: from a scale 0 to 100, Egyptian value is around 67 while the OECD average is 36. This index is built as an average of whether the court appoints and replaces the insolvency administrator with no restrictions imposed by law, whether the reports of the administrator are accessible only to the court and not the creditors and whether the court is the one that decides on the adoption of the reorganization plan.

Appendix V – Foreign Trade Framework

➤ The EU/Egypt Association Agreement

The Association Agreement, as a whole, entered into force on June 1, 2004, after ratification by all EU Member States and Egypt. From 1977 to mid-2004, EU-Egypt bilateral relations were governed by a Cooperation Agreement, which provided for economic co-operation between the parties and established provisions for non-reciprocal trade liberalization and market access. Under the provisions of the Association Agreement, Egypt's industrial exports enjoy

free-market access to the EU, while EU industrial exports enjoy the Most Favored Nation treatment in Egypt. Regarding agriculture, following the 1987 Protocol, Egypt enjoys preferential treatment on access to EU markets by means of tariff quotas and export calendars for its traditional flows. EU agricultural exports take place under MFN treatment. Within the framework of the economic co-operation under the Cooperation Agreement, four financial protocols provided EC funding for programs and projects in Egypt up to the mid-90s.

Establishment of the Agreement	<p>Egypt started negotiations with EU to conclude a partnership agreement in 1995. It was officially signed in January 2001 in preparation for the final signature that was effective in June 2001.</p> <p>The Agreement aims to increase the flow of foreign capital, expertise and technology to Egypt.</p> <p>Egyptian exports of manufactured goods to the EU will be exempted from tariffs.</p>
Objectives of the Agreement	<ol style="list-style-type: none"> 1. Establish an adequate framework to develop close political ties between the parties. 2. Pave the way for continuous liberalization of trade in goods, services and capital. 3. Develop balanced economic and social relations through mutual cooperation. 4. Contribute to the process of economic and social development in Egypt. 5. Encourage regional cooperation to promote peaceful coexistence and economic and political stability. 6. Promote cooperation in other fields of mutual interest.
Manufactured Products	<p>According to the Agreement, both parties will benefit from free trade according to a timeframe and specific lists incorporated within the Agreement. In particular, there are three different lists of goods. For the first one, tariffs are to be gradually eliminated over a three-year period. A reduction of 25% will be applied on the date the Agreement enters into force and then there will be an annual reduction of 25%. For the second one, tariffs will be reduced gradually, 10% after 3 years from the date the Agreement enters into force to be followed by an annual tariff reduction of 15% over 6 years until tariffs are fully eliminated. With regard to the last one, tariffs will be reduced as follows: 5% after 5 years from the date the Agreement enters into force to be followed by a 10% reduction the following year, followed by a reduction of 15% annually for 5 years and 10% reduction in the final year.</p> <p>Manufactured goods exported from the EU to Egypt will be exempted from all quantity, tariffs and any other barriers having the same effect. Egyptian manufactured goods to the EU will be exempted from tariffs or any other fees of similar effect once the Agreement enters into force.</p>
Agricultural Products	<p>Egypt and the EU agreed on excluding certain agricultural product quotas from custom duties and on reducing tariffs on exports that exceed these quotas. A specific number of European processed agricultural products are exempted from tariffs in Egypt after two years from the date the Agreement entered into force. The price level of Egyptian exports to the EU must be at least equal to 85% of the EU price for the same type of product. If Egypt's price level for any of these products is below 85% of the EU price level, preferential tariff shall cease to function. Agricultural products used in the production of agricultural commodities are subject to CAP (Common Agricultural Policies) to attain domestic prices higher than those prevailing in international markets, especially products like grains, sugar and dairy products.</p>

➤ COMESA: Common market for Eastern and Southern Africa

COMESA was established in 1994 as an African organization, seeking to cooperate in developing their natural and human resources for the good of their people. It has a wide-ranging series of objectives which include the promoting of peace and security in the region. On the African front, Egypt signed the Common Market for Eastern and Southern Africa (COMESA) in June 1998. COMESA has been operating as a free trade area

with zero duties since October 2000. Currently, the organization seeks to establish a customs union in 2004 and a monetary union with the possibility of a common currency by 2025. The twenty COMESA members are at different stages of implementing the free trade area. COMESA member countries include: Angola, Burundi, Comoros, Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritania, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. Egypt is the only country in the MENA region with membership

in COMESA. The value of total trade between Egypt and COMESA members is still limited. Exports were less than USD100 million and imports from COMESA were more than USD 250 million.

➤ WTO

Egypt signed the General Agreement on Tariffs and Trade (GATT) in 1947 and, shortly after conclusion of the GATT-sponsored Uruguay Round of multilateral trade negotiations and the establishment of the World Trade Organization ("WTO") in 1994, acceded to the WTO on June 30, 1995. Under the so-called "Single Undertaking" requirement of the Final Act Embodying the Results of the Uruguay Round signed at Marrakech on April 15, 1994. The reductions following the agreements will be made in different phases: the first reduction was effective on the date the WTO Agreement entered into effect, with each successive reduction on January 1 of each of the following years, and the final rate became effective in 1999 four years after the date the WTO Agreement came into force.

➤ General Agreement on Trade in Services (GATS)

Egypt joined GATS on June 30, 1995 same day it joined the WTO. With respect to its GATS commitments, Egypt has committed to only 4 of the 12 sectors covered by GATS, namely; construction, finance, tourism and transport. Lately, there has been pressure on Egypt to commit to more sectors, a key obligation for WTO members, with special emphasis on opening and liberalizing its telecommunications sector.

➤ Bilateral Agreements with Arab countries

Egypt played a catalytic role in the establishment of the Pan-Arab Free Trade Area (PAFTA) which aims at eliminating customs duties for goods originating from member countries through a 10% annual reduction from January 1, 1998, over a

ten-year period . Egypt is a PAFTA member country along with other Arab League countries - Algeria, Bahrain, Comoros, Djibouti, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates and Yemen.

➤ Trade and Investment Framework Agreements (TIFA)

In July 1999, Egypt and the US signed TIFA as a preliminary step towards an Egypt-US Free Trade Area agreement. The agreement enhances bilateral economic relationships between the two countries and it seeks to encourage and facilitate private sector contracts between both parties.

➤ Agadir Agreement

The Agadir agreement was signed on February 25, 2005, in Rabat by the foreign ministers of Egypt, Morocco, Tunisia and Jordan in order to set up a Free Trade Area among them. The accord aims at boosting the competitiveness of member countries and allowing their products into European Union (EU) markets. It also aims at expanding cooperation, trade and free trade between the four participating states. Items under the agreement include customs, services, certificates of origin, government purchases, financial dealings, preventive measures, intellectual property, standards and specifications, dumping and mechanisms to resolve conflicts. The Free Trade Zone will make up a market of more than 100 million people and a combined domestic product of nearly €150 billion.

➤ Qualified Industrial Zones (QIZ)

In December 2004, the United States, Egypt and Israel signed a trade partnership launching the creation of Qualified Industrial Zones (QIZs) in Egypt, allowing for exportation of certain Egyptian goods with Israeli inputs duty-free to the US.

QIZs are geographically designated areas in Egypt determined by the Egyptian government (QIZ Unit under the Ministry of Trade and Industry) and approved by the US government where industrial products originated in Egypt and satisfying agreed-upon Israeli content - as per predefined rules of origins mostly based on relevant WTO rules - are granted free entry into the US customs territories. Progressively, these areas are expected to grow exports to the US market, and then more QIZ zones shall be added to the ones below upon the approval of the US government.

More than 700 companies currently enjoy duty- and quota-free access to US markets through 19 QIZs located in four geographic areas: Greater Cairo, Middle Delta, Alexandria and the Suez Canal Zone.

The QIZ program was established by the United States in 1996 to encourage economic

cooperation, closer ties, and peaceful relations between Israel and its QIZ partners. Until the agreement with Egypt, the QIZs existed only with Jordan and the successful results of that experience suggest QIZs in Egypt will significantly expand trade, promote investment, and ultimately encourage cooperation, closer ties and peaceful relations between the partners.

The first year of implementation in Egypt is very promising.

The United States currently has Free Trade Agreements (FTAs) with Israel, Jordan, and Morocco; an FTA with Bahrain that is pending Congressional approval; and will begin FTA negotiations with the United Arab Emirates and Oman. The United States is working with Egypt's new economic reform team to deepen reciprocal trade relations.

Advantages in QIZs

- **Duty free access to the US Market:** This preferential treatment entails free access to all Egyptian products manufactured in QIZ to the US market without tariff or non-tariff barriers, as long as these products comply with rules of origin requirements.
- **Simple requirements to benefit from the free access:** The required rules state that 35% of the commodity's value must be manufactured in an Egyptian QIZ, of which a minimum of 11.7% Israeli inputs.
- **All products benefits from the free access:** The tariff exemption applies to all products, whether produced by the public or private sector, by small, medium or large enterprises.
- **Flexible application of the requirements:** The protocol has established flexible rules such that the Israeli content is not revised for every single shipment of exports to the USA, provided that this factory's cumulative exports every quarter satisfy the agreed upon ratio.
- **No quotas on exported products:** The free access of the products is not limited by any quotas on quantities, nor on seasons.



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