LEGATUM INSTITUTE

GLOBAL INDEX OF ECONOMIC OPENNESS

Economic Openness

Egypt Case Study

2020

ABOUT THE LEGATUM INSTITUTE

The Legatum Institute is a London-based think-tank with a bold vision to create a global movement of people committed to creating the pathways from poverty to prosperity and the transformation of society.

We seek to do this by raising up leaders of character, restoring an ethical vitality to all sectors of society, and developing the practical solutions and data tools that will help build inclusive and peaceful societies with open economies and empowered people.

- Our Centre for Metrics creates indexes and datasets to measure and explain how poverty and prosperity are changing.
- Our Research Programmes analyse the many complex drivers of poverty and prosperity at the local, national and global level.
- Our Practical Programmes identify the actions required to enable transformational change.

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FOREWORD

Stephen Brien
Director of Policy,
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Our mission at the Legatum Institute is to create the pathways from poverty to prosperity by fostering open economies, inclusive societies, and empowered people. Our work is focused on understanding how prosperity is created and perpetuated. Prosperity is much more than material wealth; it also encompasses welfare, security, wellbeing, freedom, and opportunity. Without an open, competitive economy, however, it is very challenging to create lasting social and economic wellbeing where individuals, communities, and businesses are empowered to reach their full potential. That is why we view Economic Openness as so important, even in these uncertain times.

With the generous support of the Templeton World Charitable Foundation, we have created a Global Index of Economic Openness to rank over 150 countries' openness to commerce, assessing the environment that enables or hinders their ability to trade both domestically and internationally. Our ambition is that it becomes a valued tool for leaders and advisers around the world, to help set their agendas for economic growth and development. As part of this programme of work, we are undertaking a series of in-depth country case studies based on the Index, including this report on Egypt in which we analyse its performance in the key characteristics of openness to trade, investment, ideas, competition, and talent.

While our response to the COVID-19 pandemic has brought much global economic activity to a halt, trade between countries, regions, and communities will be fundamental to the advance of the innovation, knowledge-transfer, and productivity that creates economic growth and prosperity. The spread of free trade has enabled more and more people to participate in commerce, allowing them to move from subsistence farming towards a more stable and prosperous existence. More recently, the technological revolution has enabled millions of people to take part in commercial, political, and social discourse thanks to the accessibility and affordability of new technology. Our research shows that economically open countries are more productive, with a clear correlation between increased openness over time and productivity growth. In contrast, in an uncompetitive market, or one that is not designed to enhance the engagement and wellbeing of all, growth stagnates, protected industries become entrenched, and crony capitalism thrives.

While most policymakers focus on the big fiscal and macroeconomic policy tools at their disposal, the microeconomic and institutional factors are sometimes overlooked, and their potential to drive openness and growth is underestimated. A notable feature of this Index is a focus on these microeconomic drivers of productivity. By bringing the full range of disparate policy choices that influence and drive openness and competition together in one report, we hope to shift the focus of policymakers, in Egypt and around the world, towards the broader implications of microeconomic policy by emphasising the relationship between productivity and Economic Openness.

Since the extensive political upheaval of 2011-2014, there have been substantial investment and reform efforts across the Egyptian economy. The macroeconomic situation was stabilised through the IMF-backed reform programme and loan (now extended due to the impact of the COVID-19 pandemic). Substantial investment has been made in the energy system to tackle shortages and to build for the future, and transport networks have been expanded and improved. Substantial investment in the water sector is now planned. A wide range of economic reforms have also been implemented. Investment and bankruptcy laws have improved the business environment and the government is now focusing on the digitisation agenda. The country's banking system has been strengthened considerably and investor protections have increased.

Much of this reform has produced tangible benefit for Egypt's people. Unemployment has fallen, and prior to the COVID-19 pandemic Egypt was one of the fastest-growing emerging markets. However, at the same time the quality of governance in the country has significantly deteriorated and the state has become further involved in the economy. This has contributed to the persistence of economic vulnerabilities such as under-performing exports and low productivity caused by a lack of dynamism in the private sector. A combination of concentrated executive power, substantial state involvement in the economy, and deteriorating judicial integrity affects the business and economic environment in multiple ways. Business risk is increased through concern that they may face unfair competition, weak contract enforcement, or corruption. The shortfalls in effective governance risk undermining the valuable improvements elsewhere.

The country now faces a complex situation as the response to the COVID-19 pandemic reduces economic growth and puts further pressure on public finances. Population growth continues to create significant economic and social pressures as substantial physical and social investment is needed and the number of people entering the labour force grows rapidly.

Our analysis does suggest that Egypt has many untapped strengths to navigate the next few years and create the potential to create widespread opportunities for its population to prosper. However, to take advantage of this Egypt will need to find a model that enables the domestic engines of economic growth to flourish. For Egypt to move beyond middle-income status, the issues of contestability in the economy and the links between the government and business should be reviewed. In common with many peer countries, corruption has also been an ongoing challenge, and is exacerbated by the concentration of political power.

As we have prepared these case studies, we have found that tackling such reforms is never straightforward or politically easy. For Egypt at this point in time, it is especially so, given the major global challenge of the COVID-19. Furthermore, there will always be powerful interest groups that benefit from the status quo and try to impede change. Nevertheless, we see cause for optimism.

Egypt's strategic advantages, improving infrastructure, and large, young population provide a strong foundation. We are hopeful that, even in these times, Egypt will be able to start laying the foundations for greater Economic Openness in the coming years.

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EXECUTIVE SUMMARY

This report is part of a series of case studies examining the links between a nation's Economic Openness and prosperity, informed by the insights generated by our Global Index of Economic Openness.

Egypt is one of the most significant actors in the wider Middle East and North Africa region, with its long and rich cultural history combined with a large and fast-growing population. In the last decade it has been through extensive political changes, with political unrest from 2011-2014 followed by significant changes to the country's constitution.

The prolonged political unrest exacerbated long-term structural economic challenges and, in 2016, Egypt began to carry out an IMF-backed reform programme. A range of reforms have led to major restructuring of the economy that have both helped to stabilise the macroeconomy and had substantial economic and social consequences. The poverty rate increased in the years following the start of the reform programme as the floating of the Egyptian pound resulted in a significant devaluation. The reduction in energy subsidies should also be a positive longer-term macroeconomic reform but such measures require extensive social protection measures if poor households are to be protected from the short-term impacts.

The country now faces a complex situation with the uncertainty and scale of the COVID-19 pandemic providing a challenging context. Progress has been made in many areas, but public debt remains high and growth is likely to slow significantly. The economy may also struggle to create enough jobs to keep up with continued rapid population growth. However, Egypt has many strengths and has the potential to create widespread opportunities for its population to prosper.

Taking into account Egypt's context and the need to address these issues, this report focuses on structural drivers of Economic Openness. We assess the extent to which Egypt has four fundamental characteristics of open economies:

Market Access and Infrastructure, such that products and services can be easily produced and delivered to customers;

Investment Environment, such that domestic and foreign sources of finance are widely available;

Enterprise Conditions that ensure markets are contestable and free from burdensome regulation;

Governance that is underpinned by the rule of law, in addition to government integrity and effectiveness.

Our analysis indicates a clear link between the extent to which a country's economy exhibits these characteristics and its productive capacity.[1] This link is supported by a long history of academic literature, and can also be seen in the economic histories of those countries that have achieved a high level of economic wellbeing.

Overall, Egypt ranks 102nd for Economic Openness globally, rising three places in the index over the past decade. Although Egypt did increase Economic Openness overall our analysis suggests that the country could have grown its productive capacity by around 15% more if it had increased economic openness as fast as countries in the top quintile.[2]

Our key findings for Egypt on each of the pillars are as follows:

1 See "Global Index of Economic Openness," *Legatum Institute,* May 2019.

2 Based on analysis in "Global Index of Economic Openness", *Legatum Institute*, May 2019. Egypt rose 4.1 points in the index between 2010 and 2020, putting it in the second highest quintile. Our research has found that productive capacity of countries in the highest quintile is around 1.4% per annum greater than those in the second quintile.

MARKET ACCESS AND INFRASTRUCTURE (EGYPT RANK: 88TH)

Egypt ranks 88th for Market Access and Infrastructure, up 12 places over 10 years.

Egypt has seen expansions in communications infrastructure across the decade in line with global improvements. Overall, Egypt remains 94th for Communications. The digital sector is also a potential important growth area for Egypt's private sector, due to several strategic advantages. However, the expansion in internet usage has not been as fast as other countries. Internet bandwidth also compares unfavourably. In a fast-changing sector, harnessing the speed and efficiency of the private sector is particularly important. However, Telecom Egypt currently holds a monopoly over fixed-line subscriptions. Fixed-line licenses were given to competitors in 2016, but these have not been used to provide competing subscription options. Strengthening the independence of the National Telecom Regulatory Authority could improve the regulator's ability to regulate the market.

Egypt faced significant energy shortages in the first half of the decade, and an expanding population has also placed pressure on already stretched water resources. However, the country's ranking for Resources has improved by 22 places to 89th following major investment in electricity generation. Investment in transmission networks is now needed to continue improving reliability. There is some concern that, unless carefully managed, the scale of investment could cause significant financial burden for the state and consumers. The country has also recently announced a 30-year water investment plan. The plans would expand desalination plants, improve water sources to rural areas, and meet the water requirements of the many new urban communities under construction. Financing these investments may prove challenging. There is an opportunity to use the existing legal framework for public-private partnerships more extensively.

Egypt has a significant opportunity to benefit from a well-functioning and extensive multi-modal transport network due to its strategically advantageous geographic position for trade. There has been substantial investment in transport infrastructure in the last decade, which has resulted in Egypt rising 8 places to 51st globally for Transport. However, high economic returns are still likely from continued and expanded investment. The railway infrastructure in Egypt offers good connectivity between the main regions of the country. However, it could play a greater role in boosting the attractiveness of the country's ports. There is also an opportunity to make more use of the Nile for freight transport. Currently river transport constitutes only 1% of Egypt's internal trade movement. The country also has significant opportunities to expand air cargo transport. One challenge is that transport investment has primarily relied on public expenditure. The Armed Force's Engineering Authority has played a pivotal role in the construction, maintenance, and financing of all infrastructure projects. Although the government has focused on encouraging private sector funding, this remains a challenge requiring sustained reforms.

Egypt has reduced barriers to international trade over the decade, but border administration still imposes high financial and non-financial burdens on imports. Egypt ranks 133rd for Border Administration, an increase of 8 places. However, documentary compliance for importing a container can add up to $1000 in Egypt above the direct costs at the border, compared to the regional average of $269. Importing regulations for many years have required that every component of a product be inspected, regardless of the compliance history of the product, country of origin, exporter, shipper, or importer. Egypt does not allow imports of goods from nonregistered entities, and registration can take up to 18 months. The lack of automated manifest collection and internal coordination has also contributed to significant customs processing delays. Customs efficiency has improved as a single window system is being gradually introduced alongside reforms to digitise the current paper-based system. Although these are positive measures, the process is still complicated by the involvement of multiple entities. These include the customs authority, the port authorities, and the General Organization for Export & Import Control. A draft customs law is expected to be introduced next year to streamline customs procedures.

Egypt has a wide range of trade deals. These include both deals with neighbouring countries, such as the Pan-Arab Free Trade Agreement, and deals outside the region, such as with the European Union and the South-American Mercosur trade bloc. However, many of these agreements are limited in terms of depth (tariff waiving without further harmonisation of processes and market conditions) and scope (not all sectors are covered). The Egyptian economy has also struggled to reach its potential as an exporting market due to both internal policies and external barriers. Only about 5% of Egyptian firms are exporters, with the ratio of total exports of goods and services to GDP averaging around 15% since 2000, compared to an average of 27% in other emerging markets. Overall, Egypt ranks close to the regional average on Open Market Scale, but has seen a slight deterioration over the decade in its global ranking (69th to 80th) as other countries have gained access to a higher proportion of global markets.

Egypt has also used import tariffs as a policy tool to limit the import of low-quality products, ration imports, and increase reliance on local production to try to increase non-oil exports. The country ranks 126th for Import Tariff Barriers. The government have argued that this is required because modernisation to a more open economy must be balanced with a need to maintain Egypt's own economy, especially at a time of economic hardship. However, such import substitution policies are often ineffective and harmful because they increase costs for both consumers and domestic businesses that import. Regular changes to tariffs with limited notice also hinders business development.

Non-tariff barriers have been reduced somewhat, leading to an improvement in Egypt's ranking for Market Distortions from 136th to 91st. However, many market distortions remain. These include the requirement for foreign manufacturers of specific products to register in advance with the Egyptian General Organization for Export and Import Control. Non-tariff measures are an important source of market distortion. While they can be put in place for legitimate reasons, they are often also used as a protection mechanism for domestic production. The use of these measures in Egypt is likely to affect the ability and willingness of the private sector to expand, and will hinder integration into global markets. Working with trade partners to reduce barriers to both imports and exports simultaneously could help improve the business environment significantly.

INVESTMENT ENVIRONMENT (EGYPT RANK: 103RD)

Egypt ranks 103rd for its Investment Environment, a fall of two places compared to a decade ago. Although the ranking has not changed significantly, there have been several developments over the decade.

Egypt ranks 104th globally for Property Rights, a fall of 14 places since 2010. The legal code for property ownership has traditionally been costly and complex, and a number of informal procedures evolved that sidestepped the official registration system. To a large extent, these mechanisms have become culturally embedded and are therefore used not only by individuals but also by government agencies and private companies. There has also been significant pressure on the land and property planning systems due to rapid population growth. However, there have been a broad range of recent initiatives to improve the formal system, including reduced registration fees and an electronic records ownership system. The Government also launched a major initiative to regularise land ownership. However, this has led to a number of complaints of land being seized without consultation. Separately, the Ministry of Defence has broad powers related to land access. For example, in 2018 at least 3,000 structures were removed in a security zone along Egypt's border with the Gaza Strip. The formalisation of property rights may help to improve the business environment, but altering a well understood informal system may cause confusion. The combination of complaints about land seizure and broad military powers may instead create concerns for private sector investors about future similar actions. Intellectual property rights protection are also weakly enforced. There is a lack of transparent and reliable systems for processing trademark and patent applications, which remains an obstacle for the growth of imports with intellectual property elements.

The adoption of new laws on bankruptcy and investment have been important steps in providing investor protection and confidence. These laws have aimed to enhance sustainable economic development and provide a safety valve for financial failures. The new investment law has also reduced several restrictions on international investment, such as foreigners being unable to act as importers for their own businesses. Shareholder governance has markedly improved in Egypt as a result, and Egypt's ranking for Investor Protection has risen 17 places to 72nd. A significant remaining issue is auditing and reporting for military enterprises, as these audits are often performed internally. In the Egyptian context this hinders effective competition in the wide range of sectors where the private and public sector are both active. As a result, foreign investors in Egypt make substantial use of investor-state dispute settlement mechanisms.

Contract Enforcement is a weak point for Egypt where, despite the introduction of the new investment law in 2017, it ranks 163rd globally. Businesses have reported difficulty in collecting payment from the government when awarded a monetary settlement and there are concerns that domestic courts unfairly find in favour of state-owned enterprises (SOEs) involved in investment disputes. Dispute resolution processes in Egypt can also be slow and costly. Enforcing a contract is almost twice as time-consuming in Egypt as the average in the region. Resolution of commercial disputes is very slow, with the time to adjudicate a case to completion averaging three to five years. Egyptian courts also do not always recognise foreign judgments.

Egypt's Financing Ecosystem is a strength, ranking 71st globally and significantly above the regional average. The political unrest and economic crisis management of the middle of the decade saw a decline in ranking, but the system has recovered as the economy has stabilised. In particular, perceptions of the soundness of the country's banks have improved drastically from 89th to 24th with the implementation of the core Basel II and Basel III requirements.

Access to finance has improved but there is room for further development. Access to basic banking services is an important enabler to improve accessibility to other aspects of the formal economy. In 2011 only 10% of the population held a bank account but this had increased to 32% by 2018. However, this is still below the regional MENA average of 44% with consumer trust in the conventional banking sector still a barrier. Overall credit to the private sector is also low. Credit is mostly directed to Government and a few large firms. This is particularly an issue for small and medium-sized enterprises (SMEs), many of which operate in the informal sector. The government are aiming to tackle this through the new SME law that aims to regulate Egypt's large SME base and attract it to the formal sector. Finally, venture capital has been growing, but there is a significant lack of investors providing funding that is halfway between seed-funding and the largest Series A venture capital.

ENTERPRISE CONDITIONS (EGYPT RANK: 81ST)

Egypt ranks 81st for Enterprise Conditions, up 27 places from ten years ago having increased more than any other pillar.

Egypt ranks 96th for Domestic Market Contestability. The state owns many public enterprises, including in sectors that compete directly with the private sector. These SOEs are often not subject to the same criteria of transparency and accountability as private entities and enjoy special privileges that distort market forces. The military in particular plays a prominent role in the Egyptian economy, and this activity has grown significantly over the past decade. In 2018, the Government announced a major programme of privatisation, but the program has seen repeated delays. In a positive development, the Egyptian Competition Authority (ECA) was strengthened in the middle of the decade. The biggest competition-related fines in Egypt's history were imposed in 2018. However, the enforcement capacities of the ECA still remain constrained by a lack of clarity over its jurisdiction and limited technical and budgetary resources. The lack of competition in many sectors marginalises the private sector and has been found to have reduced firms' efficiency and limited the emergence of new more productive firms, reducing productivity, growth, and job creation.

Price Distortions in Egypt have been dominated by substantial energy subsidies for some time. These resulted in overconsumption, over-investment in capital-intensive industries, and large claims on public resources. However, many of these electricity and fuel subsidies have now been phased out or reduced as part of the IMF loan programme, resulting in a rise to 97th from 141st over the decade. This has been an important part of macroeconomic stabilisation, but such measures require extensive social protection measures if poor households are to be protected from the short-term impacts. The tax system in Egypt also distorts economic activity. Multiple tax rates create an uneven competitive environment, and the complexity costs business time and money.

There have been several reforms in the Environment for Business Creation recently, which have led to an improvement in ranking from 100th to 46th over the last decade. The time and cost of starting a business has been reduced and is now quicker than the regional average. However, there are still delays related to state bureaucracy. Whilst the average cost of starting a business in Cairo is low, obtaining the required permits is often a difficult and time-consuming process. Egypt's cluster development strategy appears to be a success, using the Special Economic Zones law to develop areas such as the Suez Canal Economic Zone (SCEZ). However, for many firms these regulatory issues have not been the binding constraint on starting and growing a business. Along with the broader business environment discussed elsewhere, labour market skills have been a long-standing challenge for business creation. A range of studies have suggested significant skill mismatches between education outcomes and the demands of businesses. Education is now a government priority, and vocational education and training has gained importance. In 2019, prominent task forces were established to improve the governance and quality of vocational education. Close monitoring of outcomes will be important to ensure these reforms tackle this long-standing issue.

Egypt ranks 110th for the Burden of Regulation reflecting a range of burdens on business. Some reforms have been made over the last decade. For example, the time spent filing taxes has fallen significantly following reforms such as the introduction of an online tax filing system and a modernised VAT system. There have also been some reforms to ease business regulations and make them more transparent. However, these reforms have not resulted in a significant lessening of burdens. The Egyptian Regulatory Reform and Development Activity (ERRADA) body seeks to streamline business-related objectives. However, it may need increased resources and a stronger mandate to take the systematic approach to reducing regulatory and taxation burdens that is required to achieve a sustained improvement for Egyptian businesses.

Labour Market Flexibility has seen a continuous, strong improvement over the last decade, with Egypt now ranking 52nd globally. The labour market in Egypt is characterised by significant state employment and a large informal sector estimated at between 37% and 68% of GDP. The informal sector has grown due to both the perceived costs to business of joining the formal sector and because the formal private sector of the economy has not grown quickly enough to accommodate a rapidly increasing population. This large informal sector may drive some of the high ranking for Egypt on labour market flexibility. For example, only 16% of young workers have a signed contract with their employers, and only 15% have social insurance benefits. However, workers are unprotected by labour market regulations, and informal businesses have lower growth prospects. In the formal sector redundancy costs remain a major constraint on labour market flexibility despite recent reductions. Many employers also need to engage in lengthy court proceedings to dismiss employees. This means companies often hire workers on temporary contracts, or resort to irregular procedures such as having employees sign an undated resignation letter when they are being hired. This indicates there are still substantial opportunities to increase flexibility whilst also maintaining or increasing the protections workers actually experience.

GOVERNANCE (EGYPT RANK: 146TH)

Egypt ranks 146th on Governance and has fallen 30 places over the last decade, with deteriorations across each element of Governance in the index.

Executive Constraints in Egypt has deteriorated during the three years of political instability that started with the Egyptian Revolution and in the following years. The country's ranking for this element has declined from 121st to 158th. Although the broader MENA region has also experienced a deterioration in governance over this time, it has been to a lesser degree than that of Egypt. Presidential power has been consolidated through a range of constitutional amendments and an increase in presidential control of senior judicial appointments. Amendments to the constitution have also increased the military's already considerable independence from civilian oversight and its constitutional role in civilian governance. The combination of a concentration of executive power with substantial state involvement in the economy links to multiple issues for the business environment. These include an unfair competitive environment, weak contract enforcement, and difficulties experienced in growing exports. These issues are likely to constrain both the domestic private sector and foreign investment in the economy.

Political Accountability has also deteriorated, with Egypt now ranked 153rd. Democracy in Egypt has been associated with significant turbulence including poor economic performance, price hikes, and a lack of stability. As a result, there is little consensus regarding democracy and a market economy as a goal in Egypt. Elections for the President and national legislative representatives are held. However, voter intimidation, vote buying, and violations of finance regulations have all been alleged. Direct judicial supervision of elections will be phased out by 2024 in a development that is expected to damage the integrity of elections and erode public trust in their outcomes.

The Rule of Law has also deteriorated in Egypt over the past ten years, with its ranking falling to 105th from 80th. The Egyptian judiciary has historically been perceived as highly independent. Until 2019 the Supreme Constitutional Court selected its own members and Chief Justice, and decided how many justices serve on the court. However, some rulings and interventions from the judiciary were seen as having political dimensions and, following the assassination of Egypt's Prosecutor General by suspected Islamic militants, several constitutional amendments were made in 2019 that have increased the control of the Egyptian President over the judiciary. These changes have contributed to a deterioration in the integrity of the legal system. This raises political risk for businesses looking to invest in Egypt, particularly when they may be investing in sectors where the state has an economic interest.

The integrity of government in Egypt could improve significantly as it is ranked 119th globally. There have been a range of initiatives to tackle corruption, which was one of the grievances of the 2011 protests. These include a major anti-corruption strategy launched in 2014 and a crackdown on corruption which has seen several senior government and business officials being jailed. However, although crackdowns may secure convictions, the presence of systemic corruption in Egypt is a symptom of a broader breakdown in the state-societal relationship. Punitive measures fail to address these socio-economic root causes of systemic corruption. In Egypt, improving the integrity of government is intertwined with improving political accountability. The availability and transparency of government information could be substantially improved for example, including for the military's infrastructure and development expenditure that is particularly seen to lack transparency. Consolidating and simplifying anti-corruption frameworks would also help. However, substantial improvement would require a reconstitution of the social contract so that economic, political, and legal structures were designed in such a way that it is in most individuals' long-term interests to abide by a country's laws.

The effectiveness of government has been a consistent challenge, with Egypt ranked 125th, 10 places lower than a decade ago. The public sector has been used as a way to provide jobs, with the state apparatus accounting for 25% of Egypt's total work force. This results in low efficiency, both in providing public services and completing regulatory procedures. Reforms to tackle this are challenging. The lack of political legitimacy leads to concerns around unrest, and the constrained private sector means there are few alternative opportunities. Therefore, a reduction in the size of the civil service is unlikely to be brought about by redundancies. Instead, it is more likely that retiring employees will simply not be replaced. With an ineffective civilian public sector there is a strong incentive to use the military to deliver a wide range of projects. Whilst this may improve delivery in the short-term, this structure is likely to decrease transparency and crowd out the potential for the private sector.

Regulatory Quality in Egypt is poor, ranking 143rd globally. Methodologies used in government for preparing legislation are inconsistent, leading to inconsistency in regulatory frameworks. The absence of written standards and guiding principles, ad-hoc review of legislation, and lack of formal consultation with stakeholders also limit the country's regulatory quality. Putting in place more rigorous and consistent processes could bring substantial benefit. The Egyptian Regulatory Reform and Development Activity initiative has better-quality regulation as part of its purpose, but it does not yet appear to have had the remit or resources to make a substantial difference.

LOOKING FORWARD

Our analysis reflects that over the last few years there has been substantial emphasis in Egypt on investment in physical infrastructure and on the IMF-backed reform package. Alongside macroeconomic stabilisation, these reforms have improved the investment environment. For example, the country's banking system has been strengthened considerably, investor protections increased, and property rights improved and simplified. However, during this time the quality of governance has deteriorated substantially, and the economy continues to rely on significant public investment.

The country now faces a complex situation as the response to the COVID-19 pandemic reduces economic growth and puts further pressure on public finances. Growth is expected to be undermined through the impact of the pandemic on production and exports. Key sectors, such as tourism and natural gas, are expected to witness a slowdown. Population growth continues to create economic and social pressures as substantial physical and social investment is needed, and the size of the labour force grows rapidly. With the potential for prolonged economic disruption, the recovery of households' purchasing power may be restricted and the poverty rate could rise further.

However, our analysis suggests that Egypt has many untapped strengths to navigate the next few years and the potential to create widespread opportunities for its population to prosper. The Egyptian government has set out a long-term strategy in "Egypt's Vision 2030". The strategy "sets welfare and prosperity as the main economic objectives, to be achieved via sustainable development, social justice and a balanced, geographical and sectoral growth".[3] It sets a range of targets and indicators to be reached across economic, social, and environmental dimensions.

It is our intention that our analysis here can help identify opportunities to achieve targets such as these through an open, competitive economy. Prosperity is much more than material wealth. It is underpinned by an inclusive society, with a strong social contract that protects the fundamental liberties and security of every individual. It is built by empowered people, who create a society that promotes wellbeing. However, it is very challenging to create lasting social and economic wellbeing without an open economy that harnesses ideas and talent to create sustainable pathways out of poverty.

With an improved investment environment, we find that the most significant opportunities for the country now lie in improving the broader business environment, facilitating a deepening of trade and increasing exports, and improving public sector governance. Creating increased space for small, medium, and large private enterprises to thrive could help people across Egypt to contribute and share in increased economic growth over the coming years.

3 "The Sustainable Development Strategy (SDS): Egypt vision 2030," *Egypt Ministry of Communications and Information.* 2016

Summary of opportunities

Egypt could reduce dependence of the economy on public expenditure and benefit from the efficiency, skills, and financial resources of international businesses.

- Deepen the opening of markets to competition and maximise opportunities for partnerships with the private sector. For example, Egypt could:
    - Establish a more comprehensive public-private partnership program for both transport and water projects, building on recent examples.
    - Allow greater competition within the electricity distribution sector.
    - Invest in improving public sector skills to partner with the private sector.
    - Continue to develop the opportunities for investment partnerships with international investors through the recently established Sovereign Fund of Egypt.
- Foster a level playing field between public and private economic actors:
    - Facilitate private sector access to key inputs (such as land and skilled labour).
    - Strengthen the independence and resourcing of the Egyptian Competition Authority.
    - Publish regular reports on state-owned enterprises, disclosing detailed financial information.

Egypt could target a deepening of trade agreements and focus on measures that foster exports rather than limit imports.

- Trade negotiations could target deeper trade agreements that address all non-tariff measures and include greater services and investment provisions.
- Facilitate small and medium companies exporting:
  - Improve access to information.
  - Support compliance with international standards.
  - Encourage the growth of the export finance market.
  - Lower the cost of exporting by reducing administrative costs and working with trade partners to reduce tariff and non-tariff barriers.

Egypt could foster the business environment for small and medium sized enterprises to ensure the formal private sector becomes capable of generating more and better jobs that can boost shared prosperity and reduce poverty.

- Aim to increase the size of the formal private sector by reducing costs, simplifying the tax regime, tackling corruption, and continuing with efforts to widen access to capital.
- Closely monitor and evaluate the success of recent efforts to improve vocational education and training programmes.
- Improve the speed and quality of contract enforcement through digitisation, improved training, and increased resources.
- Capitalise on Egypt's comparative advantages in the digital sector by fostering access to venture capital for growing firms.
- Give the Egyptian Regulatory Reform and Development Activity body a stronger mandate to create a systematic approach to reducing regulatory and taxation burdens.

Improve public sector governance to reduce barriers to business growth.

- Seek to engineer corruption out of the system. For example:
  - Eliminate institutional structures that allow discretionary decision-making that is prone to bribery.
  - Revise laws to incentivise compliance, as opposed to focusing on catching infractions.
- Consolidate and simplify anti-corruption frameworks.
- Increase government transparency:
  - Enable public access to information and data.
  - Require extensive publication and auditing of government expenditure.
- Continue with the strategies to improve administrative reform, reducing roles in the civil service, and streamlining responsibilities.
- Move forward with establishing decentralisation and building local-level capacity.

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INTRODUCTION

This case study on Egypt is part of a series of studies examining the links between a nation's Economic Openness and prosperity, informed by the insights generated by our Global Index of Economic Openness, and comparing the performance of over 150 countries. The purpose of this report is to provide a holistic and systematic assessment of the policy environment underpinning the Egyptian economy and, in doing so, help to identify specific actions that would improve Economic Openness in Egypt.

Defining Economic Openness and measuring its positive effects on prosperity is now a critical task. The benefits of globalisation and Economic Openness have been questioned in the wake of the global financial crisis, with many governments in both developed and developing countries contemplating a range of measures to protect their domestic industries and producers from international competition. We continue to see the impact of the crisis on the public debate 10 years on, in the rise of nationalism and populist politics across the Western world— which is further exacerbated by our response to the COVID-19 pandemic.

Yet globalisation continued apace throughout the last decade. The degree of connectivity, the exchange of ideas, and the levels of cross-border trade and commerce recovered and trade between communities, countries, and regions continued to spread innovation and transfer knowledge, to boost productivity, and ultimately foster economic growth.

The COVID-19 pandemic has again shown both how fragile the system of international trade is, but also its fundamental importance to global prosperity. Across the world the pandemic is dominating our political, economic, and social debate. Times such as these are moments for each nation to decide its character and who it wants to be. The decisions made now will create the foundation for each nation going forward and determine the legacy that is left for future generations.

There is a renewed risk that the impacts of the measures taken to tackle COVID-19 tempt governments to implement protectionist measures as a response to deteriorating economic and fiscal positions. Once again, one of the challenges for policymakers who are seeking to ensure sustainable prosperity is to recognise that protectionist measures have not helped countries to recover from past crises. It is here that the Global Index of Economic Openness, as part of the Legatum Prosperity Index™, can be a guide, reminding us of what builds and protects prosperity in the most challenging of times. The Index has been purposefully designed as a transformational tool so that leaders around the world can use it to set their agendas for growth and development and to help them focus on what needs to be protected and what is of value.

In the economic sphere we know that prosperity is built when economic decisions are taken responsibly to sustain an enabling environment for productive employment, sustained economic growth, and personal development. Furthermore, good governance leads to prosperity. Prosperous nations are ones where governments govern with the agreement of the people, and where citizens take responsibility. Economic openness remains the best route to prosperity as the world recovers from the impacts of COVID-19.

Following this path in such time is neither straightforward nor politically easy. For nearly all dimensions of reform, including those that would benefit the majority of the population, there are privileged interest groups that have much to gain out of the status quo, for example, through perpetuating market distortions that benefit state-owned enterprises. Enacting these reforms calls for courage and addressing those vested interests. Furthermore, it requires building agreement around policies that lead to an open and prosperous economy.

This case study reviews the performance of the Egyptian economy, and then examines the policy environment in which it is operating to identify the underlying strengths and weaknesses, as well as highlighting opportunities for improvement.

Context

Egypt has been through extensive political changes in the last ten years. Long-time President Hosni Mubarak stepped down in 2011 following the Egyptian Revolution, with power passing to the Supreme Council of Armed Forces.[1] In parliamentary elections later that year, the Muslim Brotherhood won the majority of seats in the House of Representatives. Mohamed Morsi, a Muslim Brotherhood candidate, narrowly won the Presidential election in 2012, but was overthrown by the army a year later, following mass protests criticising economic mismanagement and attempts to establish a new constitution.[2] An interim administration led by the chief justice of the Supreme Constitutional Court was created to govern the country.[3] A new constitution was established, under which religion-based parties were banned, and in 2014 Abdel Fattah al-Sisi (former commander of the armed forces) won the presidential election, which was marked by low turnout, boycotts, and discontent.[4] President al-Sisi remains in power today.

Alongside these political upheavals, the economy has also experienced substantial change. The prolonged political unrest exacerbated long-term structural challenges in the macroeconomy and led to large deficits and a high level of public debt. In 2016, Egypt began to carry out an IMF-backed reform programme that aimed to stabilise the macroeconomy and increase confidence in the Egyptian economy.[5] Key measures included the floatation of the Egyptian pound, loosening of capital controls, the reduction of energy subsidies, and reform of public enterprises. The floating of the Egyptian pound resulted in a significant devaluation immediately, with its value halving shortly afterwards.[6] Subsequently, inflation rose to above 20% for 2017 and 2018,[7] "causing deep public concern and hardship."[8]

Beyond the immediate actions, economic reforms have included a new Investment Law, an industrial licensing law (both introduced in 2017), a bankruptcy law (2018), and other reforms to reduce regulatory burdens and improve the ease of doing business.[9] The impact of these reforms can be seen on many measures of economic openness, improving investor confidence and the environment for business creation, and reducing market and price distortions.

The results of the reform efforts can also be seen across a number of macroeconomic indicators. GDP growth reached 5.6% in 2019 from 4.3% in 2016.[10] Unemployment fell to under 10% in 2019 from almost 13% in 2016. Net public debt has fallen from 88% in 2016 to a forecasted 78% in 2019.[11] Inflation has also been brought back under control; in the first half of 2019/20, it averaged 5.8%, compared to 14.8% a year earlier.[12] Prior to the COVID-19 pandemic, Egypt was one of the fastest-growing emerging markets.[13]

1 Bahey Eldin Hassan, "New Political Struggles for Egypt's Military," *Carnegie Endowment for International Peace*. 2019.

2 Yasmine Saleh, Maggie Fick, "Egypt army gives Mursi 48 hours to share power," *Reuters*, July 1, 2013.

3 "Government and society," *Egypt*, *Britannica*, accessed June 5, 2020.

4 Stephen Kalin, Maggie Fick, "Egypt's Sisi wins election, faces economic challenges," *Reuters*, May 29, 2014.

5 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 15.

6 Ibid, p. 15.

7 "World Economic Outlook Database," *International Monetary Fund*, 2018.

8 Bessa Momani, "Egypt's IMF Program: Assessing the Political Economy Challenges," *Brookings Doha Center,* January 2018, p. 5.

9 "2020 Investment Climate Statements: Egypt," *U.S. State Department*, 2020.

10 "National Accounts Data" *Egyptian Ministry of Planning and Economic Development,* 2020.

11 "World Economic Outlook Database" *International Monetary Fund*, 2018.

12 "Egypt's Economic Update — April 2020," *World Bank*, 2020

13 "Arab Republic of Egypt, IMF Country Report No. 20/266," *International Monetary Fund*, 2020.

However, economic vulnerabilities also persisted including under-performing exports and foreign direct investment. The poverty rate—based on the national poverty line—also increased from 27.8% in 2015 to 32.5% in 2017/18, due in part to the extensive economic impacts of the current devaluation. The appreciation of the nominal exchange rate since then is likely to have partly lessened the burden on the poorest in society, with the Egyptian pound around 12% stronger than its level in end-December 2018.[14]

Productivity has also been a challenge. In their 2017 assessment, the IMF found that the growth model since the mid-2000s has been inefficient. The main driver of growth has been capital deepening, while the contributions of total factor productivity and labour utilisation have been small or negative.[15] This reflects a lack of dynamism in the private sector caused by tendencies to over-regulate markets, provide preferential or subsidised access to resources to select sectors and industries, and the state operating directly in product markets.[16] Investment as a proportion of GDP has also been low and has not been above 18% since 2010. This compares to a regional average of around 25% over the last decade.[17]

One result of this has been that the economy was not able to create enough jobs for its growing population up to 2017,[18] with unemployment rising from 10% in 2011 to 12% by 2017.[19] Population growth in Egypt is high, consistently averaging around 2% a year and higher than the lower-middle income country average.[20] Following 2017, unemployment did fall however, reaching 9.7% in 2019.[21] This was partly due to the stabilisation of the macroeconomy, but also due to a range of large national infrastructure projects that include the construction of new cities, thousands of kilometres of roads, electricity plants, and bridges. The construction sector employs 14% of the Egyptian workforce.[22]

This absorption reflects the large role that the state plays in in the Egyptian economy. This is partly carried out through the military, who as well as carrying out projects directly also subcontract both the private sector and wider public sector. It is difficult to estimate the extent of the military's economic activities, but it has been estimated at between 10% and 40% of GDP.[23] Infrastructure projects remain the greatest area of military participation (for example the Toksha "New Valley" land reclamation project and the Suez Canal expansion program),[24] but the range of sectors the military operates in has expanded as well.[25] This may reduce unemployment in the short-run, but risks being unsustainable as this activity is reliant on public funding and crowds out the development of the private sector.

Indicative of an under-developed private sector, labour force participation has also been low. In 2017 it was around 50%, against 62% for other emerging economies.[26] This is particularly the case for women with more than three-quarters of women outside the labour force. Unemployment is also high for young people, with about one-third of young Egyptians

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14 "Egypt's Economic Update — April 2020," *World Bank*, 2020.

15 "Egypt 2017 Article IV Consultation," *International Monetary Fund*, 2017. p. 14.

16 Ibid, p. 10.

17 "Total investment (as a % of GDP) – Arab Republic of Egypt," *World Bank Data*, 2020.

18 "Egypt 2017 Article IV Consultation," *International Monetary Fund*, 2017. p. 14.

19 "World Economic Outlook Database," *International Monetary Fund*, 2018.

20 "Population growth (annual %) – Arab Republic of Egypt," *World Bank Data,* 2020.

21 International Monetary Fund (IMF), *World Economic Outlook Database*, October 2018, Data Archive.

22 Amr Emam, "Unemployment down in Egypt but maintaining trend is a challenge," *The Arab Weekly,* May 26, 2019.

23 "BTI 2020 Country Report – Egypt," *Berteslmann Stiftung*, 2020.

24 Shana Marshall, "The Egyptian armed forces and the remaking of an economic empire," *Carnegie Middle East Center*, April 2015, p. 14.

25 The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 34.

26 "Arab Republic of Egypt: selected issues," *International Monetary Fund*, December 11, 2017, p. 4.

unemployed.[27] There is a significant skills mismatch, with an International Labour Organisation survey showing that almost half of working young people are in occupations that do not match their level of education, the vast majority being undereducated.[28] Egypt ranks 99th out of 141 countries for skills in the World Competitiveness Report, ranking well for digital skills but poorly for the quality of vocational training and the skillset of graduates.[29]

Additionally, the increase in the working-age population without a correlating increase in job opportunities, has contributed to the growth of a large informal sector in Egypt. The informal sector is estimated at between 37% and 68% of GDP.[30] Some economists consider this informal sector to be the most booming, job-creating, and market-oriented sphere of the economy, particularly when compared to the state-owned economy with high military involvement.[31] However, the informal sector leaves workers outside labour market protections and limits growth through, for example, restricting access to capital.[32]

The government is seeking to regularise this sector through tax and non-tax incentives, and a recent focus on digitisation.

These are the foundations upon which the disruption of the COVID-19 pandemic has arrived. Growth is expected to be undermined through its effects on production and exports. Key sectors, such as tourism and natural gas are expected to witness a slowdown affected by the restricted international travel and the crash in oil prices (which has undermined the profitability of gas production).[33] The Egyptian government have already taken extensive economic measures, including a substantial interest rate cut and forbearance measures on credit.[34] They have also taken two further loans from the IMF.[35] A number of recent measures may have contractionary impacts including increases in Government fees and charges and delays to payments of arrears for export support programmes.[36] With the potential for prolonged economic disruption, the recovery of households' purchasing power may be restricted and the poverty rate could rise further.[37]

Looking ahead

Over the past decade Egypt did increase its economic openness overall. However, our analysis suggests that Egypt could have grown its productive capacity by around 15% more if it had increased economic openness as fast as countries in the top quintile.[38]

Egypt now faces a complex situation with the uncertainty and scale of the COVID-19 pandemic providing a challenging context. Progress has been made in many areas, but public debt remains high. Growth is likely to slow significantly, and the economy may struggle to create enough jobs to keep up with continued fast growth in the working age population. However, Egypt has many strengths and has the potential to create widespread opportunities for its population to prosper.

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27 "Egypt 2017 Article IV Consultation," *International Monetary Fund*, 2017. p. 15.

28 Adel Abdel Ghafar, "Educated but unemployed: the challenge facing Egypt's youth," *Brookings Doha Center,* July 2016, p. 4.

29 "The Global Competitiveness Report," *World Economic Forum*, 2019.

30 "Addressing informality in Egypt," *African Development Bank*, 2016.

31 "BTI 2018 Country Report – Egypt," *Berteslmann Stiftung*, 2018.

32 Amro Aldy, "Informal Economy in Egypt: Realities of Marginalisation and Illusions of Empowerment," *As-Safir Al-Arabi,* August 21, 2018.

33 "Egypt's Economic Update — April 2020," *World Bank,* 2020.

34 Ibid.

35 "Press Release No. 20/215," *International Monetary Fund*, 2020; "Press Release No. 20/248," *International Monetary Fund*, 2020.

36 "Exclusive: Egypt's arrears to foreign oil firms fall to $900 million at end of June – minister," *Reuters,* 2020.; "Egypt to Increase Electricity Fees by Average of 19 Percent," *Egyptian Streets,* 2020.

37 "Egypt's Economic Update — April 2020," *World Bank*, 2020.

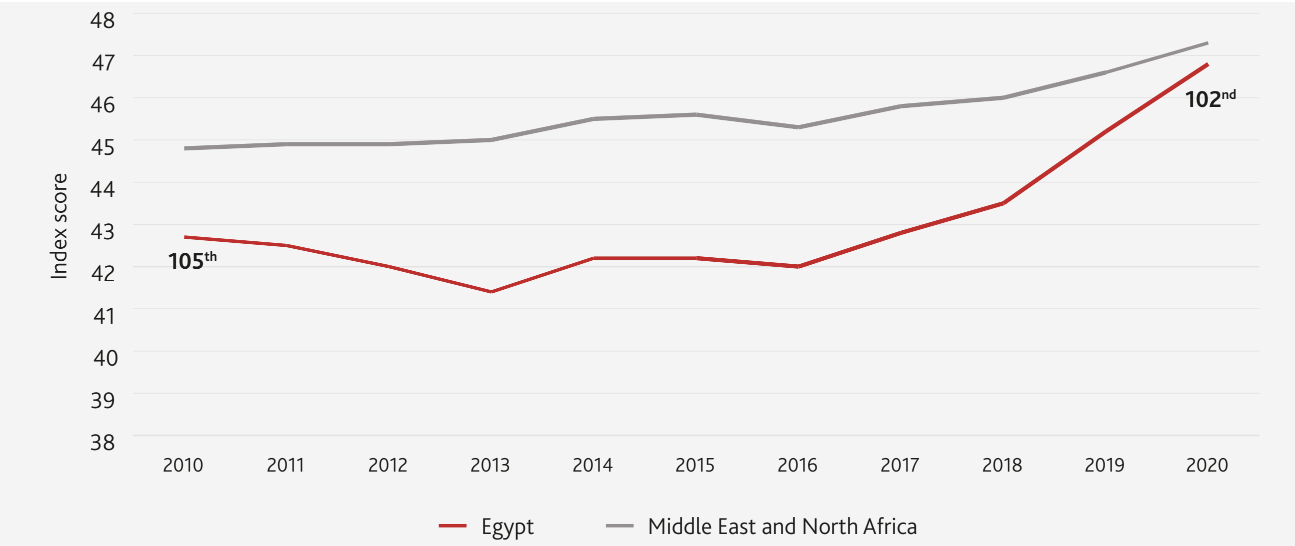
38 Based on analysis in "Global Index of Economic Openness", Legatum Institute, May 2019. Egypt rose 4.1 points in the index between 2010 and 2020, putting it in the second highest quintile. Our research has found that productive capacity of countries in the highest quintile is around 1.4% per annum greater than those in the second quintile.

This report undertakes a systematic review of Egypt's Economic Openness and identifies where there are opportunities for reform that could allow economic prosperity through a more open and dynamic economy.

ANALYSING EGYPT'S PERFORMANCE

In analysing Egypt's Economic Openness, we examine past performance, present conditions, and identify how the government might strengthen opportunities and neutralise potential threats moving forward. Egypt ranks 102nd globally in terms of Economic Openness and 13th in the Middle East and North Africa region (see Figure 1).

Figure 1: Economic Openness score



Our assessment of Egypt's Economic Openness is based on its rankings in global datasets from sources such as the World Bank, World Economic Forum, and the International Monetary Fund. (For a complete list of data sources, see the appendix.) The analysis of Egypt's performance in this report focuses on what we consider to be the key drivers of economic wellbeing across the world. These are organised around four pillars:

Market Access and Infrastructure measures the quality of the infrastructure that enables trade (including Communications, Transport, and Resources), and the inhibitors on the flow of goods and services to and from a country's trading partners. Where markets have sufficient infrastructure, few barriers to trade, and smooth border clearance, commerce can flourish. Such trade leads to more competitive and efficient markets, enabling new products and ideas to be tested, funded and commercialised, and ultimately benefitting consumers by providing a greater variety of goods at more competitive prices.

Egypt ranks 88th for Market Access and Infrastructure, up 12 places over the last decade. The country has made significant investments in energy and transport infrastructure and has a wide range of trade deals. However, border administration is still costly and slow compared to other countries, and a wide range of tariff and non-tariff barriers remain.

Investment Environment measures the extent to which investments are protected adequately through the existence of Property Rights, Investor Protections, and Contract Enforcement, as well as the extent to which domestic and international capital (both debt and equity) are available for investment. The more a legal system protects investments, for example through Property Rights, the more that investment can drive economic growth.

Egypt ranks 103rd for its Investment Environment. New investment and bankruptcy laws have improved investor protection, and the soundness of Egypt's banks has improved markedly as part of an improved financing ecosystem. However, contract enforcement has remained poor, due to the low quality of judicial administration and the long time taken to resolve cases. Access to finance also remains a challenge, particularly for the large number of small and medium enterprises.

Enterprise Conditions measures how easy it is for businesses to start, compete, and expand. Contestable markets with low barriers to entry are important for businesses to innovate and develop new ideas. This is essential for a dynamic and enterprising economy, where regulation enables business and responds to the changing needs of society.

Egypt ranks 81st for Enterprise Conditions, a rise of 27 places over a decade. The environment for business creation and labour market flexibility have improved, and substantial reductions in energy subsidies have reduced price distortions across the economy. However, involvement of the state in many sectors of the economy restricts domestic market competition; the burden of regulation remains high, and a skills mismatch leads to a lack of availability of skilled workers.

Governance measures the extent to which there are checks and restraints on power and whether governments operate effectively and without corruption. The nature of a country's Governance has a material impact on its prosperity. The Rule of Law, strong institutions, and Regulatory Quality contribute significantly to economic growth, as do competent governments that enact policy efficiently and design regulations that deliver policy objectives without being overly burdensome.

Egypt ranks 146th on Governance and has fallen 30 places over the last decade, with deteriorations across each element of Governance in the index. Executive Constraints and Political Accountability have worsened following the political upheavals of the decade, and Government Integrity has deteriorated as the transparency of government policy is seen to be significantly worse. The independence and integrity of the judiciary have been a relative strength, but recent constitutional amendments may weaken this. The efficiency of government spending has improved somewhat as part of the reform package agreed with the IMF.

Our analysis indicates a clear link between the extent to which a country's economy exhibits these characteristics and its productive capacity.[39] This link is supported by a long history of academic literature, and can also be seen in the economic histories of those countries that have achieved a high level of economic wellbeing.

Over the last 10 years Egypt's Economic Openness has improved, gaining three places in the global rankings. However, this rate of improvement has been uneven, with substantial progress in Enterprise Conditions and some improvements in Market Access and Infrastructure, but a substantial deterioration in the state of Governance.

The following chapters examine in detail Egypt's performance across the four pillars and the discrete elements that constitute our measure of Economic Openness. We will examine past performance, present conditions, and identify how the government might strengthen opportunities and neutralise potential threats moving forward.

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39 See "Global Index of Economic Openness," *Legatum Institute*, May 2019.

As part of our analysis, we have chosen a set of regional and global comparator countries that are at a similar level of development, or because they provide an aspirational benchmark. From within the Middle East and North Africa (MENA) region we have chosen Qatar (39th), Saudi Arabia (50th), Oman (56th), Jordan (63rd), Morocco (68th), Turkey (70th), Kuwait (72nd), Tunisia (86th), Lebanon (96th), Algeria (121st), and Libya (160th). From outside the region we have chosen Ghana (94th), Senegal (95th), and Sudan (152nd).

Table 1: Pillars and Elements of Economic Openness

MARKET ACCESS AND INFRASTRUCTURE	INVESTMENT ENVIRONMENT	ENTERPRISE CONDITIONS	GOVERNANCE
• Communications • Resources • Transport • Border Administration • Open Market Scale • Import Tariff Barriers • Market Distortions	• Property Rights • Investor Protection • Contract Enforcement • Financing Ecosystem • Restrictions on International Investment	• Domestic Market Contestability • Price Distortions • Environment for Business Creation • Burden of Regulation • Labour Market Flexibility	• Executive Constraints • Political Accountability • Rule of Law • Government Integrity • Government Effectiveness • Regulatory Quality

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MARKET ACCESS AND INFRASTRUCTURE (EGYPT RANK: 88TH)

An environment supportive of trade and commerce allows new products and ideas to be tested, funded, commercialised, and delivered easily to customers. Our Market Access and Infrastructure pillar comprises both the critical enablers of trade (Communications, Transport, and Resources) as well as the inhibitors (Border Administration, Open Market Scale, Import Tariff Barriers, and Market Distortions).

The benefits of free trade are often explained in terms of Ricardian comparative advantage and enhancing consumer choice. Trade empowers individuals and encourages competition. Offering choices to consumers and businesses about which products, services, and ideas they can buy domestically and internationally is at the core of free trade.

Equally important is the role that trade provides in communicating new ideas and raising productivity.[1] Competition from international trade ensures that even when a business does not export, it is forced to respond to new ideas from the increased competition in domestic markets.

Egypt ranks 88th for Market Access and Infrastructure, up 12 places over the last decade. The country has made significant investments in energy and transport infrastructure and has a wide range of trade deals. However, border administration is still costly and slow compared to other countries, and a wide range of tariff and non-tariff barriers remain.

In the following sections, we review the performance of Egypt in each of the distinct elements of Market Access and Infrastructure, from Communications through to Market Distortions.

COMMUNICATIONS (EGYPT RANK: 94TH)

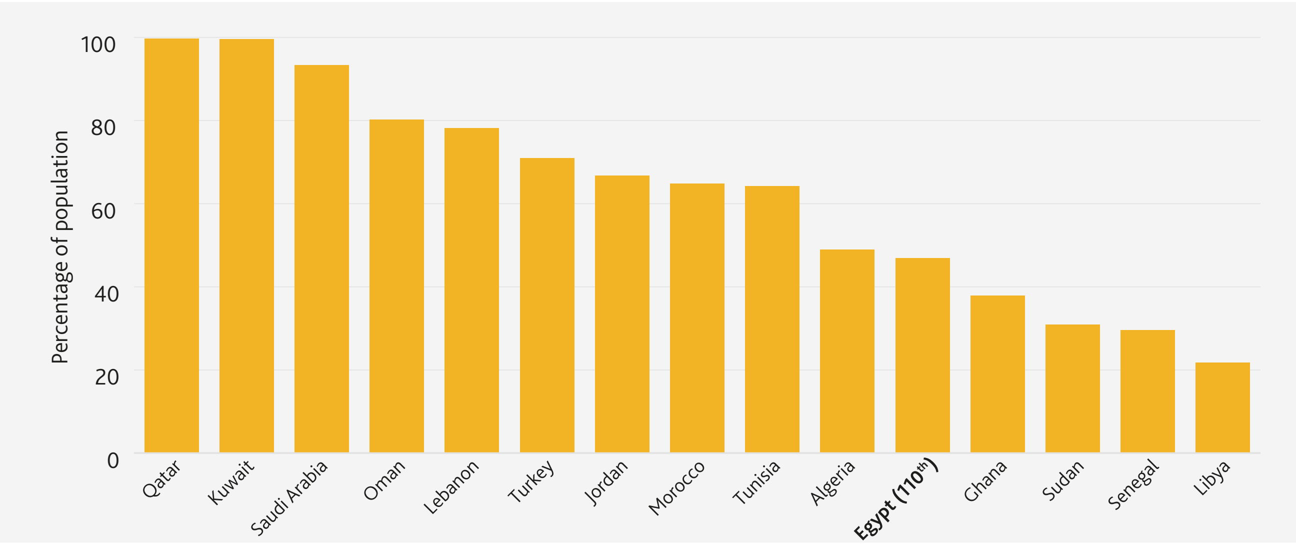
The free exchange of information, underpinned by good communications infrastructure, is a vital component of Economic Openness. Moreover, the advent of communications technology as an end-product has created economic opportunity for innovative companies and countries. Whole societies have been transformed by this evolution in communications technology. Our measure looks at a wide range of forms and measures of communication, from fixed line and mobile telecoms to broadband speeds and penetration rates.

Egypt has seen expansions in mobile network coverage, fixed broadband subscriptions, and internet usage across the decade. The rate of expansion in connectivity was comparatively slow in the first half of the last decade but has increased recently, with the result that Egypt remains ranked 94th for communications overall.

Internet usage has climbed from 18% of the population to 47% over the decade. However, this has not been as fast as other countries. Egypt's ranking has hence deteriorated to 100th from 84th. Internet bandwidth also compares unfavourably with other countries, with Egypt's bandwidth of 48 kilobits per capita only ranking 114th.

1. Sebastian Edwards, "Openness, productivity and growth: What do we really know?" *The Economic Journal 108*, no.447 (1998), p.383-398.

Figure 2: Internet usage in selected countries



Source: ITU

In a fast-changing sector, harnessing the speed and efficiency of the private sector is particularly important. However, Telecom Egypt (TE) currently holds a monopoly over fixed-line subscriptions.[2] The lack of competition among internet service and fixed landline providers has been blamed for contributing to high prices, low internet speeds, and poor service quality.[3] Orange, Vodafone, and Etisalat all acquired fixed-line licenses in 2016. Although the companies are utilising TE's network to trial fixed-line services and virtual fixed-voice services, none of them have yet rolled out fixed-line subscriptions.[4]

Competition in the mobile sector has been more effective. Egypt has one of the largest mobile telecoms markets in Africa, with a penetration rate of over 100% in 2018.[5] Four 15-year licenses for 4G were awarded to TE, Orange, Vodafone, and Etisalat in 2016. This has led to a surge in usage and new services offered.[6] In 2018, TE signed deals with Etisalat and Orange to reduce customer-associated costs and improve the quality of calls between different operators' networks. They also signed an agreement that enables Etisalat to launch virtual, fixed-landline call services to its customers using TE's infrastructure.[7]

The National Telecom Regulatory Authority (NTRA) has made a number of important reforms, for example through lowering entry barriers to the sector that eased Etisalat's entry into both the national and international voice markets.[8] However, there is room for further action. The Chairperson of NTRA is the Minister of Telecommunication and Information Technology. This arrangement can lead to a lack of transparency around conflicting social and economic objectives and limit the regulator's ability to regulate the market independently.

2 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 139.

3 "2019 National Trade Estimate Report on Foreign Trade Barriers," *United States Trade Representative*, 2019, p. 152.

4 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 139.

5 Ibid, p. 137.

6 Ibid, p. 139.

7 Ibid, p. 137.

8 Amirah El-Haddad, "Welfare gains from utility reforms in Egyptian telecommunications," *Utilities Policy*, Volume 45, April 2017, p. 15.

The digital sector is also a potential important growth area for Egypt's private sector. The country has a young, increasingly urban and tech-minded population with around 250,000 engineering and technology graduates each year. In addition, there is a high level of mobile penetration and Government offers a range of tax incentives through its cluster development strategy.[9]

Opportunity

1. Strengthen the independence of the telecoms regulator by appointing a Chairperson that is independent of government.
2. The telecoms regulator could explore and tackle the barriers to Orange, Vodafone, and Etisalat using their fixed-line licenses to offer fixed line subscriptions.
3. Capitalise on Egypt's comparative advantages in the digital sector by fostering access to venture capital for growing firms.[10]

RESOURCES (EGYPT RANK: 89TH)

Access to reliable and affordable Resources, including water and energy, is crucial for a well-functioning economy. An unreliable energy supply can limit the growth of a potential business and act as an obstacle to effective trade. Our measure of Resources aims to capture the quality, reliability, and affordability of a country's energy network, as well as the access to and use of water resources.

Overall, Egypt has climbed 22 places for resources over the decade and now ranks 89th. There has been extensive investment in energy following major shortages. Energy demand continues to grow steadily however, driven by population growth, rising industrial output, and an increase in vehicle sales.[11] Population growth together with urbanisation is also increasing pressure on water resources.[12] Identifying sustainable funding options for this increased investment is a key challenge.

Electricity

In 2013/14 the country had serial power outages with peak demand regularly exceeding the system's total capacity.[13] Significant investment in the sector has seen installed electricity capacity rise by 50%.[14] More than 90% of this electricity is generated by the state-owned Egyptian Electric Holding Company (EEHC).[15] There is universal access to electricity.[16]

However, the growth in generation capacity has outpaced the rate at which transmission networks have been expanded and strengthened. This means that despite a significant improvement in the reliability of energy (Egypt now ranks 62nd), consumers around the country still report blackouts.[17]

Investment has been undertaken in order to eradicate existing shortages, but also in anticipation of future economic growth and the construction of 20 satellite cities.[18] However, with the removal of energy subsidies (a valuable macroeconomic reform), there is some concern that the scale of

9 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 141.

10 Ibid.

11 Ibid, p. 93.

12 Ibid, p. 155.

13 Ibid, p. 94.

14 "Egyptian Electricity Holding Company Annual Report 2017-2018," *Ministry of Electricity and Renewable Energy*, 2018.

15 Calculated from figures included in "Egypt Power Report Q2 2019," *Fitch Solutions*, 2019, p. 36.

16 "Access to electricity (% of population)," *World Bank Data*, 2020.

17 "With a surplus of electricity, why do we still get power cuts?," *Enterprise*, August 12, 2020.

18 "New cities in the sand: inside Egypt's dream to conquer the desert," *The Guardian*, July 10, 2019.

investment could cause significant financial burden for a combination of the state and consumers.[19] Fuel and electricity prices have been increased by the government several times, as part of a multi-year plan to gradually eliminate subsidies and bring retail prices to cost recovery levels.[20] Household energy prices have increased significantly (one estimate suggests by as much as 160% between 2012 to 2017).[21] Electricity currently costs around $0.10 per kWh, which is cheaper than comparable countries such as Morocco ($0.12), Ghana ($0.24), and Rwanda ($0.14), but more expensive than Algeria ($0.02) and Saudi Arabia ($0.7).[22] Carefully managing the costs of increased investment will be important to ensure businesses can be competitive globally and to keep household costs down.

Water

Egypt has a low level of fixed water assets and water production relative to other countries, ranking 116th and 106th respectively.

Egypt has a low level of fixed water assets and water production relative to other countries, ranking 116th and 106th respectively. Despite this, the population is well served with basic services. 98% and 93% of the population respectively have access to piped water and basic sanitation.[23]

Rapid population growth and urbanisation are placing pressure on water resources. The Egyptian government is also concerned about the impact on water supplies from the Nile due to the Grand Ethiopian Renaissance Dam that neighbouring Ethiopia has recently started filling.[24] With large areas of desert, water access is especially critical for rural communities that rely upon agriculture for their livelihoods. However, rural regions still lack sufficient water infrastructure, with most water infrastructure serving urban areas. The African Development Bank has estimated that sanitation services reach only 15% of rural areas.[25]

Between 2013 and 2017, just 2.3% of total infrastructure investment in Egypt went to the water sector.[26] However, in recent years the Government has given higher priority to meeting national water consumption needs, with an announcement of a $50bn water investment programme last year. In addition, in June 2020 a 30-year plan to expand water desalination plants throughout the country was announced. The investment aims to meet the demands of a growing population, provide water sources to governorates that depend on transported water to meet local needs, and develop alternative sources of water that are more financially efficient in the long run.[27]

The Government is also tackling water waste and efficiency through prioritising agricultural and industrial wastewater. The government has completed 26 of a total of 52 sewage treatment plants being developed in Upper Egypt, and the remaining 26 are due for completion by the end of 2020.[28] However, as many as 600 new sanitation clusters will be required across the country by 2040.[29]

19 "Egypt's New Cities: Neither Just nor Efficient," *Tadamun*, 2020.

20 "Egypt 2017 Article IV Consultation," *International Monetary Fund*, 2017. p. 15.

21 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 90.

22 "Doing Business 2020," *World Bank*, 2020.

23 "Progress on household drinking water, sanitation and hygiene 2000-2017. Special focus on inequalities" *United Nations Children's Fund and World Health Organization*, 2019.

24 John Mukum Mbaku "The controversy over the Grand Ethiopian Renaissance Dam," *The Brookings Institution*, August 5, 2020.

25 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 155.

26 Ibid.

27 Abdullah Badir, "Egypt is implementing a plan to expand seawater desalination plants until 2050," *Mubasher*, 2020.

28 "Counting the costs of the govt's USD 50 bn water-saving plan," *Enterprise*, January 22, 2020.

29 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 155.

The challenge that Egypt faces is to finance these investments sustainably. The government has stated that it will rely on a mixture of loans from major international lenders, private sector investments and partnerships, and support from developmental institutions in the form of grants.[30] The institutional framework for public-private partnerships (PPPs) exists through a 2010 law. At that time the government sought to develop a comprehensive PPP programme aimed at attracting additional investment through privately financed, built, operated, and managed public infrastructure projects and public services.[31] Due to the instability following the Egyptian Revolution the scope for these opportunities may not have been fully explored.

Opportunity

1. Allow greater competition within the electricity distribution sector to improve efficiency and lower costs.
2. Continue to explore a wide set of financing routes to ensure sufficient affordable funds are available for the required investment in water. Building on the current examples in the water sector, a more comprehensive public-private partnership program could be revived based on the framework established by Law No. 67, 2010.

TRANSPORT (EGYPT RANK: 51ST)

Transport underpins the ability for products and people to move efficiently, easily, and reliably. An interconnected freight transportation network contributes to economic growth by supporting resource development and expanding interstate commerce. We evaluate both the quality of physical infrastructure, including road, rail, ports, and air, and also logistical performance, which measures the efficiency of shipping products in and out of a country.

Egypt's position as a passageway between the Mediterranean Sea and the Indian ocean gives the country a substantial strategic advantage for trade between Africa, Europe, Asia, and the Middle East.[32] The country therefore has a significant opportunity to benefit from a well-functioning and extensive multi-modal transport network. Substantial investment over the past few years has seen this network improved, rising 8 places in our index to 51st globally. However, high economic returns are still likely from continued and expanded investment.

Traffic congestion has historically been an issue for Egypt. The annual cost of congestion in the greater metropolitan area of Cairo alone has been estimated to be equivalent to 4% of Egypt's GDP.[33] However, road infrastructure has been prioritised since 2014 through the National Roads Project (NRP). This programme seeks to both improve congestion and add additional connectivity through the construction of new roads. The first two phases of the project expanded the network through the construction of ten new roads and developed 2000 kilometres of existing roads.[34] The Transport Ministry is now working on the third phase of the NRP[35] with the goal of ultimately expanding the current network of 64,000 kilometres by a further 4,400 kilometres.[36,37] As of 2019, a $713m programme is under way to renovate 29 road links in Upper Egypt and build seven new bridges to link road axes in the Western and Eastern banks of the Nile.[38]

30 "Counting the costs of the govt's USD 50 bn water-saving plan," *Enterprise*, January 22, 2020.

31 Sameh Kamal, Zaki Hashem & Partners, "Project finance in Egypt: overview," *Thomson Reuters Practical Law*, 2018.

32 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 182.

33 Cairo Traffic Congestion Study, The World Bank, 2013, p. 3.

34 Arham Online, "Egypt completed EGP 22.5 bln in bridges, roads over past 3 years: Ministry," *Arham Online*, January 15, 2018.

35 Ibid.

36 Barbara Kotschwar, *Reengaging Egypt: Options for US-Egypt Economic Relations*, 2010, p. 88.

37 "Egypt completed EGP 22.5 bln in bridges, roads over past 3 years: Ministry," *Ahram Online*, 2018.

38 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 183.

The railways in Egypt are also heavily used; the network is six times smaller than the French railway network but carries almost half as many passengers. The railway infrastructure in Egypt offers good connectivity with the main regions of the country, but it could play a greater role in boosting the attractiveness of the country's ports. There are currently a limited number of railway lines to the ports and limited access to port berths.[39]

The authorities are planning on spending approximately $3.1bn between 2018 and 2023 on a range of rail improvements, including renovating rolling stock and modernising security and signalling infrastructure.[40] A range of high-speed rail lines are also being planned, including links between Ain Sokhna and New Alamein, 6th of October City to Aswan, and Ain Sokhna to Luxor,[41] with the latter being seen as a way to encourage the development of tourism in both locations. In 2018, an amendment was made to the 1980 Railway Act, which allows for the participation of private operators with a view to improving operations over the medium term.[42]

In May 2020, construction commenced for two monorail lines expected to cost $4.5bn.

Other forms of public transport are also being improved. In May 2020, construction commenced for two monorail lines expected to cost $4.5bn. These lines will connect the New Administrative Capital to Cairo and 6th of October City to Giza. A consortium led by Bombardier with local contractors signed a 30-year contract for the construction and maintenance of the lines.[43] Also, the final phase of Cairo Metro Line 3 was completed in August 2020. This included Egypt's first transit hub, which connects a metro station, an electric train route, a railway station, and a bus station.[44]

Shipping is a strategic strength for Egypt. Egypt's liner shipping connectivity reflects its geographic position, ranking 17th in the world. The country's seaport services are also efficient, ranking 41st globally.

Recent investments build on this strength. Egypt expanded the key trade artery, the Suez Canal, in 2015. The major expansion deepened the main waterway and provided ships with a 35 kilometre parallel channel.[45] In 2018, the Alexandria Port Authority and the Suez Canal Port Authority set up a joint-venture agreement to build a $450m multipurpose platform at the Port of Alexandria, and a project to build a new $74m multipurpose terminal at Damietta Port was also launched. Furthermore, the Ministry of Transport announced a $100m project to establish a dry port in 6th of October City, which should improve the transport of goods to and from Cairo.[46]

However, there is an opportunity to make more use of the Nile for freight transport. River transport constitutes only 1% of Egypt's internal trade movement.[47] The government has planned to launch tenders for the construction of four river ports, in Assiut, Sohag, Qena, and Mit Ghamr which aim to boost the use of the Nile as a goods transport route.[48]

Egypt's aviation sector has mainly focused on passenger transport, especially for tourism, with 80% of tourists arriving by air. However, air traffic fell following the Egyptian Revolution due to the collapse of tourism, and there is currently a similar impact from the COVID-19 pandemic. The country has significant opportunities to expand air cargo transport due to its strategic location.[49]

39 "Egypt – Enabling Private Investment and Commercial Financing in Infrastructure" *The World Bank Group*, 2018. p. 27.

40 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 156.

41 "Details of high-speed railway lines plan in Egypt," *Egypt Today*, 2019.

42 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 185.

43 "Orascom and Bombardier break ground on USD 4.5 bn new capital-Nasr City monorail," *Enterprise*, May 20, 2020.

44 "How Egypt built its first transit hub," *Enterprise*, August 26, 2020.

45 "Egypt launches Suez Canal expansion," *BBC News*, August 6, 2015.

46 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 156.

47 "Africa Gearing Up," *Pricewaterhouse Cooper*, 2013. p. 37-43.

48 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 186.

49 "Egypt – Enabling Private Investment and Commercial Financing in Infrastructure," *The World Bank Group*, 2018. p. 19.

A notable outcome of the investment in transport has been that experts' views on logistics performance in the country have substantially improved. Egypt has risen from 107th globally to 71st over the decade in the World Bank's Logistics Performance Index, which analyses trade logistics performance.

One challenge is that this investment has primarily relied on public expenditure. The Armed Force's Engineering Authority has played a pivotal role in the construction, maintenance, and financing of all infrastructure projects.[50] Although the government has focused on encouraging private sector funding, this remains a challenge requiring sustained reforms.[51]

Opportunity

1. Improve the rail system through:
    a. The private sector capitalising on the Railways Act introduced in 2018 which enabled the Egyptian Railway Authority to contract private sector employees.
    b. Boosting the attractiveness of the country's ports by improving rail connections.
3. Air cargo represents an opportunity for Egypt. The country could expand freight terminal capacity and boost airport productivity and efficiency through the involvement of the private sector in the management of airports and cargo facilities and the use of public-private partnerships for new developments.[52]
    a. Expand the use of river freight.
    b. Finalise planned construction of river port.
3. Focusing investment efforts on improving navigational routes and freight infrastructure on the River Nile.[53]
4. Diversify sources of investment for transport projects, which have long relied on public expenditure.[54]
5. Invest in improving public sector skills, to manage and partner with the private sector to take full advantage of public private partnerships.[55]

BORDER ADMINISTRATION (EGYPT RANK: 133RD)

Inefficient and slow bureaucratic trade barriers limit the effectiveness, efficiency, and dynamism of economies, with greater barriers often connected to corruption and cronyism. Our measure of Border Administration considers the time and cost of a country's customs procedures.

Border administration in Egypt currently imposes high financial and non-financial burdens. Although there have been some gradual improvements that have brought the country in line with the regional average, Egypt still ranks 133rd globally.

A major issue is the cost of complying with border regulations and processes. The documentary compliance necessary to import a container can add up to as much as $1,000 in Egypt above the

50 Mahmoud Mustafa, "Chairman of the Engineering Authority: East Cairo road network to cost 22 billion pounds" *Masrawy*, 2020.

51 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 182.

52 "Egypt – Enabling Private Investment and Commercial Financing in Infrastructure," *The World Bank Group*, 2018, p. 20.

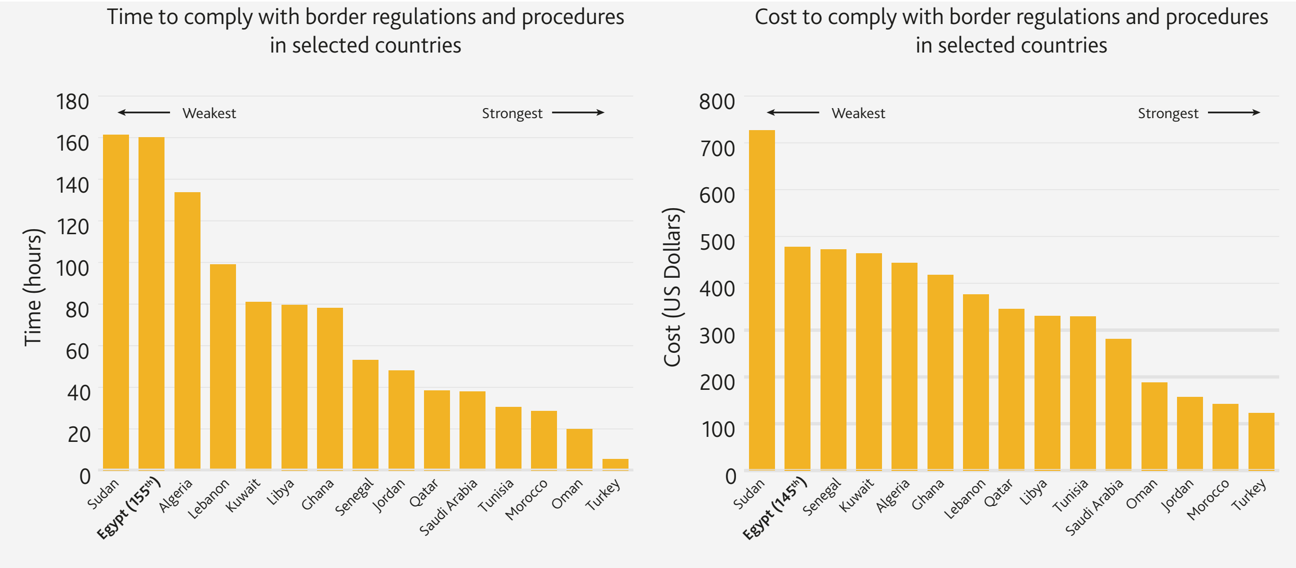
53 Islam El-Nakib, "Examining the Status of Egypt's River Transport System," *Applied Scientific Research 48*, 2011, p. 10.

54 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 182.

55 Ibid.

direct costs at the border. This compares to an average of $269 across all MENA countries.[56] In particular, importing regulations for many years have required that every component of a product be inspected, regardless of the compliance history of the product, country of origin, exporter, shipper, or importer.[57] Egypt does not allow imports of goods from nonregistered entities, and registration can take up to 18 months, adding costs and uncertainty to the export process.[58]

Figure 3: Time and cost of complying with border regulations



Source: WBDB

Customs procedures are also lengthy and are perceived to lack predictability. The time to comply with border regulations and procedures increased from 112 hours at the beginning of the decade to 160 hours recently. This is likely to be related to the lack of digital systems. The lack of automated manifest collection and internal coordination, in addition to inefficient inspection procedures, has resulted in significant customs processing delays.[59]

Such cumbersome measures can be costlier than tariffs.[60] However, Egypt has been working to gradually introduce a "single window" system to simplify procedures and to digitise the current paper-based customs system. A program to provide a 'greenlight' for companies on a white list approved by the Customs Authority has also been introduced, so that companies with a good reputation can usually avoid having their consignments inspected thoroughly. So far there are 75 companies on the white list.[61]

Although these are positive measures, the process is complicated by the involvement of multiple entities including the customs authority, the port authorities, the General Organization for Export and Import Control, among others.[62]

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56 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 182.

57 "Doing Business in Egypt: Customs Regulations," *U.S. Department of Commerce: International Trade Administration*, 2019, last accessed 09 May, 2020, https://www.trade.gov/knowledge-product/egypt-customs-regulations; "N Gage Trade Report Quarter 2-2016," *N Gage Consulting*, 2016.

58 "2019 National Trade Estimate Report" *United States Trade Representative*, 2019, p. 150

59 "2019 National Trade Estimate Report" *United States Trade Representative*, 2019, p. 149

60 "From Currency Depreciation to Trade Reform: How to Take Egyptian Exports to New Levels?," *World Bank Group*, April 2019.

61 "2019 is the year of customs facilitations and the gradual transition to the single window system," *Egyptian Customs Authority*, 2019.

62 "From Currency Depreciation to Trade Reform: How to Take Egyptian Exports to New Levels?" *World Bank Group*, April 2019.

To improve matters, the authorities expect to pass a draft customs law no later than March 2021. This law is expected to streamline customs procedures, including document requirements, mandatory registration of manufacturers of imported goods, and shipment inspections. It will also streamline valuation procedures to accept commercial invoices for valuation of imports and exports while clearly defining the conditions for exceptions.[63]

Opportunity

To take full advantage of the country's geographically strategic position, Egypt could:

1. Fully implement modern digital systems across borders and customs processes, using harmonised software that is internationally recognised and investing in comprehensive training for borders and customs officials.
2. Enhance the "single-window" system by ensuring there is a single lead agency with responsibility.
3. Extend the white list for approved companies.

OPEN MARKET SCALE (EGYPT RANK: 80TH)

The size of the economic opportunity for producers is constrained by the scale of the domestic and international markets that are open to them. Tariffs on goods faced by exporters in many countries can prevent those firms from selling goods, inhibiting their ability to compete in the global market. We measure the extent to which producers have access to domestic and international markets unhindered by tariffs, and the tariffs faced in destination markets.

Despite a wide range of trade deals, the ratio of total exports of goods and services to GDP has averaged around 15% since 2000, compared to 27% in other emerging markets.

Egypt has a wide range of trade deals, including bilateral agreements, regional free trade areas and agreements with global trade blocs (see Box 1). However, the country still ranks only 80th globally for Open Market Scale. Many of the country's trade agreements are limited in terms of depth (tariff waiving without further harmonisation of processes and market conditions) and scope (not all sectors are covered such as services and investment provisions).[64] The size of Egypt's combined domestic and international free-trade market for goods is 55th largest in the world, but only 96th for services.

The Egyptian economy has struggled to reach its potential as an exporting market. Only about 5% of Egyptian firms are exporters. The ratio of total exports of goods and services to GDP has averaged around 15% since 2000, compared to 27% in other emerging markets.[65] Exports are now rising, growing by an annual average of 2.3% in the five years to 2018 with non-oil exports outpacing the global average growth.[66] This was partly due to the currency devaluation in 2016, with imports falling by 30% in the first half of 2017 and exports rising by 8%.[67]

The country faces an average tariff rate of 3.6% in destination markets, which ranks 83rd in the world. All export customs clearance is subject to a 10% tax.[68] Compliance also remains one of the major barriers hindering exports promotion in Egypt, especially to SMEs. These companies often have difficulties accessing relevant information and complying with norms and standards.[69]

63 "Arab Republic of Egypt, IMF Country Report No. 20/266" *International Monetary Fund*, 2020.

64 "From Currency Depreciation to Trade Reform: How to Take Egyptian Exports to New Levels?," *World Bank Group*, April 2019, p. 14.

65 "Arab Republic of Egypt: selected issues," *International Monetary Fund*, December 11, 2017, p. 7.

66 "The Atlas of Economic Complexity," *The Growth Lab at Harvard University*, accessed on 11 September, 2020.

67 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 30.

68 "Importing Personal Property into Egypt," *Atlas International*, May 9, 2018

69 Omneia Helmy, Nora Aboushady, Chahir Zaki, "The Impact of Egypt-EU Free Trade Agreement on Egypt's Manufacturing Exports and Employment," *Friedrich-Ebert-Stiftung (Egypt Office)*, March 2018.

Box 1: Egyptian free trade agreements

Egypt is a member of a wide range of free trade areas and has signed many bilateral free trade agreements: They include:

- The African Continental Free Trade Area (AfCFTA)
- European Union-Egypt Free Trade Agreement, including an annex signed in 2010, liberalising trade in over 90 percent of agricultural goods.
- Free Trade Agreement with European Free Trade Association countries
- Egypt-Mercosur Free Trade Agreement
- Turkey-Egypt Free Trade Agreement
- Pan-Arab Free Trade Area Agreement
- Agadir Free Trade Agreement among Egypt, Morocco, Tunisia and Jordan
- The Common Market for Eastern and Southern Africa (COMESA)
- Bilateral agreements with Jordan, Lebanon, Libya, Morocco, Syria, and Tunisia

The country's exporters also face many non-tariff measures including administrative, technical, and sanitary measures. These include certification requirements, product registration and testing, and strict labelling requirements. A major cross-cutting concern is the extent of food safety and animal and plant health measures imposed by European Union (EU) member countries (Egypt's most important trade partner).[70] Egyptian exports can struggle to meet these quality considerations due to pesticide damage and residues.[71]

Reducing both import and export barriers should be seen in the context of cooperation with key trade partners. In the framework of the EU-Egyptian Association Agreement, Egypt is currently working on the development of an Egyptian policy on food safety[72] and in January 2017, the National Food Safety Authority (NFSA) was established with the aim of adhering to "the highest standards of food safety and hygiene".[73] If this framework can work effectively then barriers to imports can also be reduced.

70 "From Currency Depreciation to Trade Reform: How to Take Egyptian Exports to New Levels?" *World Bank Group*, April 2019.

71 Yumna Kassim, Mai Mahmoud, Sikandra Kurdi, and Clemens Breisinge, "An Agricultural Policy Review of Egypt: First Steps Towards a New Strategy," *International Food Policy Research Institute Middle East and North Africa*, August 2018, p. 22.

72 "From Currency Depreciation to Trade Reform: How to Take Egyptian Exports to New Levels?" *World Bank Group*, April 2019.

73 Yumna Kassim, Mai Mahmoud, Sikandra Kurdi, and Clemens Breisinge, "An Agricultural Policy Review of Egypt: First Steps Towards a New Strategy," *International Food Policy Research Institute Middle East and North Africa*, August 2018, p. 22.

Opportunity

Egypt could target a deepening of trade agreements and focus on measures that foster exports rather than limit imports:

1. Trade negotiations could target deeper trade agreements that address all non-tariff measures, harmonisation of standards and inclusion of services and investment provisions. This will help Egypt develop regional and global value chains which in turn boosts trade and helps small and medium enterprises export.[74]
2. Facilitate small and medium companies exporting by making access to information easier and supporting compliance with international trade standards.[75]
3. Encourage the growth of the export finance market.
4. Signing the WTO Agreement on Government and Procurement, which would improve access to procurement for foreign companies.[76]
5. Build on the strengthened policy on food safety to work with key trade partners, particularly the European Union, to reduce non-tariff barriers in the agricultural sector.
6. Enhance export potential through making better use of the range of preferential trade agreements.

IMPORT TARIFF BARRIERS (EGYPT RANK: 126TH)

Typically, tariffs to trade raise the price of products and reduce the volume of trade, creating barriers between people and the true market value of goods. We evaluate the average applied tariff rate, the complexity of tariffs, and the share of imports free of tariff duties.

Import tariff barriers have fallen slightly over the past decade, but not consistently. Hence Egypt still ranks low globally for this element at 126th.

The Ministry of Trade and Industry have used tariffs as a policy tool to limit the import of low-quality products, ration imports, and increase reliance on local production to try to increase non-oil exports.[77] In an explanatory memorandum accompanying the Custom Tariff Report of 2017/18, the government argued that modernisation to a more open economy must be balanced with a need to maintain Egypt's own economy, especially at a time of economic hardship.[78]

However, such import substitution policies are often ineffective and harmful because they increase costs for both consumers and domestic businesses that import. For example, they have been found to generate significant costs for the economy, in terms of foregone output, lower consumption, and reduced overall welfare.[79] Egypt has a relatively high level of imports; in 2018 it was the 42nd largest importer of products in the world.[80] Therefore, these import tariffs have a substantial impact on people and businesses in the country.

74 "From Currency Depreciation to Trade Reform: How to Take Egyptian Exports to New Levels?" *World Bank Group*, April 2019, p. 14.

75 Omneia Helmy, Nora Aboushady, Chahir Zaki, "The Impact of Egypt-EU Free Trade Agreement on Egypt's Manufacturing Exports and Employment," *Friedrich-Ebert-Stiftung (Egypt Office)*, March 2018.

76 Mirette F. Mabrouk ,"Trade, Reform, And Revitalization: Toward A US-Egypt Free Trade Agreement," *Middle East Institute*, October 2019.

77 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 31.

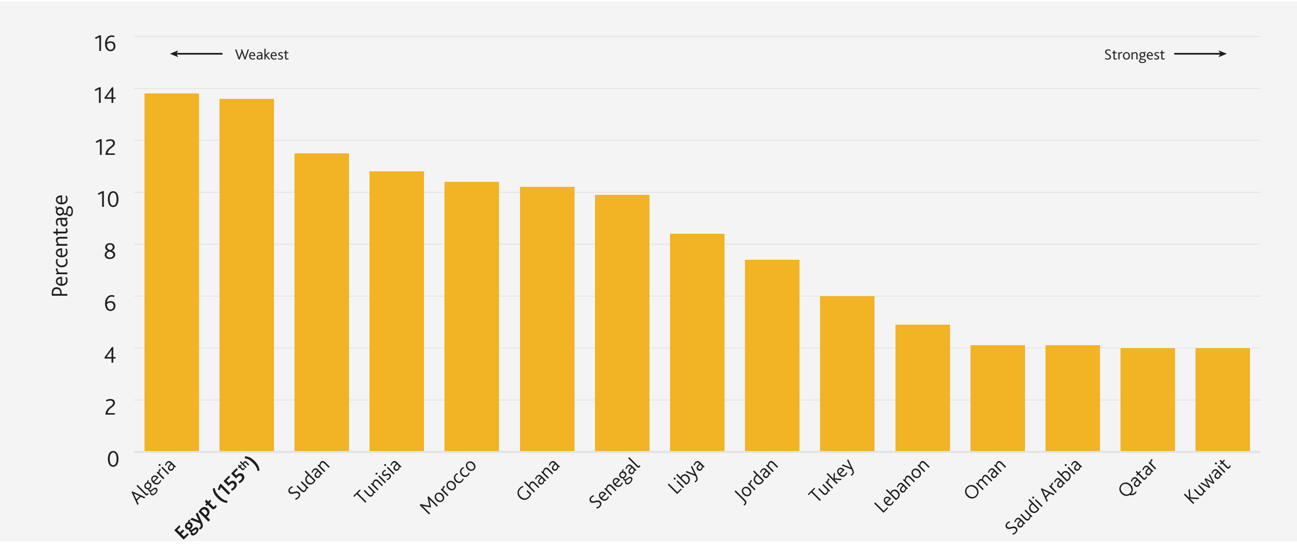
78 Maher Milad Iskander, "Egypt Removes Customs Tariffs on Cars In 2019," *Mondaq*, January 4, 2019.

79 Marco A.C. Martins, Jorge Thompson Araujo, "Import Substitution with Labor Misallocation," *The World Bank Group*, August 2018.

80 "Egypt Country Profile," *The Observatory of Economic Complexity*, accessed on September 11, 2020.

Egypt has made some efforts to reduce tariffs, in line with its membership of the General Agreement on Tariffs and Trade and World Trade Organisation. The trade-weighted average applied tariff rate fell from over 9% in 2010 to under 7% in 2016, but then increased again to over 8% in 2018. This is higher than many comparator countries (see Figure 4) and was driven by a substantial increase in tariffs for primary products (retrieval and production of raw materials). For these products, tariffs doubled from around 5% in 2016 to almost 11% in 2018. Tariffs for manufacturing products remained under 7%.[81] Positively, the share of imports free from tariff duties has improved to 59% from 43% at the beginning of the decade.

Figure 4: Applied Tariff Rate, weighted mean (%) in selected countries



Source: WEF

Tariffs and duty rates in Egypt are also constantly revised, and are subject to regular changes with limited notice.[82] Such uncertainty increases business risk and hinders business development. For example, in 2018, tariffs were raised on nearly 6,000 products through Presidential Decree 419/2018 (although the same decree also reduced some tariffs and eliminated duties on electric cars).[83]

In addition, in 2017 the World Bank reported that Egypt made trading across borders more difficult by making the process of obtaining documents more complex and by imposing a cap on foreign exchange deposits and withdrawals for imports.[84]

Opportunity

1. Improve the predictability of tariff changes by establishing a clearer foreign trade strategy.
2. Streamline the tariff structure and remove discretionary exemptions in customs duties.[85]

81 "Tariff rate, applied, weighted mean, manufactured products (%) – Arab Republic of Egypt," *World Bank Data*, accessed August 17, 2020.

82 "Tariffs and Regulations," *Export markets – Egypt*, Australian Trade and Investment Commission, accessed 8 August, 2020.

83 "2019 National Trade Estimate Report" *United States Trade Representative*, 2019. p. 149.

84 "Doing Business 2020," *World Bank*, 2020.

85 "Egypt 2017 Article IV Consultation," *International Monetary Fund*, 2017. p. 16.

MARKET DISTORTIONS (EGYPT RANK: 91ST)

Market Distortions hinder one of the most compelling and powerful forces of the market: fair competition. The price of goods changes from their true value through the interference of the state, resulting in a society that supports inefficient and ineffective industries. These distortions can arise from regulatory restrictions and non-tariff measures. By their very nature, Market Distortions can be difficult to measure, and broader conclusions often have to be drawn from proxy measures.

Despite an improvement, Egypt still imposes a range of non-tariff measures on imports, with technical measures implemented by the authorities causing delays and additional costs.

Despite an improvement over the decade, Egypt still imposes a range of non-tariff measures on imports, with technical measures implemented by the authorities causing delays and additional costs.[86] Since 2016 there has been a requirement for foreign manufacturers of specific products to register in advance with the Egyptian General Organization for Export and Import Control (GOEIC). The list of products requiring registration was expanded in 2019.[87] In addition, some goods require additional licencing processes. For example, importers require a license to import specialty food products and renew the license every one-to-five years, at a cost of up to $1,000 per renewal.[88]

Non-tariff measures are an important source of market distortion. While non-tariff measures can be put in place for legitimate reasons, they are often also used as a protection mechanism for domestic production. However, the use of these measures in Egypt is likely to affect the ability and willingness of the private sector to expand, and hinders integration into global markets.[89] In common with the use of tariff barriers, these policies are often ineffective or harmful because they increase costs for both consumers and domestic businesses that import.

As discussed in Open Market Scale, the country's exporters also face many non-tariff measures. Reducing both import and export barriers should be seen in the context of cooperation with key trade partners, to bilaterally reduce barriers on both sides and facilitate greater export opportunities as well as reducing non-tariff barriers.

Opportunity

1. Focus on lowering the cost of exporting through:
    a. Reducing administrative and transport costs.
    b. Working with key trade partners to reduce non-tariff barriers for both exports and imports simultaneously.

86 "Egypt Economic Monitor," *World Bank Group*, July 2019.

87 "Egypt Trade Barriers," *Egypt Country Commercial Guide*, SelectUSA, accessed on October 13, 2020.

88 "2019 National Trade Estimate Report" *United States Trade Representative*, 2019, p. 149

89 "Egypt Economic Monitor," *World Bank Group*, July 2019.

Credit (Shutterstock.com)

INVESTMENT ENVIRONMENT (EGYPT RANK: 103RD)

Ideas and businesses need investment to develop and grow effectively. Long-established businesses and new entrepreneurs alike need investment, and investors need the protection and confidence to back them. If investors do not have secure property rights, investment becomes scarce.

The growth in international financial market sophistication over the last four decades has been considerable. Economists' understanding of the role of capital in economic growth and prosperity has also grown over this period.[1,2] *A good Investment Environment will ensure that domestic and foreign financing is available for commercial ventures, allowing micro-enterprises to grow into Fortune 500 companies.*

Egypt ranks 103rd for its Investment Environment. New investment and bankruptcy laws have improved investor protection, and the soundness of Egypt's banks has improved markedly as part of an improved financing ecosystem. However, contract enforcement has remained poor, due to the low quality of judicial administration and the long time taken to resolve cases. Access to finance also remains a challenge, particularly for the large number of small and medium enterprises.

In the following sections, we review the performance of Egypt in each of the distinct elements of Investment Environment, from Property Rights through to the Restrictions on International Investment.

PROPERTY RIGHTS (EGYPT RANK: 104TH)

Property Rights are the key institution that make it possible to accumulate wealth and effectively participate in commerce. Where Property Rights are weak, people avoid taking risks, and this has a substantial impact on investment and the levels of effective entrepreneurial activity and wealth accumulation. The risks to Property Rights range from expropriation to limits on repatriations of profits and restrictions on the sale or transfer of assets. Our measure of Property Rights captures how well rights over land, assets, and intellectual property are protected.

High costs have led to much property in Egypt not being formally registered.

The legal code for property ownership in Egypt has been costly and complex.[3] At the beginning of the millennium, registering title in urban areas was estimated to require 77 procedures, take between 6 and 11 years, and cost between 7% and 12% of the property's net value. In rural areas, the ownership records system mainly used (Sejel Ainee) is outdated, and the processes to prove legal ownership is often marred by forgeries.[4]

The costs have led to much property in Egypt not being formally registered. A number of informal procedures have evolved that sidestep the official registration system.[5] To a large extent these mechanisms have become culturally embedded and semi-formal, and hence for many purposes work relatively well. They are therefore used not only by individuals but also by government agencies and private companies selling new units.[6] Formalisation of the system needs to be undertaken with care to ensure it leads to benefits for a wide range of the population.

1 Anne O. Kreuger, "Financial markets and economic growth," *International Monetary Fund*, 2006.

2 Stanley Fisher, "The importance of financial markets in economic growth," *Citigroup*, 2003.

3 "BTI 2018 Country Report – Egypt," *Berteslmann Stiftung*, 2018.

4 "Country Profile: Egypt - Land," *LandLinks*, accessed July 28, 2020.

5 Ehab Taha and Salma Basset, "Property laws and regulations in Egypt," *Al Tamimi and Co*, 2015.

6 David Sims, "Securing Land Tenure in Egypt: Who Needs Registered Titles?" *MetroPolitics*, June 14, 2016.

There have been a broad range of recent initiatives to improve the formal system including a reduced fee to register ownership rights,[7] and an electronic records system that helps buyers and financers to determine correct ownership.[8] In urban areas it now costs less than 1% of property value to register land rights in Egypt,[9] requiring eight procedures and taking 60 days on average.[10]

There has also been significant pressure on the land and property planning systems, particularly around Cairo itself. Cairo is one of the most densely populated major cities in the world[11] with high population growth of around 2% per year.[12] This has led to a scarcity of developable urban land in the formal sector, and sprawling urban development due to a lack of detailed urban-planning strategies.[13]

Authorities launched a nationwide campaign in 2016 to clear unlicensed developments and reclaim land that had been illegally occupied or acquired, establishing the Higher Committee for Land Reclamation. Owners who failed to apply for legalisation of their status by June 14, 2019 effectively defaulted their right on the land, which granted the state legal authority to reclaim it.[14,15] This has led to both regularisation of land ownership and the expropriation of significant amounts of land. By July 2020, more than 10,000 landowners had legalised their status and a total of 1.9 million square metres of land had been reclaimed.[16,17] However, there have also been a number of complaints of land being seized without clear consultation or notification. These claims are refuted by the government, on the basis that deadlines for applications to legalise land ownership were extended multiple times.[18]

Another issue with land rights in Egypt is that the Ministry of Defense has broad powers related to land access.[19] For example, property rights in Sinai and other border areas are affected by the activities of security forces that, with the justification of security concerns, have summarily removed buildings. For example, in 2018 at least 3,000 structures were removed in a security zone along Egypt's border with the Gaza Strip.[20]

Altogether, the formalisation of property rights and the reforms to tackle illegal construction may help improve the business environment (particularly for foreign firms that may struggle to navigate informal systems). However, a well-understood informal system is being altered. The combination of complaints about land seizure and broad military powers may instead create concerns for private sector investors over future similar actions.

Before the new Investment Law issued in 2017, access to land for the private sector was limited. A modest amount of industrial land had been offered by the government at a fixed price, on a 'first come, first served' basis.[21] Following the new law, an online investment map was launched including state-owned land offered for private investment.[22]

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7 Ehab Taha and Salma Basset, "Property laws and regulations in Egypt," *Al Tamimi and Co*, 2015

8 "Country Profile: Egypt - Land," *LandLinks*, accessed July 28, 2020.

9 Ibid.

10 "BTI 2018 Country Report – Egypt," *Berteslmann Stiftung*, 2018.

11 "Country Profile: Egypt - Land," *LandLinks*, accessed July 28, 2020.

12 United Nations, "World Urbanization Prospects 2018," *Department of Economic and Social Affairs*, Population Dynamics, accessed September 14, 2020.

13 "Country Profile: Egypt - Land," *LandLinks*, accessed July 28, 2020.

14 "Is the state going to start forcibly reclaiming land?", *Enterprise*, April 26, 2018

15 "State Land and Asset Reclamation Commission refuses to provide deadline extension for legal settlement applications" *Al Mal*, 18 April, 2020.

16 "Finalizing of 10,000 legal settlement applications" *Al Borsa*, 27 February, 2020.

17 "State Land and Asset Reclamation Commission: Reclamation of 43,000 acres and 490,000 m2 in less than 5 days", Al Youm Al Sabei, July 14, 2020.

18 "New facilitations for building violation settlement agreements", Al Dostour, September 25, 2020.

19 "Land access reform would transform Egypt into participatory economy," *Atlas Network*, July 25, 2016.

20 "Freedom in the World 2019: Egypt," *Freedom House*, 2019.

21 "Egypt 2017 Article IV Consultation," *International Monetary Fund*, 2017, p. 24.

22 "Egypt Investment Map," *Egyptian General Authority for Free Trade and Investments*, 2020.

Egypt's Intellectual Property Rights legislation generally meets international standards but is weakly enforced.[23] The country has taken steps to improve enforcement but concerns remain with the widespread use of pirated and counterfeit goods[24] and infringements to copyrights and patents, particularly in the pharmaceuticals sector.[25] There is also a lack of transparent and reliable systems for processing trademark and patent applications, which remains an obstacle for the growth of imports with intellectual property elements.[26]

Opportunity

1. Expand the Investment Map to offer more state-owned land for private investment.
2. Capitalise on the Sovereign Fund of Egypt to manage and administer state-owned land.

INVESTOR PROTECTION (EGYPT RANK: 72ND)

Investor Protection is key for any country wishing to enjoy sustained economic growth, as they are a necessary enabler of the flow of capital to ventures.[27] Our measure of Investor Protection covers a range of indicators that gauge Investor Protection, from expropriation risk to minority shareholder rights.

Egypt's recent adoption of new laws on bankruptcy and investment have been an important step in providing investor protection and confidence. These laws have aimed to enhance sustainable economic development and provide a safety valve for financial failures.[28] Egypt now ranks 72nd, rising 17 places since 2010 and above the regional average.

The new investment law, passed in 2017, contains a range of measures to protect investors, including strengthened procedures for the operation of public sector contracts and the management of contractual disputes. Key provisions include:[29]

- The Government shall treat foreign investors in a similar way as national investors.
- Invested funds are not subject to arbitrary proceedings.
- The Government is obliged to respect and enforce the contracts it concludes.
- Nationalisation of investment projects shall not be allowed.
- The funds of investment projects shall not be seized except for the public interest and in return for fair compensation.
- Administrative authorities may not cancel the license issued for the project until a warrant of violation has been issued to the investor, after a hearing for the investor and the opportunity to dismiss the violation.

23 "2019 Investment Climate Statement: Egypt," *U.S. Department of State*, 2019.

24 "2019 National Trade Estimate Report," *United States Trade Representative*, 2019, p. 152.

25 "2019 Investment Climate Statement: Egypt," *U.S. Department of State*, 2019.

26 "2019 National Trade Estimate Report," *United States Trade Representative*, 2019, p. 152.

27 Rachisan, Paula Ramona, Cristina Bota-Avram, and Adrian Grosanu, "Investor protection and country-level governance: Cross country empirical panel data evidence," *Economic Research | Ekonomska Istraživanja 30*, no. 1 (2017): 806-817.

28 "Egypt's New Bankruptcy Law," *Riad and Riad*, accessed July 6, 2020.

29 "Egypt enacts new investment law to promote foreign investments," *EY Tax Insights*, June 2017.

The new bankruptcy law of 2018 should lead to an improvement in the speed of restructuring and settlement of troubled companies[30] as well as recovery amounts.[31] Bankruptcy is frowned upon in Egyptian culture, and many business owners believe they may be found criminally liable if they declare bankruptcy. The new bankruptcy law changed this, replacing the threat of imprisonment with fines in cases of bankruptcy.[32]

The new bankruptcy law of 2018 should lead to an improvement in the speed of restructuring and settlement of troubled companies.

It also instigated a new culture of creditor cooperation in debt restructuring to avoid the closure of businesses, as well as promoting a more efficient and equitable distribution and use of assets. Finally, it also introduced a new out-of-court restructuring system and a court supervised mediation system.[33]

Shareholder governance has markedly improved according to the views of corporate and securities lawyers. Egypt's ranking for this element has improved from 99th to 32nd over the decade. The Egyptian Corporate Governance Code is based upon OECD's Principles of Corporate Governance.[34] In 2017, the European Bank for Reconstruction and Development reported that the Code was poorly implemented in Egypt and that there was very little disclosure on the level of compliance.[35] However, the extent of shareholder governance improved significantly in the following years with the introduction of the new investment law, with provisions for example improving investment dispute settlements.

Egypt has consistently ranked relatively well for auditing and reporting standards, currently ranking 52nd. The main issue historically has been low levels of compliance, potentially due to language and cultural barriers. Egyptian companies often provided backward-looking and qualitative risk disclosure.[36] However, in 2019, the Ministry of Investment and International Cooperation made amendments to the Egyptian Accounting Standards to bring the standards in line with IFRS 9 and IFRS 15 regulations.[37]

A significant remaining issue for auditing and reporting is for military enterprises, as these audits are often performed internally.[38] Poor auditing and reporting can undermine effective governance and create opportunities for corruption. In the Egyptian context this also hinders effective competition in the wide range of sectors where the private and public sector are both active. One impact of this is that foreign investors make substantial use of investor-state dispute settlement mechanisms. In 2018 the OECD reported that half of all such cases in the Southern-Mediterranean region were in Egypt.[39]

30 "2019 Investment Climate Statement: Egypt," *U.S. Department of State*, 2019.

31 Hanan Mohamed, "Moody's: Egypt's new bankruptcy law is credit positive for banks," *Egypt Today*, January 25, 2018.

32 "2019 Investment Climate Statement: Egypt," *U.S. Department of State*, 2019.

33 "Egypt's New Bankruptcy Law," *Riad and Riad*, accessed July 6, 2020.

34 "Corporate Governance in Transition Economies," *Egypt Country Report*, European Bank for Reconstruction and Development, December 2017, p. 4.

35 "Corporate Governance in Transition Economies," *Egypt Country Report*, European Bank for Reconstruction and Development, December 2017, p. 7.

36 Ekramy Mokhtar, Ali Elharidy, Mohamed Mandour, "Compliance with IFRs: The case of risk disclosure practices in Egypt," *Arab Economic and Business Journal 13*, no. 1 (June 2018): 1-14.

37 "Egyptian Accounting Standards Brought in Line With IFRS Regs Under New Amendment," *Enterprise*, March 31, 2019.

38 Bessma Momani, "Egypt's IMF Program: Assessing the Political Economy Challenges," *Brookings Doha Center*, January 2018, p. 10.

39 "Stocktaking of Investment Dispute Management and Prevention in the Southern Mediterranean Region," *OECD*, June 27, 2018.

Opportunity

1. As agreed with the IMF, publish an updated report on state-owned enterprises with complete detailed financial information disclosure for the 2018/19 financial year.[40]

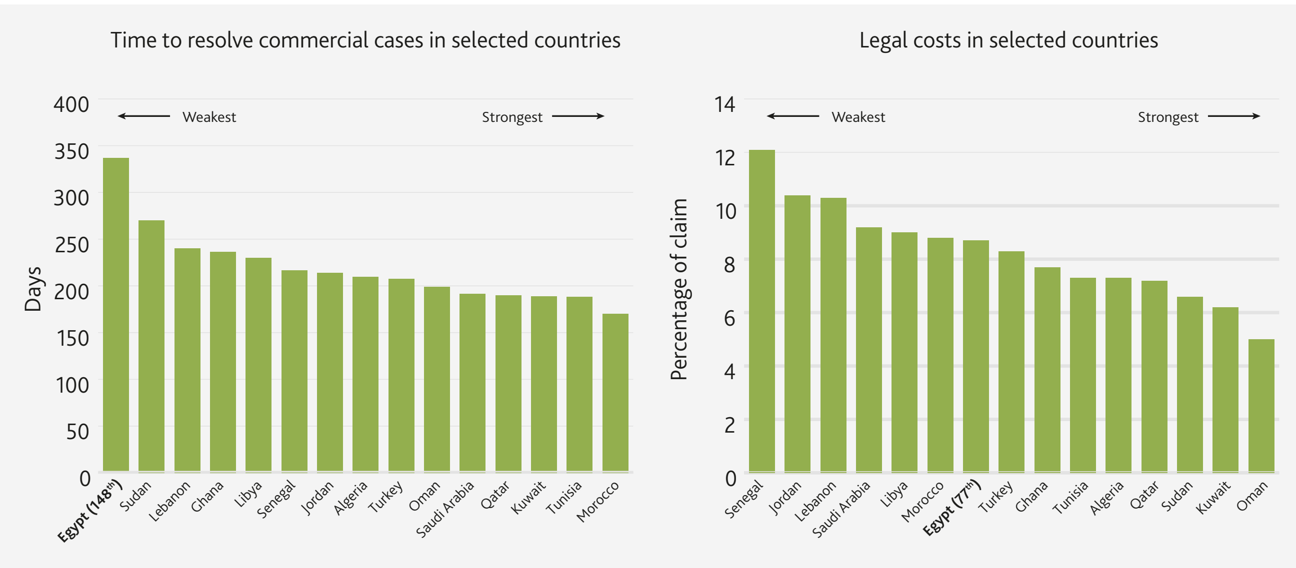
CONTRACT ENFORCEMENT (EGYPT RANK: 163RD)

Contract Enforcement is a critical proxy for trust, allowing economies of scale to grow beyond one's immediate circle of associates and family. Delays and costs in resolving contract disputes benefit neither party. Our measure captures both the efficacy and efficiency of a country's system to enforce the rights of a contract holder.

Contract enforcement is an area of weakness for Egypt. In particular, businesses have reported difficulty in collecting payment from the government when awarded a monetary settlement. Furthermore, there are concerns that domestic courts unfairly find in favour of state-owned enterprises (SOEs) involved in investment disputes.[41] Over time, businesses may find that the 2017 investment law improves matters in these respects, but currently Egypt ranks 163rd globally for contract enforcement.

Dispute resolution processes in Egypt can also be slow and costly; enforcing a contract is almost twice as time-consuming in Egypt as the average in the MENA region.[42] Resolution of commercial disputes is very slow, with the time to adjudicate a case to completion averaging three to five years.[43] Egyptian courts also do not always recognise foreign judgments.[44] Recent reform plans include moves to increase the accessibility of legal services and to increase investment in the court system including in digitisation and automation.[45]

Figure 5: Time and cost of resolving commercial cases



Source: WBDB

40 "Arab Republic of Egypt, IMF Country Report No. 20/266," *International Monetary Fund*, 2020.

41 "2019 Investment Climate Statement: Egypt," *U.S. Department of State*, 2019.

42 "Doing Business 2020," *World Bank*, 2020.

43 "2020 Investment Climate Statements: Egypt," *U.S. State Department*, 2020.

44 "Litigation: Enforcement of Foreign Judgments in Egypt," *Thomson Reuters Practical Law*, 2015.

45 "6 years after Sisi's Presidency and the achievements continue…an new era of judicial independence," *Al Bawaba*, June 7, 2020.

Inefficient contract enforcement can have major economic impacts. For example, it has been found that economies with a more efficient and stronger judiciary have more developed credit markets, faster growth of small firms, and a higher level of development overall.[46,47] Some individual country studies have also found that states with better court systems have larger and more efficient firms,[48] and that firms report that they would be willing to invest more if they had greater confidence in the courts.[49]

A quarter of businesses identify the court system as a major constraint to their ability to do business in Egypt.[50] In particular, there is low satisfaction with the efficiency of the legal framework when it comes to settling disputes and challenging regulations.[51] Underlying reasons for this include the quality of legal education and training,[52] and corruption is also a problem. Over 40% of those who came into contact with the courts in the preceding twelve months indicate they paid a bribe.[53]

Alternative dispute resolution in Egypt is structured in line with international models. In recent years, the country has become a regional arbitration hub through the Cairo Regional Centre for International Commercial Arbitration (the "CRCICA"). CRCICA adopts the United Nations Commission on International Trade Law model rules of arbitration and has also unified arbitration fees for domestic and international arbitration. Simplified alternative dispute resolution mechanisms were also recently introduced through the Egyptian Investment Law that may apply when the government is a party to such dispute.[54]

However, alternative dispute resolution (ADR) is also marred by the inefficient judicial system. Problems in the Egyptian court system include few judges who are knowledgeable or trained in ADR, and an antiquated record system (few courts outside of Cairo have computerised record-keeping).[55] This hampers the effectiveness of the ADR system. In July 2020, a two-phase pilot program for an online case management system was launched, and there are plans to roll this out more widely if it is successful.[56]

Opportunity

1. Press ahead with the roll-out of computerised record keeping and case management.
2. Improve ADR training for legal professionals.
3. Increase recognition for foreign court judgements.

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46 Kenneth W. Dam, "The Judiciary and Economic Development," *University of Chicago Law School*, Chicago, John M. Olin Law & Economics Working Paper 287 (Second Series), 2016.

47 Roumeen Islam, "Do More Transparent Governments Govern Better?" *The World Bank Group*, Policy Research Working Paper 3077, 2003.

48 "A Better Investment Climate for Everyone," *World Bank Group*, New York: Oxford University Press, 2005.

49 Castelar-Pinheiro, Armando and Celia Cabral, "Credit Markets in Brazil: The Role of Judicial Enforcement," *in Marco Pagano and Oracio Attansio*, "Defusing Default: Incentives and Institutions," *Inter-American Development Bank*, Washington, DC; Sereno, Lourdes Ma, Emmanuel de Dios and Joseph J. Capuano, "Justice and the Social Cost of Doing Business: The Case of Philippinesm," *World Bank*, Manila, Philippines; Herrero, Alvaro, and Keith Anderson, "The Cost of Resolving Small Business Conflicts: The Case of Peru," *Inter-American Development Bank*, Sustainable Development Department, Best Practices Series. Washington, DC, 2001.

50 "Enterprise Surveys, Egypt 2020," *World Bank*, 2020.

51 "Judicial System," *Egypt Corruption Report*, GAN Integrity: Risk and Compliance Portal, July 2020.

52 "Justice at a Crossroads: The Legal Profession and the Rule of Law in the New Egypt", International Bar Association, 2011, p.31.

53 "Global Corruption Barometer: Citizens' voices from around the world," *Transparency International*, 2017.

54 Nisreen Al Karyouti, "The Choice of Dispute Resolution Mechanism under the Egyptian Law," *Amereller*, January 15, 2017.

55 Mike McMullen, "The Development of Egyptian Alternative Dispute Resolution," *Mediate*, 2013.

56 Government launches remote electronic litigation platform in civil courts" *Al Borsa*, July 9, 2020.

FINANCING ECOSYSTEM (EGYPT RANK: 71ST)

The Financing Ecosystem ensures the availability of money for investment from sources including banking and bank debt to corporate debt and more sophisticated financial markets. A wide range of financing options for businesses is also desirable, as each of the basic financing options are better suited for businesses at differing stages of maturity with different revenue and risk profiles.

The political unrest and economic crisis management of the start of the decade saw a deterioration in the country's financing ecosystem, but the system has recovered as the economy has stabilised. Egypt's financing ecosystem is now a strength, ranking 71st globally and significantly above the regional average.

In particular, the soundness of the country's banks has improved drastically from 89th to 24th, through the implementation of core Basel II and Basel III requirements by mid-2017. Associated reforms contributed to improvement of asset quality, with the ratio of non-performing loans falling from over 10% in 2011 to 4% in 2019.[57] The implementation of the draft Banking Law of 2019, currently in its final stages of issuance, will further improve the situation by setting new minimum capital requirements by law for banks.[58]

Banking services

The number of banks operating in Egypt has reduced from 61 licensed by the Central Bank in 2004, to 38 as of January 2019.[59] The system is dominated by four major banks: two of them state-owned (the National Bank of Egypt and Bank Misr) and one transitioning from state-ownership (Banque du Caire).[60] Their extensive branch networks have historically enabled them to attract large volumes of stable and cheap retail deposits, leading to relatively good liquidity profiles.[61]

The proportion of the adult population that hold a bank account has increased from just 10% in 2011 to 32% in 2018, although this is still below the regional average of 44%.[62] The number of bank branches has increased only slightly, from 4.1 per 100,000 people in 2009 to 4.5 in 2019. Consumer trust in the conventional banking sector is still a barrier. According to the World Bank, 44 million Egyptians are eligible for financial services, but high charges and elevated commissions dissuade them from using the system.[63] Access to basic banking services is an important enabler to improve accessibility to other aspects of the formal economy. However, there has been a lack of data about the daily interactions of Egyptians with the banking system. The Central Bank has begun tackling this through a new financial inclusion database.[64]

Mobile banking is still in its infancy, with 2% of Egyptians aged over 15 using mobile banking, compared to a regional average of 6%.[65] In January 2020, the Central Bank launched a pilot project that would enable bank accounts to be opened electronically, without the customer needing to visit a bank branch.[66]

57 "Non-Performing Assets: The Role of Banks and Financial Institutions in Egypt," Youssry Saleh & Partners 2020.

58 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 47.

59 Ibid, p. 45.

60 "BTI 2018 Country Report – Egypt" *Berteslmann Stiftung*, 2018.

61 "Egyptian banking sector under strain," *Global Trade Review*, 2003.

62 "The Little Data Book on Financial Inclusion" *World Bank Group*, 2018.

63 "Egypt's Banking Sector Remains Resilient" *Brussels Research Group*, 2019.

64 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 49.

65 "The Little Data Book on Financial Inclusion" *World Bank Group*, 2018.

66 Kit Gillet, "Egyptian banks explore multiple avenues to growth," *The Banker*, April 1, 2020.

Islamic banking is also strengthening its roots with over 14 Islamic banks operating as of 2019, making up 6% of the total banking sector. This sector is seeing rapid increases in demand for its products, and frameworks for Islamic financing facilities have recently been introduced.[67] In 2018, the Egyptian Financial Regulatory Authority introduced a framework for sukuk issuers.[68]

The government is also strengthening banking legislation with a focus on digitisation, including a gradual move to a cashless economy. The recently-enacted Banking and Central Bank Law aims to improve the banking sector's performance and improve its competitiveness. It strengthens banking sector regulations and addresses the regulation of e-payments, fintech services, and cryptocurrency services.[69] In addition, the E-Payments Law will make it mandatory for government and private sector entities to make all payments electronically.[70]

Access to finance

Access to finance for Government and large companies is relatively good. Banks' lending has been focused on these areas and the Egyptian Exchange (EGX) is one of the most highly regulated and open securities exchanges in emerging markets with a strong core of diversified sectors.

However, overall credit to the private sector is low. From 2014, the proportion of private sector credit to total credit has not been above 25%.[71] Credit is mostly directed to Government and a few large firms[72], which can lead to broader private sector lending being crowded out.[73] In 2016, the World Bank found that only about 12% of surveyed Egyptian firms have a bank loan or a line of credit and use banks to finance working capital.[74]

Overall credit to the private sector is low. From 2014, the proportion of private sector credit to total credit has not been above 25%.

This affects small and medium-sized enterprises (SMEs) in particular. SMEs account for 80% of the economy. Alongside banks historically not being accustomed to financing SMEs, further difficulties arise because a large number operate in the informal sector and have few records available.[75] The Nile Stock Exchange (NILEX) was launched in 2007, as the first stock exchange specifically for SMEs in the MENA region.[76] However, the listing process for NILEX has been seen as cumbersome and depends on EGX at the administrative level.[77]

The authorities have introduced a number of initiatives to tackle this, including an order to banks to boost the share of SME loans in their total loan portfolios to 20%, and caps on lending rates to SMEs.[78] The government also recently introduced a new law for the development of SMEs that aims to regulate Egypt's large SME base and attract it to the formal sector through a combination of tax and non-tax incentives.[79]

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67 "Egypt's banking sector remains resilient," *Brussels Research Group*, February 4, 2020.

68 "Sarwa submits prospectus for Egypt's second corporate sukuk issuance," *Enterprise*, July 16, 2020.

69 "Banking Act signed into law," *Enterprise*, September 27, 2020.

70 "Egypt parliament approves E-Payments Act," *Enterprise*, 12 March, 2019.

71 "Monthly Statistical Bulletin" *Various issues. Central Bank of Egypt*, 2020.

72 "Arab Republic of Egypt: selected issues," *International Monetary Fund*, December 11, 2017, p. 11.

73 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 51.

74 "Arab Republic of Egypt: selected issues," *International Monetary Fund*, December 11, 2017, p. 11.

75 Amr A. Bary, "SMEs sector: a key driver to Egyptian economic development," *Munich Personal RePEc Archive*, 19 February, 2019.

76 "Financial services sector in Egypt," *Open to Export: UK Institute of Export and International Trade*, accessed 22 October, 2020.

77 "Nile stock exchange: The stumbling dreams of small enterprises," *Egypt Watch*, October 25, 2019.

78 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 33.

79 "New Law Regarding The Development Of Medium, Small And Micro Enterprises," *Youssry Saleh & Partners*, August 20, 2020.

Turning to venture capital, Egyptian tech start-ups secured record amounts of funding in 2018, attracting $59m in equity investments, far exceeding the $9m attracted in 2017.[80] The sector compares favourably to regional peers, and in the first half of 2020 accounted for 25% of all venture capital transactions in the MENA region.[81] Several funding challenges remain however, including a lack of significant investors providing funding that is halfway between seed-funding ($100,000–200,000) and funding from Series A venture capital (more than $1mn).[82]

Egypt has also established a sovereign wealth fund aiming to contribute to the nation's sustainable economic development (see Box 2).

Box 2: The Sovereign Fund of Egypt[83]

- The Sovereign Fund of Egypt was established in 2018 with the stated goal to attract private investments to Egypt and promote and co-invest in state-owned assets to maximise their value and efficiency for the Egyptian economy.
- A significant amount of the initial funding came from the state's unused resources such as public buildings. The fund is fully authorised to acquire, lease, and sell off any state-owned properties, including land, in order to meet its objectives.
- The fund is privately managed. The fund may establish companies, form joint ventures, inject capital into existing firms, purchase listed equities, and invest in sovereign debt instruments.
- It has recently launched four sub-funds in health, infrastructure, food and agricultural processing, and fintech and financial services.
- Examples of activities include:
  - selling a majority stake in a 25-year concession to operate three power plants, and retain around 30 percent for itself,
  - working with New York based Concord International Investments to set up a joint venture to manage a $300m healthcare fund focused on Egypt and the Middle East,
  - leveraging private investment to help finance EGP30bn of the first phase of the government's plan to build desalination plants across the country.

Opportunity

1. Invest in expanding and analysing the new financial inclusion database to identify and tackle regulatory and consumer barriers to the uptake of conventional and mobile banking.
2. Evaluate the success of measures to boost small and medium sized enterprises.
3. Continue to develop the opportunities for investment partnerships with international investors through the Sovereign Fund of Egypt. Review and expand the current approach to increasing the amount of alternative financing, such as venture capital and private equity.

80 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 140.

81 "H1 2020, MENA Venture Snapshot," *MAGNiTT*, 2020.

82 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 142.

83 The Sovereign Fund of Egypt, available at: https://tsfe.com/, accessed October 2020; "SFE wants in on desalination plants" *Enterprise*, September 6, 2020; "New regulations to govern Egypt's new sovereign wealth fund," *Oxford Business Group*, accessed October 21, 2020.

RESTRICTIONS ON INTERNATIONAL INVESTMENT (EGYPT RANK: 130TH)

International investment has been shown to have a positive overall effect on economic growth. Research suggests that international investment is typically more productive than domestic, given the higher risks it faces. The benefit of foreign direct investment (FDI) is not only the inflow of capital but also the infusion of managerial competence that accompanies such investment. FDI brings healthy competition in the form of product and service innovation, new working practices, and new efficiencies in productivity.

The environment for international investment was damaged by the political instability following the Egyptian Revolution. The business view of the impact of rules on foreign direct investment deteriorated and the prevalence of foreign ownership of companies fell. However, the environment improved as macroeconomic stability returned with reforms such as the floatation of the Egyptian pound and the restart of Egypt's interbank foreign exchange market. These changes are expected to lead to increased foreign direct investment in the long term.[84]

There are reasons to expect further improvement. There is still full freedom to own foreign currency bank accounts and the final capital controls were removed in 2017. In addition, the impact of the 2017 investment law should also begin to be felt fully over the coming years.

Box 3: The 2017 Investment Law

The new Investment Law reduces a number of pre-existing restrictions such as foreign investors not being able to operate sole proprietorships and partnerships, a limit on the percentage of non-nationals working at any business of 10%, and foreigners being unable to act as importers for their own businesses. However, there is still a limit on non-nationals (now 20%) and some restrictions on which items foreign firms can import.[85]

The law also introduced a 50% tax reduction for investments in underdeveloped areas across the country, and a provision to allow investors to get back 50% of their investment on land acquisition if the new industrial project begins operations within a two-year window.[86]

The 2017 Investment Law also puts in place measures to grant residence permits to foreign investors throughout the term of their investment projects in Egypt.[87]

Whilst these are positive developments, a range of barriers remain that will continue to restrict the beneficial inflow of international investment. Bureaucratic barriers and corruption remain serious problems.[88] In addition, Egypt still restricts foreign equity in construction and transport services to 49%. In information technology-related industries, Egypt requires that 60% of senior executives be Egyptian citizens within three years of the start-up date of the venture.[89]

84 "2019 Investment Climate Statement: Egypt", U.S. Department of State, 2019.

85 "2019 National Trade Estimate Report" *United States Trade Representative*, 2019, p. 153.

86 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 113.

87 Mohamed Hashish, "What You Should Know About The New Investment Law Of 2017 In Egypt?", Soliman Hashish and Partners, June 12, 2019.

88 "Freedom in the World 2019: Egypt," *Freedom House*, 2019.

89 "2019 National Trade Estimate Report" *United States Trade Representative*, 2019, p. 152

Egyptian law also imposes restrictions on the ownership of property in Egypt by foreign nationals. For example, foreign nationals may not acquire agricultural land and ownership of property is limited to two real estate properties. This is in addition to the right to own real estate needed for activities licensed by the Egyptian Government.[90] The frictions that these restrictions represent on foreign activity will dampen private sector dynamism and lessen the competitive pressure that could push Egyptian firms to be increasingly globally competitive.

Finally, there are also a range of restrictions on foreigners working in Egypt with inconsistent application of provisions on foreign visa and work permits and some restrictions on the professions that foreigners can work in.[91] For example, it was announced in 2010 that foreigners could not work in Tour Guiding, Import and Export, and in Custom Clearance.[92]

Opportunity

1. Review the impact of the new Investment Law, to identify where it is working effectively and what further reforms may be required. In particular, review whether some of the remaining restrictions on foreign business activity could be removed.

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90 "Land and Real Estate Ownership Laws," The General Authority for Investment and Free Zones.

91 "2019 Investment Climate Statement: Egypt," *U.S. Department of State*, 2019.

92 "Restrictions on Foreign Investment in Egypt," *Youssry Saleh & Partners*, August 13, 2018.

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ENTERPRISE CONDITIONS (EGYPT RANK: 81ST)

A healthy economy is a dynamic and competitive one, where regulation supports business, allowing and encouraging it to respond to the changing priorities of society. In contrast, an economy focused on protecting incumbents will enjoy lacklustre growth and job creation. Entrepreneurial activity is one of the key drivers of long-term prosperity, and its importance will only grow as the pace of technological change increases, and the number of people involved in that change rises. Given the pace of change inherent to the information age, a society's ability to react quickly to new firm- and market-level opportunities is critical to its overall Economic Openness.

Egypt ranks 81st for Enterprise Conditions, a rise of 27 places over a decade. The environment for business creation and labour market flexibility have improved, and substantial reductions in energy subsidies have reduced price distortions across the economy. However, involvement of the state in many sectors of the economy restricts domestic market competition, the burden of regulation remains high, and a skills mismatch leads to a lack of availability of skilled workers.

In the following sections, we review the performance of Egypt in each of the distinct elements of Enterprise Conditions, from Domestic Market Contestability through to Labour Market Flexibility.

DOMESTIC MARKET CONTESTABILITY (EGYPT RANK: 96TH)

Where open, fair and competitive markets exist, far more often than not, so too does progress and prosperity. One of the most useful things that governments can do is to ensure that there is competition, both domestic and international, as well as a strong and effective anti-monopoly policy. A fair and effectively enforced competitive market benefits all by helping to stimulate improvements in efficiency and innovation. Our measure of Domestic Market Contestability captures how open the market is to new participants, versus protection of the incumbents.

State-owned enterprises

The Egyptian state owns, and provides extensive subsidies to, a large number of public enterprises. These include enterprises in sectors that compete directly with the private sector. These state-owned enterprises (SOEs) are often not subject to the same criteria of transparency and accountability to shareholders as private entities.[1] This lack of competition, which has persisted for several decades and has marginalised the private sector, has been found to have reduced firms' efficiency and limited the emergence of new more productive firms, reducing productivity, growth, and job creation.[2] Although investment through SOEs can increase employment in the short-run, jobs are likely to be domestically focused and dependent on public finances.

There have been proposed changes to the economic activities of state-owned companies. In 2018, the Government announced a major programme of privatisation to involve 23 state-owned companies in either initial public offerings or sales of further stakes in companies already listed.[3] However, before the COVID-19 pandemic, the program had already seen repeated delays with the authorities citing unfavourable market conditions, such as impact of Saudi Arabia's Aramco IPO on regional investor liquidity. Most recently, it was announced that the privatisation program could resume in late 2020 or early 2021.[4]

1 "Egypt 2017 Article IV Consultation", *International Monetary Fund*, 2017, p. 11.

2 "Arab Republic of Egypt: selected issues," *International Monetary Fund*, December 11, 2017, p. 10.

3 Mirette Magdy, "Egypt Mulls Majority Stake Offerings in More Public Firms," *Bloomberg*, July 22, 2018.

4 "Egypt suspends privatization program again due to "unfavorable" *conditions*," *Enterprise*, June 30, 2020.

Military Involvement

The military in particular plays a prominent role in the Egyptian economy and the special privileges it has distorts market forces.[5] This makes it difficult for private firms to compete on a fair basis. It is difficult to estimate the extent of the military's economic activities, but it has been placed in the region of between 10% and 40% of GDP.[6] Activity has also grown significantly over the past decade. For those companies overseen by the Ministry of Military Production (one of three Government organisations that oversee military economic activities) the operating revenues of its companies were around five times higher in 2018/19 than 2013/14.[7] Infrastructure projects remain the greatest area of military participation (for example the Toksha "New Valley" land reclamation project and the Suez Canal expansion program),[8] but the range of sectors the military operates in has expanded as well.[9] The military also directly collects revenues from citizens. For example, they operate and collect usage fees for some of Egypt's busiest highways on a long-term concession basis.[10]

Supporters of the military's role in the economy point out its ability to organise efficiently and quickly.[11] However, the military enjoys several privileges, such as control over a substantial amount of land, tax exemptions, and cheap labour in the form of conscripts.[12] For example, nearly 600 military businesses are exempt from real estate taxes, and military-run businesses have also received subsidised loans through state-owned banks.[13]

The President proposed listing military-owned companies on the stock exchange in October 2019, along with other state-run firms and assets.[14] In theory, floating military companies could lead to greater financial transparency and set the foundation for less distortive financing. However, it is not clear that flotation will go ahead due to a range of issues that undermine both the eligibility of military companies for flotation and their commercial feasibility.[15]

Procurement

Several problems with public procurement have also been highlighted from the point of view of international companies. These include stalled bid openings and delays in government agencies giving "final acceptance" of goods or work projects.[16] This is likely to weaken competitive forces and restrict the growth of the private sector. However, there is a lack of data and information on public procurement.[17] This is a significant problem for determining the extent of issues and appropriate reforms.

Some recent reforms have happened. In 2018, the Egyptian Parliament passed a new law on government procurement that requires procurement decisions be made in a competitive and transparent manner,[18] and for Egyptian SMEs to have the right to obtain up to 20% of the

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5 Bessma Momani, "Egypt's IMF Program: Assessing the Political Economy Challenges," *Brookings Doha Center*, January 2018.

6 "BTI 2018 Country Report – Egypt," *Berteslmann Stiftung*, 2018.

7 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 34.

8 Shana Marshall, "The Egyptian Armed Forces and the remaking of an economic empire," *Carnegie Middle East Center*, April 2015, p. 14.

9 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 34.

10 Shana Marshall, "The Egyptian Armed Forces and the remaking of an economic empire," *Carnegie Middle East Center*, April 2015, p. 14.

11 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 34.

12 "BTI 2020 Country Report – Egypt," *Berteslmann Stiftung*, 2020.

13 Bessma Momani, "Egypt's IMF Program: Assessing the Political Economy Challenges," *Brookings Doha Center*, January 2018, p. 9.

14 "Sisi suggests floating Egypt military firms on stock exchange," *France 24*, October 31, 2019.

15 Yezid Sayigh, "Will Egypt's Military Companies Float?" *Carnegie Middle East Center*, April 7, 2020.

16 "2019 Investment Climate Statement: Egypt," *U.S. Department of State*, 2019.

17 Pr. Sübidey Togan, "Potential Accession to the Revised WTO Government Procurement Agreement: The Cases of Egypt and Turkey," *Femise Research Papers*, November 2017.

18 "2019 National Trade Estimate Report," *United States Trade Representative*, 2019, p. 152

Government's contracts annually.[19] An online portal was recently established to display all available public procurement opportunities.[20] However, actual tender submissions may not be done on the platform yet.

Competition Policy

In a more positive development, anti-monopoly policy in Egypt has been improving over the decade. The Egyptian Competition Authority (ECA) was created following the establishment of the legal framework ensuring freedom of competition in 2005.[21] The administrative capacity and capability of the ECA was strengthened through an EU twinning project from 2015-2017.[22] In 2018, the biggest competition-related fines in Egypt's history were imposed on four pharmaceutical distribution companies for agreements to unify pricing.[23]

Anti-monopoly policy has improved in Egypt, and is led by the Egyptian Competition Authority.

However, the enforcement capacities of the ECA still remain constrained by a lack of clarity over its jurisdiction (including for areas where there are sector regulators such as telecoms and financial services). It also has limited technical and budgetary resources[24] and the military's economic activities remain out of its jurisdiction.[25] Low competitive pressure in some sectors will continue to restrict productivity, efficiency, and job creation.

Opportunity

1. Foster a level-playing field between public and private economic actors. In particular, facilitate private sector access to key inputs (such as land and skilled labour) and allow it to expand in to more productive sectors and more sophisticated products, so that it becomes capable of generating more and better jobs that can boost shared prosperity and reduce poverty.[26]

2. Publish regular reports on state-owned enterprises with complete detailed financial information disclosure, as recommended by the IMF for the financial year 2018/19.[27]

3. Evaluate the extent to which the new Government Procurement Law is encouraging broader participation by the private sector by standardising procurement rules, procedures, and document requirements.[28,29]

4. Strengthen the independence of the Egyptian Competition Authority (ECA) and ensure it is well resourced. In particular, introduce draft amendments to the Egyptian Competition Law, including amendments to ensure competitive neutrality of procurement operations, empower the ECA to regulate mergers and acquisitions and act against anti-competitive economic behaviours, and enable businesses to request the ECA to issue opinions on the competitive impact of some public regulations.[30]

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19 "2019 Investment Climate Statement: Egypt," *U.S. Department of State*, 2019.

20 "Government Procurement Electronic Portal," *Egypt Ministry of Finance*, 2020

21 "BTI 2018 Country Report – Egypt," *Berteslmann Stiftung*, 2018.

22 "Competition Council strengthened administrative capacities of the Egyptian Competition Authority," *Competition Council of the Republic of Lithuania*, March 24, 2017.

23 "Biggest competition related fines in Egypt's history imposed on four pharmaceutical companies," *The BES Consultancy*, March 06, 2018.

24 Hanan Morsy "Private Sector Diagnostic: Egypt," *European Bank for Reconstruction and Development Private Sector Diagnostic*, 2017.

25 "BTI 2020 Country Report – Egypt," *Berteslmann Stiftung*, 2020.

26 "Egypt's Economic Update — April 2020," *World Bank*, 2020.

27 "Arab Republic of Egypt, IMF Country Report No. 20/266," *International Monetary Fund*, 2020. p. 50,.

28 "Arab Republic of Egypt, IMF Country Report No. 19/311," *International Monetary Fund*, 2020.

29 Khaled Ragheb and Hend Zaghloul "Egypt's New Law on Agreements Concluded by Public Entities," *Amereller*, 2020.

30 "Arab Republic of Egypt, IMF Country Report No. 20/266," *International Monetary Fund*, 2020.

PRICE DISTORTIONS (EGYPT RANK: 97TH)

Price distortions can arise from both regulatory restrictions and also subsidies, which damage the prosperity of a nation as the finite resources of the state are being inefficiently managed and diverted from projects that can deliver much greater benefits to society. Our measure of Price Distortions captures how competitive markets are disrupted by subsidies and taxes.

In common with many MENA countries, Egypt has had substantial energy subsidies for some time. These resulted in overconsumption, over-investment in capital-intensive industries,[31] and large claims on public resources.[32] However, Egypt has phased many electricity and fuel subsidies out over the last decade, as part of the IMF loan programme.[33] Fuel subsidies were expected to decline from 1% of GDP in 2019/20 to 0.4% in 2020/21.[34] In the second half of 2019, Egypt spent nothing on electricity subsidies.[35]

The phasing out of energy subsidies has had a wide range of impacts on the economy, as major sectoral adjustments took place. Evidence suggests that the phasing out of energy subsidies have been an important part of macroeconomic stabilisation. However, such measures require extensive social protection mechanisms if poor households are to be protected from the short-term negative impacts of the reform.[36]

Egypt's energy subsidies have resulted in overconsumption, over-investment in capital-intensive industries, and large claims on public resources.

Another key product for Egypt that has been subsidised is wheat, with many people relying on low-priced bread.[37] Government interventions have included directly subsidising the purchase of wheat[38] and indirectly subsidising nitrogen fertilizer production.[39] There have been reforms to these subsidies in the last decade too. A new system was introduced in 2015 that both significantly cut subsidies.[40] It also removed the incentive to smuggle wheat to falsely receive the subsidy.[41] The World Food Programme supports continuing these subsidies, while ensuring they are well-targeted as well as increasing monitoring and evaluation of the system.[42]

The tax system can distort economic activity, and cost businesses time and money. In Egypt there is only one law that governs taxation of business and individual income, but multiple tax rates create an uneven playing field.[43] Income taxation in Egypt is complex due to special provisions and exemptions. For business taxation, the actual tax burden on firms varies according to legal form, economic activity, market orientation (domestic versus export), means of financing, types of assets, and location.[44]

31 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 29.

32 Peter Griffin, Thomas Laursen, James Robertson, "Guiding Reform of Energy Subsidies Long-Term," *The World Bank*, February 2016.

33 Amr Emam, "Egypt braces for new wave of price hikes after expected subsidies cut," *The Arab Weekly*, April 14, 2019.

34 Dina Elbehiry, "Energy Subsidy Reform Program: The Full Picture," *Egypt Oil & Gas Newspaper*, August 5, 2019.

35 "Egypt's power subsidy falls to zero in second half of 2019," *Ahram Online*, February 11, 2020.

36 Clemens Breisinger, Askar Mukashov, Mariam Raouf, Manfred Wiebelt, "Energy subsidy reform for growth and equity in Egypt: The approach matters," Energy Policy 129 (2019): 661-671.

37 Tarek El-Tablawy, "Egypt Slashes Fuel Subsidies to Ease Pressure on State Finances," *Bloomberg*, July 5, 2019.

38 "Egypt changes wheat farmers' subsidy system," *Zawya*, November 5, 2015.

39 Sikandra Kurdi, Mai Mahmoud, Kibrom A. Abay, and Clemens Breisinger, "Too much of a good thing? Evidence that fertilizer subsidies lead to overapplication in Egypt," *International Food Policy Research Institute Middle East and North Africa*, March 2020.

40 Eric Knecht, "Egypt's new wheat subsidy could cut future wheat harvests," *Reuters*, November 18, 2015.

41 "Egypt changes wheat farmers' subsidy system," *Zawya*, November 5, 2015.

42 "WFP and government of Egypt launch partnership to improve food security for the most vulnerable," *United Nations Food Programme*, May 28, 2018.

43 "Egypt 2017 Article IV Consultation", International Monetary Fund, 2017, p. 16.

44 Hanaa Kheir El Din, Samiha Fawzy, Amal Refaat,"Investment Incentives, Marginal Effective Tax Rates and the Cost of Capital in Egypt" Economic Research Forum 2000.

Opportunity

1. Simplify the business and income taxation regimes.
2. Increase progressivity of the personal income tax and strengthen compliance through administrative reforms, especially for professionals.[45]

ENVIRONMENT FOR BUSINESS CREATION (EGYPT RANK: 46TH)

Entrepreneurial activity is the manifestation of a healthy and dynamic society, in which ideas are constantly being created, developed, and tested. It is important that the process of turning ideas into success is as easy and accessible as possible. Government, and hence society, can benefit by providing a supportive environment that appreciates and values the contribution entrepreneurs can make towards improvements in prosperity.

The time and cost of starting a business have been regularly cited as a top constraint for investors in Egypt.[46] However, over recent years it has become significantly easier. Egypt has climbed from 100th to 46th for the Environment for Business Creation over the last decade. The time needed to start a business in Egypt is now quicker than the regional average. It now takes about 6 procedures and 13 days to start a business, compared to 7 procedures and 20 days in the wider region.[47] The requirement to obtain a certificate of non-confusion has also been removed and the "one-stop shop" improved.[48] However, there are still delays related to state bureaucracy, particularly with regard to obtaining permits. Whilst the average cost of starting a business in Cairo is low, obtaining the required permits is often a difficult and time-consuming process, particularly for small start-ups.[49]

Egypt's cluster development strategy, which is centered around the Special Economic Zones law introduced in 2020, is a strength.[50] This law provides for tax and duty exemptions and more flexible labour regulations in the zones.[51] A range of clusters are present, such as textiles and ICT in Ismailia, and renewable energy generation near Ain Sokhna.[52] A major initiative was the establishment of the Suez Canal Economic Zone (SCEZ) in 2014.[53] This zone simplifies time-consuming bureaucratic procedures[54] and has attracted investment in electronics and appliance manufacturing, maritime industries, and other heavy industries.[55]

However, as discussed elsewhere, the broader environment for private business is likely still deterring business creation. In particular, the contestability of domestic markets could be improved. In addition, labour market skills have been and remain a major area of challenge, with a substantial shortfall in vocational skills.

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45 "Arab Republic of Egypt, IMF Country Report No. 18/14" *International Monetary Fund*, 2014.

46 "Arab Republic of Egypt: selected issues" *International Monetary Fund*, 2017. p. 10.

47 Ibid.

48 "Doing Business 2020," *World Bank*, 2020,

49 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 142.

50 "Egypt's Special Economic Zones: An Attractive Investment Opportunity," *Al Tamimi and Co*, March 2018.

51 "2019 Investment Climate Statement: Egypt," *U.S. Department of State*, 2019.

52 "The Report: Egypt 2019," *Oxford Business Group*, 2019, p. 117.

53 Ibid, p. 116.

54 Ibid, p. 117.

55 Ibid, p. 35.

There is a reported mismatch between education outcomes and more dynamic labour demand, which has often contributed to high unemployment.[56] There is a significant skills mismatch, with an ILO survey showing that almost half of working young people are in occupations that do not match their level of education, the vast majority being undereducated.[57] A particular issue is vocational education and training programmes. A 2015 study found these programmes have the general perception of being considered inferior to university programs, said to lack prestige, and are considered "low status".[58]

Education is set as a priority in Egypt's "Vision 2030", and President Al Sisi declared 2019 'The Year of Education'. In line with this, vocational education and training has gained importance. However, the sector remains highly fragmented and previous attempts to establish over-arching governing models have failed. In 2019, prominent task forces were established to set up a dedicated authority for quality assurance for vocational education and to establish the Technical and Vocational Teachers' Academy.[59] Close monitoring and evaluation of outcomes would help ensure they tackle this long-standing issue.

The country is also beginning broader efforts to improve human capital. Egypt joined the World Bank's Human Capital project in 2018, and estimates for the programme found that, on average, a child born in Egypt in 2020 will be 49% as productive when they grow up as they could have been if they enjoyed complete education and full health. Under this programme, $400 million was approved in June 2020 to support the roll-out of Egypt's Universal Health Insurance System, and $500 million to help increase families' access to quality early childhood education and catalyse the use of digital resources for teaching and learning.[60] Other initiatives already in place include the Takaful and Karama conditional cash transfer program, which provides support to poorer households on certain conditions such as visiting the doctor and attending nutritional awareness sessions, and children attending schools. The Egyptian government is piloting an expansion of this kind of support with a new program called "Forsa".[61]

Opportunity

1. Closely monitor and evaluate the new efforts to improve vocational education and training programmes to ensure that there is a closer match between job seekers skills and business needs.
2. Ensure long-term commitment to programs to improve human capital, through both the World Bank's Human Capital project and wider programmes.

56 "Egypt: Education, training, and employment developments," *European Training Foundation*, 2019.

57 Adel Abdel Ghafar, "Educated but unemployed: the challenge facing Egypt's youth," *Brookings Doha Center*, July 2016.

58 José-Luis Álvarez-Galván, "A Skills beyond School Review of Egypt," *OECD Reviews of Vocational Education and Training*, 2015.

59 "Egypt: Education, training, and employment developments," *European Training Foundation*, 2019.

60 Maria Laura Sanchez Puerta, "Given COVID-19, Egypt's investments in human capital are increasingly crucial," *World Bank Blogs*, September 16, 2020.

61 "Investing in People: An Ongoing Partnership with Egypt," *The World Bank*, October 15, 2019.

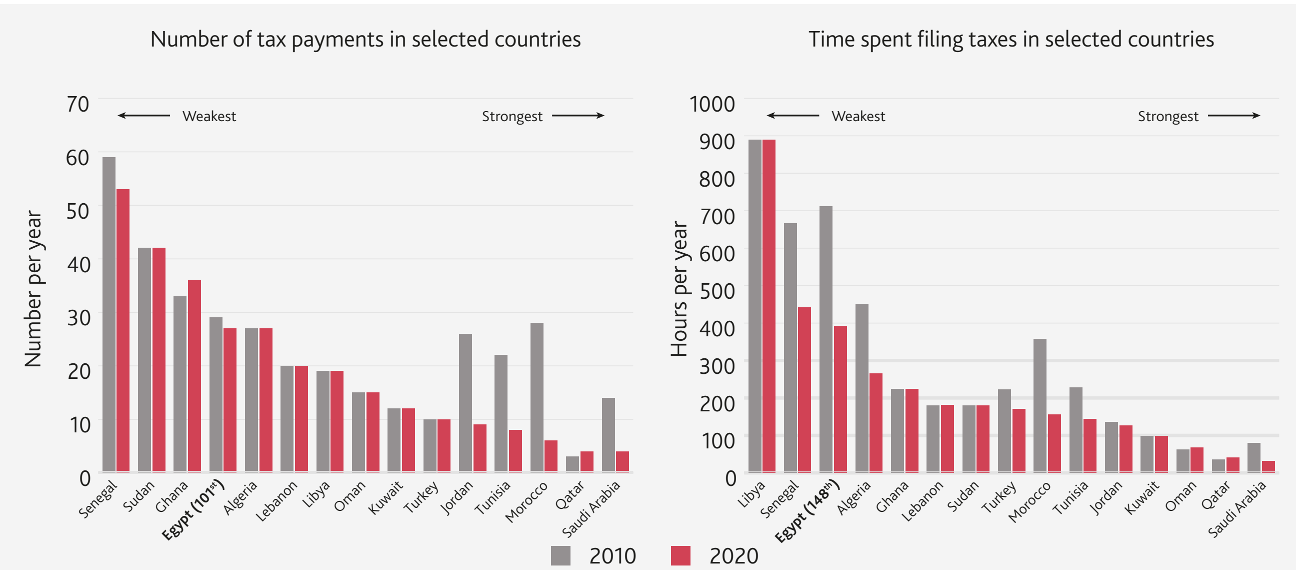
BURDEN OF REGULATION (EGYPT RANK: 110TH)

A large administrative burden results in companies focusing resources on complying with these regulations, rather than innovating and creating. In particular, the process of complying with tax regulations should be uncomplicated and quick. While the possibility of taxation having a detrimental effect on business is well understood, so too is the method of tax collection and the complexity of taxes being levied. Our measure captures how much effort and time are required to comply with such regulations.

Egypt ranks 110th for the burden of regulation, reflecting a range of burdens on business. Alongside the negotiation of IMF loans, there have been some reforms to ease business regulations and make them more transparent.[62] However, the reforms have not resulted in a significant lessening of burdens and the country's ranking has declined six places as other countries have improved faster. A more systematic approach to reducing regulatory and taxation burdens may be required to make a sustained improvement for Egyptian businesses.

The administrative burden of taxation has improved, partly because the number of tax payments required dropped slightly, but mostly because the time spent filing them fell by almost a half at the beginning of the decade. In 2016, a sales tax was replaced by a VAT system, with tax due and reclaimable throughout the production chain until the final consumer.[63] An online system for filing and payment of corporate income tax and VAT has been introduced[64] and, in September 2019, the government announced that it is working on a bill to further unify tax procedures.[65] The proposed law would create a single tax platform to file income tax, VAT, real estate returns, and stamp tax.[66]

Figure 6: Number of tax payments and the time spent filing taxes



Source: WBDB

62 "BTI 2018 Country Report – Egypt," *Berteslmann Stiftung*, 2018.

63 "Egypt VAT Rates," *Avalara*, 2020.

64 "Ease of Doing Business Report 2020 – Egypt, Paying Taxes," *World Bank*, 2020.

65 Yousef Saba, "Egypt overhauling tax procedures to lure investors: finance minister," *Reuters*, September 9, 2019.

66 "Parliament gives a preliminary approval on proposed Unified Tax Law," *Al Borsa*, August 24, 2020.

The time businesses spend complying with regulations has improved from 9% to 7% over the decade, but the country's ranking for the burden of government regulation has declined from 73rd to 109th. The Egyptian Regulatory Reform and Development Activity (ERRADA) initiative, launched in 2008, has better quality regulation as part of its purpose. Its objectives include streamlining business-related regulations, and the introduction of regulatory impact assessment.[67] Regulatory reform requires a both a strong mandate from senior government and a cross-government approach to identify the areas that cause business the most substantial burdens. However, current indicators show progress is slow, suggesting the mandate and resources are not yet sufficient to make a substantial impact.

Opportunity

1. Focus tax reform efforts on improving the productivity and growth of Egyptian business, as opposed to widening the tax base.
2. Give the Egyptian Regulatory Reform and Development Activity (ERRADA) a stronger mandate (and matching resources) to create a systematic approach to reducing regulatory and taxation burdens.

LABOUR MARKET FLEXIBILITY (EGYPT RANK: 52ND)

Labour Market Flexibility helps to simultaneously ensure the availability of jobs and the protection of workers. Without a well-functioning labour market, jobs are likely to be scarce, and available jobs may well be unappealing, with little redress available for those who find themselves in a bad employment situation. Our measure captures how dynamic and flexible the workplace is for both employer and employee.

Egypt continues to benefit from its unified labour law of 2003 that increased its Labour Market Flexibility. This law allowed for greater flexibility in hiring and firing practices, a key bottleneck for Egyptian employers, and has since had a positive impact on formal employment.[68] Labour Market Flexibility has seen a continuous, strong improvement over the last decade, with Egypt now ranking 52nd globally.

However, redundancy costs remain a major constraint on labour market flexibility. Companies dismissing workers incur costs equivalent to 37 weeks in wages which is high globally, although does represent an improvement from a decade ago when the equivalent figure was 132 weeks. There are also other difficulties with dismissing employees,[69] with many employers needing to engage in lengthy court proceedings in order to do so.[70] This means companies often hire workers on temporary contracts,[71] or resort to irregular procedures such as having employees sign an undated resignation letter when they are being hired.[72] This indicates that labour market protections still undermine the formal regulations in some areas.

There is also a large informal sector in Egypt, estimated at between 37% and 68% of GDP.[73] Some economists consider this informal sector the most job-creating and market-oriented sphere

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67 "ERRADA: Enhance Business Environment through Better Regulations," *ERRADA*, 2020.

68 Wahba, Jackline, and Ragui Assaad. "Flexible labor regulations and informality in Egypt," *Review of Development Economics 21*, no. 4 (2017): 962-984.

69 "2019 Investment Climate Statement: Egypt," *U.S. Department of State*, 2019.

70 Ayman Nour, "The Need for Labour Law Reform in Egypt," *Al Tamimi and Co*, July 2019.

71 "2019 Investment Climate Statement: Egypt," *U.S. Department of State*, 2019.

72 Ayman Nour, "The Need for Labour Law Reform in Egypt," *Al Tamimi and Co*, July 2019.

73 "Addressing informality in Egypt," *African Development Bank*, 2016.

Redundancy costs remain a major constraint on labour market flexibility. Companies dismissing workers incur costs equivalent to 37 weeks in wages.

of the economy, particularly when compared to the state-owned economy with high military involvement.[74] A 2013 study found that only 16% of young workers have a signed contract with their employers, and only 15% have social insurance benefits.[75] Such workers are clearly therefore unprotected by labour market regulations, and most of these activities are driven by making a daily livelihood rather than growth and accumulation, so the informal sector is characterised by low growth in the long-run.[76]

The informal sector has grown since the 1990s. In part this is because the formal sector of the economy has not grown quickly enough to accommodate a rapidly increasing population.[77] In addition, the growth of the informal economy has been driven by the perceived costs, both legal and corrupt, of joining the formal sector. Legalisation costs are relatively higher for smaller enterprises and in 2010 it was estimated that around 80% of all micro and small businesses are informal.[78]

Egypt has a minimum wage, which was raised by 67% in 2019 to $116 a month, alongside an increase in pensions of 15%.[79] However, the wage increase is likely to just increase wages of those who already earn more than the median average, as 75% of workers in the large informal sector earn less than the minimum wage.[80] Egypt also has an Unemployment Insurance Law that sets a fund to compensate employees whose wages are suspended due to partial or complete closure of their firm or due to its downsizing.[81]

Opportunity

1. Expanding the scope of the Unemployment Insurance Law alongside reducing the costs and burdens of dismissing workers.
2. Aim to increase the attractiveness of the formal private sector by reducing costs, simplifying taxes to make them more predictable, and tackling corruption.

74 "BTI 2018 Country Report – Egypt," *Berteslmann Stiftung*, 2018.

75 Ghada Barsoum, "No Jobs and Bad Jobs," *The Cairo Review of Global Affairs*, 2013.

76 Amro Aldy, "Informal Economy in Egypt: Realities of Marginalisation and Illusions of Empowerment," *As-Safir Al-Arabi*, August 21, 2018.

77 "Addressing informality in Egypt," *African Development Bank*, 2016.

78 Osman El Sharnoubi, "Costs And Benefits Of Working In The Informal Economy," *World Crunch*, July 29, 2019.

79 "Egypt's Sisi raises minimum wage to help assuage economic hardships," *Reuters*, March 30, 2019.

80 Amirah El-Haddad, "Raising Egypt's minimum wage: the impact on inequality," *Economic Research Forum*, April 30, 2019.

81 "2019 Investment Climate Statement: Egypt," *U.S. Department of State*, 2019.

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GOVERNANCE (EGYPT RANK: 146TH)

The importance of good governance to long run economic growth cannot be overstated.[1] Even when controlling for extraneous factors such as culture, there is evidence that economic institutions are one of the main determinants of differences in prosperity across countries.[2] Governance underpins economic activity; unless and until good governance is established, attracting investment and enterprise is nearly impossible. Investment and prosperity require the effective Rule of Law, which itself is dependent upon trust in a robust set of effective and accountable state institutions.[3,4] Good governance is most robust when it has been established over time through natural evolution and is essentially a codification of cultural expectations and behaviours.[5]

Egypt ranks 146th on Governance and has fallen 30 places over the last decade, with deteriorations across each element of Governance in the index. Executive Constraints and Political Accountability have worsened following the political upheavals of the decade. Government Integrity has also deteriorated as the transparency of government policy is seen to be significantly worse. Judicial independence and integrity has been a relative strength, but recent constitutional amendments may weaken this. The efficiency of government spending has improved somewhat as part of the reform package agreed with the IMF.

In the following sections, we review the performance of Egypt in each of the distinct elements of Governance, from Executive Constraints through to Regulatory Quality.

EXECUTIVE CONSTRAINTS (EGYPT RANK: 158TH)

A well-functioning government relies on clearly defined, separated powers and an appropriate level of external checks and balances on the executive, from bodies such as the judiciary, media, and civil society. Appropriate action also needs to be taken when officials violate their power. Our measure accounts for the extent of institutionalised constraints on the decision-making powers of the executive, such as through the separation of powers into different bodies, and the degree to which there are checks and balances in practice.

Executive constraint in Egypt deteriorated both during and after the three years of political instability that started with the Egyptian Revolution. Although the broader MENA region has also experienced a deterioration in governance over this time, it has been to a lesser degree than that of Egypt. Egypt's ranking has hence declined from 121st to 158th. The combination of a concentration of executive power with substantial state involvement in the economy links to multiple issues for the business environment discussed elsewhere in this report. These include an unfair competitive environment, weak contract enforcement, and difficulties experienced in growing exports. These issues are likely to constrain both the domestic private sector and foreign investment in the economy.

1 Douglass C. North, *Institutions, institutional change, and economic performance*, Cambridge: Cambridge University Press, 1990.

2 Acemoglu, Daron, and James Robinson. "The role of institutions in growth and development," *Leadership and Growth* 135 (2010).

3 O'Donnell, Guillermo A. "Why the rule of law matters." *Journal of Democracy 15*, no. 4 (2004): 32-46.

4 Haggard, Stephan, and Lydia Tiede, "The rule of law and economic growth: Where are we?" *World Development 39*, no. 5 (2011): 673-685.

5 Adkisson, Richard V., and Randy McFerrin, "Culture and good governance: A brief empirical exercise," *Journal of Economic Issues 48*, no. 2 (2014): 441-450.

In the last 10 years, Egypt has seen substantial political instability. In 2011, long-time President Hosni Mubarak stepped down, following anti-government demonstrations that became known as the Egyptian Revolution. Power passed to the Supreme Council of Armed Forces.[6] In parliamentary elections later that year, the Muslim Brotherhood won the majority of seats in the House of Representatives. Mohamed Morsi, a Muslim Brotherhood candidate, narrowly won the Presidential election in 2012. However, he was overthrown by the army a year later, following mass protests criticising economic mismanagement and attempts to establish a new constitution.[7] An interim administration led by the chief justice of the Supreme Constitutional Court was created to govern the country.[8] A new constitution was established, under which religion-based parties were banned. In 2014, Abdel Fattah al-Sisi (former commander of the armed forces) won the subsequent presidential election that was marked by low turnout, boycotts, and discontent.[9] In 2017, following deadly attacks on two churches, the President declared a state of emergency, which is still in place.

Presidential power has been consolidated through legislation, including amendments to the constitution, lengthening the presidential term from four to six years

Presidential power has since been consolidated. In 2019, amendments to the constitution prolonged presidential terms to six years from four and implemented a second chamber in the parliament, of which a third of members are appointed by the President.[10] New legislation requires military personnel to be endorsed by the Supreme Council of the Armed Forces—headed by the President—before running for public office, even after they have left army service.[11]

The judiciary has also exerted some constraint on the executive in the past. It is respected as an institution and has functioned with relative independence, particularly in the case of the State Council. On the other hand, in practice its politicisation has limited the extent to which it operates free from executive influence.[12] The recent increase in presidential control of leadership appointments has further undermined judicial independence. So too has the forcible retirement of 59 judges by judicial disciplinary committees, whose decisions are signed off by the President.[13]

The involvement of the military in politics and the law has increased over the past decade, with Egypt's ranking deteriorating from 102nd to 155th. Constitutional amendments made in 2019 increased the military's already considerable independence from civilian oversight and its constitutional role in civilian governance.[14] The amendments expand the role of the armed forces to include "safeguarding the constitution and democracy, maintaining the foundations of the state and its civilian nature, the gains of the people, and the rights and freedoms of the individual." The vague language employed in this amendment could empower the military with the right to interpret the constitution and determine whether it is being sufficiently safeguarded, raising significant questions about how this role will interact with and possibly supersede the roles of the judicial and legislative branches.[15]

In addition, the military is also involved in business, particularly in construction and infrastructure projects. However, the establishment of the Sovereign Wealth Fund, which will sell stakes in some military-owned companies, may be a vehicle that can be used to reduce some military involvement.[16]

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6 Bahey Eldin Hassan, "New Political Struggles for Egypt's Military," *Carnegie Endowment for International Peace*, May 9, 2019.

7 Yasmine Saleh, Maggie Fick, "Egypt army gives Mursi 48 hours to share power," *Reuters*, July 1, 2013.

8 "Government and society," *Egypt*, Britannica, accessed June 05, 2020.

9 Stephen Kalin, Maggie Fick, "Egypt's Sisi wins election, faces economic challenges," *Reuters*, May 29, 2014.

10 "Freedom in the World 2019: Egypt," *Freedom House*, 2019.

11 Honoré Banda, "Sisi's power reinforced after passing of new law," *The Africa Report*, July 8, 2020.

12 "BTI 2018 Country Report – Egypt," *Berteslmann Stiftung*, 2018.

13 Ahmed Aboulenein, "How Egypt's crackdown on dissent ensnared some of the country's top judges," *Reuters Investigates*, October 18, 2016.

14 "Freedom in the World 2019: Egypt," *Freedom House*, 2019.

15 Mai El-Sadany, "Egypt's Constitutional Amendments Further the Decay of State Institutions," *Lawfare*, June 17, 2019.

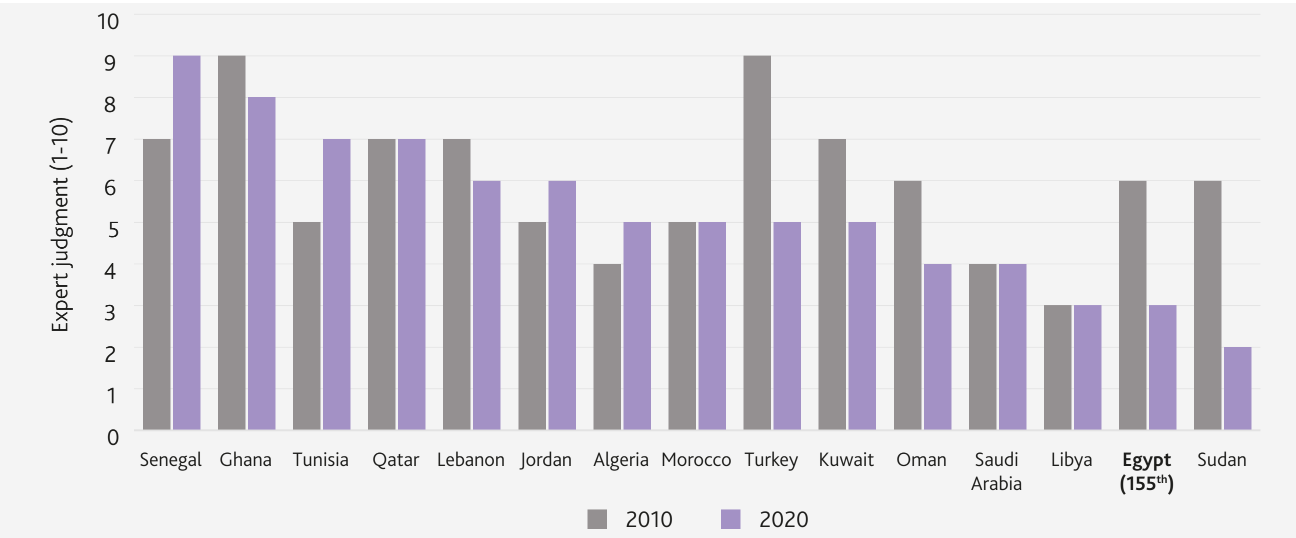
16 "Egypt military brings in sovereign fund to help sell assets," *Reuters*, February 3, 2020.

POLITICAL ACCOUNTABILITY (EGYPT RANK: 153RD)

Political Accountability is important for promoting democracy and ensuring prosperity. It provides a democratic means to monitor government conduct and prevent both the concentration of power and collusion between the state and big businesses. Our measure of Political Accountability captures the degree to which the public can hold public institutions to account, which covers a range of mechanisms of accountability such as periodic elections and the degree of political pluralism.

Democracy in Egypt has been associated with significant turbulence—poor economic performance, price hikes, and a lack of stability—as the country underwent considerable political change.[17] For some Egyptians it represents better standards of living as observed in the West, but for others this association with the West gives the concept of democracy negative connotations of American interventionism.[18] Democracy has become a lesser concern for the majority of Egyptians, with a focus instead on achieving justice and welfare reform as priority.[19] The economic situation is seen as a priority by 90% of Egyptians, whereas democracy is seen as a priority by only 3%.[20] As a result, there is little consensus regarding democracy and a market economy as a goal, with Egypt's ranking declining to 147th.

Figure 7: Consensus on democracy and a market economy in selected countries



Source: BTI

Elections for the President and national legislative representatives are held. However, voter intimidation, vote buying,[21] and violations of finance regulations have all been alleged.[22] Voter turnout has remained consistently below 40% since the beginning of the Egyptian Revolution, with the exception of the 2012 presidential election.[23] Direct judicial supervision of elections will be phased out by 2024, in a move that is expected to damage the integrity of elections and erode public trust in their outcomes.[24]

17 "BTI 2020 Country Report – Egypt," *Berteslmann Stiftung*, 2020.

18 Farah Oraby, "What Really Happened to Egyptian Democracy?" *Berkeley Political Review*, April 30, 2018.

19 "BTI 2020 Country Report – Egypt," *Berteslmann Stiftung*, 2020.

20 Amr Hamzawy, "Can Egypt's Democratic Hopes Be Revived?" *Journal of Democracy 4 (no. 30)*, 2020. p. 158-169.

21 "Freedom in the World 2019: Egypt," *Freedom House*, 2019.

22 Lisa Rosenberg, "Secret financing in Egyptian presidential elections," *Sunlight Foundation*, May 22, 2014.

23 "BTI 2020 Country Report – Egypt," *Berteslmann Stiftung*, 2020.

24 "Freedom in the World 2019: Egypt," *Freedom House*, 2019.

Furthermore, local elections have not been held since all local councils were dissolved in 2011. A new bill on local administration is still in process.[25] Egypt's democracy level ranks it 141st, a decrease of 11 places compared with a decade ago.

Political accountability is about more than elections alone. Degrees of political legitimacy can also be established though other means of leaders accepting limitations on their power when in office, in the form of both formal and informal executive constraints. An active civil society can be one of those mechanisms.

However, civil society in Egypt has also been constrained in recent years, limiting its ability to effect change. Non-governmental organisations (NGOs) have faced mass closures as well as harassment in the form of office raids, arrests of members, lengthy legal cases, and restrictions on travel.[26] A highly restrictive law passed in 2017[27] was replaced with one that removed some of the clauses that most exposed civil society organisations to dissolution. However, hurdles remain for civil society organisations, with substantial financial penalties (replacing jail penalties) and the need for full confirmation from administrative authorities before establishment of new NGOs.[28]

RULE OF LAW (EGYPT RANK: 105TH)

An independent, impartial, and effective judiciary is a cornerstone of democracy, as it ensures that the law, both civil and criminal, is being fairly and appropriately applied. It also means that business disputes are settled in an open, unbiased, transparent, and predictable manner, which is essential for business development and investment. There needs to be a level playing field for both state agents and firms so that firms can thrive. Our measure of the Rule of Law captures these elements, along with the accountability of the public to the law.

The rule of law in Egypt has deteriorated over the past 10 years, with its ranking falling to 105th from 80th.

While the Egyptian judiciary has historically been perceived as highly independent, recent reforms have challenged this independence.

The Egyptian judiciary has historically been perceived as highly independent: impartiality, independence, and integrity remain deep-rooted in the mind of Egyptian judges.[29] In 2016, an ex-U.S. Department of Justice Attaché commented that in "Egypt's balance—or competition—of powers, the judiciary is far more independent than commonly understood. Egypt's judiciary is institutionally quite autonomous, and as a general rule its judges are fiercely protective of their independence". In particular, he noted that "the constitution provided that the Supreme Constitutional Court not only selects its own members and chief justice, it even decides how many justices will serve on the court".[30]

However, some rulings and interventions from the judiciary were seen as having political dimensions. 59 judges forced into retirement since 2013 were found to have broken a law that prohibits judges from "practising politics".[31] Following the assassination of Hisham Barakat, Egypt's Prosecutor General, by suspected Islamic militants,[32] several constitutional amendments

25 "BTI 2020 Country Report – Egypt," *Berteslmann Stiftung*, 2020.

26 "Freedom in the World 2020: Egypt," *Freedom House*, 2020.

27 "NGO law threatens to annihilate human rights groups," *Amnesty International*, May 30, 2017.

28 Mira Maged, "Egypt's NGO law: A breakthrough for civil society work, though critics want more," *Egypt Independent*, July 19, 2019.

29 Dr. Mohamed Nour Farhat, Counselor Ali Sadek, "'Promoting the Rule of Law and Integrity in the Arab Countries' Project," *The Arab Center for the Development of the Rule of law and Integrity*, 2007.

30 David Risley, "Egypt's Judiciary: Obstructing or Assisting Reform?" *Middle East Institute*, January 2016.

31 Ahmed Aboulenein, "How Egypt's crackdown on dissent ensnared some of the country's top judges," *Reuters Investigates*, October 18, 2016.

32 "Assassination of Hisham Barakat Prompts Solidarity and Soul-Searching," *Middle East Policy Council*, accessed October 20, 2020.

were made in 2019. These include the granting of the right to choose the Supreme Constitutional Court's (SCC) President[33] and its new members to the Egyptian President, alongside the establishment of the Supreme Council for Judicial Bodies and Agencies, chaired by the President, to manage all common matters relating to the judiciary.[34] The President also now approves decisions made by the judicial disciplinary committee.[35]

Together with the fact that an increasing proportion of civil cases are tried in military courts,[36] the consolidation of Presidential power over the judicial system has contributed to a deterioration in the integrity of the legal system over the last decade. This raises political risk for businesses looking to invest in Egypt, particularly when they may be investing in sectors where the state has an economic interest.

Opportunity

1. Introduce an independent judicial appointments commission, instead of appointments by the President.
2. Use civilian justice in as wide a range of circumstances as possible.

GOVERNMENT INTEGRITY (EGYPT RANK: 119TH)

Corruption has a serious and significant negative economic impact, reducing public trust and the legitimacy of the state. It raises inequality, discourages private sector development, and, by reducing government revenue, limits the ability of governments to invest in productivity-enhancing projects. Transparency supports public accountability and helps build trust in the government, which in turn supports social stability and economic growth. Our measure considers corruption within each branch of government and public office, and it also measures transparency, capturing the degree to which government fosters citizens' participation and engagement through open information and transparent practices.

The integrity of government in Egypt could improve significantly as it is ranked 119th globally.

Corruption was one of the grievances of the 2011 protests,[37,38] and is seen to be pervasive in Egyptian politics.[39] It has a considerable impact on public finances[40] and directly impacts the domestic business environment. For example, the most recent World Bank Enterprise Survey found that 41% of Egyptian firms requiring a construction permit were requested or expected to give gifts or informal payments; the same survey found that corruption was the third biggest barrier for firms.[41] There is evidence that political connections can lead to direct economic benefits. For example, in 2015 the World Bank found that Egyptian firms that have political connections have about a 15% probability of receiving exclusive benefits, such as exemptions from corporate taxes or customs duties.[42]

33 "Constitutional Amendments Entrench Repression," *Human Rights Watch*, April 20, 2019.

34 Amy Hawthorne, Mohamed Al Ansary, Mahmoud Farouk, and Ahmed Rizk, "Between a Rock and a Hard Place: How Egypt's Constitutional Amendments Erode Judicial Independence," *Project on Middle East and Democracy*, April 18, 2019.

35 Ahmed Aboulenein, "How Egypt's crackdown on dissent ensnared some of the country's top judges," *Reuters Investigates*, October 18, 2016.

36 Mai El-Sadany, "Egypt's Constitutional Amendments Further the Decay of State Institutions," *Lawfare*, June 17, 2019.

37 Alessia Melcangi and Giuseppe Dentice, "Egypt's latest protests are an alarm bell for Sisi," *Atlantic Council*, October 21, 2019.

38 "Unrest in 2011: January 25 Revolution," *Egypt*, Britannica, accessed June 05, 2020.

39 "BTI 2020 Country Report – Egypt," *Berteslmann Stiftung*, 2020.

40 Ahmed Alaa Fayed, "The Current Status of Corruption in Egypt," *Contemporary Arab Affairs no. 4 (10)*, 2017, p. 511.

41 "Enterprise Surveys, Egypt 2020," *World Bank*, 2020.

42 *Jobs or Privileges: Unleashing the Employment Potential of the Middle East and North Africa, MENA Development Report*, World Bank Group, 2015.

The availability and transparency of Government information, including expenditure, also leaves considerable room for improvement. Egypt's rankings for the Right to Information, Publicised Laws and Government Data, Transparency of Government Policy and Budget Transparency indicators have all fallen since 2010. The military's expenditure is particularly seen to lack any transparency, despite its involvement in major infrastructure and development ventures. Executive expenditure and operations also lack transparency.[43]

The Government has acknowledged the problem, and launched an anti-corruption strategy in 2014.[44] It pledged to implement transparency and accountability as a "main pillar" of the $12 billion it received from the IMF Extended Fund Facility.[45] The Administrative Control Authority (ACA) has led a crackdown on corruption, which has seen a number of senior government and business officials being jailed. These included the head of the Customs Authority, who was implicated in bribery,[46] and a number of senior officials who received bribes in return for accepting a tender bid from a commodities supply company.[47] However, the ACA is seen to lack independence from the government as senior posts are traditionally filled by former military personnel.[48]

Although crackdowns may secure convictions, the presence of systemic corruption is a symptom of a broader breakdown in the state-societal relationship. Corrupt behaviours are highly correlated with poor governance and economic outcomes, which means that improving the strength of a broad range of institutions tends to aid the reduction of corruption. Many examples of countries that have successfully tackled systemic corruption were able to address it through the gradual strengthening of their social contract, rather than as a result of any singular governmental effort to identify and prosecute those profiting from corruption.[49] Punitive measures will, on their own, prove insufficient as they fail to address these socio-economic root causes of systemic corruption.

In Egypt, improving the integrity of Government is intertwined with improving political accountability. A broad strategy to engineer opportunities for corruption out of the system would be needed. Consolidating and simplifying anti-corruption frameworks would be a first step to reinforce other reforms. A substantial widening of public access to government information and significantly increasing publication and auditing of government expenditure may reduce the opportunity for corruption. Unifying the approach to public procurement and ensuring transparency could also contribute. However, substantial improvement would require a reconstitution of the social contract so that economic, political, and legal structures were designed in such a way that it is in most individuals' long-term interests to abide by a country's laws.

43 "Freedom in the World 2019: Egypt," *Freedom House*, 2019.

44 "Egyptian National Anti-Corruption Strategy 2019-2022," *Administrative Control Authority*, 2019.

45 Jessica Noll, "Fighting corruption or protecting the regime? Egypt's Administrative Control Authority," *Project on Middle East and Democracy*, February 2019.

46 "Egypt upholds sentence of top customs official on corruption," *AP News*, February 23, 2020.

47 "A closer look at Egypt's ongoing anti-corruption battle," *Egypt Today*, August 10, 2018.

48 "BTI 2020 Country Report – Egypt," *Berteslmann Stiftung*, 2020.

49 Rothstein, B. "Anti-corruption: The indirect 'big bang' approach", *Review of International Political Economy*, 2011, p. 23.

Opportunity

1. Engineer opportunities for corruption out of the system.
   a. Eliminate institutional structures that allow discretionary decision-making that is prone to bribery.
   b. Revise laws to incentivise compliance, as opposed to focusing on catching infractions.
2. Increase government transparency.
   a. Enable public access to information and data.
   a. Require extensive publication and auditing of government expenditure.
3. Consolidate and simplify anti-corruption frameworks. This would reinforce the positive impacts of reforms to unify public procurement and increase transparency in public finances.

GOVERNMENT EFFECTIVENESS (EGYPT RANK: 125TH)

Government Effectiveness includes, but extends beyond, the efficient use of resources and spending through effective government policy design and implementation, to also consider the ability of a government to enact its stated strategies. Our measure includes the quality of public services, the quality of government officials, and their independence from government pressures.

Government effectiveness could be strengthened in Egypt. Egypt is ranked 125th for Government Effectiveness—below the regional average.

A major issue for Egypt is that the public sector has been used to provide attractive jobs for many decades. As part of the social contract before the Egyptian Revolution, public sector employees would enjoy lifetime job security, social protection, annual wage raises.[50] Constant recruitment without actual need has led to a state apparatus approaching seven million employees, around 25% of Egypt's total work force. This results in low efficiency in both providing public services and completing regulatory procedures.[51]

There is widespread public acknowledgement, even by the President, that the civil service could become more efficient and reduce its workforce. However, these reforms are challenging. The lack of political legitimacy leads to concerns around unrest, and the constrained private sector means there are fewer alternative opportunities. Therefore, this is unlikely to be brought about by redundancies. Instead, it is more likely that retiring employees will simply not be replaced.[52]

The large public sector also suffers from limited communication between departments that hampers effective coordination and policy implementation. Policymaking processes are constrained in large part due to hierarchical structures. In addition, the strong need for presidential approval is a barrier to effective dialogue between Government departments.[53]

One of the consequences of an ineffective civilian public sector is likely to be a strong incentive to use the military to deliver a wide range of projects. Whilst this may improve delivery in the short-term, this structure is likely to decrease transparency and crowd out the potential for the private sector.

50 Amirah El-Haddad, "Redefining the social contract in the wake of the Arab Spring: The experiences of Egypt, Morocco and Tunisia," *World Development (127)*, March 2020.

51 "BTI 2020 Country Report – Egypt," *Berteslmann Stiftung*, 2020.

52 "Millions of retiring Arab civil servants need not be replaced," *The Economist*, March 28, 2019.

53 "BTI 2020 Country Report – Egypt," *Berteslmann Stiftung*, 2020.

There are moves towards administrative reform. Promisingly, Egypt's receptive approach to IMF loan arrangements has contributed to a considerable improvement in the efficiency of government spending. The Government has implemented a number of measures, including subsidy cuts, new laws on investment and bankruptcy, and floating the Egyptian pound.[54] This is reflected in the improving rank for the efficiency of government spending, which has risen 29 places to 65th. A new public planning law is planned with decentralisation and promoting the role of local government a central focus.[55]

Recent institutional reforms have further strengthened efforts. The Central Authority for Organization and Administration (CAOA) is responsible for overseeing administrative reform, improving the capabilities of the civil service, and enhancing the efficiency of the State's administrative services.[56] In January 2020, the CAOA was split from the Ministry of Planning, Monitoring and Administrative Reform, and turned into an independent authority that reports directly to the Prime Minister. This change was intended to better focus administrative reform efforts. The agency's efforts have been geared towards institutional reform, civil service capacity building, integration of government datasets, and the improvement of the quality of government services.[57]

A detailed strategy document outlining the medium- and long-term plans to take Egypt forward was published in 2016. Called "Vision 2030", the strategy aims to take Egypt into the top 30 countries for a number of metrics, including GDP, market competitiveness, human development, anti-corruption, and quality of life. However, economic performance is seen to be the overarching priority for the Government, and many other issues which need extensive reform to address have not been tackled substantively.[58]

Opportunity

1. Continue with the strategy to improve administrative reform, including:
    a. Reducing roles in the civil service.
    b. Streamlining responsibilities.
    c. Appointing 30-50 professionals and leaders of exceptional integrity to become the Chief Executive/managers of government departments and agencies through a meritocratic process.
2. Moving forward with establishing decentralisation; building local-level capacity to ensure success of administrative reform. Strengthen the rules for governance of expenditure to ensure effectiveness.
3. Ensuring strong competition for government contracts and enhancing programme management to improve value for money.

54 BTI 2020 Country Report – Egypt," *Berteslmann Stiftung*, 2020.

55 Al-Ahram Weekly Editorial, "Embracing Decentralisation," *Al-Ahram*, Feb 11, 2020, 2020.

56 "Mandate of the Central Authority for Organization and Administration" *Central Authority for Organization and Administration*, 2020.

57 Ayat Ahmed, "An administrative reform strategy consisting of 5 axes and included in the 2030 Sustainable Development Strategy," *Al Balad*, June 29, 2020.

58 "BTI 2020 Country Report – Egypt" *Berteslmann Stiftung*, 2020.

REGULATORY QUALITY (EGYPT RANK: 143RD)

Regulatory Quality encompasses all aspects of the running of the regulatory state – whether it is burdensome and impedes private sector development, or whether it is smoothly and efficiently run. Our Regulatory Quality measure encompasses both the quality of, and burden imposed by, governmental regulation.

Regulatory quality in Egypt is poor, and is hindered by the legislative drafting process. Methodologies used in government for preparing legislation are inconsistent, which filters through to inconsistency in regulatory frameworks. Moreover, the absence of written standards and guiding principles, ad-hoc review of legislation, and lack of formal consultation with stakeholders, also limit the country's regulatory quality.[59] Egypt is ranked 143rd for regulatory quality, consistently outperformed by its regional peers over the past decade. Putting in place more rigorous and consistent processes could bring substantial benefit.

The involvement of civil society can also improve regulatory quality. However, given the strict laws on activities of NGOs mentioned under discussion of the rule of law, the scope for civil society or other independent input into the development of regulations and policy is limited.[60]

The Egyptian Regulatory Reform and Development Activity (ERRADA) initiative launched in 2008 has better-quality regulation as part of its purpose. It seeks to enhance the business environment through the review of business-related regulations and aims to tackle problems such as the complexity of overlapping regulations and inconsistency in regulation drafting across ministries. Its objectives include making all business-related regulations accessible to the public electronically and seeking to introduce regulatory impact assessment.[61] However, it has not yet had the remit or resources to make a substantial difference.

Opportunity

1. Give ERRADA a stronger mandate to ensure that responsibility for streamlining the regulatory framework rests in one place.
2. Develop written standards and guiding principles for regulatory frameworks, ensuring consistency.
3. Consult formally with stakeholders on legislation to ensure its quality, establishing institutionalised consultation mechanisms.

59 "Good Governance in Egypt: Legislative Drafting Manual for Better Policy," *OECD*, 2019, p. 36.

60 "BTI 2020 Country Report – Egypt," *Berteslmann Stiftung*, 2020.

61 "ERRADA: Enhance Business Environment through Better Regulations," *ERRADA*, 2020.

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CONCLUSIONS

While true prosperity is about much more than economic success and material wealth, every nation still needs a successful economy to build sustainable prosperity. Our intention in publishing this case study of Egypt's Economic Openness has been to identify the country's achievements, while also highlighting further opportunities for reform.

The political upheavals and associated economic instability of 2011-2014 exacerbated long-term structural challenges for Egypt. Since then, the government, with the financial support of the IMF, have stabilised the economy and carried out important economic reforms. Strengthening the country's banking system, the new investment and bankruptcy laws and simplifying and improving property rights have all improved the economic foundation. Prior to the COVID-19 pandemic, Egypt was one of the fastest growing emerging markets.[1]

However, the quality of governance in the country deteriorated, at the same time as the state became further involved in the economy. This contributed to the persistence of economic vulnerabilities such as under-performing exports[2] and low productivity caused by a lack of dynamism in the private sector. Shortfalls in effective governance risk undermining valuable improvements in the investment and business environment.

The country now faces a complex situation as the response to the COVID-19 pandemic reduces economic growth and puts further pressure on public finances. Growth is expected to be undermined by the impact of the pandemic on production and exports. Key sectors, such as tourism and natural gas, are expected to witness a slowdown. Population growth continues to create economic and social pressures as substantial investment is needed and the size of the labour force grows rapidly. With the potential for prolonged economic disruption the recovery of households' purchasing power may be restricted and the poverty rate could rise further.

However, our analysis suggests that Egypt has many untapped strengths to navigate the next few years and create the potential to create widespread opportunities for its population to prosper. Following our analysis across four pillars and 23 elements, we have identified the following core areas of opportunity to increase Economic Openness in Egypt.

Egypt could reduce dependence of the economy on public expenditure and benefit from the efficiency, skills, and financial resources of international businesses.

Egypt has tackled a number of challenges through the use of the public sector, such as the energy shortages of 2013/14. However, state-owned enterprises often get special privileges and crowd out the private sector. This lack of competition is not new. It has persisted for several decades, marginalises the private sector, and has been found to reduce firms' efficiency and limit the emergence of new, more productive firms, reducing productivity, growth, and job creation. Although investment through SOEs can increase employment in the short-run, jobs are likely to be domestically-focused and dependent on public finances.

To tackle this, Egypt could foster a level-playing field between public and private economic actors. Transparency is a crucial starting point. Publishing regular reports on state-owned enterprises disclosing detailed financial information would help establish the foundation for reform. The enforcement capacities of the Egyptian Competition Authority are constrained by a lack of clarity over its jurisdiction and limited technical and budgetary resources. The IMF has identified a package of reforms to strengthen its independence and resourcing that would improve the business environment.

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1 "Arab Republic of Egypt, IMF Country Report No. 20/266," *International Monetary Fund*, 2020.

2 "Egypt's Economic Update — April 2020," *World Bank*, 2020.

Although there has been increasing involvement of the state in recent years (including through the military), there has also been an expansion of the use of partnerships with the private sector. There is a substantial opportunity for Egypt to continue and deepen the opening of markets to competition. There has been increasing use of public-private partnerships in some sectors, including water. These examples could be built on to continue to revive a more comprehensive public-private partnership program across infrastructure sectors. There are also opportunities through the recently established Sovereign Fund of Egypt to develop investment partnerships with international investors. Finally, investment in improving public sector skills to partner with the private sector is important to ensure effective and efficient delivery.

Egypt could deepen trade agreements and focus on measures that foster exports rather than limit imports

Egypt has used a variety of restrictive trade measures to limit the import of low-quality products, ration imports, and increase reliance on local production to try to increase exports. However, such import substitution policies are often ineffective and harmful because they increase costs for both consumers and domestic businesses that import. More focus on facilitating exports could be a significant opportunity to expand trade and allow for removal of costly and time-consuming import barriers.

Small and medium sized companies could be particularly helped to export. The cost of exporting could be lowered by reducing administrative costs and working with trade partners to reduce tariff and non-tariff barriers for both importers and exporters. Improving access to information and supporting compliance with international standards would help companies overcome trade frictions. Finally, encouraging the growth of the export finance market would enable exporters to expand the range of markets they can access.

With an export-led approach, Egypt could make more of its wide range of trade deals that are currently limited in depth and scope. Future trade negotiations could target deeper trade agreements that address non-tariff measures and look to widen the inclusion of services and investment provisions.

Egypt could foster the business environment for small and medium sized enterprises to ensure the formal private sector becomes capable of generating more and better jobs that can boost shared prosperity and reduce poverty

There is a large informal sector in Egypt, estimated at between 37-68% of GDP. Some economists consider this informal sector to be the most job-creating and market-oriented sphere of the economy. However, most of these activities are driven by making a daily livelihood rather than growth and accumulation, so the informal sector is characterised by low growth in the long run. Egypt has already started trying to increase the size of the formal private sector. Efforts could be intensified by reducing costs, simplifying the tax regime, tackling corruption, and continuing with efforts to widen access to capital.

Many of these measures will also help those firms already in the private sector. For example, contract enforcement is costly and slow. Improving the speed and quality of contract enforcement through digitisation, improved training, and increased resources could substantially improve the investment environment. Labour market skills have also been a long-term challenge. However, recent efforts to improve vocational education and training programmes in particular hold promise. Through close monitoring and evaluation of these programmes there is now the potential to tackle this issue.

Regulatory and tax burdens also continue to be high. A more systematic approach to reducing regulatory and taxation burdens may be needed. Egyptian Regulatory Reform and Development Activity (ERRADA) could be given a stronger mandate and resources for this purpose.

Finally, Egypt has a strategic advantage in the digital sector. Fostering access to venture capital for growing firms could provide substantial returns to the Egyptian economy.

Improve public sector governance to reduce barriers to business growth

Governance in Egypt could improve significantly and risks undermining progress made elsewhere. The combination of concentrated power, substantial state involvement in the economy, and deteriorating judicial integrity affect the business and economic environment in multiple ways. Business risk is increased with the possibility that they may face unfair competition, weak contract enforcement or corruption.

To tackle corruption, Egypt could consolidate and simplify anti-corruption frameworks. This would reinforce the positive impacts of other potential reforms to unify public procurement and increase transparency in public finances. Although there have been a number of crackdowns, true reductions in corruption occur when economic and legal structures are designed in such a way that it is in most individuals' long-term interests to abide by a country's laws. Punitive measures fail to address the socio-economic root causes of systemic corruption. Egypt could take an approach that seeks to revise laws to incentivise compliance. Alongside this, substantially widening public access to government information and significantly increasing publication and auditing of government expenditure would reduce the opportunity for corruption. Tackling this issue is intertwined with improving political accountability, and substantial improvement will likely require a reconstitution of the Egyptian social contract.

There is a large and ineffective civilian public sector. This creates a strong incentive to use the military to deliver a wide range of projects. Whilst this may improve delivery in the short-term, this structure is likely to decrease transparency and crowd out the potential for the private sector. A number of reform efforts have been made. Continued effort to improve administrative reform, reduce roles in the civil service, and streamline responsibilities would not only improve efficiency, but could also allow for improved governance through increased civilian control of major public programmes. Building local-level capacity is also important to ensuring effective government.

The challenge of securing impetus on reform should not be underestimated. For nearly all dimensions of reform, including those that would benefit the majority of the population, there are powerful interest groups. For example—as in other countries—market liberalisation is opposed by incumbent enterprises that run the existing systems; liberalisation of foreign investment is resisted by dominant domestic firms; changes to public administration are viewed with suspicion by employees; and governance reform is opposed by those in positions of power.

Nonetheless, Egypt has substantial strengths that recent reform has shown could be harnessed to ensure its population can compete successfully in the world economy. There are a wide range of opportunities for Egypt to drive economic growth and prosperity in the coming years.

APPENDIX

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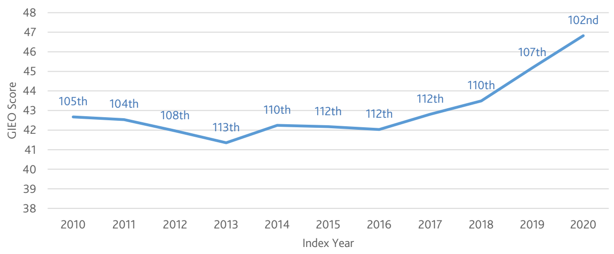
Egypt: GIEO Score 46.8 (102nd)

LEGATUM INSTITUTE

Economic Openness over time



Pillar Performance

Pillar Performance	Rank - Global (1 to 167) 2020	Score 2010	Score 10-year trend	Score 2020
Market Access and Infrastructure	88	40.0		54.0
Investment Environment	103	45.5		47.2
Enterprise Conditions	81	45.2		54.5
Governance	146	40.0		31.7

Breakdown of performance

Breakdown of performance	2010	Score 10-year trend	2020	Rank - Global (1 to 167) 2020	10-year rank change
Economic Openness	42.7		46.8	102	▲ 3
Market Access and Infrastructure	40.0		54.0	88	▲ 12
Communications	41.4		64.3	94	-
Resources	33.6		50.4	89	▲ 22
Transport	46.7		54.6	51	▲ 8
Border Administration	31.8		36.4	133	▲ 8
Open Market Scale	33.6		34.6	80	▼ 11
Import Tariff Barriers	36.0		47.5	126	▲ 19
Market Distortions	41.1		54.9	91	▲ 45
Investment Environment	45.5		47.2	103	▼ 2
Property Rights	48.6		48.2	104	▼ 14
Investor Protection	44.0		53.6	72	▲ 17
Contract Enforcement	20.3		27.2	163	▲ 2
Financing Ecosystem	57.4		63.1	71	▲ 14
Restrictions on International Investment	65.5		39.3	130	▼ 62
Enterprise Conditions	45.2		54.5	81	▲ 27
Domestic Market Contestability	45.0		47.4	96	▲ 6
Environment for Business Creation	52.8		70.4	46	▲ 54
Burden of Regulation	43.8		49.2	110	▼ 6
Labour Market Flexibility	45.8		55.1	52	▲ 39
Price Distortions	30.0		48.7	97	▲ 44
Governance	40.0		31.7	146	▼ 30
Executive Constraints	36.1		21.3	158	▼ 37
Political Accountability	37.9		25.7	153	▼ 22
Rule of Law	45.2		39.9	105	▼ 25
Government Integrity	45.0		35.4	119	▼ 40
Government Effectiveness	39.2		36.7	125	▼ 10
Regulatory Quality	35.0		28.4	143	▼ 37

Egypt: Market Access and Infrastructure (88th): Element and indicator scores

Italics: Indicator contains imputed values

Communications (94th)	Source	Unit	Weight	Value 2010	10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
Communications (94th)			25%	41.4		64.3	94	94
International internet bandwidth	ITU	kilobits per second per capita	1.0	34.3		47.7	120	114
2G, 3G and 4G network coverage	GSMA	index, 0-100	2.0	66.0		83.8	78	99
Fixed broadband subscriptions	ITU	number /100 population	1.0	1.0		6.7	91	93
Internet usage	ITU	percentage	1.0	18.0		46.9	84	100

Resources (89th)	Source	Unit	Weight	Value 2010	10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
Resources (89th)			20%	33.6		50.4	111	89
Installed electric capacity	UNESD	kilowatts per capita	1.5	0.3		0.5	94	90
Ease of establishing an electricity connection	WB-DB	index, 0-100	1.0	61.9		77.9	93	71
Reliability of electricity supply	WB-DB	index, 0-7	1.0	0.0		5.0	142	62
Gross fixed water assets	IBNET	USD per population served	1.0	31.8		31.8	116	116
Water production	IBNET	litres per capita per day	0.5	203.4		203.4	106	106
Reliability of water supply	WEF	expert survey, 1-7	1.0	4.7		4.8	71	71

Transport (51st)	Source	Unit	Weight	Value 2010	10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
Transport (51st)			25%	46.7		54.6	59	51
Logistics performance	WB-LPI	index, 1-5	1.5	2.5		2.9	107	71
Airport connectivity	WEF	index, 0-100	2.0	93,625.2		101,480.7	42	49
Efficiency of seaport services	WEF	expert survey, 1-7	2.0	4.6		4.8	38	41
Liner shipping connectivity	UNCTAD	index, rebased to 100 in 2004	0.5	45.7		66.7	23	17
Quality of roads	WEF	expert survey, 1-7	1.0	3.5		5.1	84	28
Road density	FAO	km per 100 sq km of land area	0.5	12.4		13.7	115	110
Rail density	UIC	km per sq km of land area	0.5	0.0		0.0	114	119

Border Administration (133rd)	Source	Unit	Weight	Value 2010	10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
Border Administration (133rd)			5%	31.8		36.4	141	133
Efficiency of customs clearance process	WB-LPI	survey, 1-5	1.5	2.1		2.6	135	79
Time to comply with border regulations and procedures	WB-DB	hours	1.0	112.0		160.3	132	155
Cost to comply with border regulations and procedures	WB-DB	USD (current)	0.5	390.4		477.9	126	145

Open Market Scale (80th)	Source	Unit	Unit	Value 2010	10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
Open Market Scale (80th)			5%	33.6		34.6	69	80
Domestic and international market access for goods	WTO	percentage of global GDP	1.5	31.5		31.6	41	55
Domestic and international market access for services	WTO	percentage of global GDP	2.0	0.7		0.7	93	96
Trade-weighted average tariff faced in destination markets	WEF	percentage	0.5	3.7		3.6	48	83
Margin of preference in destination markets	WEF	index, 1-100	0.5	46.2		49.0	52	52

Import Tariff Barriers (126th)	Source	Unit	Weight	Value 2010	10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
Import Tariff Barriers (126th)			5%	36.0		47.5	145	126
Share of imports free from tariff duties	WEF	percentage	1.5	42.6		59.2	104	84
Average applied tariff rate	WEF	percentage	2.0	16.0		13.6	162	155
Complexity of tariffs	WEF	index, 1-7	0.3	5.4		4.9	103	113

Market Distortions (91st)	Source	Unit	Unit	Value 2010	10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
Market Distortions (91st)			15%	41.1		54.9	136	91
Extent of liberalisation of foreign trade	BTI	expert survey, 1-10	1.0	6.0		7.0	112	90
Prevalence of non-tariff barriers	WEF	expert survey, 1-7	1.0	3.9		4.5	134	67
Non-tariff measures	*UNCTAD*	*number*	*0.3*	*565.5*		*565.5*	*85*	*85*

Egypt: Investment Environment (103rd): Element and indicator scores

Italics: Indicator contains imputed values

Property Rights (104th)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
Property Rights (104th)			30%	48.6		48.2	90	104
Protection of property rights	WEF	expert survey, 1-7	1.0	4.7		5.1	68	34
Lawful process for expropriation	WJP	expert survey, 0-1	1.0	0.47		0.44	119	126
Intellectual property protection	WEF	expert survey, 1-7	2.0	3.6		3.8	71	91
Quality of land administration	WB-DB	index, 0-30	1.0	7.0		9.0	128	118
Procedures to register property	WB-DB	index, 0-100	1.0	54.2		55.0	111	121
Regulation of property possession and exchange	BTI	expert survey, 1-10	1.0	7.0		5.0	64	110

Investor Protection (72nd)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
Investor Protection (72nd)			20%	44.0		53.6	89	72
Strength of insolvency framework	WB-DB	index, 0-16	1.0	8.0		9.5	80	73
Insolvency recovery rate	WB-DB	percentage	1.5	16.8		23.3	129	118
Auditing and reporting standards	WEF	expert survey, 1-7	2.0	5.1		5.1	49	52
Extent of shareholder governance	WB-DB	index, 0-10	1.0	4.3		7.0	99	32
Conflict of interest regulation	WB-DB	index, 0-10	0.5	3.7		4.7	126	116

Contract Enforcement (163rd)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
Contract Enforcement (163rd)			20%	20.3		27.2	165	163
Quality of judicial administration	WB-DB	index, 0-18	1.5	4.0		4.0	147	153
Time to resolve commercial cases	WB-DB	days	1.0	336.7		336.7	150	148
Legal costs	WB-DB	percentage	0.5	8.7		8.7	77	77
Alternative dispute resolution mechanisms	WJP	expert survey, 0-1	1.0	0.35		0.52	166	153

Financing Ecosystem (71st)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
Financing Ecosystem (71st)			20%	57.4		63.1	85	71
Access to finance	WB-ES	percentage	1.0	31.0		23.4	99	96
Financing of SMEs	WEF	expert survey, 1-7	1.0	3.6		4.3	108	61
Venture capital availability	WEF	expert survey, 1-7	1.0	3.4		2.8	46	81
Quality of banking system and capital markets	BTI	expert survey, 1-10	1.0	7.0		7.0	71	78
Commercial bank branches	IMF-FAS	branches /100,000 adult population	1.0	4.4		5.0	119	130
Soundness of banks	WEF	expert survey, 1-7	1.0	5.0		5.9	89	24
Depth of credit information	WB-DB	index, 0-8	0.5	8.0		8.0	1	1

Restrictions on International Investment (130th)	Source	Unit	Unit	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
Restrictions on International Investment (130th)			10%	65.5		39.3	68	130
Business impact of rules on FDI	WEF	expert survey, 1-7	2.0	4.9		3.4	102	154
Capital controls	FI	percentage	1.0	61.5		46.2	44	52
Freedom to own foreign currency bank accounts	FI	index, 0-10	1.0	10.0		5.0	1	103
Restrictions on financial transactions	Chinn-Ito	index, 0-1	1.0	1.0		0.4	1	94
Prevalence of foreign ownership of companies	WEF	expert survey, 1-7	1.0	5.0		3.7	78	142
Freedom of foreigners to visit	FI	index, 0-10	1.0	0.8		5.2	129	108

Egypt: Enterprise Conditions (81st): Element and indicator scores

Italics: Indicator contains imputed values

Domestic Market Contestability (96th)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			30%	45.0		47.4	102	96
Market-based competition	BTI	expert survey, 1-10	1.0	5.0		4.0	97	111
Anti-monopoly policy	BTI	expert survey, 1-10	1.0	6.0		5.0	68	96
Extent of market dominance	WEF	expert survey, 1-7	1.0	3.2		4.3	127	37

Environment for Business Creation (46th)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			25%	52.8		70.4	100	46
Private companies are protected and permitted	BTI	expert survey, 1-10	1.0	7.0		7.0	61	67
Ease of starting a business	WB-DB	index, 0-100	1.0	79.3		87.8	70	79
State of cluster development	WEF	expert survey, 1-7	1.0	3.9		4.8	43	23
Labour skill a business constraint	WB-ES	percentage	0.5	50.1		19.0	157	69
Availability of skilled workers	WEF	expert survey, 1-7	0.5	3.6		4.0	133	97

Burden of Regulation (110th)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
			25%	43.8		49.2	104	110
Burden of government regulation	WEF	expert survey, 1-7	1.0	3.4		3.2	73	109
Time spent complying with regulations	WB-ES	percentage	1.0	8.8		7.0	102	85
Number of tax payments	WB-DB	number per year	1.0	29.0		27.0	76	101
Time spent filing taxes	WB-DB	hours per year	1.0	711.0		392.0	158	148
Burden of obtaining a building permit	WB-DB	index, 0-100	1.0	57.8		63.8	97	103
Building quality control index	WB-DB	index, 0-15	0.5	14.0		14.0	4	7

Labour Market Flexibility (52nd)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
			10%	45.8		55.1	91	52
Cooperation in labour-employer relations	WEF	expert survey, 1-7	1.0	4.6		4.7	47	46
Flexibility of hiring practices	WEF	expert survey, 1-7	0.5	3.7		3.9	81	79
Redundancy costs	WEF	weeks	0.5	132.0		36.8	161	159
Flexibility of employment contracts	WB-DB	index, 0-1	1.0	0.3		0.3	85	84
Flexibility of wage determination	WEF	expert survey, 1-7	1.0	5.2		5.7	65	14

Price Distortions (97th)	Source	Unit	Unit	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
			10%	30.0		48.7	141	97
Distortive effect of taxes and subsidies	WEF	expert survey, 1-7	1.0	3.45		4.21	99	43
Energy subsidies	IMF	percentage of GDP	1.0	16.6		10.0	153	142

Egypt: Governance (146th): Element and indicator scores

Italics: Indicator contains imputed values

Executive Constraints (158th)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			15%	36.1		21.3	121	158
Executive powers are effectively limited by the judiciary and legislature	WJP	expert survey, 0-3	2.0	1.36		0.79	101	162
Government powers are subject to independent and non-governmental checks	WJP	expert survey, 0-3	1.0	0.92		0.70	151	162
Transition of power is subject to the law	WJP	expert survey, 0-1	1.0	0.34		0.39	142	129
Military involvement in rule of law and politics	FI	index, 0-10	0.5	5.0		1.7	102	155
Government officials are sanctioned for misconduct	WJP	expert survey, 0-1	1.0	0.54		0.39	57	102

Political Accountability (153rd)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	Global Rank 2010	Global Rank 2020
			15%	37.9		25.7	131	153
Consensus on democracy and a market economy as a goal	BTI	expert survey, 1-10	1.0	6.0		3.0	97	147
Political participation and rights	FH	coding, 1-7	0.5	6.0		6.0	121	124
Democracy level	CSP	expert survey, -10-10	1.0	-3.0		-4.0	130	141
Complaint mechanisms	WJP	expert survey, 0-1	1.0	0.34		0.29	160	165

Rule of Law (105th)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
			15%	45.2		39.9	80	105
Judicial independence	WEF	expert survey, 1-7	1.0	5.0		5.1	43	32
Civil justice	WJP	expert survey, 0-6	3.0	2.24		2.10	139	148
Integrity of the legal system	FI	index, 0-10	2.0	6.7		5.0	52	90
Efficiency of dispute settlement	WEF	expert survey, 1-7	0.5	3.5		3.9	84	65

Government Integrity (119th)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
			20%	45.0		35.4	79	119
Use of public office for private gain	WJP	expert survey, 0-4	2.0	1.48		1.23	73	105
Diversion of public funds	WEF	expert survey, 1-7	0.5	3.2		4.0	89	50
Right to information	WJP	expert survey, 0-1	0.5	0.41		0.11	116	167
Publicised laws and government data	WJP	expert survey, 0-1	1.0	0.4		0.3	83	98
Transparency of government policy	WEF	expert survey, 1-7	0.5	4.1		3.0	72	151
Budget transparency	IBP	index, 0-100	0.5	43.0		43.0	83	93

Government Effectiveness (125th)	Source	Unit	Unit	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
			20%	39.2		36.7	115	125
Government quality and credibility	WGI	index, -2.5 - +2.5	2.0	-0.4		-0.6	90	110
Prioritisation	BTI	expert survey, 1-10	1.0	4.0		5.0	113	85
Efficiency of government spending	WEF	expert survey, 1-7	0.5	3.2		3.3	94	65
Efficient use of assets	BTI	expert survey, 1-10	1.0	4.0		4.0	100	99
Implementation	BTI	expert survey, 1-10	1.0	4.0		4.0	115	119
Policy learning	BTI	expert survey, 1-10	1.0	4.0		3.0	117	143
Policy coordination	BTI	expert survey, 1-10	1.0	6.0		5.0	73	95

Regulatory Quality (143rd)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	Global Rank 2010	Global Rank 2020
			15%	35.0		28.4	106	143
Regulatory quality	WGI	index, -2.5 - +2.5	1.0	-0.2		-0.9	80	133
Enforcement of regulations	WJP	expert survey, 0-1	1.0	0.52		0.46	70	102
Efficiency of legal framework in challenging regulations	WEF	expert survey, 1-7	1.0	3.7		3.4	65	63
Delay in administrative proceedings	WJP	expert survey, 0-1	1.0	0.02		0.17	163	163

List of data sources and acronyms

Code	Organisation
BTI	Bertelsmann Stiftung Transformation Index
CII	Chinn-Ito Index
CSP	Center for Systemic Peace
FAO	Food and Agriculture Organisation
FH	Freedom House
FI	Fraser Institute
GSMA	Groupe Spéciale Mobile Association
IBNWS	International Benchmarking Network for Water and Sanitation Utilities
IBP	International Budget Partnership
IMF	International Monetary Fund
ITU	International Telecommunications Union
UNCTAD	United Nations Trade Data
UNESD	United Nations Energy Statistics Database
WBDB	World Bank Doing Business Index
WBDI	World Bank Development Indicators
WBES	World Bank Enterprise Surveys
WBLPI	World Bank Logistics Performance Index
WEF	World Economic Forum
WGI	Worldwide Governance Indicators
WJP	World Justice Project
WTO	World Trade Organisation

You can find the Global Index of Economic Openness report and methodology at https://li.com/research/open-economies/global-index-of-economic-openness/downloads/

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