



COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN EGYPT

Realizing the full potential of a productive private sector

Executive Summary

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EXECUTIVE SUMMARY

REALIZING THE FULL POTENTIAL OF A PRODUCTIVE PRIVATE SECTOR IS CRITICAL FOR JOBS AND ECONOMIC INCLUSION IN EGYPT

Following a successful and hard-earned macroeconomic stabilization, Egypt's economy is at a turning point. In 2016, following several years of political instability and exposure to domestic and external shocks, Egypt launched a bold and important reform program to improve macroeconomic stability, restore confidence in the economy and enhance socioeconomic conditions. The exchange rate was liberalized, and a sizable fiscal consolidation was undertaken. A series of new laws were adopted to improve the legislative framework and address long-standing challenges in the business environment. Public investment was expanded to develop or modernize road infrastructure for better connectivity and to boost supplies of electricity and gas. The adopted reforms have reflected positively on the economy with higher growth rates and narrower fiscal and external deficits, and helped resolving the foreign currency shortages that were paralyzing the economy.

The strengthened macroeconomic fundamentals have restored confidence in the economy, but the reforms have yet to trigger a marked and sustained increase in non-extractives private investment and exports. In recent years, the share of private investment in the economy has started to grow. Yet, it remains below its historical average and considerably lower than in peer countries. The large depreciation of the Egyptian pound after flotation helped improve the trade deficit, but export competitiveness remains weak and export proceeds are well below those of comparator countries. The number of exporting firms is critically low (only 9 percent of manufacturing firms export directly),¹ with wide spatial disparities in the firms' engagement in exporting (see section 1.2 on the Private Sector Landscape).

Egypt's participation in global value chains (GVCs) is also low compared to its peers², as exports are mainly centered around primary commodities and less sophisticated products. Moving upstream to higher value-added complex manufacturing activities in Egypt is hindered by the cost and lack of availability and quality of critical inputs and technology and efficient transport and logistics services. Consequently, despite Egypt's growing domestic market and proximity to international markets, Egypt is yet to attract strong FDI inflows aiming to harness either its large domestic market or to connect Egypt in the GVC-based international trade that is impactful in reducing poverty and creating productive jobs.

The COVID-19 pandemic and its disruptive repercussions are intensifying many of the above-mentioned challenges and creating new ones. At the macroeconomic level, fiscal targets and external balances are being affected by the slowdown in economic growth, increased spending on health and social protection, and lower tax revenues. The drop in essential sources of foreign currency, notably from tourism, Suez Canal revenues, and remittances from the oil-exporting countries of the Gulf Cooperation Council (GCC) will worsen the country's external position, at least in the near-term. Financing needs have increased, putting upward pressure on the elevated government debt. Many firms are also affected by shocks to both supply and demand with a negative impact on their balance sheets, and some may be pushed to bankruptcy as operations get disrupted and demand contracts. Informal firms and workers are particularly vulnerable, with few buffers to protect them from health and income shocks. To mitigate the outbreak's effects, the government has undertaken several measures, including a large cut in key policy interest rates, deferred tax payments for affected sectors and expanded coverage of social assistance to vulnerable groups.

Pre-existing structural challenges were exacerbated by the COVID-19 pandemic. Private investment is picking up but remains below the historical average. The underperformance of critical foreign income-earning activities (exports and FDI) and rampant informality contribute to high unemployment and underemployment. An estimated 800,000 graduates enter the job market every year, yet the employment rate among working-age people fell from 44.2 to 38.9 percent between 2010 and 2019. It has further declined to 35 percent in the second quarter (Q2) of 2020 (CAPMAS, Quarterly Labor Force Survey). Unemployment had declined to 8 percent prior to the crisis but has increased to 9.6 percent in Q2-2020. Female and youth unemployment are significantly higher, at 20 and 27 percent respectively, as of end-2019. A significant share of the private sector is informal,³ and much of the informal sector operates without any fixed business premises and work in jobs that provide low pay and lack of a productivity ladder. Growth and jobs are key to improving people's incomes and alleviating poverty, which had reached 32.5 percent in 2017/2018—with striking geographical variations.

Despite these challenges, the COVID-19 crisis reveals priorities for advancing the reform agenda in support of reaching the country's fundamental development goals. For instance, the crisis is demonstrating how critical is the availability of information and communication technology (ICT) services to support the work of frontline health and government workers and to mitigate the economic impact of social distancing measures. Teleworking has become vital to maintaining essential government services, allowing businesses to continue to operate, and enabling students to continue to obtain an education. Existing efforts to strengthen the digital infrastructure for teaching and learning and to facilitate the transition to distance learning can be accelerated with faster and more reliable internet service. In agribusiness, the supply chain could be strengthened and export capacity enhanced, by removing trade barriers and distortions such as import bans, and improving the adoption of food standards and certification to enable the country to be more food secure. In health care, the government could develop local supply chains for health equipment and accelerate private sector participation in diagnostics and testing, efforts which would need a blend of domestic and international capabilities and standards.

The Country Private Sector Diagnostic (CPSD) analyzes some of the challenges Egypt continues to face, and highlights opportunities for private sector-led economic development, investment and job-creating growth. Extensive consultations held with experts, private sector stakeholders, and development partners have identified trade and logistics, the role of the state, competition and commercial justice as critical areas in need of reform. The CPSD complements existing and upcoming World Bank analytics on important issues such as investment climate, access to land and access to finance.⁴ The report also assesses some of the key sectors, considering government priorities: Agribusiness, Manufacturing, and ICT. Within manufacturing, it undertakes a more disaggregated assessment for the chemicals, textiles, and automotive industries.⁵ In the Egyptian context, these sectors represent significant opportunities for growth and expansion, and global evidence suggests they can have significant impacts on an economy's employment and exports. Education and health, two key enabling sectors that have come under further pressure since COVID-19, are explored through the lens of opportunities for private sector participation.

WHAT IS HINDERING THE EMERGENCE OF THE PRIVATE SECTOR AS A COMPETITIVE FORCE?

Trade barriers due to policy and facilitation, and inadequate transport and logistics contribute to Egypt's performance in exports and FDI in non- extractive sectors. - which are highly interlinked and are both below potential. While the country has considerable potential to be a regional trade and logistics hub with easy access to major markets, the export potential at the sector level is largely impeded by a wide range of nontariff barriers. These include the cumbersome customs clearance process, poor connectivity and logistics and limited domestic competition. For instance, waste in agricultural products caused by inadequate transport facilities, insufficient bonded warehousing capacity, and weak cold-chain infrastructure is estimated at 15 to 20 percent for nonperishable crops and 25 to 50 percent for perishable crops. Trade policy also creates challenges for agribusiness, with high and sometimes unpredictable import tariffs on food products, manufacturing inputs, and instances of export duties and bans. In the textiles sector, Egyptian exports also lag behind those of comparator countries and have not reached their potential in nearby markets such as the European Union. Such tariff and nontariff barriers to exports distort incentives for local firms to compete in global markets.

In recent years, perceptions of a growing and privileged role of the State in economic activities and concerns around competing on an uneven playing field have deterred private and foreign investment. For the purpose of this report, State-owned enterprises (SOEs) are those that are controlled by the State, are legally and financially autonomous, and operate in a market for goods or services that could, in theory, be provided by a private firm. The presence of SOEs in almost every sector feeds a perception of widespread activity and even overstretch, while the multitude of governing laws and ownership frameworks under which they operate makes their identification difficult and complex. In the absence of public financial information on State-controlled companies, it is difficult for investors to form an accurate understanding of their weight in the economy, their market share, and whether they operate under the same conditions as private sector firms.

Fair and efficient functioning of markets necessitates that all firms face the same set of rules, regardless of ownership. A preliminary analysis suggests that a number of regulatory gaps challenge the implementation of competitive neutrality principles in Egyptian markets. For instance, there is no obligation on SOEs to separate their commercial and noncommercial or public service activities, and no explicit requirement to generate a positive rate of return on their commercial ones, which may undercut private firms competing in the same market. Certain exemptions under the tax, competition, and procurement laws provide special privileges to public incumbents operating in key sectors and feed the perception of an uneven playing field. Although the Competition Law established key ingredients to foster competitive markets, limitations in the competition regulatory framework hinder their effective enforcement and affect the playing field.

The lack of clear separation between the State's regulatory, policy, and operational bodies in certain markets creates an inherent conflict of interest. In the ICT sector for instance, the incumbent operator Telecom Egypt (TE) - which holds a dominant market position - and the National Telecommunications Regulatory Authority (NTRA) - the regulator - operate under the oversight of the Ministry of Communications and Information Technology, which is charged with setting the policy for the whole sector. Similarly, in the maritime transport and ports sector, the absence of a clear strategy to prevent conflicts of interest of multiple functions (such as regulator and operator) creates uncertainty for potential private investors. In the chemicals industry, inefficient upstream activity by SOEs dampens the potential for private sector investment along the value chain. In agribusiness, the large State footprint—through food and fertilizer subsidies, tariff protection, export bans, and numerous SOEs—limits the room for private sector participation in certain subsectors. In the automotive sector the key hindrance in terms of the role of the State is the lack of a clear, coherent government vision and strategy for the sector and the private sector role in it.

By international comparison, the performance of the commercial justice system is relatively poor, which increases investment risks and uncertainty, and disproportionately affects smaller enterprises. Egypt suffers from weak enforcement of contracts through the court system—scoring 40 points out of 100 (World Bank 2019) which hamper both domestic and foreign businesses. The weak enforcement of contracts further compounds Egypt’s lack of a transparent, streamlined, and predictable regulatory environment. Bottlenecks include excessive delays in adjudication and enforcement of judgments, which hinder businesses’ ability to claim and enforce their rights relative to other firms and public authorities and affects their confidence in and reliance on contractual agreements. The lengthy process locks assets in litigation, affecting their productive use and leading to losses to both businesses and the economy. Weak contract enforcement also pushes larger companies toward vertical integration or deals with other large firms, thereby hindering the growth of smaller players and weakening backward and forward linkages in the economy. For micro, small, and medium enterprises (MSMEs), resorting to the courts is costly and risky, especially because the Egyptian judicial system does not provide much guidance for self-represented parties or legal aid to establish a level playing field. The COVID-19 crisis will further stress the judicial system, given the expected increase in caseloads caused by the economic downturn, such as insolvencies and debt collection disputes, labor force reduction, and entitlement to benefits.

Human capital is at the forefront of productivity-enabling sectors, as the large and young labor force must be sufficiently equipped with the necessary education, skills and health. The lack of appropriate skills in the labor force is a widely reported constraint facing businesses,⁶ indicating a large gap between educational outcomes and labor market needs. Limited investment in training, coupled with a lack of market information on skills required by employers, adversely affects the private sector’s ability to find employees with the relevant technical and life-skills, and results in extra costs for the training that they provide themselves. In the chemicals industry, for example, a significant share of jobs in plants and related services are skilled or semiskilled because the technology-driven, capital-intensive industry requires highly trained workers for operations, maintenance and for R&D. In the agriculture sector, despite a large pool of researchers at universities and institutions, investment is lacking to develop the local or specialized skills needed to cultivate and process exports.

SECTOR-SPECIFIC BARRIERS TO PRIVATE SECTOR GROWTH

Other sector-specific challenges inhibit private sector growth and job creation in key sectors. For instance, weak domestic supply chains in the agriculture/agribusiness and textiles and apparel sectors impede efficient downstream processing activity and lead to reliance on imports of intermediate inputs. Weak agricultural extension services constrain the skills and capacity of farmers and firms, and inhibit their adoption of innovative processes and ICT-enabled techniques. Lack of business information on export markets and global trends that can help firms make strategic decisions and compete internationally is cited as a key hindrance in the textiles and apparel subsector. Inefficiencies in the upstream refinery sector are a key obstacle to the expansion of critical refining byproducts which are key inputs for the downstream petrochemical sector. The automotive industry is also characterized by a highly fragmented and inefficient supplier ecosystem with limited capacity to meet international requirements. Low labor productivity due to poor technical and managerial skills is another drawback in the automotive sector, and a strong dialogue between the public and private sectors about sector strategy and vision is missing. These and other cross-cutting constraints are reflected on a heat map showing an assessment of the severity of constraints across sectors (table ES.1).

The private sector can play a role in addressing the gaps in enabling sectors but faces several constraints. Entry barriers deter investors from establishing educational institutions, whether universities or vocational colleges. For privately owned universities, community colleges, and technical and vocational training entities, the laws and regulations on establishment and registration are cumbersome. Limited investment in provision of training services, in addition to a lack of market information on skills required by employers, adversely affect the private sector's ability to find workers with the relevant technical and life skills.

As a healthy labor force remains critical for productivity, the private sector can play an important complementary role in addressing health services needs. Health outcomes have improved over the past three decades, but access and quality gaps persist, and the emerging challenge of noncommunicable diseases is poorly addressed. Public spending on health remains low, and the country faces a shortage of important skills across several dimensions, as staff retention remains a challenge. The passing of the Universal Health Insurance Law in December 2017 offers great potential for the private sector to make an important contribution. Yet, regulatory obstacles, in addition to lengthy, cumbersome, and costly processes, impede the entry of private sector players.

KEY ACTIONS FOR THE WAY FORWARD

Egypt's overarching priorities in promoting private sector development should focus on establishing a culture of transparency and a participatory approach in policy making. The lack of intergovernmental coordination and consultation with the private sector is an overarching problem highlighted by the private sector for both economywide issues—such as trade policy formulation and facilitation, business regulations—and sector-specific strategies and regulations. Similarly, private sector players perceive an uneven playing field and unfair competition with State actors. Thus, this CPSD proposes the following overarching priority actions:

1. **Establish a Reform Committee.** To signal ownership for the second wave of reforms, the government should put in place a reform committee with inclusive participation from the public and private sector. Such a committee appears to be instrumental in advancing the regulatory reform agenda (including Doing Business Reform Actions) in a wide range of countries, such as Malaysia, Poland, India, Morocco and Russia. To be successful, international evidence suggests that the committee will need (a) high-level of leadership, ownership, and political support, (b) an inclusive and participatory approach involving key stakeholders from concerned government entities, the private sector, and civil society through regular public-private dialogue and regular extensive communication on the outcomes of such dialogue, and (c) a performance management and monitoring framework with concrete targets and milestones, specific actions to achieve those milestones, and results indicators to assess the progress of reforms.
2. **Develop a Transparent State Ownership Policy and Governance Framework.** In revisiting the role of the State as an enabler of private sector development, an overarching State ownership policy could usefully complement legal reforms and improve the SOE governance framework. Transparency about State economic activity could be enhanced by making available financial and operational information on SOEs to enable the private sector to make investment decisions based on a better understanding of SOEs weight in their respective sectors. Strengthening the legal framework of SOEs is another important step to enhance corporate governance and transparency. In the multitude of laws governing public enterprises, these legal reforms can first be applied to Law 203 of 1991, which governs a large number of SOEs. Ensuring that SOEs work under the same conditions as private sector firms could be done, for example, by (a) establishing the tools to separate commercial and noncommercial activities of SOEs and requiring SOEs to fully recover the cost of commercial ones; and (b) limiting exclusions and exemptions from the Competition Law and other economy-wide and sectoral regulation. It will also require a clear separation of the roles of State actors in key sectors as regulators versus operators.

3. **Improve Commercial Judicial System through Automation and Transparency.** An efficient and effective commercial judicial system is important to create a conducive business climate. Achieving such a system requires addressing the problem of delays in the processing of civil and commercial cases by improving judicial workload management, streamlining business processes, enhancing case management, and supporting enhanced business processes through automation, which will also increase transparency. Significant investments also are needed in the professionalization of human and financial resource management in courts and in the Ministry of Justice. Court user surveys can be used to generate data about users' perspectives and how to improve the efficiency, quality, and accessibility of services.
4. **Reform Trade Policy by Streamlining Tariff and Nontariff Measures, Modernizing Customs and Improving Transport Connectivity.** The growth of the private sector will remain constrained unless Egypt can harness the benefits of its geostrategic position by enhancing its export competitiveness. Key actions for reforming trade policy and facilitation measures include the following:
 - Streamline nontariff measures (NTMs) and improve transparency around them through an online registry, eliminating redundant measures and those that fail to achieve public policy goals.
 - Modernize customs by (a) enacting a new customs law and executive regulations aligned with the Revised Kyoto Convention and World Trade Organization Trade Facilitation Agreement; (b) automating customs, simplifying procedures, and fully implementing an electronic single-window system; (c) introducing a risk-based inspection system; (d) improving human resource capacity; and (e) establishing modern inspection facilities.
 - Improve transport connectivity by (a) implementing a performance scorecard with associated accountability for port efficiency; (b) attracting private investment by reducing regulatory uncertainty and clearly separating the roles of public agencies as regulators versus operators in ports, introducing transparent bidding processes for concessions, and setting up an independent dispute resolution system; (c) accelerating the design and implementation of an integrated multimodal transport strategy; and (d) improving the efficiency and quality of road transport services.
 - Reform the customs tariff by reducing the maximum rate to 40 percent to minimize the most extreme distortionary effects.

To unleash private investment in critical sectors, sector-specific priority actions should be taken along with the overarching reforms described above. A number of key economic sectors that are vital for growth and jobs, such as ICT, agribusiness, manufacturing, health and education suffer from the same constraints of the role of the State and the lack of a level playing field, while some, such as manufacturing and agribusiness, also suffer from trade policy and facilitation issues. The CPSD suggests key sector-specific priority actions, summarized in table ES.2.

COVID-19: NEED AND OPPORTUNITY TO ACCELERATE REFORMS

The COVID19 pandemic underscores the need to accelerate the structural reforms prioritized above to remove impediments to private sector development. The crisis may reopen the debate about the State's role and size and may create or reinforce the inclination for more State interventions in key sectors. While the State has an indispensable role to ensure readiness and sustainability in crises, this can be achieved through its unique position to make policy decisions and to create economic incentives. The government could also act as an enabler to catalyze market players in a way that responds to crisis pressures and undertake policy measures that can help mitigate supply and demand shocks. Tax breaks, subsidies, or State aid to public and private firms may be justified in times of crisis, but transparency and sound competition policy are key to ensuring that interventions cause the least distortion in market outcomes and remain timebound to the current crisis, with the aim of achieving recovery and stronger resiliency.

Amid the pandemic-caused disruptions, the proposed trade-related measures are more critical now than ever. Both trade policy reforms—particularly a streamlined and reduced tariff regime and speedy and automated customs clearance—and trade facilitation measures that minimize physical interactions are critical. For instance, high tariffs on imported critical medical supplies raise domestic prices above international prices, increasing the domestic cost of countering the disease. Temporarily removing tariffs on critical medical supplies and sanitizing products during the crisis would reduce their costs and help prevent infections. Permanently setting tariffs on such products to zero would improve the ability to prevent and respond to future medical emergencies. In this regards, the Ministry of Finance took action in May 2020 to prioritize a list of imported goods in terms of customs clearance to counter the COVID-19 pandemic, including foodstuffs, raw materials used in food production and medical supplies and equipment. Fast-tracking customs processing of raw material imports and manufacturing components would help boost the availability of food items, consumer essentials, cleaning products, and medical and health products.

Although the staple subsectors are well supplied and prices are stable, disruptions in trade and logistics threaten to disrupt agribusiness chains across the world and necessitate greater trade facilitation in Egypt. With weak supporting infrastructure—cold chains and warehousing, roads and irrigation, weak upstream and downstream links—the adverse impact on the flow of goods in non-staple subsectors will deepen. Food losses may increase because of containment measures and reduced demand. Furthermore, labor dislocation is anticipated as the regular movement of people is disrupted. It thus becomes more important to streamline regulatory and border procedures to facilitate access to essential food products and perishables. Internal and external border agencies—for example, customs and agencies responsible for sanitary and phytosanitary (SPS) standards—should work together to design special regimes for expedited clearance of essential food products and farming inputs. Any adverse shock on food imports from disruptions in global food supply chains can be mitigated by greater measures to facilitate trade and improve logistics.

Egypt has an opportunity to leverage its ICT sector as the nucleus of a diverse digital economy to respond to the increased needs and for the long-term benefit of the population. The changes in behavior spurred by COVID-19 are likely to have lasting effects. This is an opportunity for the government to engage in necessary reforms to ease protective policies and the restrictive legal framework, and to accelerate the deployment of fiber networks by encouraging private investment. Developing digital infrastructure is also important for the deployment of education technology in teaching and learning to facilitate Egypt's transition to distance learning, and to innovative health care solutions such as telemedicine. For the post-crisis recovery phase, there is an opportunity to redefine a new balance between SOEs and other market participants while still respecting reasonable national security requirements.

The COVID-19 crisis offers an opportunity for the country to position itself as an attractive location for manufacturing firms as they rethink their investment strategies for the recovery phase. These firms will seek more resilient backwards and forward linkages. In the textiles sector where the impact of the crisis is anticipated to be severe, the government needs to prioritize steps that will attract FDI as firms reorient their post-COVID strategies, which may include regionalizing their value chains. Addressing tariff and non-tariff barriers is also key, as is strengthening those subsectors in which demand is anticipated to increase, such as fibers and apparel. In the automotive sector, it is important that the government outlines a clear vision for the sector to attract FDI in close collaboration with the private sector—this has been a key success factor in countries which have established automotive sectors successfully. For the chemicals industries, the oil price decline is a risk for the country's foreign exchange earnings but also an opportunity to leverage its oil supplies as inputs in the chemicals sector to move to higher value-added products. For several manufacturing industries, the government can provide local firms with support to reach international standards and reallocate workers to scale up/shift production lines to in-demand medical products and devices.

TABLE ES-1 HEAT MAP OF CONSTRAINTS BY SECTOR

		AGRIBUSINESS		MANUFACTURING			ICT	SOCIAL SECTORS	
				TEXTILES	CHEMICALS	AUTOMOTIVE	EDUCATION		HEALTH
CONSTRAINTS	SOEs/State footprint	SOEs in agri-processing (60% of wheat milling; 75% of sugar-refining capacity; 25% of domestic milled rice production); SOEs in production, processing, and marketing of dates, fisheries, and potatoes, creating unfair competition for private operators		Dominance in upstream sectors (fiber and yarns)	Large State presence including in refineries, some of which are inefficient and loss making		Telecom Egypt monopoly on fiber infrastructure.	Rigid admission and enrollment rules	
	Competition/Barriers to entry	Fertilizer subsidies encourages overuse and affects yields; Price controls on wheat and sugar to ensure affordable, available staples.	Interdiction for farmers to sell wheat to private sector; Tariff protection	SOEs not organized as commercial entities; Unlevel playing field, with SOEs receiving financing at low or no cost and other benefits	Close links between policy makers and SOEs, creating an inherent conflict of interest between regulatory, policy and operational bodies	Lack of clear government strategy	Independence of the NTRA; No high-standard data center; CAIX rules barring content delivery network providers	Arbitrary licensing: no clear rules/timing for final approval; Cumbersome regulations on private universities and vocational training; Lack of quality assurance rules and low market transparency.	Lengthy certification; restrictions on private sector ownership, cumbersome and costly licensing procedures, conflicting rules and regulations, erratic fee structures
	Trade & logistics	Protective tariff regime, reducing overall incentive to export; Inadequate transport facilities, limited bonded warehouse capacity; weak cold-chain infrastructure		Tariff and nontariff barriers	Inconsistent application of tariffs to import raw materials in subsectors such as plastics	Trade facilitation issues (Roll-on/roll-off); Inability to establish base for just-in-time delivery; Inverted tariffs.			High protective tariff on COVID19 related health products (soaps, sanitizers, protective gears, etc.
		Export bans; Restricted imports of seed; weak food SPS measures; Use of fresh water for aquaculture prohibited, preventing exports to certain markets		Limited use of Authorized Economic Operator					
	Skills	Poor local training infrastructure for specialized skills for export -oriented cultivation and processing.		Lack of required skills to help move it to higher value-added activities. Outdated curricula in academic institutions.	Lack of access to critical inputs including skills and technology.	Lack of R&D, skills and technology	Digital transformation hindered by the low spread of digital skills to access content and services.	Large gap between educational outcomes and labor market needs	Difficult retainment of medical school graduates, pharmacists, engineers, and skilled technicians; Brain drain
Other critical constraints affecting sector competitiveness	Pressure on available land and water resources, inefficient distribution and salinity of water; Limited use of water-efficient equipment and techniques; Misaligned pricing; Agriculture cooperatives law limited in its ability to permit commercially oriented market linkages for small farmers. Agri finance dominated by a State-owned Bank, lack of land-based collateral market, limited role of non-bank finance companies and microfinance institutions.		Lack of quality factor inputs; Lack of social & environmental compliance	Fragmentation, with many MSMEs; Lack of access to markets; limited water and energy efficiency	Lack of scale among producers and suppliers	Reliance on fixed broadband on copper; High prices; Short distance coverage; Limited amount of radio spectrum assigned to mobile operators	Vagueness about titled assets (i.e. campuses and land) Ownership only inheritable not transferable; No access to mortgage financing from banks due to title problems	Inadequate Pharmaceutical Product Development (PPD) due to arbitrary payment methods; Delayed payments for outsourced services by private sector; Lack of governing framework to facilitate PPP; Lack of a governance body representing subsector interests	
			Difficult access to finance						

TABLE ES-2 SUMMARY OF OVERARCHING PRIORITY ACTIONS

PRIORITY ACTION	
Transparency and participatory approach in policy making	<ul style="list-style-type: none"> • Put in place a reform committee with inclusive participation from the public and private sector with: <ul style="list-style-type: none"> – a high-level of leadership, ownership and political support; – an inclusive and participatory approach and a regular feedback-loop involving key stakeholders from concerned government entities, the private sector and civil society; – a performance management and monitoring framework with concrete targets and milestones.
Trade facilitation and trade policy	<ul style="list-style-type: none"> • Streamline NTMs and improve transparency around them through an online registry, eliminating redundant measures and those that fail to achieve public policy goals. • Enact a new customs law and executive regulations aligned with the Revised Kyoto Convention and WTO Trade Facilitation Agreement. • Automate customs, simplify procedures, and fully implement an electronic single-window system. • Introduce a risk-based inspection system and establish modern inspection facilities. • Step up human resource capacity. • Reform the customs tariff by reducing the maximum rate to 40 percent to minimize the most extreme distortionary effects.
Connectivity and logistics	<ul style="list-style-type: none"> • Implement a performance scorecard for port efficiency. • Attract private investment by reducing regulatory uncertainty and clearly separating the roles of public agencies as regulators versus operators in ports. • Introduce a transparent bidding processes for concessions, and set up an independent dispute resolution system. • Accelerate the design and implementation of an integrated multimodal transport strategy. • Improve the efficiency and quality of road transport services.
Fostering domestic competition and levelling the playing field	<ul style="list-style-type: none"> • Adopt an overarching State ownership policy to complement legal reforms and improve the SOE governance framework. • Making available financial and operational information regarding SOEs to enable the private sector to make investment decisions. • Strengthen corporate governance and transparency of SOEs. Start with Law 203 of 1991, which governs a large number of SOEs. • Establish the tools to separate the commercial and noncommercial activities of SOEs and requiring SOEs to fully recover the cost of commercial ones. • Limit exclusions and exemptions from the Competition Law and other economywide and sectoral regulation. It will also require a clear separation of the roles of State actors in key sectors as regulators versus operators.
Reforming the commercial justice system	<ul style="list-style-type: none"> • Improve judicial workload management, streamline business processes, enhance case management, and support enhanced business processes through automation. • Significantly invest in the professionalization of human and financial resource management in courts and in the Ministry of Justice. • Use court user surveys to generate data about users' perspectives and how to improve the efficiency, quality, and accessibility of services.

TABLE ES-3 SECTOR-SPECIFIC POLICY RECOMMENDATIONS

SECTOR	PRIORITY ACTION
Agribusiness	<ul style="list-style-type: none"> • Improve intergovernmental coordination to address sustainable water resource management in irrigation and agricultural land issues. • Strengthen food safety standards by building capacity at the National Food Safety Authority (NFSA) and establishing a private sector partnership for developing laboratories and an accreditation mechanism easily accessible by micro and small enterprises (MSEs). • Enhance private sector partnership for developing laboratories and accreditation mechanism easily accessible by MSEs. • Enhance agricultural extension services with a focus on promoting R&D and ICT-enabled extension services with private sector participation. • Assess the fiscal/financial cost-benefit of different (often ad-hoc) actions affecting this sector for increasing viability for private sector participation and for government fiscal effects such as: export bans, import restrictions, and tariff changes; SOEs' and State participation in agribusiness activities; fertilizer subsidy; rice policy, expanding the smartcard-based system for bread subsidies to reduce leakages. • Expand access to finance for the sector through trade financing and through micro-credit and micro-leasing facilities for the MSEs.
Chemicals	<ul style="list-style-type: none"> • Identify pathways and approaches (public and private sector solutions) to increase energy efficiency in the production of raw materials to improve the sector's competitiveness. • Expand refinery capacity potential through (a) adoption of market prices for petroleum products and chemicals, (b) open access to the domestic gas market, (c) alignment with international gas markets, and (d) an updated master plan for downstream industries, designed in collaboration with the private sector. • Conduct a feasibility analysis to evaluate alternative solutions to the inefficiencies due to expansive State footprint (including impact of improving corporate governance of SOEs in this sector versus monetization).
Textiles & apparel	<ul style="list-style-type: none"> • Improve the corporate governance and business strategy of SOEs in this sector (e.g., reform board structures, make financial statements and SOE strategies public periodically). • Address the skills gap by engaging the private sector in curricula development and training delivery in line with industry standards. • Address trade barriers by standardizing custom procedures across all ports and strengthening the implementation of Authorized Economic Operator (AEO). • Conduct fiscal/ financial assessments on the following for impact on private sector viability and government finances: (a) cost-benefit of tariffs, export rebates, and trade barriers affecting the competitiveness of this sector. (b) value-chain analysis of new and emerging subsectors such as technical textiles.
Automotive	<ul style="list-style-type: none"> • In coordination with the private sector, design and clearly outline the government's vision and concrete policy actions for this sector, to help firms make long-term investment decisions and work to upgrade the sector. • Help establish an optimal and efficient original equipment manufacturer (OEM) base by attracting efficiency-seeking FDI. • Strengthen the local supplier ecosystem through support mechanisms to increase technology adaptation and R&D to successfully integrate this sector into GVCs.

Education	<ul style="list-style-type: none"> Amend regulations so as to attract private investment in this sector including those related to (a) the inability to transfer ownership of education institutions; (b) the vagueness around title to assets (i.e. campuses and land), which inhibits access to finance for educational institutions; and (c) the laws regarding dividends policy, which cause university owners to avoid formal dividend declarations.
Health	<ul style="list-style-type: none"> Attract private investment by (a) simplifying contracting regulations for greater efficiency and speed, particularly related to primary care, specifically chronic disease management, diagnostics (imaging/labs), specific secondary and tertiary treatments, and amend licensing law for medical providers; (b) adopting modern quality standards and developing a clear monitoring and evaluation system, (c) building capacity of medical personnel and exploring approaches to improve efficiency (for example, pay for performance incentives); and (d) strengthening the PPP framework.
ICT	<p>Regulatory Reforms</p> <ul style="list-style-type: none"> Promote competition in the sector by (a) strengthening the independence and authority of the NTRA, (b) separating the functions of regulation, policy making, operation, and investment; and (c) promoting cooperation between the NTRA and the Egyptian Competition Authority (ECA) for enforcing antitrust regulations. Implement ex ante regulation, including a set of predetermined rules and remedies imposed on market players that dominate specified markets to ensure fair and transparent access to essential infrastructure on equal terms for any downstream provider of services. Consider a functional or structural separation of TE. <p>Digital Infrastructure</p> <ul style="list-style-type: none"> Deploy more fiber-optic cable through actions such as providing open access to TE's fiber network at cost-based prices. Liberalize licensing of next-generation infrastructure to allow other operators to build, operate, and commercialize their own infrastructure. Consider licensing an independent wholesale operator to provide open cost-based access, while creating competition in wholesale access with TE. Improve the viability of broadband projects in challenging areas by allowing private investments and infrastructure sharing. Quickly develop and communicate a plan with a clear timetable for assigning additional 4G spectrum and the first 5G frequencies at affordable prices. Acceleration of these plans would put Egypt in a much better situation to respond to the COVID-19 crisis. Facilitate the deployment of mobile towers and allow the entry of new private sector operators with demonstrated financial capability in the market for construction of telecommunication towers. Incentivize operators to cooperate by leasing towers instead of owning them. Facilitate licensed service providers in obtaining all required permissions in a fast and cost-effective manner, by bundling different permit agencies into a "one-stop shop".

NOTES

- 1 More indicators on exporting firms in manufacturing can be found in World Bank 2020d.
- 2 Throughout this report, three sets of peer/comparator countries are used where possible: regional comparators include Morocco, Tunisia and Jordan; structural comparators are those with similar per capita income and economy size or structure and include Turkey, Thailand, South Africa and the Philippines, in addition to aspirational peers including Malaysia and Poland.
- 3 Latest estimates suggest that more than 60 percent of the firms and more than 70 percent of the workers in the private sector are informal.
- 4 The CPSD complements the existing World Bank analytics, such as Investment Climate Assessment, Enabling Private Investment and Commercial Financing in Infrastructure, Doing Business report and Assessment of Land Governance and the ongoing work on Systematic Country Diagnostic; World Bank (2020c) assesses the legal and institutional frameworks surrounding land governance in Egypt and recommends crucial reforms on the allocation of state land to the private sector. The issue of access to land and finance have been discussed in certain sectoral assessments in the CPSD.
- 5 Two other important sectors—infrastructure and finance—are not included in the present report. Infrastructure investment needs and opportunities are analyzed extensively in World Bank 2018, including on constraints to expanding commercial finance and private investment in energy, transport, agriculture, and water and sanitation. Also, a Financial Sector Assessment Program (FSAP) is currently in the pipeline, which will focus on the stability and soundness of the financial sector and assess its potential contribution to growth and development.
- 6 See Krafft et al (2019), European Training Foundation (2019); World Bank (2019a); Assaad et al (2018), Krafft (2018) World Bank (2013).

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